

Economic Reform in Uzbekistan: Characteristics and Responses

The Sasakawa Peace Foundation



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Table of Contents

Preface _____	v
List of Contributors	
Special Feature of the Economic Reforms in Uzbekistan _____	1
G.K.Saidova	
Reform of Agriculture-Experience and Prospects _____	25
I.E.Ergashev	
Formation of Market Institution of Peasant and Farmer Agriculture in Uzbekistan _____	31
N.K.Popadiuk	
The Reform of Foreign Economic Activity-Past Experience and Problems of Future Development _____	45
A.A.Isadjanov	
The Investment Climate and Investment Policy in Uzbekistan _____	65
F.N.Maksudov	
Legal Reform in Uzbekistan as the Foundation for the Formation of a New Type of Economic and Social-Political Relations _____	85
M.Kh.Rakhmankulov	
The Experience if Political Reform in Uzbekistan _____	107
R.Z.Djumaev	
The Open Economic Policy of China- The Special Feature and Main Trusts of Reform _____	141
A.A.Isadjanov	
China: The Results of Reforms _____	151
S.S.Guliamov	

Preface

The countries in Central Asia have embarked on transforming their economy from a centrally-planned to a market-oriented system. While some achievements have been made recently, the economic transitions in these countries are still likely to be traumatic. Enormous investments are needed to rehabilitate, modernise, restructure, and increase physical capital stocks in these countries. In addition, the low adsorption capacity of human capital and premature market-oriented institutions also severely impede the possibility of any substantial self-sustaining economic takeoff in the immediate future, even with high level of financial assistants and investments. However, the transformation is imperative and inevitable. Evidently, the transition process in Central Asia has been accompanied by, among other things, excessive inflation, decline in production, rising unemployment collapse of the social safety nets, increase poverty and distorted income distribution. It is in this respect, therefore, failure to achieve improvements in economic performance in a transition process may threaten the security and livelihoods of millions of people.

Since its establishment in 1986, the Sasakawa Peace Foundation (SPF) has been keenly aware of Japan's obligation to make contributions befitting its economic stature in global community. Over the last decade, the SPF has been carrying out a wide range of activities related to socio-economic development issues in developing countries. Keenly aware of the unfolding events in Central Asia, the SPF believes that it can contribute to constructive development in Central Asia by focusing on projects that target at the promotion and introduction of market-oriented economy.

Against this background, in 1994, the SPF has embarked on a project entitled "Implementing a Market Economy in Central Asia: Implications from East Asian Experiences." The principal objective of this project is to promote the implementation of market economy in the Central Asian countries with particular emphasis on the East Asian development experiences. In collaboration with East Asian economies, the project sets to facilitate a smooth transition of economic system in Central Asian through a broad range of policy oriented research cum training program for the policy makers or economic managers/planners from the Central Asia countries. In this connection, since 1995, the project has conducted three study tour missions in China, Japan, Korea and Taiwan for the project's target group from Central Asia.

This Report contains the findings compiled by the Uzbekistan's working group. The SPF hopes this Report will help to disseminate the observations made by that working group with regards to the economic reforms in Uzbekistan. We hope that these observations will also further enrich the discussions in deriving lessons for economic reform and development objectives in Central Asia in general and Uzbekistan in particular.

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1

Special Feature of the Economic Reforms in Uzbekistan

G. K. Saidova

Introduction

From the beginning of the 1990s, the world has witnessed an unprecedented political and economic experiment, which has been conducted in the majority of countries in the former socialist bloc. A special place in this bloc of countries belongs to Uzbekistan. This country, prior to its declaration of independence in September 1991, was little known in the world community.

Uzbekistan, as one of the fifteen republics of the former Soviet Union, had all the characteristic features of the political administration and economic system that then prevailed in the USSR. Namely, these included a totalitarian political system, the predominance of ideology and politics over economics, a centralized system of economic administration, and a high degree of political and economic dependence on the central organs of power and administration.

At the same time, Uzbekistan had its own unique features. The most important include the following: (i) the presence of extremely rich natural resources such as petroleum, natural gas, uranium, nonferrous metals (including gold, silver, and copper), and many forms of rare-earth metals, (ii) excellent opportunities for the production of such export commodities as cotton and silk fibers, tobacco, and fruits and vegetables, (iii) a high natural rate of growth of the population, as well as the presence of a literate and highly skilled labor force, (iv) an incomplete structure of production, since only 40 percent of the finished goods were produced in the republic, (v) a high degree of dependence on the import of foodstuffs, especially grain, (vi) a low technological level of production in the majority of industrial branches, the presence of a large number of obsolescent and worn-out machines, and a low level of labor productivity in the majority of branches of the economy, (vii) one of the lowest standards of living in the former USSR (especially in the case of the rural population), (viii) lack of direct access to seaports, (ix) a high degree of dependence on the former central budget, (x) the presence of an extremely difficult ecological problem in the form of the desiccation of the Aral Sea, (xi) tension induced by the continuing war on the territory of Uzbekistan's neighbor, Afghanistan.

Under these conditions, the "transition period" in Uzbekistan signified a transition in multiple spheres: (i) from political and economic dependency to independence, (ii) from political and economic isolation to an open system and to mutually advantageous cooperation within the system of the world community, (iii) from a centralized command economy to a market economy, (iv) from a backward economic structure to one that ensures further economic growth and a high standard of living for the populace.

Focusing on economic reforms this paper intends to highlight the most important features of transformation in Uzbekistan.

1. Special Features of the Transformation Period in Uzbekistan

1.1 The Starting Point: Uzbekistan on the Eve of Reforms

The basis for accelerated development of society is economic growth. It is the main lever for achieving the final goal of development: a higher standard of living and the development of human potential. In Uzbekistan, during the more than seven decades that the Soviet system existed, the approach to problems of economic growth and targeted orientation of development did not essentially contradict the general approach found elsewhere in the world. As a result, by the end of the twentieth century, Uzbekistan had been transformed from a backward agrarian country (as it was at the outset of the century) into an agrarian-industrial republic. It has a solid industrial production potential, a well educated and skilled labor force, and highly developed social spheres (education, public health, and culture).

The economic growth in Uzbekistan was attributed to the natural resources (raw material and mineral resources), the accumulation of capital, the high rate of growth and improvement in the educational level of the labor force and the application of modern achievements in scientific-technical progress.

Uzbekistan has an extremely rich natural endowment at its disposal. This includes land and water resources as well as favorable climatic conditions, which make it possible to have two (and, in some areas, three) harvests per year. More than 100 types of mineral resources have been found in the republic. According to the estimates of some experts, these reserves have an aggregate value of 3.3 trillion US dollars. Uzbekistan has more than three-quarters of all the gas condensate in the entire Central Asia area, about one-third of all the oil, more than half of the coal, and 40 percent of the natural gas. Approximately 60 percent of the territory of the republic have prospects for possessing oil and gas reserves. In terms of the production of natural gas, the republic ranks among the top ten producers in the world.

About forty deposits of precious metals have been found in the republic, with reserves of more than 5,000 tons of gold and 20,000 tons of silver. In terms of the total production of gold, the country ranks seventh in the world. It also produces copper, zinc, selenium, tellurium, cadmium, lithium, rubidium, cesium, strontium, germanium, and other types of rare-earth metals.

At the same time, despite the rich natural endowments Uzbekistan did not have enough of its own sources for capital accumulation during the Soviet period. The centralized redistribution of goods, labor, and capital in the interests of the so-called "all-union division of labor" did not take into account the special characteristics of each region, but rather generated disproportions, an irrational expenditure of resources, and inefficiencies in production. Although a significant part of the capital investments in Uzbekistan came from the central budget, their use often did not correspond to the real needs of the economy of Uzbekistan. Rather, the capital investments were primarily directed toward the goal of developing an all-union national economic complex. Similarly, there were also significant problems in the sphere of scientific research and engineering-design work. Much of it did not represent finished, self-standing research and projects, but rather individual components and subunits of larger all-union

programs.

As a consequence, Uzbekistan had been vulnerable to the economic policies of central authorities. It is therefore not surprising that, until the onset of economic reforms, Uzbekistan could not count on stability in its economic development. On the eve of the declaration of its independence, the republic obtained nearly one-fifth of its budget from central subsidies, and a large part of its raw material resources and up to 50 percent of its foodstuffs were shipped beyond its borders. Uzbekistan did not have an opportunity for comprehensive, multifaceted development of its economy because of the superimposed monoculture of cotton; it acquired the problems of the desiccation of the Aral Sea and the shortage of water resources - problems that are very difficult to solve. The centralized economy of this period virtually exhausted its potential for economic growth, did not allow an efficient allocation of available resources, thwarted the development of the people's entrepreneurial capacity, and ignored the country's needs for economic growth.

By the end of the 1980s, a number of key indicators - the per capita national income, labor productivity, and real income of the populace - had a negative trend. During the period of 1985-1990, when the general volume of national income rose by 16 to 19 percent, labor productivity in material production fell by nearly 20 percent and capital productivity by 5 to 6 percent, while the material-output ratio (per unit consumption of materials) rose by 2 to 3 percent.

A large part of the fixed capital in industry, agriculture, construction, and transportation had already been in use for several decades and was therefore obsolescent and worn out. For further economic growth, the economy required a structural transformation and a massive investment (and hence enormous financial means). Under the inefficient organization of the economy that then existed, this was virtually impossible.

Likewise, the high natural rate of growth of the population of Uzbekistan was not given sufficient attention. The centralized redistribution of capital investments did not take into account the existing gap between the rates of economic growth and the natural rate of growth of the population (see Figure 1 in the Appendix). There were no market stimuli for the redistribution of capital among the republics of the former USSR.

The level of capital formation, especially by in the late 1980s, did not exceed 20 to 21 percent of the national income (see Figure 2 in the Appendix). It did not secure high rates of growth of the national income and labor productivity.

As a result of all these factors, for the most important indicators on the standard of living, Uzbekistan ranked among the lowest in the former Soviet Union. The gap between Uzbekistan and the other republics with a lower rate of natural population growth was constantly increasing.

Under these conditions, the prospects for the future development of Uzbekistan were dim.

1.2 The Economic Goals during the Transition Period

Pre-reform Uzbekistan - politically and economically - was heavily dependent on the central authorities of the former USSR. Therefore, the most important task facing the

country was to secure its real political and economic independence. Moreover, given that the economy of the former USSR in many respects was closed to the outer world, it was essential that Uzbekistan create a completely different system of open economic relations with the rest of the world.

During the transition period, it was essential not only to realize the transition from economic dependence to independence, from economic isolation to open relations with other countries, but also to make the transition from a centralized command system of economic management to its very antithesis - a market economy. Resolution of this task affects the profound problems of economic relations: property rights, distribution of material wealth, labor resources and income, systems of administration and management, and so forth. The replacement of one economic system by another affects the interest not only of economic entities, forcing them to operate under fundamentally different conditions, but also introduces new stimuli and forms of competition. These processes engulf the entire society (its political, economic, and social systems) and every individual person.

The transition to market relations required institutional transformation: the creation of the corresponding legal framework and organs to administer and regulate the economic processes adequate for a system based on market relations. For Uzbekistan, this meant the following: construction of banking, fiscal, and tax systems; creation of markets for commodities, capital, and labor (with the corresponding institutions - commodity exchange, stock and currency exchanges, labor exchanges, and so forth).

At the level of firms, their transformation should provide for a change in the system of administering enterprises, a rejection of the predominantly ministerial approach to management, and the creation of joint-stock companies and associations.

One of the main goals of the transition period was the creation of conditions for subsequent economic growth. The most important step in this direction should have been the structural transformation to change from a one-sided monocultural economy based on raw materials to a multi-sector, export-oriented economy capable of producing finished goods of competitive quality. The special characteristics and complex goals of the transformation period required that the republic find its own path, that is, devise its own model for the transformation of political, economic and social life.

The basic principles of this model were, at the very outset of the reforms, formulated by the first president of the republic, Islam Karimov. Namely, these include the following: de-ideologization of the economy, supremacy of law and the creation of a state based on the rule of law, the leading role of the state in the process of reform (with the state itself being the main reformer), gradualness of reforms, and, adherence to a strong social policy during the reform period.

As in the other states of the former USSR, the beginning of the economic reforms were complicated by a high degree of financial de stabilization and by the destruction of numerous close economic ties (even if not always economically rational). The basic aim of the economic reforms was to provide financial stabilization and to conduct institutional transformations. The overarching objective here was to make the transition to a market system of the economy, to realize a structural reform, and to raise the standard of living of the populace.

The complexity and difficulty of the reforms consisted in this paradox: on the one hand, it did not appear possible to resolve all these tasks simultaneously; on the other hand, failure to resolve just one of these raised doubts about the realizability of the reforms as a whole. That is precisely why Uzbekistan chose the path of a stage-by-stage reform - the so-called gradualist method. It allows both the economy and the population to adapt to the on-going changes and factors, which objectively delay the reforms, and gradually turn into a moving force for the acceleration of reform.

2. The Social-Economic Conditions of the Country during the First Stage of Reform (1991-1994)

The unprecedented character of the economic reforms and the process of disintegration of the former empire - the Soviet Union - triggered a profound economic crisis, which affected the entire post-Soviet realm. The economic decline in all the states of the former USSR was so enormous that it can be compared with the consequences of a large-scale war. The high rates of decline in the volumes of production in such large states as Russia, Ukraine, Belarus, and Kazakhstan greatly intensified the economic difficulties of the neighboring countries. That is because the crisis in those states not only reduced the sources of raw materials and semi-finished goods (which were needed in related lines of production), but also to the loss of many markets for the sale of products.

In Uzbekistan, the decrease in the volume of the GDP in 1991-1994 amounted to 16.6 percent. Together with the high level of inflation (about 3,000 per cent), this caused a fall in the real money income of the population during these years (by 38.5 percent). By the beginning of 1995, inflation had virtually "devoured" the financial savings of the population, which were held in the form of deposits in a saving bank or in state securities.

2.1. Economic Objectives

Given the complexities of the transition period, the economic policy of Uzbekistan in 1992-1994 (i.e., during the first stage of the economic reforms) was directed toward a gradual resolution of the following objectives: First, systemic and institutional transformations, including the creation of the institutions of private property, anti-monopoly policies, a new banking and financial system. Second, rejection of the centralized redistribution of resources and the introduction of a market mechanism for price-formation, the liberalization (deregulation) of prices, and their approximation to the level on world markets. Third, creation of a market infrastructure and competitive environment. Forth, creation of stimuli for the expansion of exports, as well as the elimination of protectionist barriers to the import of goods. Fifth, the selection of the most effective branches for the development of the economy for its restructuring. Sixth conducting a macroeconomic policy directed toward achieving financial stabilization and toward reducing the rates of inflation and decline in GDP. Seventh, improvement of the tax policy so as to increase its role in stimulating production and foreign economic activity as well as increasing revenues for the state budget. Eighth, social protection for the population from the negative consequences of economic reforms.

Precisely because of this gradualist approach and a clearly defined policy of

reform (based on the well-known five principles of President Karimov), the consequences of a catastrophic fall in production in the former USSR affected Uzbekistan to a lesser degree.

Table 1 Indexes of GDP for CIS member-states

Country	As Percent of Previous Year				As percent of 1990		
	1991	1992	1993	1994	1992	1993	1994
Azerbaijan	-0.7	-22.6	-23.1	-22	-23.1	-40.9	-53.8
Armenia	-8.8	-52.3	-14.8	-5.5	-56.5	-62.9	-60.9
Belarus	1.2	-9.6	-10.6	-20	-10.6	-20.2	-36.3
Georgia	20.1	-40.3	-39.4	-30	-52.3	-71.1	-79.8
Kazakhstan	-11.8	-13	-12.9	-25	-23.3	-33.2	-50.1
Kyrgyzstan	-4.2	-16.4	-16.4	-25	-19.9	-30	-50
Moldova	-18.7	-28.3	-4.8	-30	-41.7	-44.5	-61.2
Russia	-12.8	-19	-12	-15	-29.4	-37.8	-42.2
Tajikistan	n.a.	n.a.	-12.3	-17	n.a.	n.a.	n.a.
Turkmenistan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Uzbekistan	-0.5	-11.1	-2.4	-4	-11.5	-13.7	-16.7
Ukraine	-11.6	-13.7	-14.2	-19	-23.7	-34.5	-47

Source: Statistics Bureau of the CIS

2.2. The Agriculture and Energy Sectors as “Anchors“ of Stabilization

However strange this might appear at first glance, the country's specialization in agricultural production played a positive role, because this made it less dependent on the conditions in the markets of countries in the Commonwealth of Independent States (CIS). As a result, it had greater stability and resistance to the convulsions throughout the former USSR. Given that agriculture accounts for more than one-third of the entire GDP in Uzbekistan, this sector can be regarded as one of the "anchors" that contributed to stabilizing the economy during the most difficult, initial years of the reforms. Another such "anchor" was the fuel and energy complex of the country.

At the same time, the main achievement since the onset of reforms was the fact that, with a decline in production that less than in other countries, in Uzbekistan the economic reforms nonetheless made significance progress in all the main spheres.

2.3. Goals and Ways to Achieve Them

The first stage of economic reforms was not without its contradictions. These were, above all, due to the complexity of the goals set and the choice, under these conditions, of the most effective way to achieve them. Given the base level of the condition of the economy at the outset of the economic reforms in Uzbekistan, it is clear that it was impossible to overcome the basic economic contradiction of the transition

period. Namely, this was the contradiction between two factors: (i) the rapid introduction of new economic relations; and, (ii) the slow improvement in the technical and technological dimension of production (including labor productivity).

3. The Objectives of the Second Stage of the Reforms

The main goal of the program of economic reforms during the second stage is financial stabilization, limiting the decline of production, and then ensuring economic growth so as to raise the standard of living of the population. This is to be done on the basis of the most rapid possible progress toward an open and efficiently functioning market economy. The main goals include the following: (i) intensification of economic and systemic reforms, (ii) rapid stabilization of the macroeconomic environment, together with a sharp reduction in the level of inflation, (iii) stable growth in the volumes of production in the mid-term perspective (on the basis of the realization of a structural transformation in the branches of the economy), (iv) reinforcement of the condition of the balance of payments and the hard currency reserves of the state, (v) creation and strengthening of the organizational and legal structures, which are aimed at expanding the role of market prices as a mechanism for the distribution of resources (and for reducing the state's role in redistribution and its participation in subsidizing unprofitable branches and enterprises) and the acceleration of the processes of privatization;

3.1. The State of the Economy in the Second Stage of Reforms

As a result of the measures realized during the second stage of reform, the economy of Uzbekistan should be characterized by the following: (i) a fundamentally new system of production relations (which is based on heterogeneity in forms of property ownership), (ii) a fundamentally new system of economic administration, which is based on using the economic levers of macroeconomic regulation, (iii) a fundamentally new system of economic relations among the various regions of the republic (on the basis of equal, mutually beneficial economic relations of independent enterprises), (iv) a fundamentally new structure of economic branches, which are directed toward the production of finished, competitive goods, (v) a fundamentally new technical and technological level of production in the top-priority branches of the economy, (vi) a fundamentally new system of social protection for the population (on the basis of creating equal conditions to raise the standard of living on the basis of the contribution of those in the work force, and on the basis of a system of social guarantees for all categories of citizens who are incapable of working).

4. Financial Stabilization

Given the fact that, in 1991-1993, Uzbekistan was in the "ruble zone," it is difficult to speak of any kind of independent monetary policy. The monetary-credit system "disintegrated" before our very eyes, as the ruble became increasingly devalued, and virtually everywhere the economic ties came to be realized on the basis of barter. The banking system in the republic did not have any kind of independence. The Central Bank had no levers to regulate monetary circulation.

For example, a factor analysis shows that the main causes of the high level of inflation in 1992-1993 consisted of the following: (i) the imbalance between the supply of and demand for goods (based on real purchasing power), (ii) the loss of confidence among economic entities and the population with respect to the macroeconomic and monetary policy being pursued by the Central Bank of Russia within the boundaries of the ruble zone. The high inflationary expectations served as a factor that further intensified inflation and encouraged the conversion of the economy to a barter basis - developments that were clearly unfavorable for Uzbekistan. As a rule, one observes a picture of a high correlation of the growth in wages and prices, which were determined not so much by the conditions in the marketplace as by the gradual rise of prices in Russia for primary goods (and, above all, fuel and energy).

At the same time, being part of the ruble zone during this period helped somewhat to moderate the "blows" dealt to the economy by the disruption of economic ties, the loss of import and export markets, and the inability to make mutual payments. Thanks to a gradual, rather than sudden and instantaneous, withdrawal from the ruble zone, it was possible to avoid a complete blocking of the channels for financial flows and for the transfer of goods and people within the boundaries of the former USSR. Simultaneously, this placed a time limit on the so-called preparatory period needed for the creation and introduction of a national currency, for establishing the basic methods of regulating the money supply, and for placing the banking system on entirely different principles from those that had been applied in the Soviet economy.

4.1. Accommodative Monetary-Credit Policy

Given the special circumstances of this inclusion in the ruble zone, during the first stage of reform the fiscal and monetary policy was relatively moderate. The government provided financial assistance to enterprises, restricted the rise of prices on basic foodstuffs, and constantly indexed the money incomes of the population. On the one hand, this policy made it possible to provide some support for enterprises that had already experienced serious difficulties because of the disruption of economic ties. It was essential to play for time - so that economic entities could find new, mutually beneficial economic partners, and so that the population could more easily adapt to the new economic role of enterprises and the state.

On the other hand, the expansionary monetary policy also had hyper-inflationary pressures. During the period of 1991-1993, the level of inflation in Uzbekistan was extremely high, indicating that the process of price increases had - for all practical purposes - lurched out of control.

4.2. The Introduction of National Currency

The transition to a national currency was realized in two stages - that is, through an interim currency (the sum-coupon), which was established with an exchange of 1:1 against the former ruble. During the period of this interim currency, the state prepared methods to introduce a full-fledged national currency, while the Central Bank acquired experience in regulating money flows and a two-tier banking system was created as a fundamentally new institution. At the same time, insofar as the interim money in real life

did not perform all the functions characteristic of real money (for all practical purposes, they did not have the function of accumulation), it was impossible to resolve the problem of financial stabilization with the assistance of an interim currency. In the first half of 1994, the level of average monthly inflation in the sum-coupon was 30 percent.

The introduction of a full-fledged national currency (the sum) was realized on 1 July 1994, with the exchange rate set at 1 sum to 1,000 sum-coupon. This correlation took into account prices, fixed capital, and working capital of enterprises. The introduction of a national currency was realized without any limitations and restrictive measures with respect to individuals and legal persons. It was carried out under tranquil circumstances. From 15 November 1994, the sum became the sole legal tender and means of payment within the territory of the republic. To buttress the national currency, the state prepared for and adopted four programs: (i) austerity in the fiscal and monetary policy, (ii) providing the consumer market with goods, (iii) the expansion of exports and improvement of foreign economic activities of enterprises, and, (iv) an acceleration in the circulation and reduction of emissions of currency.

4.3. Switch to Contractionary Monetary-Fiscal Policy

After the introduction of the national currency, the state began to implement a moderately austere monetary-fiscal policy during the second stage of economic reforms. On the whole, the result was that the general balance in the national economy of the republic somewhat improved. Thus the annual interest rates on credits extended by the Central bank were sharply increased (to 225 percent), the norm of obligatory reserves of commercial banks was raised to 30 percent, the volume of credits provided by the Central Bank for the state was limited. The state also eliminated the practice of preferential credits (including credits to pay wages); state regulation of funds for wages was introduced; the interest rates on savings deposits of the populace were increased.

Because of these measures, in the second half of 1994 the level of monthly inflation dropped by half (to 15 percent per month), and in the first half of 1995 this monthly rate fell to 7.9 percent. In general, the level of average monthly inflation decreased 3.7 times from that of the previous year in 1995. Beginning in 1996, inflation ran at an average monthly rate of 4 percent. However, the main point is that the inflation was now under control, even if still relatively high by international standards.

After the introduction of the national currency, the character of inflation underwent a change. Among the basic factors of inflation, the dominant element was the high shock of supply, including the changes in export and import prices, the contraction in consumer subsidies, and the deregulation of domestic prices. Hence the initial period can be characterized by cost-push inflation. On the contrary, the fast rise of demand in 1992-93 and in the first half of 1994 gave way to demand-pull inflation in the second half of 1994.

A rather austere fiscal policy made it possible to limit the budget deficit in 1995 to 3.5 percent of the GDP. An active export promotion policy, the increased production of grain and oil products (which had earlier constituted a significant share of imports), the use of a floating exchange rate for the national currency - all this operated to produce a favorable balance of trade and an increase in the country's gold and hard-currency

reserves.

The introduction of an order for the conversion of hard currency (both by individuals and juridical entities engaged in the import of goods that were deficient on the domestic market), together with virtually a complete deregulation of prices, made it possible to achieve a high degree of market saturation with goods.

4.4. Despite Significant Achievements, Macroeconomic Disequilibria Still Exist

At the same time, if one takes into account the fact that the market relations had not fully encompassed all spheres of economic activity, macroeconomic disequilibria continued to exist in the republic in 1994-1995. These were expressed in the following ways: First, structural imbalances in the production factors market (between the limited raw material resources and the financial resources of enterprises). The main causes of the imbalance included the difficulties in importing many categories of raw materials, an irrational structure of production (which was not corrected by a mechanism for declaring enterprises bankrupt), and the lack of sufficient financial resources among enterprises. A consequence of the imbalance was an increase in the prices of raw materials and supplies, finished goods, and also temporary interruptions in production at a number of enterprises that were not involved in the procedure for bankruptcy. Second, imbalances in the consumer market (between the purchasing power of the population and supply of goods). In 1991-1993, the current purchasing power of the population exceeded the supply of goods and services. However, by the first months after the introduction of the national currency, this type of imbalance had already acquired new features, as the supply of goods gradually began to exceed purchasing power and demand. Only individual groups in society (which had been more capable of adapting to the market conditions) were in a position where real demand exceeded supply. The purchasing power of a significant part of the population lagged behind the supply of goods. As a result, there was a decrease in the level of consumption and purchasing power as well as an accumulation of large volumes of unsold goods in the wholesale and retail levels of industrial and commercial enterprises. Third, imbalances in the credit market. The excess of demand over the supply of credit (amidst a sharp increase in interest rates), which occurred during the first stage of reform, changed somewhat in the second phase. The surfeit of demand over supply pertained to "cheap" credits made available by the Business Fund and other organizations that were responsible for the development of small business, entrepreneurship, and the creation of new jobs. The low interests (despite a substantial raise in July 1994) on deposits of enterprises and the population in commercial and saving banks, together with the lack of confidence in the banking system, functioned as disincentives for saving and therefore at this stage did not ensure a sufficient volume of credit resources. Fourth, imbalances in the labor market. This imbalance continued to bear a concealed character. The number of unemployed citizens registered on the labor exchanges was smaller than the number of unfilled positions.

The entire macroeconomic policy of the state was directed at liquidating the current forms of imbalances and ensuring a structural transformation of the economy. The purpose was to enhance its export orientation by increasing the output of competitive goods.

5. Denationalization and Privatization. Institutional Reforms

The strategic control over the process of privatization was realized through the "Law on Privatization and Denationalization," as well as several government decrees and presidential edicts. The on-going administration was assigned to the State Committee for Privatization and Denationalization (which was specifically established for this task) and its territorial organs at the local level.

In contrast to Russia and several other states, during the first stage of reform Uzbekistan embarked neither on the path of "voucherization" nor on the path of actively developing its market for securities. Both required a well-developed market infrastructure, a high degree of preparation for the population to participate in the securities market, the presence of a legal basis that had been carefully considered and prepared, and also a system to defend the rights of stockholders. To create all this in a short period of time was simply not possible. At the same time, the hyper-inflationary pressures and financial instability of enterprises decreased an interest in investment on the part of potential investors. Nor did these factors create the preconditions for efficient utilization of financial means compared to if they had been obtained by funds.

Therefore, during the first stage of reform, many ministries and agencies of Uzbekistan (which had previously regulated all spheres of the activity of enterprises) were reorganized - at the initiative of the government and with the voluntary consent of constituent enterprises and productive associations - into conglomerations, associations, and corporations. In the initial phase these stockholding companies had a closed character, and only from 1994 did they begin to go public.

5.1. The Process of Privatization

A "small privatization" was quickly carried out during the first stage. This applied to firms engaged in trade and consumer services (primarily, involving individuals and the personnel of labor collectives) as well as housing. During this period, the state conducted preparatory work for the creation of a legal basis and market infrastructure. To accelerate the formation of markets for labor, capital, goods, and securities, the rudiments of a market infrastructure were thus created: commodity, labor, and securities exchanges.

Beginning in 1994, the republic initiated the process of de-nationalization and privatization of medium-size and large enterprises and the transformation of state associations and enterprises from closed stockholding into public corporations (with the obligatory sale of part of their stock on the stock exchange established in 1994). The National Depository, which records and retains securities, began to function.

The process of reform was accelerated as well in agriculture, and also in the formation of farmer and peasant enterprises. The institution of private ownership of land was also introduced. In 1994, Uzbekistan established a real estate market. In addition, a Republic Real Estate Exchange began to function, along with the start of auctions of real estate such as the sale of trade and service centers, housing, and unfinished projects. The country introduced the auction sale of land plots (as life-long, inheritable) in limited amounts for the construction of individual houses and for use as household agricultural

plots.

5.2. What Are the Main Economic Consequences of the De-nationalization As Thus Far Conducted?

First, all parts of the country have witnessed the creation of enterprises with competing forms of property ownership. This provided stimuli for an improvement in the operations of enterprises of state property, which remained in the key branches of the economy and provided the "commanding heights" of economic control over the national economy. Thus, the emergence of competition even during the first stage increasingly became the driving force for the development, better operation, and improved functioning of state property. This created the conditions for a gradual dismantling of extra-economic, administrative methods of managing state property.

Second, the consistent reduction in the sphere of state influence in the economy created the starting conditions for the application of market relations. Such was the case even before the conditions appeared for the complete elimination of administrative management of state property. This ensured a gradual transition to market relations.

Third, the process of denationalization significantly accelerated the rate of demonopolization in the economy, the expansion of the private sector, and an increase in the latter's share of the income of the population and its role in the economic life of the country.

Fourth, denationalization created the opportunity to form various mixed enterprises, including the types based on mixed capital as well as joint-venture firms with the participation of foreign companies.

6. Structural Transformations of the Economy

The most important dimension of economic reform was the realization of a structural policy and, within this framework, the formation of a new industrial policy for Uzbekistan.

6.1. The State of the Economy on the Eve of Reforms

The need for structural transformation was due to the fact that, on the eve of the reforms, the country was characterized by the following: First, the raw-material orientation of the economy. The main kinds of raw materials produced in the country were shipped abroad for further processing. The country processed only a small proportion of the raw materials that were domestically produced (for example, 20 percent of the copper, 15 percent of the cotton fiber). Second, the high degree of depreciation and aging fixed capital in enterprises. Even in high-priority branches, the proportion of equipment that had been in use for ten years or more was very high. The calculations of experts have shown that the real depreciation of fixed capital in high-priority branches (such as chemicals, metallurgy, light industry, electric power, and machinery) significantly exceeded the gross investments in machinery and equipment. In other words, the country was undergoing a process of "devouring" the accumulated production potential from the past. Third, the obsolescence of fixed capital. Together

with the physical depreciation of fixed capital, even more acute was the problem of its obsolescence. Outdated machinery and technology made it impossible to produce competitive goods and also caused high production costs. Fourth, the high level of energy and material consumption in production. The material expenditures of industry in some enterprises comprised up to 80 percent of total costs and showed a tendency to increase. All this made the price of domestic production uncompetitive. Fifth, the virtual lack of change in the structure of exports. Because of the small proportion of domestic goods that were competitive, the structure of exports remained virtually unchanged. Thus, the share of goods with a high value-added (especially machinery and equipment) recorded virtually no increase. Sixth, the under-utilization of production capacities. The country also showed an under-utilization of production capacities; this was due to the inadequate demand of potential consumers as well as the low quality and the high prices on goods being produced. Seventh, the lack of incentives to modernize technology. The country had not created a system to stimulate the acquisition of new technologies and know-how. This served to retard the development of technical potential both in high-priority branches and in the economy as a whole.

6.2. The Main Goals of Structural Transformation

The main goals of structural transformation consisted of the following: (i) the transformation and development of the base industries (primarily on new technical foundations): oil and gas, energy, gold mining, and other branches of nonferrous metallurgy, (ii) the development of high-tech production in the manufacture of tools and equipment, electric machinery, chemical industry, machinery, and nonferrous metallurgy, a further objective is to raise the proportion of production that is R&D-intensive, technologically complex, and capable of producing competitive goods, (iii) a higher level of processing of raw materials and mineral resources, with a higher degree of finished output; creation of a large network of new productive capacities to process fruits and vegetables; development of knitwear, garment, and spinning industries and other labor-intensive lines of production, (iv) changes in the structure of sowing crops in agriculture so as to eliminate the dependence on the import of the most important food products (above all, cereal crops), (v) an increase in the efficiency of irrigated agriculture in order to raise the fertility of the land, improvement in melioration and in the rational utilization of water resources, (vi) an improvement in the structure of production so as to expand exports and to replace imports with domestic goods; this includes the development of branches with a high export potential - viz., products of light industry and processing, R&D-intensive branches of machine-building, and the development of tourism, (vii) the development of transportation and telecommunications, the reconstruction and creation of new railway lines, international transit roadways, and contemporary means of communications and information transmission, (viii) the saturation of the consumer market with goods and food products, (ix) the creation of new jobs in rural areas through the development of small enterprises that use modern technologies.

The main levers for realizing this structural transformation consisted of state support of the most efficient projects and programs and also the creation of foreign exchange, tax, and customs policies that stimulate the influx of foreign investments to

high-priority branches of the economy.

For purposes of realizing the goals of structural transformation, during all the years of reform (but especially in its second stage), the state carried out a redistribution of the national income to increase capital accumulation and particularly that of productive capital. Thus, in 1995, about 70 percent of capital investment was directed toward the construction of productive capacities (compared to 60 percent in 1994).

Because of the emphasis on high-priority branches and construction products, Uzbekistan succeeded - despite the limited volume of capital investments - in directing these resources toward those branches with the greatest potential: the manufacture of motor vehicles, metallurgy, oil refining, chemical industry, and transportation and communications.

In 1995, Uzbekistan - as the first state in the CIS - had already begun to increase the volume of capital investments (102.0 percent). Foreign capital began to play an ever greater role in the investment process. For example, in 1995, foreign investments and credits comprised 17 percent of all capital investments in the country (compared to 0.6 percent in 1994). This was significantly more than in the other states of the CIS. Approximately 30 percent of all capital investments were directed toward the acquisition of equipment (compared to 19 percent in 1994). This significantly improved the technological and productive structure of capital investments.

The structural changes in the economy enabled the country in 1995 to increase the share of output from the high-priority branches. Moreover, it was also able to reduce the import of vitally important resources - such as aviation fuel, ethyl alcohol, acrylic emulsions, adhesives, and various types of machinery and transport equipment. The latter included automobiles and trucks, combines and other types of agricultural machinery, complex forms of machinery, many types of tools, and various assemblies and parts.

6.3. Achievements

As a result of the structural transformation, the country has accomplished the following. First, a higher rate of growth in the basic industrial branches needed for the economic development of the infrastructure. Thus, their share of the total volume of industrial production rose from 44 percent in 1994 to 58 percent in 1995. This enabled the country to do the following: (i) create the preconditions for achieving self-sufficiency and independence in the supply of petroleum; the extraction of oil and gas condensate in 1995 rose by 37.5 percent, coming to comprise 7.6 million tons of oil and 48.6 billion cubic meters of natural gas, (ii) expand significantly the volume of domestically produced petroleum products (gasoline, diesel fuel, lubricants, and jet aviation fuel) and virtually eliminate the import of fuels and energy, (iii) increase the production of machinery and equipment for the processing of local raw materials, certain forms of technological equipment to produce consumer goods, and agricultural machinery for the agro-industrial complex, (iv) begin the production of trucks, complex household appliances, and the small machinery needed for use on private farms and household plots, (v) expand significantly the production of metal tungsten, molybdenum and tungsten rolled stock, as well as lighting equipment and incandescent light bulbs. Secondly, the creation

of import-substitution in all branches of industry. Thirdly, the consistent adherence to a policy aiming at self-sufficiency in cereal production and a rational structure of sown areas of arable land. Fourthly, rapid development of new forms of production in high-priority branches of metallurgy (electric-welded pipes; enameled wire and brass), motor vehicles (automobiles), radios and electronics (color televisions, new types of telephones, audio and video cassette recorders), and pharmaceuticals (new types of medicines and preparations that correspond to international standards). Lastly, an increase in the share of new technologies in a number of branches of industry: machine building, the manufacture of instruments, light industry, the processing industry, the microbiology industry, and a strengthening of enterprises that are associated with the extraction and the processing of nonferrous metals.

7. The Main Dimensions of Social Policy during the Transition Period

7.1 Labor Market

Based on the principle of ensuring strong social protection of the population during the period of reforms, state policy toward labor had the following main dimensions in 1991-1995: (i) support of a high level of employment in the population, which was characteristic of Uzbekistan before the onset of reforms, (ii) preservation of previously established guarantees of employment, (iii) observance of the interests of labor collectives when conducting mass privatization and denationalization, (iv) creation of conditions for the development of small business and entrepreneurship as well as various forms of self-employment for the populace.

The economic decline in Uzbekistan in 1991-1995 was linked to the collapse of a single economic system within the framework of the former USSR as well as the market reforms being conducted in the republic itself. Contrary to the expectations of Western experts, the economic decline was not accompanied by a corresponding fall in the level of employment and did not lead to overt unemployment.

Although, since 1992, the absolute level of employment in Uzbekistan has shown a tendency to fall, the rate of decrease in employment is considerably lower than the rate of contraction in production (see Figure 3 in the Appendix). As a result, during all the years of reform, the level of overt unemployment has not exceeded 0.3 to 0.5 percent.

The main causes of the low level of overt employment include the following factors: (i) the gradual path of reform, (ii) the virtual absence of instances of real bankruptcy and the closing of both state-owned and denationalized enterprises, and, (iii) the desire of plant managers to preserve highly skilled personnel in expectation of an impending economic stabilization and a new period of economic growth.

The choice of the main thrust of employment policy depends not only on the difficult economic situation and macroeconomic instability, but also on the demographic patterns characteristic of the country. During the first years of reform, the country experienced a noticeable decrease in the birth rate and in the natural growth of the population. However, the rate of growth in these indicators remained high when compared with that of many other countries, and they continue to exert a negative

influence on all the indicators for the standard of living under conditions of an economic decline.

Thus, in 1995, the natural increase in the population was 1.8 percent, including 2.5 percent in rural areas. This demographic growth was determined by the low rate of economic growth for supporting the existing level of per capita income in the population. The high rate of annual increase in the labor supply (1.9 percent) was due to the low level of growth in the volume of production to support the existing level of employment and efficiency of production.

The greatest pressure on the labor market in terms of supply is created in rural areas. The average annual rate of increase in the labor force in rural areas is determined by the low level of annual growth in the volume of production (3 percent). Under conditions of economic decline in the country, hidden unemployment has begun to increase. One form of this is underemployment. According to some calculations, in 1992-1995 the under utilization of labor resources in the economy was more than 14 percent.

Table 2 Underemployment in Uzbekistan, 1990-1995

(calculated as the difference between the change in employment and the change in the volume of production, in percent)

Branch	1991	1992	1993	1994	1995	1990-1995*
Entire Economy	3.95	11.3	2	3.1	1.3	14.2
Industry			5.9	-1.9	-1.4	**2.1
Agriculture			1.2	3.8	0.8	**3.5
Construction			7.3	9.7	-1	**14.0
Services			-2.8	-7.9	-0.2	-11.2

* Underemployment at the end of the period as percent of base year

** 1993-1995

Despite all the deficiencies of underemployment, the economic losses from this in industry and in construction are probably less than the future costs for preparing ab ovo a highly-skilled and experienced labor force once production begins to expand again. This conclusion does not apply, however, to agriculture, where calculations indicate that one-third of the employment is superfluous (compared with the norms of labor inputs for the production of agricultural goods). And this problem cannot be resolved by increasing the output of agricultural goods. The labor force should be emancipated from agriculture and conditions should be created to channel it into other sectors and branches of the economy. For this purpose, the country has prepared a program to provide employment for the rural population for the period up to the year 2000; according to this program, it plans to create jobs for 2.2 million persons in rural areas.

7.2 Income Policy and Social Protection

The main thrust of state policy on personal income and the social safety net during the transition period consists of the following elements: (i) establishment of minimum wages, pensions, public assistance, and student stipends, (ii) indexing (through

the means of the state budget) for the minimum wages, pensions, public assistance, and student stipends, but also for the wages of those employed in the public sector (i.e., directly from the state budget), (iii) regulation of the funds of wages of employees working in enterprises in the non-public sector, (iv) redistribution of part of the incomes in favor of indigent citizens, (v) targeting of public assistance for the general populace.

The hyper-inflationary processes that enveloped Uzbekistan even before the onset of reforms played an extremely negative role with respect to the money incomes of the population (and, accordingly, with respect to the standard of living). The fall in the volumes of production reduced the volume of per capita GDP, the revenues to the state budget, and the opportunities to increase or even maintain the level of real income of the population. During the first stage of reforms, the state systematically indexed the incomes of the population through increases in the minimum wage, pensions, public assistance, and student stipends.

However, as a consequence of the economic decline and the high rates of inflation, the real disposable income of the population had decreased to 66 percent in 1992, then 52 percent in 1993, and finally to 37.5 percent in 1994 (compared to the level in 1990). In other words, the rate of decrease in real personal income of the population proved significantly greater than the rate of decrease in the volume of production.

Measures taken in 1992-1994 to index minimum and average wages (in accordance with the rise in prices) were a factor in providing social protection for the population during the period of reforms. These were necessary because the rise in prices, to a significant degree, was due both to a contraction in state subsidies for consumers and also to the deregulation of prices. Until 1994, there were consumer subsidies for bread, meat, milk, sugar, vegetable oil, detergents, and various goods for children. The government directed almost half of its budget for the social protection of the population to pay for these consumer subsidies.

If in 1991 the share of consumer subsidies constituted 8.1 percent of the money income of the population, this indicator rose to 14.5 percent in 1992, fell to 11.4 percent in 1993, and dropped to just 4.1 percent in 1994. In other words, in 1993-1994, the proportion of consumer subsidies in the incomes of the population fell three-fold. At the same time, such a policy corresponded poorly with the task of reducing hyper-inflationary pressures.

Beginning in July 1994, a restrictive monetary policy led to a change in the policy on personal incomes. Namely, the state adopted measures to regulate wages not only in the public sector, but also in the private sector.

As a result, the frequency - as well as the scale of indexation - for the minimum wage fell sharply (twice in 1995, compared to seven times in 1993). The government also introduced a regulation of wages that depended on the rate of growth in the volume of goods produced. On the whole in 1994, compared with a growth of 12.2 times in consumer prices (measured by the consumer price index), the growth in nominal money incomes amounted to 8.8 times. The share of taxes from individuals in 1994 rose more than 2.5 times from the level in 1990.

Under these conditions, secondary employment of the population began to

increase sharply in those regions where there was a shortage of skilled specialists. As a rule, secondary employment was characteristic of the large cities. Moreover, secondary employment concerned, as a rule, the highly skilled specialists who could not earn the necessary income at their main workplace to support their families. In addition, there was also an increase in unregistered entrepreneurial activity, both in individual and in collective forms (the so-called "shuttle traders" [chelnoki], the migration of rural construction workers to cities, etc.).

A decrease in the real money incomes of the population occurred against a background of a decrease in the proportional share of their nominal money incomes in the total GDP. If in 1992 the proportion of all money incomes amounted to 63.3 percent of the GDP, in 1993 this indicator rose to 72.3 percent but then dropped to 49 percent in 1994. The expenditures for final consumption in households shrank from 55 percent in 1991 to 45 percent in 1992 and to 44 percent in 1993.

The measures adopted to regulate incomes did make it possible to achieve a significant stabilization in the financial situation and to reduce the level of inflation. At the same time, however, because the measures to regulate money income proved more austere than measures to control price increases, the country began to exhibit signs that the artificial reduction in the demand (based on purchasing power) was having a negative impact on the volume of production. The inconsistency in the measures adopted to index wages and to increase money incomes also had a negative impact. In 1993-1994, one could observe sharp fluctuations in the monthly changes in per capita money incomes of the population: periods of a significant contraction were followed by periods of a substantial growth in rates, which even exceeded the rates of growth in consumer prices. This constantly reinforced inflationary expectations.

During the period of 1992-1995, one could also observe an increase in the incomes inequality of various social groups in the population and a concentration of a significant part of total income in the hands of a relatively small number of richer people. The Gini coefficient rose from 0.285 in 1990 to 0.341 in 1995. Under conditions where real incomes of a significant part of the population had fallen and the widening income disparities, the state embarked on the implementation of large-scale social programs to protect the vulnerable strata of the population (See Figure 4 in the Appendix).

The most important of these included a program to provide assistance to families with children and also a program for state assistance to indigent families. In 1995, the state allocated 4.4 percent of budgetary expenditures for these purposes. The program to provide assistance to families with children encompasses all families of this category, regardless of their income level. State assistance to indigent families is given only to the most need families. A check of the needs of families (with a minimum of bureaucratic procedures) is performed by organs of local self-government (the makhallii), which know the real situation of families far better than any state organs.

The positive influence of the fall in inflation (with respect to the growth of personal incomes of the population) began in 1995 and continued in 1996 as well. However, beginning in 1996, one observes a rise in purchasing power and demand, with a corresponding rise in the retail trade turnover and in the volume of services.

7.3 Reforms in the Sphere of Education and Public Health

As a consequence of the economic decline and the shortage of budgetary revenues (due to the loss of subsidies from the centralized Soviet budget), the opportunities for state financing in the social sphere were sharply reduced.

The principles of universal, free secondary education and medical service for the population were put in jeopardy by the lack of funding (which in turn was due to the lack of the requisite resources in the state budget). During the first years of the reforms, the development of the material and technical basis of components in the social sphere had already been substantially reduced. As a consequence, the republic experienced a decrease in the number of beds in hospitals and places for pupils in general education schools. The financial difficulties of institutions in public health and education were manifested in a shortage of funds to purchase medical equipment and medicines or school materials and textbooks. The share of expenditures in the state budget for all social needs reached nearly 50 percent. However, because of the small size of the budget itself, these funds were insufficient, not only to expand, but even to maintain the existing system of public health and education.

Under these conditions, the reforms in public health and education had to solve the task of providing a more rational utilization of the existing financial resources. And this had to be done in such a way as to maintain the high level of services.

The reforms in public health were realized in the following spheres: (i) strengthening of the primary medical and hygienic assistance. This entailed the allocation of limited financial resources, above all, to the primary unit of public health in the village - the rural medical centers, rural district hospitals and out-patient clinics, first-aid stations, institutions to assist in child birth, etc., (ii) an expansion of prophylactic measures against diseases, (iii) a decentralization of the system for health-care management, (iv) an expansion of measures to reduce maternal and child mortality rates, including measures for family planning, more extensive use of contraceptives, etc., (v) development of forms of fee-based medical services, as well as the introduction of private medical practice in certain spheres, (vi) reform of the system for financing public health and the introduction of a system of medical insurance.

No less important are the reforms in public education, which are being realized in the following spheres: (i) an improvement in the quality of general secondary and higher education, (ii) the creation of new forms of educational institutions (lycee, gymnasiums, colleges, etc.), (iii) reform in the system of professional training so as to ensure better orientation toward servicing the needs of specific branches of the economy and enterprises, (iv) a greater role for economic education in society, (v) a reform in the system for financing education, including the introduction of various forms of tuition-based instruction, (vi) an expansion in the system for sending the country's youth to study in foreign educational institutions.

Conclusion

As we have seen, Uzbekistan emerged from one of the least developed republics relying heavily on central budget of the former Soviet Union to become one of the most

promising “new-born” countries of Central Asia. The process to become a competitive market economy involves radical reforms, the most painstaking period of which (such as the reduction of hyper inflation, the introduction of national currency) is over and the economy is on the way to stabilization. The first steps toward privatization have also been made, although its space is not satisfactory. The economic reforms induced changes in social policy as well, the government is trying for a more rational utilization of financial resources in order to provide social protection for the population.

Endnote:

1. Data from the serial, *Narodnoe khoziaistvo Uzbekskoi SSR. Statisticheskii sbornik* [National Economy of Uzbek SSR. Statistical Handbook], for the pertinent years.

Appendix

Figure 1: Changes in National Income, Capital Formation, Size of Population and Productivity of labor in Uzbekistan, 1985-1990 (1985=100%)

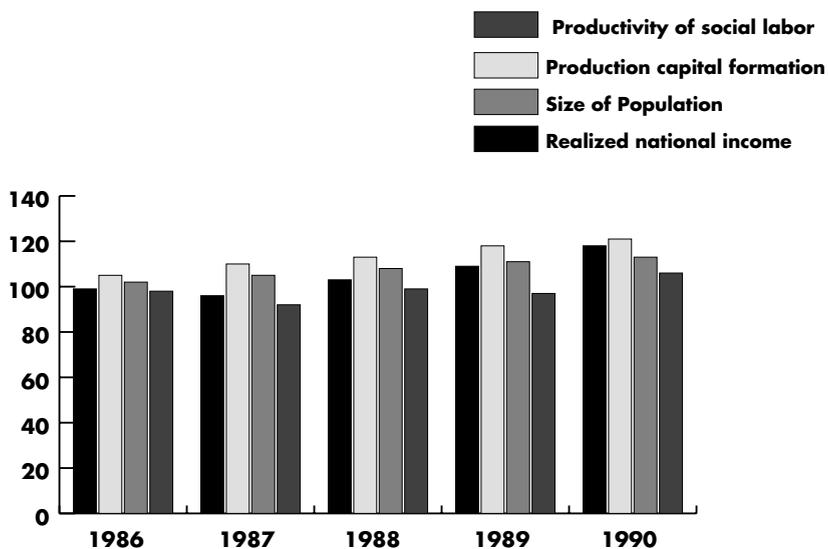


Figure 2: Structure of National Income

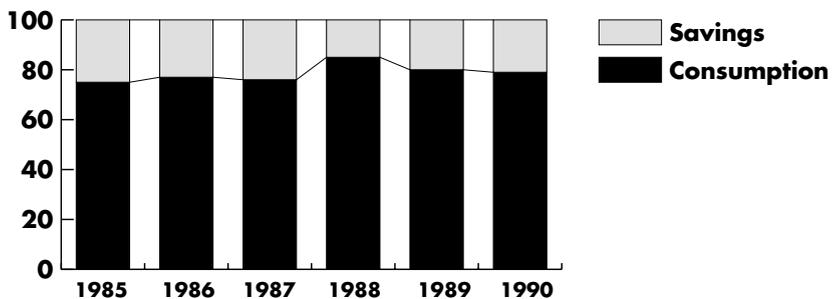


Figure 3: Changes in Employment in Uzbekistan

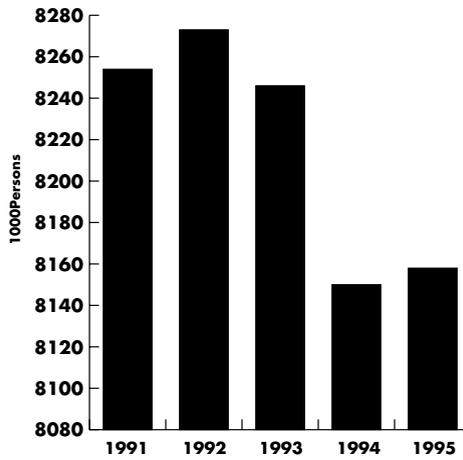


Figure 4: Structure of Social Assistance to Families

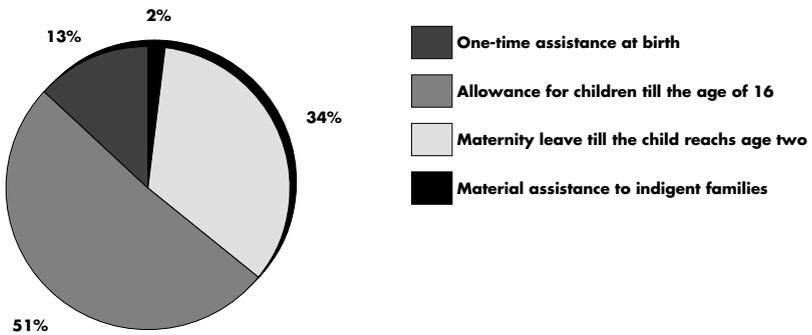
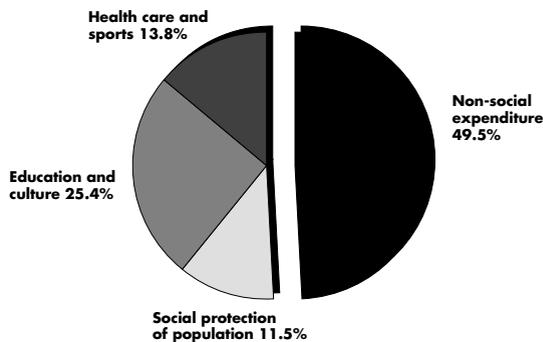


Figure 5: Structure of Budget Expenditure in 1995



2

Reform of Agriculture: Experience and Prospects

I. E. Ergashev

Introduction

Reform processes in China are being realized in various spheres of social life, industry, construction, and agriculture. The application of new technology and equipment, together with the investments from foreign countries (for instance, the United States, Japan, and Singapore), have yielded concrete results. Here we would like to note the reforms of agriculture, which is based on family and collective contract. Major successes have been achieved in terms of the incentives system as well as of increasing labor productivity.

1. Socialist System with Market Economy in China

It is generally thought that market, socialism, and development are incompatible, but China has a special position on this question. In China, it is believed that socialism and market are entirely compatible. They are applying different forms of property rights and conducting reforms in market relations. In recent years, especially since 1991, the China has achieved noteworthy successes in scientific organization of labor, in the application of modern machinery and technology, in the production of finished industrial goods, in the development of agricultural machinery and processing of raw materials, and also in the service sector.

In general, there is much in common between China and Uzbekistan in terms of the development of market relations. One can discern this similarity in the diversity in forms of property ownership, the development of macro- and microeconomics, the social sphere, the forms of organization of agricultural labor, and the cooperation with foreign states. China has much experience in this domain, as is attested by the successes attained in the southern provinces. At the same time, the transition to market relations has its own peculiar features in each individual province. One can discern all this as well in Uzbekistan. Upon embarking on the path of national sovereignty, Uzbekistan entered into a new stage of development. Fundamental changes have taken place in the social-economic, political, and spiritual life of society.

2. Agricultural Policy

The task of raising the level of agriculture through reform has been designated as one of the top-priority objectives of state policy. During the period of this transition to market relations, the main reformer has been the state itself, which has prepared and consistently implemented the transformation of all spheres of the economy, social and political order, and cultural life. The contemporary policy of the state with respect to agriculture differs fundamentally from that of the former Soviet state. During the Soviet era, the causes of the backwardness of the village were due to four factors: (i) agricultural production was based on state planning and the technocratic interests of central authorities in Moscow, (ii) the relatively disconnected structure of agricultural production, (iii) the influence of a single state ideology on the consciousness of workers and, (iv) the orientation of the village primarily toward the production of raw materials.

3. Getting Rid of Soviet Inheritance in Uzbekistan

At present, the agricultural policy is directed toward several main goals: the privatization of property, support for new forms of economic activity, creation of broad opportunities for the formation of private farms (with material support), promotion of social development, and decentralization of administration (by granting freedom of self-management to farms). Naturally, as the country makes its transition to market relations, this policy will evolve so as to acquire new content. Evidently, in countries where the state pays particular attention to the interests of agriculture (by supporting and resolving its economic and cultural problems), it is possible to achieve a high level of efficiency. These countries now occupy leading places among civilized states. They ensure the development of industry and service sector by enabling a re-channeling of labor resources from the agricultural sector.

It is therefore no accident that Uzbek policy makers, while relying upon historical traditions, carefully examine the experience of these countries and seek to ascertain those aspects which are acceptable. The new thrust and specific characteristics of agrarian policy has been formulated in the speeches and works of President I. A. Karimov. The essence of this approach embraces the following: (i) the development of industry and processing branches in rural areas, (ii) a change in the psychology of people and their attitude toward work and property, and, (iii) protection of the interests of entrepreneurs. However, at the local level, the old methods of work still persist and hold sway. This has a negative effect on the realization of the government's agricultural policy.

4. State Monopoly and Monoculture on the Eve of Reforms in Uzbekistan

Observance of the principle of state monopolies, which existed prior to the declaration of independence, eliminated the democratic foundations for economic activity. The earlier Soviet system violated such vitally important principles as voluntary participation, self-government, cost-accounting, and incentives. Society was diverted from its natural path of development, instead, the totalitarian regime inculcated and implanted its own norms and methods. The republic remained a raw-material base, it did not have the right to control the property located on its own territory. For example, in 1988, eighteen all-union (central) ministries in Moscow controlled 38 percent of the property in Uzbekistan, all-union and republic ministries jointly had jurisdiction over 54 percent of the property, only 8 percent of the republic's property was subject solely to republic or local control. Uzbekistan was the chief cotton supplier for the former Soviet Union, supplying two-third of the entire output in the USSR. The result was a monoculture based on cotton. In some areas, as much as 85 to 90 percent of the arable land was devoted to the cultivation of cotton. In addition to cotton, the republic also produced many other forms of agricultural products, which, through the system of centralized state procurement, were shipped outside the republic for processing. In the republic itself, the lack of basic consumer goods created serious social problems.

Under the new conditions of independence (whereupon the land, including mineral resources in underground reserves, and spiritual valuables became the property of the country itself), all aspects of social life in the village not only exert an influence on

politics, but also appear as an object of deliberate control and management. State policy acquires new features in performing its domestic and foreign functions.

5. Independent Policy Making, Diversification of Agricultural Production and Property

Today, the independent state of Uzbekistan, as a full-blooded member of the world community, concentrates all its energies on creating an independent economic and social policy. That policy is specifically aimed at renewing the life, developing the economy, improving the well-being of the people, and achieving the fastest possible integration into the world economy. Under today's policies, the village is designated to be an important objective in reorienting 60 percent of the rural inhabitants to the industrial and service sectors. The social orientation, the conduct of an independent economic policy (which corresponds to the interests of the people and its everyday needs), the resolution of social problems, the elimination of the one-sided raw-material system in agriculture - all this constitutes the principal thrusts of state policy. The social development of the village, under the conditions of independence, constitutes one of the most acute questions for the contemporary policy.

During this period, the country has adopted laws on property ownership, on enterprises, on entrepreneurship, on foreign economic activities, on banks and banking activity, on the de-nationalization and privatization of property, and on economic associations and conglomerations. The process of law-making is based on two most important and constitutionally-rooted principles: (i) on the principle of the freedom and equality of different forms of property ownership, and, (ii) on the principle of freedom of economic activity. The formation of market relations in agriculture, together with the transfer of land to eternal utilization (with rights of inheritance), is intended to achieve the following: (i) ensure rational utilization of the land, (ii) preserve ultimate state ownership of the land, (iii) prevent ecological pollution of the soil, and, (iv) avoid various social conflicts.

As a measure for the diversification of agricultural production, the area sown to cotton has been reduced by some 500,000 hectares. In specialized agricultural enterprises, its proportion has been reduced from 75 percent to 60 percent. This has made it possible to expand the sown land areas for other agricultural crops. It is deemed sufficient to allocate 1.6 to 1.7 million hectares for the cultivation of cotton. Furthermore, as a result of the implementation of state policy in the village, tangible work has been done to provide the population with foodstuffs. If previously the republic had to import 5 to 6 million tons of grain each year, this indicator has now decreased to 3.5 million tons. The import of meat and meat products has decreased seven-fold. The same is true of milk and other dairy products: the share of imports for these items has dropped from 28 to 5 percent of total consumption.

It must be noted that, together with the transfer of fixed capital and other property to labor collectives (without requiring compensation), a plan has been compiled and is currently being implemented to transform more than 700 unprofitable sovkhoses (state farms) into cooperatives and other types of production units (all outside state control). Since 1 March 1993, the country has dismantled 221 sovkhoses, turning them

into 74 kolkhozes (collective farms), 141 cooperatives, and 9 lease-based enterprises. At the present time, 67 percent of the enterprises have been de-nationalized, these employ approximately 50 percent of the work force and produces about the same proportion of total output. Today, the de-nationalized and privatized enterprises employ more than 4 million people.

At present, the country is overcoming the remnants of a bureaucratic psychology. There are changes in the legal status of property owners, with a strengthening of the tendency to develop private, collective, joint-stock, and family forms of property ownership. The main focus of this policy is the individual. It is precisely for this reason that the struggle for a healthy generation will remain an obligation of the state and will constitute one of its top priorities. The political processes in the village, their characteristic peculiarities and content, depend on the degree of centralization of power and on the mutual relations between central and local organs (which, directly or indirectly, influence political decision-making). The drafting and adoption of decisions, the achievement of cooperation by the basic political forces, the realization of goals, the maintenance of political stability and tranquillity - all this, to a significant degree, depends on the kind of political processes that are at work.

In governing a state, A. Temur identified four guiding principles: (i) council, (ii) meetings (*mashvaratu maslakhat*), (iii) decision-making based on principles, and, (iv) caution. In addition, he regarded justness as the basic force and attempted to avoid coercion, he always stood on the side of a fair decision. At the same time, he made all of his laws and norms conform to the definite interests of the twelve strata of society, not a single citizen felt that his interests were outside the view of A. Temur's state.

6. Lessons from the Transformation of the Village

From an analysis of the reforms, political processes, and democratization of state administration, one can draw the following conclusions. First, democratization of administration in the village is inseparable from the process of transition to a market economy. Secondly, for purposes of improving the governance of society and developing distribution, it is necessary to create new forms and conditions for labor. Thirdly, realization of democratic principles is ensured by transforming publicity (*glasnost'*) into a norm, as a way of life and part of the process for combating bureaucratism, bribery, formalism, and official indifference. Fourthly, universal human values and democratic principles are formed in moral relations to struggle against negative phenomena in popular consciousness (the psychology of consumerism, material dependency, etc.) Fifthly, life is intimately connected to politics, and it is essential to take into account the tendencies for the development of political parties and public organizations (as part of the democratization process). Lastly, working people should assume the outlook of being active participants in the social and political life of the country.

7. The Restoration of National Consciousness

The proclamation of independence gave a powerful impulse to the formation of national pride and consciousness of freedom among the people. This has, accordingly, led to the formation of a national consciousness, which serves as the basis for overcoming

dependency, servility, and other vices. That is because the feeling of independence was a centuries-old dream of the people.

The policy of the independent Uzbekistan is based on the mentality of the people, which is characterized by a high degree of spirituality and by an aspiration for enlightenment, learning, and justice. The spiritual and moral roots for the development of an independent Uzbekistan consist of the following: (i) loyalty to universal human values, (ii) reinforcement and development of the spiritual legacy of the people, (iii) freedom for the individual to manifest his potential, (iv) patriotism. Independence has presented an opportunity to recover the spiritual values that were forgotten - or repressed - during the years of the totalitarian regime. The restoration of a rich cultural and historical legacy and values is a cardinal demand for the present day. This is of great significance for the country's spiritual progress and development. Therefore, in the course of restoring the literary, cultural, spiritual, and historical heritage, use is made of the creative works of Alishera Navoi, Saadi, Dzhami, Beruni, Farabii, Omar Khaiama, Bedulia and others, who glorified the ideas of humanism, love, morals and friendship among nations. The working people of the village take a deep interest in the creative work of thinkers who have enriched the treasury of universal human values, such as Ismail Bukhari, Akhmad Iassavi, Sufi Ollaer, Rabguzi, Gazzoli, Nakshbandi, At-Termizi, Khodzha Akhrrora, and others.

Conclusion

It is very important to study and evaluate objectively the national culture, spiritual values, and customs of every people. In a word, by becoming familiar with the reform processes and market economy in China and Uzbekistan, the two countries can mutually enrich and instill confidence in the prospects for social-economic development. This can also promote the further development of mutual cooperation and exchange of experience between the two countries.

3

Formation of a Market Institution of Peasant and Farmer Agriculture in Uzbekistan

N. K. Popadiuk

Introduction

During transition period, market infrastructure in particularly such kinds as stock exchange infrastructure, institutions for foreign economic relations, including financial and credit establishments, represents only a thin layer on the thick layer of economic activity. Pertinently to note, that the degree of development of this "floor" of a multilevel economy allowed the USA, leading countries of Europe, Japan and new industrial countries to adapt quickly to an industrial and then to information society. Absence of such infrastructure has caused the special character of backlog of India, China and other Asian countries.

There is a risk that market infrastructure being formed according to the world standards will "slip" in the system of the technological mode of production really achieved in the country, that this infrastructure will be an extraneous body in the texture of economic life in still traditional society. In order to avoid this situation a set of measures is needed.

One of the characteristic features of this stage in the extension of economic reforms in Uzbekistan is their regionalization. This regionalization is realized in such forms as municipalization, the commercialization of the activities of rural collective enterprises and owners of private household plots, and the privatization of real estate in the village that used to belong to state agricultural enterprises (gосkhozy) and nationalized consumer cooperatives.

As in any newly independent country in the post-Soviet space, the reforms in Uzbekistan have been realized unevenly in terms of both sectors and regions. The urban economy is more amenable to market transformations than is the rural economy. That is because of the higher level of general education and the cultural-technical level of urban employees, the profoundly differentiated forms of activities and corresponding social expenditures, the diversity of industrial and post-industrial technologies, the professional mobility of urban people, the more expansive labor market and the more flexible housing market.

1. The Transformation of Rural Areas

A certain inertia characterizes the rural economy for several reasons. This economy has, in many respects, preserved the characteristic features of a traditional Eastern society, which have been only slightly modified during the Soviet period of the country's history. The market transformations affecting the village have enveloped and changed, for the most part, only the organizational forms of economic and commercial activity, without altering established institutions. However, the success of market reforms in rural areas, where more than half of the population still resides, largely depends on the effectiveness of these institutional reforms. The special feature of the kolkhoz (collective farm, the basic organizational form of agricultural production and only nominally existing as a non-state entity) was its close integration into the state mechanisms for the distribution and redistribution of financial and material resources.

The successful transformation of any traditional social institution into one that satisfies the requirements of a market economy is only possible if the reformed institution

will be more effective in working with the new distribution mechanisms that realize the interests of the most organized or represented social group. In the contrary case, the re-establishment of the old institution is inevitable. This is particularly true in the case of rural areas.

The transformation of state agricultural enterprises (sovkhozes) into collective enterprises and associations, with few exceptions, has done little to change these institutions as distribution mechanisms at the local or regional level. The peasants (dekhkan) and private farmers (fermer) who separated themselves from the collective farms, once their old connections and access to the distribution system were shattered, have encountered serious difficulties in surviving on their own. These difficulties concern supplies of necessary materials, equipment, and machinery, the sale of their products, use of water, etc.; for some pioneers of this form of agricultural entrepreneurship, these have been insurmountable obstacles. More than 2,000 peasant and farmer producers (of a total of 17,000) ceased to operate in 1995, and returned to collective agriculture.

It is necessary to establish organizational market mechanisms in the village, and these should form new behavioral stereotypes for rural producers and entrepreneurs and change their customary way of life. The establishment of new market mechanisms should contribute to improving the organizational level in the system of goods circulation and to raising the level of production technology as well as the technical skills of rural producers. That, in turn, should lead to the appearance of new opportunities and alternative ways for entrepreneurship in the village.

1.1. Present State of Rural Institution

The existing market infrastructure in Uzbekistan essentially serves the urban sector of the economy. Being adapted for the corresponding sectors of a highly differentiated market system of the city, this infrastructure (for example, in the financial market - with broker offices, the stock market itself, etc.) is incomprehensible to rural producers and entrepreneurs. Hence there is a need to form intermediating links to the village. These should be more accessible and comprehensible to villagers, should be based on the essential needs of rural producers and be capable of eliciting their support.

The village lacks commercial institutions for trading, selling, and procurement, as well as non-bank financial institutions (e.g., credit cooperatives, savings-and-loan banks, investment funds), and other types of the infrastructure that specialize in serving agricultural entrepreneurs and producers. This substantially narrows the effectiveness of the activities of even the few market-oriented agricultural enterprises found in the region. Here the representatives of private farms face an unproductive spending of time, when they must personally sell their commodities on kolkhoz markets; the only alternative is to sell at low wholesale prices to private middlemen or to organizations in the state procurement system. The same is true when each farmer must resolve questions of obtaining seed, fodder, chemical pesticides, and other essential goods, since he must enter the market, one-on-one, against the organized trader or monopolist producer of these goods.

The unsatisfactory level of development in the rural market infrastructure,

especially with respect to financial institutions, does not contribute to a firm consolidation of the channels for money flows in the provinces. As a result, one sees an inverse relationship between the volume of cash transactions and the level of infrastructure development. Namely, the lower the level of infrastructure development in a province, the more common cash transactions are.

1.2. The Formation of Rural Cooperatives

Obviously, as the market transformation progresses, the problem of the lag in the development of the rural market infrastructure will become more intense. It will become a factor that impedes the market reforms in rural areas. A solution to this situation is seen to be in the experience of developed market-based countries, specifically, in the self-organization and self-defense of private farms, commodity-oriented household plots, and other forms of rural entrepreneurship (such as independent cooperatives and partnerships), as forms of organized self-help in the rural economy. The highly developed agriculture of West European countries, where the traditions of the cooperative movement are more than a century and half old, but also the experience of Japan, show that the possibilities for diverse forms of cooperation in the village are immense. Moreover, the majority of these forms (and here is what makes them so attractive for Uzbekistan) do not require significant initial contributions from members at the time of their founding, and they also help to create additional jobs.

The need for targeted assistance to promote the development of cooperatives in rural areas is due to a number of factors. These include not only the formation of a stable middle class in the countryside, the support of the forces of self-organization and viability of small and middle-sized business in the village, but also the striving to raise the volume of the market in the rural economy in its manufacturing and processing sectors. It was no accident in 1995, for example, that export transactions represented 81 percent of the turnover on the commodity markets in the country. Export held the same proportion in commodity turnover on exchanges in 1996 as well. In other words, the exchange is serving the structural transformation of other countries, to which products (above all agricultural goods) that were bought up on the exchanges and markets in Uzbekistan are shipped.

Thus, at this stage of the market reforms, the formation of cooperatives is one of the main lines of self-help in market principles of peasant, farmer, and collective enterprises and partnership with respect to forming their own market infrastructure. This is becoming the response to the challenge of restructuring the institutional basis of the system in the rural economy.

To develop the rural cooperative movement (in the stage when the economic reforms are being extended), it is essential to establish mechanisms that can ensure the viability and vitality of productive entrepreneurship in the village. This must be done, above all, on the basis of the village's own savings as well as credits from banks and non-bank financial institutions. This will later enable the village to accumulate the financial and investment resources to serve the interests of the members of cooperatives, work associations, and partnerships.

Moreover, the organization of the village cooperatives serving the member-

farmers, peasants, and owners of household plots will contribute to achieving the following goals: (1) establish mechanisms that prevent the transfer of financial resources from the villages to the city, (2) ensure the productive use of financial savings of the rural population, which yields an income, (3) increase employment of the population in rural areas, (4) promote the diversification of agricultural production in each region and oblast, with greater heterogeneity in the work and services performed by the peasant, farmer, and collective enterprises, (5) seek an improvement in the professionalism of farmers and peasants, along with raising the educational-technical level of rural labor, together with the formation of a new kind of market psychology, (6) strengthen the economic ties between the city and village, and also between village and village (kishlak-kishlak), (7) create conditions to accelerate the social development of rural areas, (8) promote the specialization of production among regions as well as an intensification of the territorial division of labor in each oblast and, then, within each administration district, (9) strengthen the ties of rural producers with both the national market and institutions of market infrastructure on the republic level, (10) stimulate the industrialization of agriculture and the development of industry in rural areas.

It should be remembered that the cooperative is a voluntary association of individuals, who participate (through their personal labor, property, or money inputs) in the goals of realizing the productive, procurement, and sales needs shared by all the individual participants. It is also for the joint realization of various other services that the cooperatives contribute to the normal flow of processes, such as procurement, purchasing, production, and sale of goods produced (work and services). Formally constituted as a legal entity, the cooperatives realize their activity in accordance with the existing legislation.

Contrasting to the existing kolkhoz and consumer cooperatives that exist at the present time (which were excessively bureaucratized under the command-administrative system), the new cooperative movement presupposes an exclusively voluntary association and democratic autonomy. Except for legislation, no superior organ regulates the distribution of income, that function is performed only by the members of the cooperative. In addition, not all the property of the farming households or individuals (nor even all the production inventory) are subject to inclusion in the cooperative, rather, this applies only to a membership share of a magnitude such that it will not violate the economic interests of the shareholders and instead, will contribute to the resolution of those questions that are of common interest in the commercial activities.

The new cooperative movement in rural areas is based not only on cooperatives as a special legal entity, but also provides for new legal entities (as permitted by the legislation of the country and, above all, the law of the Republic of Uzbekistan "On Cooperation and Partnerships"). These include companies with mixed forms of limited liability (kommanditnye tovarishchestva)¹, public and private joint-stock companies, and so forth. Other pertinent legislation of the Republic of Uzbekistan includes the laws "on cooperation," "on property," "on entrepreneurship," "on exchanges and exchange activities," "on enterprises," "on land," "on peasant (farmer) enterprises," as well as the decrees of the President of the Republic of Uzbekistan on the development of private enterprise activities.

The key to stimulating the creation and development of the rural cooperative movement should be the preparation of a program to form cooperatives, productive associations, and partnerships in each administrative district of each oblast. This should be based on the concrete productive and population structures, taking into account the structure of land under cultivation, the presence of peasant (farmer) and collective enterprises, and the existing production and market infrastructure. However, as experience has shown, the support for the cooperative movement organized in this fashion can be so bureaucratizing that only isolated cases of the cooperatives thus formed will be viable.

To ensure that the rural cooperative movement really bear a voluntary form of self-organization (comprised of farmers, peasants, owners of household plots, and other entrepreneurs), it should be based solely on the principle of a voluntary association.

2. The Bottlenecks of Market Transformation

It is exceedingly difficult to activate a market transformation in rural areas when it lacks the appropriate market infrastructure for this. In the next five to seven years, it is unrealistic to expect state assistance with respect to investment to influence the formation of a rural market infrastructure, even in the oblast surrounding the capital. Rather, it is toward the resolution of other problems that the state has designed its program for a productive and social infrastructure in rural areas. At the same time, a delay in the creation of a rural market infrastructure is fraught with the danger of causing a still greater gap in the tempo and depth of market transformations in the urban and rural sectors of the economy. This could trigger an institutional crisis that is capable of blocking a structural transformation of the rural economy.

That is why there are such discrepancies in the price structure: (i) the enormous price difference between the retail and wholesale prices on agricultural products; and, (ii) the lack of a reasonable parity between the prices on industrial goods needed for agriculture (machines and equipment, durable consumer goods, etc.) and the prices on agricultural commodities.

The unfavorable infrastructure for peasant (private farmer) households has a negative "demonstrative" effect, which discourages new and fresh forces from adopting this progressive form of economic organization. The lack of a market infrastructure (i.e., one that corresponds to the needs of peasant and farmer households) necessarily leads to the current "attachment" of these households to collective farmers. The latter, for the most part, have become joint-stock companies and other company forms, but in many respects they have retained their former administrative economic relations. In addition, there has been a replication of the former relationships with respect to the procurement organizations (now privatized) and the organizations of the consumer cooperatives of "Uzbekbirlashuv." The latter have now become private monopolists on the local-regional markets within their sphere of activities.

All forms of rural cooperation, whatever organizational form they may have acquired, in no sense infringe on the independence of the individual farmer (peasant). Its principal significance is to create, around the private farmer (peasant) household, the corresponding level of development of agricultural production and also a market

infrastructure that is comprehensible to the simple rural producer-entrepreneur. That market infrastructure should have a cooperative (shareholder) character; therefore it not only facilitates the farmer's access to a civilized market, but also yields a profit from the share-holding or reduces operating costs.

3. The Character and Types of Rural Cooperatives

All cooperatives, which are designed to serve a rural market infrastructure, are divided into two main classes: (I) producer cooperatives dealing with the means of production; and, (II) cooperatives dealing with labor inputs.

3.1. Producer Cooperatives

Producer cooperatives are in turn divided into two subcategories: (1) cooperatives to purchase the factors of production and other economic materials; and, (2) cooperatives to sell the factors of production and economic goods.

The former comprises of two main groups: (i) cooperatives to obtain financial resources (credit associations; mutual credit cooperatives; savings and loan associations); and, (ii) cooperatives for the purchase of economic goods. The second group in turn, includes two types of cooperatives: (i) cooperatives to service their own consumer needs (consumer associations, savings-and-loan, home-building cooperatives), (ii) cooperatives to service the needs of entrepreneurship (purchasing associations to acquire raw materials and other means of production).

The latter is also subdivided into two categories: (i) cooperatives that sell the products of individual producer-members (partnerships for product sales); and, (ii) cooperatives that sell members' products which have first been given preliminary processing by the cooperative (cooperatives for processing).

3.2. Labor Cooperatives

Cooperatives dealing with labor include three main categories: (i) cooperatives of collective labor utilization of the means of production (production associations called *proizvoditel'no-podosbnye tovarishchestva* and *arteli*); (ii) cooperatives for the collective sale of joint labor services (labor associations, termed *trudovye arteli* or *shabashniki*); and, (iii) cooperatives for joint labor processing of goods (cooperative associations organized as *proizvoditel'nye kooperativy*, *arteli*, and *tovarishchestva*).

This classification, according to M. I. Tugan-Baranovskii, allows one to discern nine "pure forms" of cooperatives: credit cooperatives, consumer cooperatives, home-builder cooperatives, purchasing cooperatives, sales cooperatives, processing cooperatives, auxiliary production cooperatives, labor associations (*trudovye arteli*), production cooperatives (*proizvoditel'nye arteli*).

Some of these categories have long existed in the economic system of Uzbekistan (e.g., consumer cooperatives), but others first appeared at the end of the 1980s and 1990s, when they enjoyed the "peak" phase of their development. Subsequently, however, they experienced a several-fold decrease, surrendering their place to more suitable forms of

small and private enterprises, companies with limited liability, and other legal forms of organization. The cause of the decline in the popularity and number of cooperatives in the post-perestroika period was the fact that cooperatives were earlier the only legal form of private entrepreneurial activity, including individual private entrepreneurship. In addition, numerous economic "crevices" in the command-administrative system during this period made it possible for cooperative organizations to accumulate capital to arrange their own business without resorting to the nominal status of a cooperative as a cover.

The prospects of reviving cooperatives in rural areas depends on the preservation and development of the independent activity of the main figures in rural cooperatives - the private entrepreneurs: the peasant, farmer, and owners of households plots.

3.3. Credit Cooperatives

Credit cooperatives (associations), whatever form they might assume (cooperatives for mutual credit, savings-and-loan cooperatives), bear an unlimited responsibility toward their members, since they must provide special guarantees for their solvency. The main objective of this type of cooperative is to distribute money among its members. Moreover, the money comes through credits from outside, backed by the accountability of all the members in the cooperative.

The source of credit resources in the formative stages can be the means of the Committee of State Property (Goskomimushchestvo) of the Republic of Uzbekistan, which are obtained from the de-nationalization and privatization of state property. Other sources include contributions, philanthropic assistance, and funds from international and foreign financial organizations (given within the framework of technical assistance for the formation of a market infrastructure). As the system of such cooperatives and the formation of their unions gains strength, the need for outside assistance will in practice decline.

Most suitable for use in the rural economy of Uzbekistan are the principles for organizing credit cooperatives for peasants in the lower-income category. These were worked out in Germany and obtained the name of "Raiffeisen" principles (after the spiritual father and organizer of the first such peasant cooperatives, F. W. Raiffeisen). The essence of these principles consists of the following: First, a fundamental denial of shareholder capital of credit cooperatives (or its reduction to a purely symbolic level). This is a condition for making capital attractive and available to the mass of less prosperous peasants (i.e., those unable to become shareholders, but who are most in need of capital), with their future harvests as surety. Secondly, the principle of localization of service or strict district-level delimitation in the activity of credit cooperatives. The sphere of a cooperative must be limited to one or two districts and aimed at activating the factor personal trust, which in turn is based on familiarity of all its members with the ruling board and each other (so as to ensure reliable repayment of loans by the borrowers).

This principle ensures the individualization of credit operations in a locally defined district, with a stable social-territorial community. The latter can thereby contribute to guaranteeing the repayment of the loan by the due date (through social-

psychological pressure on the part of the inhabitants of the community, as members of the credit cooperative). Moreover, the shortage of credit resources, which exists as this market institution is being established, can be offset by the unification of localized credit units into oblast, inter-oblast, and national credit unions (ittifoki), while fully preserving the independence of the local unions themselves, yet linking them in a single money market for the whole country. Thirdly, the requirement of unsalaried work of all elected officials of the credit cooperative. This rule is fully acceptable given the small scale of the local or regional credit unions. This will make it possible to reduce significantly the costs of credit operations, thereby raising the interest on deposits to attract new credit resources. Fourthly, the prohibition for an individual member of the credit union to participate simultaneously in several credit cooperatives. This is necessary to realize the full control of the governing board of a credit cooperative over the economic activities of its members, i.e., borrowers. Lastly, the freedom of a credit cooperative to place its deposits in long-term and short-term loans (regardless of the term set for deposits). This is made possible under two conditions: (i) the possibility of issuing long-term bonds exists; and, (ii) it preserves the right that the loans issued to members of the cooperative be repaid ahead of schedule, with advance warning of one month.

The Raiffeisen principles for the organization and operation of credit cooperatives have demonstrated their power to raise the middle and lower strata of the peasantry to the present powerful level of agro-business in former West Germany. The more prosperous strata of the farmer and peasant households might be able to accept the conditions of commercial banks.

3.4. Consumer Associations

Consumer associations are created to combat the monopoly of consumer cooperatives, which are organized in the raions and oblasts and which were formerly in the system of *Uzbekbirliashub*. Consumer associations of peasants and farmers, but also owners of household plots, and (to some degree) the former consumer cooperatives, are oriented toward joint purchases of consumer goods. In contrast to the former, however, they are completely under the control of shareholders.

Because the newly formed consumer societies of peasants, farmers, and owners of household plots are an alternative to the former consumer cooperatives of *Uzbekbirliashub*, these should be based on the traditional cooperative principles of consumer unions. World cooperative practice indicates that they should be based on guidelines like the Rochdale principles (named after the English city of Rochdale, where they were first formulated and applied). Their essence consists in the following: (i) democratic organization (each member has one vote, regardless of the number of shares he might possess), (ii) small size of the shares and the possibility to make small contributions, (iii) sale of products to both members and non-members for cash (not credit), (iv) sale of products neither at production cost nor at whole prices, but at average market price prevailing in the local and neighboring areas, (v) redistribution of all money balances at the end of the year, not according to shares held, but according to the purchases made by each member of the cooperative. It is obvious that these principles are more acceptable for peasant (farmer) households just "getting on their feet" and

represent a form of self-assistance of independent peasant farmers through the organization of their own territorial based cooperative.

The main goal of such a cooperative is not to earn a profit, but to supply consumer goods, to improve their quality, to expand their assortment, and to reduce the costs of procurement. As a result, it should enjoy preferential tax treatment and not be treated as a commercial trade organization. At the same time, such a cooperative contributes to the financial strengthening of peasants and farmers who helped to organize it. In selling their goods to any customer, but distributing at the end of the year the balance (realized in the difference between the costs of price and the market price at sale) only among members of the cooperative in proportion to their purchases, the cooperative thereby contributes to a redistribution of financial resources to the peasants and farmers who founded it.

3.5. Home-building Cooperatives

Savings-and-loan home-building cooperatives in rural areas are not the same as the housing-construction cooperatives that existed earlier and that still exist today. Rather, this is a special kind of savings-and-loan institution, which has the goal of accumulating financial resources for the construction of homes to the point where it can lend funds to one of the members of the home-building cooperative. In addition, it is not important whether this cooperative independently hire the builders, or whether these be organized through khashar (the voluntary public labor services, like "barn-raising" in the United States), or through a specialized contractor for construction and installations. The task of such a cooperative is to accumulate the means provide a loan to a member of the cooperative (sufficient to construct his own home). Then, as the loan is repaid, the member who built his house leaves the association, unless he later wishes to construct another house for his own children. Obviously, the principle of localization at the community level is important. According to the decision of the members of such a cooperative, the accumulated funds can be placed in short-term credit (i.e., put to commercial use) or placed as a profitable deposit in a commercial bank.

3.6. Purchasing Associations

Purchasing associations have the goal of making wholesale purchases and providing its members with raw materials and other materials needed for agricultural production - fertilizers, fodder, seed-grain, machinery and equipment for individual or collective use, agricultural inventory, etc. These can take the form of a partnership with limited liability.

3.7. Sales Cooperatives

Sales cooperatives serve to provide an effective and profitable means to sell the goods produced by peasant farmers, and to free them from selling them individually through intermediaries or personally at the kolkhoz market. If need be, this cooperative can provide transportation, prepare licenses and certificates (to export the commodities outside Uzbekistan), and engage in marketing.

3.8. Processing Associations

Associations for processing the agricultural products of peasants and farmers contribute to linking them with the civilized agro-business. Cooperative plants for oil processing, cheese making, sausage plants, wine-making cooperatives, silk processing, canning, and mini-sugar plants - all this comprises but a partial list of the organized forms of small-scale industrialization within the framework of the peasant (farmer) economy. And this is something can be done even while preserving the farmers' independence. Furthermore, the earnings from the cooperatives that process the products of peasants and farmers can be distributed either on the basis of shares or on the basis of the quantity and quality of agricultural commodities that each has delivered for processing.

3.9. Auxiliary Production Cooperatives

Auxiliary production cooperatives also belong more to the production infrastructure of the peasant (farmer) economy than to the market infrastructure. However, their significance for its commercialization is no less important. These can be packing and crating activities, but also the joint ownership of agricultural machinery and equipment (e.g., mini-tractors with an assortment of accessories, mills, hydroelectric installations, potato harvesting combines, etc.)

3.10. Labor and Production Associations

Labor and production associations pertain more to the labor resources removed from the agricultural sector than to the peasant (farmer) operations. At the same time, these can serve as an organized form of hired labor both directly in the peasant (farmer) households as well as through self-organization to lease and cultivate land in cooperative enterprises created by the farmers.

4. Associations and Unions Among Cooperatives

This diversity in the cooperatives of peasant farmer households in the "pure" form are characteristic only for the initial stage in the formation of a new cooperative movement in the village. When the peasant and farmer simultaneously becomes a member of several specialized cooperatives, which strengthen his individual farm, such cooperatives (as they become more tightly embedded in the market relations of the rural economy) will necessarily - as international experience shows - become linked with one another. They will thereby create a complex network of links for a market infrastructure in the village. Supply and sales cooperatives, having developed on this new basis, will turn into highly specialized stores that act on the national and international level, representing the farmers and peasants of a particular raion. As these become more developed, they will include new forms of auxiliary services and lines of production. Such cooperatives will become a powerful factor in strengthening the middle class in the village.

The specialized cooperatives of the peasants and farmers (credit associations, consumer unions, etc.) have the task to become an alternative to the existing and well-

entrenched structures (Agroprombank [Agro-Industrial Bank], Oblpotrebsoiuz [Oblast Consumer Union], and so forth). As the world experience of the cooperative movement shows, the specialized cooperatives will unite into associations at the oblast and national level to form cooperative associations for wholesale trade, oblast savings-and-loan associations, unions of credit associations, etc. This will enable the peasants and farmers, while remaining individual private-entrepreneurial households in the village, to enjoy the advantages of large enterprises and to enter into the competitive struggle with the emerging huge firms in the agro-business (including those that are formed on the basis of privatized state farms - the sovkhozes).

At the same time, the unification of the cooperatives founded by peasants and farmers in no way will violate the rights of the shareholders to control and regulate their own cooperatives. Under such a unification, it is above all the peasants and farmers who win: their unions will overcome the low mobility of capital in regionally localized cooperatives and, in overcoming their isolation, become integrated into the national market for all of Uzbekistan.

Simultaneously, the organization of cooperatives by the peasants and farmers themselves contribute to uplifting the cultural and technical level of rural entrepreneurs, improving the culture of production, raising the quality of output and raw materials, and encouraging the application of new, modern technologies. For example, in dairy cooperatives (and others making cheese, cream, etc.), for purposes of improving the quality of the end product, it becomes necessary to rationalize the fodder for cows, to select and purchase better cattle (both cows and bulls for siring), to improve the methods of feeding, milking, providing vitamins and veterinary care, and other functions. As a result, the production of milk remains the personal business of the farmer, but at the same time becomes subject to the advantageous influence of an advanced market. Accordingly, the dairy cooperative will "grow" by adding auxiliary services and acquire the newest equipment to determine the fat content of milk and to provide additional vitamins enrichment.

Hence it is essential to concentrate financial-commercial and supply-and-sale functions (common for a number of territorial close peasant (farmer) enterprises, as well as operations for the packing, sorting, primary processing, and other forms of activity. The latter allows the peasant (farmer) to focus above all on improving the standards and technologies of agricultural production. In the final analysis, all this will enable the formation of universal peasant or farmer cooperations. Moreover, such prospects do not in the least contract the centralization of specialized cooperatives in non-state unions (ittifoki) at the oblast, inter-oblast, and national levels. Both forms of concentration of cooperatives - on the basis of the amalgamation into unions of specialized cooperatives (consumer, credit, etc.) and on the basis of the formation of diversified regional universal peasant (farmer) cooperatives - do not in the least contradict each other. Rather, they contribute to improving the infrastructure of a rural area, provide a higher demand for different products and services, and hence increase the volume of the local market, promote the growth of the cultural-technical level of employees and cooperatives, and expand their various connections.

The development of credit cooperatives and savings-and-loan associations of

farmers and peasants in the districts of an oblast, by providing them with low-interest credit, will help to overcome the problem of usurious interest-rate practices. It will also promote the appearance of opportunities to use small credit and to establish the infrastructure of the financial market that is accessible to rural inhabitants. Moreover, the real interest rates on loans should be positive (i.e., higher than the rate of inflation), but (in accordance with the realization of the Raiffeisen principles) significantly lower than those in commercial banks.

The development of peasant (farmer) cooperatives on the basis of Raiffeisen and Rochdale principles will contribute to the renaissance of traditional national moral and ethical values. It will also raise the role and significance of the community committees and the councils of aksakaly (venerated elders; literally "gray beards") ; it will help to integrate these institutions into the national model of a socially oriented market economy.

Initiating the formation and development of peasant and farmer cooperatives require a number of measures for this to be realized. In particular, this includes: (i) explanatory work among peasants, farmers, and entrepreneurs (as potential shareholders) regarding the expediency and advantages of a cooperative-based resolution of the majority of their problems involving purchase/supply and financial-commercial operations, (ii) guarantees of nonintervention by the oblast and raion administrations in the economic activities of peasant and farmer cooperatives, (iii) preparation and explanation of measures and forms of assistance to organize cooperatives, including questions of consultation with traditional credit institutions and assistance in obtaining the appropriate licenses, (iv) the grant, on preferential terms, of facilities on the basis of communal property (through lease or privatization), (v) assistance in training personnel, (vi) providing conditions to insure the limited resources invested by individuals and legal entities (including measures to take the rate of inflation into account), (vii) the search, if need be, for sponsors and forms of guarantees for capital investment.

Conclusion

An important factor in promoting the development of rural cooperation, as a specific form of the market infrastructure in the village, should be steps to provide the legislative and economic norms of those spheres where this framework is still lacking. This concerns credit unions, savings-and-loan associations of peasants and farmers, and other non-banking financial institutions.

This function should be performed by the oblast and raion administrations and the oblast association of producers and entrepreneurs. These should work out the drafts of the pertinent laws and decrees of the Cabinet of Ministers as well as amendments to the current law "on cooperatives." They should then ensure the transmission of the drafts for these documents to the Oliy Mazhlis's parliamentary committee on economic reform and support for entrepreneurship, and organize broad propaganda - through the newspaper, *Mening mulkin* (Private Property), and other means of mass information - about the whole idea of rural cooperatives. That includes ideas about the opportunities, the experience of developed and developing countries, the advantages of support from the International Alliance of Cooperatives, and so forth.

It appears to be expedient, if needed for the organization of rural cooperatives, to provide credits on preferential terms from the funds obtained through denationalization and privatization by the territorial administration of the Committee of State Property. This can be done after the presentation of a set of documents about the organization of the pertinent cooperatives, the size of the founding capital, and the technical and economic justification for this action.

It is obvious that the work of establishing cooperatives in each rural area should be carried out with extreme caution, not in a routine and formalistic manner. The organization and successful development of one or two cooperatives of this type in two or three raions of every oblast will later have a demonstrative impact. And that in turn will lead to the multiplication of new forms of a rural market infrastructure without requiring the initiative of state authorities. As a result, the institutional transformation will extend more deeply into the rural economy, making market reforms irreversible.

Endnote:

1. These special types of business forms, kommanditnye tovarishchestva, legally provide that the liability of some shareholders is unlimited, while that of others is limited to their share of capital investment.

4

The Reform of Foreign Economic Activity: Past Experience and Problems of Further Development

A. A. Isadjanov

Introduction

Within the framework of forming a socially oriented market economy, Uzbekistan has actively and consistently conducted work to create an open economy. In characterizing the profound social-economic changes transpiring in the country and the consistent implementation of measures to extend economic reforms, President I.A. Karimov has made the following comment: "We begin with the incontrovertible fact that a market economy is a free economy, and that it bears an open character (one alien to isolation and exclusivity). Hence the future of our economy is seen in its integration with the world economy."¹ The transition to a socially oriented market economy required a new quality of foreign economic activity: the preparation and application of a whole complex of measures aimed at achieving an organic integration of the economy into the world economic system. During the last five years, the country has implemented concrete measures to develop foreign economic activity, created a normative legal basis for this, realized the corresponding institutional transformations, and made serious steps toward liberalization and further opening of the economy.

Uzbekistan, which has enormous natural and scientific-technical potential as well as significant export opportunities, has excellent prospects for expanding foreign economic activities and for assuming a respectable place in the world community.

1. Formation of the Organizational-Legal Basis for the Development of Foreign Economic Activity

On 31 August 1991, the Supreme Council of Uzbekistan adopted the declaration "on the Independence of the Republic of Uzbekistan" and a law "on the Foundations of the Republic of Uzbekistan as an Independent State." With the acquisition of the status of an independent entity in international law, the country embarked on the process of forming its own system of foreign economic activity.

Uzbekistan became a member of the United Nations, as well as the leading international organizations (International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development (EBRD), the Organization for Security and Cooperation in Europe, the United Nations Industrial Development Organization, etc.), and was granted an observer status for the WTO. In June 1996, it signed the Agreement on Partnership and Cooperation with the European Union.

The top-priority dimension in the development of foreign economic activity was the formation of organizational-administrative structures. In February 1992, the government established the Ministry of Foreign Economic Relations. Inter alia, its main tasks include the following: (i) formation and implementation of foreign economic policy, and creation of mechanisms to stimulate foreign trade, (ii) state regulation of foreign economic activity, (iii) creation of legal and economic conditions to develop foreign economic relations, (iv) creation of an infrastructure of foreign economic relations, including information systems and transportation services, (v) proposals to expand exports, (vi) protection of the interests of both foreign and domestic participants of economic activity.

In addition, the country established the National Bank of Foreign Economic

Activity, the Agency for Foreign Investments, a customs service, and insurance agencies. It also established the corresponding foreign economic subunits to operate in the Cabinet of Ministers, ministries and other state agencies, corporations, conglomerations, associations, and local government organs. For purposes of stimulating exports, providing insurance to and ensuring a full-fledged marketing of domestic goods on international markets (for technologies, goods and services), a presidential edict established a company called "Uzbekinvest" in February 1997.

The broadening of foreign economic relations and the increase in the number of its participants, in turn, provoked an increase in consulting services. In order to achieve optimal choice for the procurement of materials and goods for the production needs of enterprises and businesses, a decree of the Cabinet of Ministers of the Republic of Uzbekistan (14 August 1996) transformed the "Center for the Study of Trends on Commodity Markets" into "the Republic Center for the Study of Commodity Markets" as a subordinate of "Goskomprognozstat" (the State Committee for Forecasting and Statistics).

From the beginning of the realization of reforms in the sphere of foreign economic activity, there have also been changes in the structure of the participants of foreign economic relations. The right to have access to the foreign market was extended not only to ministries and state agencies, large conglomerations and associations, but also to small and private enterprises.

1.1. Laws Regulating Foreign Economic Activity

As a result of measures taken during the years of independence, the country has created the legal basis for the formation of an open economy and the liberalization of foreign economic activity. Specifically, it has adopted laws "on foreign economic activity," "on foreign investments and guarantees for the activity of foreign investors," "on concessions," "on free economic zones," as well as presidential edicts and resolutions of the Cabinet of Ministers. It has also promulgated other normative acts to regulate foreign economic relations, to attract foreign investments, and to provide protection and establish legal guarantees for the activity of both domestic and foreign legal entities and individual investors.

The basic principles and structure for engaging in foreign economic activity are regulated by the law "on foreign economic activity of the Republic of Uzbekistan" (1991). This law provides protection for the rights, interests, and property of those who participate in foreign economic activity - without regard for the type of property - in accordance with the generally recognized norms of international law. It also creates the legal framework for the integration of the economy into the world economic system. Article 8 of this law encompasses all entities that engage in foreign economic activity - regardless of the type of property ownership and forms of activity, whether legal entity or individual, whether Uzbek or foreign active and registered in Uzbekistan - as participants in foreign economic relations. All these entities have equal rights to conduct foreign trade. Moreover, each entity engaged in foreign trade can independently, within the framework of existing legislation, determine the form, type, and sphere of participation in foreign economic activities. It is important to note that, in the event that

the state organs adopt laws that violate the rights of entities engaging in foreign economic activities (as defined by this law), any losses suffered through such violations of their rights are to be compensated by these organs (through a legal procedure in accordance with the laws of the Republic of Uzbekistan and generally recognized norms of international law).

The attraction of foreign investments is one of the most important goals of foreign economic activity. The law "on foreign investments and guarantees for the activity of foreign investors" (1994) established the legal and organizational-economic foundations for the realization of foreign investments. The forms of foreign investments, as defined by the law, include share-holding in economic associations and partnerships, banks, and insurance companies, as well as the acquisition of property, shares, and other securities. The latter includes the right to own and use land (including the right to lease) and natural resources. An important peculiarity of this law is that it gives significant attention to ensure guarantees for the activity of foreign investors: First, Article 7 ensures that foreign investments are given legal protection, and the legal regime on foreign investments cannot be less favorable than the corresponding regime for domestic legal entities and individuals. Secondly, one of the important measures that guarantees the rights of foreign investors, which is established by this law, is the following: if subsequent legislation negatively affects the conditions for investment, then the laws existing at the moment of the investment remain in force for foreign investors (for up to ten years). At the same time, the law guarantees that foreign investments are not subject to nationalization, nor are they subject to requisition, with the exception of cases involving natural disasters, accidents, epidemics, and pestilence. The compensation paid in such cases to the foreign investor must be equivalent to the losses incurred. Thirdly, foreign investors are guaranteed both: (i) the right to transfer abroad their profits without any limitation and, (ii) the right to reinvest profits in the country or to use them for other purposes, at their own discretion. Fourthly, the system for insurance of investments and risks of foreign investors, which is on a voluntary basis, makes it possible to insure investors against various risks - the expropriation of property, the intervention of authorities in the contractual relations between the insurance company and the investor, the establishment of limitations on the convertibility of the national currency and other currencies (or their transfer abroad), and other types of risks. Fifthly, enterprises with foreign investments are given the right, without licenses, to export the output from their own production and to import products for their own production needs. In addition, goods imported for their own production needs and for the personal needs of foreign employees at enterprises with foreign investments is exempted from customs duties. Lastly, Article 32 of the "Law about Foreign Investments and Guarantees for the Activity of Foreign Investors" and the "Law about Concessions" (1995) grant foreign investors concessions to conduct geologic explorations, to exploit natural resources, and to conduct various types of economic activities. The concessions are granted in all spheres and forms of activity unless prohibited by the legislation and as long as they meet the goals of the concession agreements. It is important to note that, in accordance with article 12 of the Law on Concessions, the grant of concessions is to be conducted on the basis of bidding and auctions.

1.2. Export Promotion, Tariff and Non-Tariff Measures, Licensing

In recent years, for purposes of developing the foreign economic activity of enterprises with different property forms, presidential edicts and a number of government decrees have been adopted. Their goal is to promote and stimulate development in this sphere, but also to achieve its liberalization. Thus, in accordance with the Resolution No. 166 of the Cabinet of Ministers (29 April 1996), joint-venture enterprises operating with the association "Uzbeklegprom" (Uzbek Light Industry) and the corporation "Makhallii sonat" have the following privilege if the share of the foreign investor constitutes at least 50 percent of the founding capital: such firms are exempt from the income tax on the condition that the entire amount of the tax be reinvested in the development and expansion of the production of consumer goods.

For purposes of promoting finished goods and services on foreign markets and for forming a mechanism to provide export credits, a presidential edict "on additional measures to stimulate enterprises producing export goods" (20 March 1996) took effect on 1 April 1996. It established differentiated rates of customs duties on goods according to the degree of processing performed by the producer. Thus, the income tax of enterprises is reduced by 20 percent if the share of exported goods comprises from 5 to 10 percent of its total output; the tax is reduced by 30 percent if this proportion exported ranges from 10 to 20 percent; and so forth. At the same time, the earnings in freely convertible currency that enterprises obtain from increasing the volume of exported goods and services is also exempted from the income tax. Exporter-enterprises are exempt as well from paying the value-added tax (VAT) on material resources used in the production of exported goods and services. For purposes of supporting enterprises that produce export goods, the government plans to give interest-free loans for up to three years (on condition that the necessary technical and economic justifications are present).

At the same time, a decree of the Cabinet of Ministers from 25 July 1995 established a new mechanism (effective 1 October 1995) to regulate foreign economic activity. This mechanism is based on a complex of measures directed to the transition from non-tariff to tariff regulation and to the unification of export-import operations in accordance with the requirements of international norms. As is well known, from January 1994 to October 1995, the country had a preferential regime for importers. This was established so as to saturate the market with the needed goods and to attract foreign investments.

The new rates on customs duties were aimed at protecting domestic producers of commodities, stimulating the import of high-quality goods, promoting the export of domestically produced goods and services, and eliminating the imbalance in prices between the domestic and world markets. The country also made substantial reductions in the list of goods subject to quotas and licenses. Within the span of one and one-half years, the list of product categories subject to licenses decreased from 26 to 11, and then to 4. At the present time, this list includes: (i) nonferrous metals, nonferrous rolled metal, scrap, and byproducts, (ii) crude oil, natural gas condensate, and gasoline, (iii) cotton fiber, and, (iv) rolled ferrous metals, scrap, and byproducts.

For purposes of facilitating the work of exporters and importers, instead of the ten documents hitherto required for registering export cargoes, the government established a

list of four documents: certificate of correspondence, certificate of origin, contract or agreement, cargo customs declaration.

Significant changes were also made in the system for issuing permits to export and import particular types of goods. Previously, these had been issued by the Ministry of Foreign Economic Relations. In accordance with the new system for issuing such permits, part of this ministry's power has been transferred to the following: (i) the Ministry of Labor (for issuing permits to citizens of Uzbekistan to engage in professional activities abroad, and to foreigners to work in Uzbekistan), (ii) the Ministry of Cultural Affairs (to export works of art and to import movies, video, and audio products), (iii) the State Committee on Science and Technology (for the export of the fruits of scientific-technical work, know-how, and inventions), (iv) the State Committee on Nature (for the export of animals and plants listed in the Red Book of endangered and rare species).

Furthermore, to establish a regime of free trade and most favored-nation status with foreign countries, a resolution by the Cabinet of Ministers on 7 December 1995 ("on the order for applying import duties") established customs rates in accordance with the international agreements that the country had concluded. For thirty-two countries, the main trading partners of Uzbekistan, the government established a most-favored nation status, this includes Austria, Belgium, Great Britain, Hungary, Vietnam, Germany, Greece, Denmark, and others. A free-trade regime was established for the eight members of the CIS (Russia, Ukraine, Belarus, Kazakhstan, Georgia, Moldova, and Turkmenistan) with which Uzbekistan has bilateral commercial-economic relations.

In accordance with a presidential edict of November 1996, from 1 January 1997 the country established - in addition to the existing guarantees and privileges - the following forms of tax privileges for production enterprises with foreign investment: (i) The period of exemption from the income tax is increased from five to seven years for production enterprises with foreign investments that invest in projects listed on the investment program. (ii) For production enterprises with foreign investments that were included earlier in the investment program of Uzbekistan, the general period of the preferential tax period is extended to seven years (including the time already covered). (iii) The existing income tax rate for production firms was reduced if the share of foreign investment in the founding capital was 50 percent or more. The amount of the reduction is geared to the size of the founding capital: (a) if the investment is equivalent to a sum between US\$300,000 and US\$1,000,000, the tax rate is 20 percent; (b) if the investment is equivalent to more than US\$1,000,000, the tax rate is 16 percent. (iv) Newly-established production enterprises with foreign investments that produce export-oriented or import-substitution goods are exempted from the following: (a) from paying income tax on profits for a period of five years (from the point when production first began) if children's articles comprise more than 25 percent of the total volume of output, (b) from paying income tax for two years (from the beginning of production) if the share of foreign investment amounts to 50 percent or more of the founding capital. (v) An exemption from the tax on profits is also given to production enterprises with foreign investments if the share of foreign capital is 50 percent or more and if these earnings are directed at the development and expansion of production.

This edict also declared that, effective 1 January 1997, newly created enterprises

with foreign investments that do not qualify for the category of "producer enterprises with foreign investments" are not qualified to receive the additional new tax benefits. Furthermore, production enterprises with foreign investments include all newly created enterprises that satisfy the following conditions: (i) the volume of founding capital of the enterprise is equivalent to at least US\$300,000, (ii) one of the participants of the enterprises is a foreign legal entity, (iii) the share of foreign investment is at least 30 percent of the founding capital. However, the existing tax privileges for enterprises with foreign investments registered prior to the adoption of this edict remain in effect for the previously-established period.

1.3. Free Economic Zones

One of the important measures that aims at a further liberalization of foreign economic activity was the adoption in 1996 of a "Law on Free Economic Zones." Free economic zones (FEZ), as defined by this law, represent separated territories with precisely set administrative boundaries and a special legal regime. The purpose of creating such FEZ's is to attract domestic and foreign capital, advanced technology, and managerial experience so as to promote an accelerated social-economic development of the zone. These represent, in essence, enclaves of a more liberal economy and, in the final analysis, should contribute to a gradual liberalization of the entire economy. The FEZ's in Uzbekistan can be created in the form of free-trade zones, free productive zones, free scientific-technical zones (technoparks, technopolises, and functional high-tech zones) with special customs, foreign currency, and tax regimes. In recent years, as a result of the adoption of an open foreign economic policy, the number of participating enterprises has increased. In accordance with the existing legislation, these can be enterprises with various forms of property ownership and size and from various sectors of the economy.

1.4. Promoting Entrepreneurship

A significant role in the development of foreign economic activity is assigned to small and private entrepreneurship. The law "on stimulating the development of small private entrepreneurship" (1995) promotes the development of foreign economic activity on the basis of expanding the role of small private entrepreneurs in export-import activities, and to help them participate in international exhibitions and fairs. Article 26 of this decree encourages the participation of small private entrepreneurs in export-import operations and also in the realization of programs and projects involving the development of foreign economic activities. On the whole, in accordance with article 11 of this law, a priority in stimulating the development of small private entrepreneurship is the production of competitive and export-oriented goods and services.

At the same time, the integration of the economy of Uzbekistan into the world economy requires that it initiate foreign economic activity on the basis of precisely defined strategic goals and mechanisms for achieving these. The preparation of top-priority lines of development in foreign economic activity is aimed at achieving its further improvement. This takes into account the objective conditions that contribute to its development, as well as the tendencies for development in the world economy and the structural improvements in the economy.

2. Objective Conditions and Problems in the Development of Foreign Economic Activity

The basic conditions that contribute to the accelerated development of foreign economic activity in Uzbekistan include the following: First, the existing economic potential, which is characterized by significant reserves of land, mineral and vegetative resources, and unique natural climatic conditions that are favorable for the development of agriculture and the agro-industrial complex. Secondly, a rather well-developed infrastructure, together with the presence of a solid scientific-production base and corpus of well-prepared specialists at all levels. Thirdly, high, stable rates for the reproduction of labor resources, a tendency that will continue in the foreseeable future. Fourthly, the advantageous geostrategic position of Uzbekistan, which is located at the crossroads of Central Asia, which will enable the country in the future to become the Eurasian bridge for the mutual exchange of goods, technologies, and investments. Lastly, pursuit of the basic principles of foreign economic policies. These include: (i) openness in foreign relations, without regard to ideology, (ii) equality and mutually beneficial cooperation, together with non-interference in the internal affairs of other countries, (iii) maximum consideration of mutual interests, but with preference given to one's own national and state interests, (iv) establishment and development of both bilateral and multilateral foreign relations on the basis of complete trust, together with greater cooperation within the framework of international economic and financial organizations, (v) enforcement of generally accepted norms of international law and a consistent transition to international standards, and, (vi) protection of intellectual property rights, preservation of scientific-technical and technological potential, and the prohibition of irreparable exhaustion of the natural resources or damage to the environment.

The main problems in the development of foreign economic activity consist of the following: (i) non-competitiveness of some branches of the national economy, (ii) backwardness of the financial, technical, and informational structures for foreign economic activities, (iii) shortage of qualified personnel for the sphere of foreign economic activities and the lack of an effective system for the education and retraining of personnel, (iv) a high proportion of raw materials in exports. The main dimensions of foreign economic activity, to a significant degree, depend on the development of the export-oriented and import-substitution branches, the influx of foreign investments, and the participation of small and medium-sized entrepreneurship in foreign economic activity.

3. The Basic Factors and Lines of Development in Foreign Economic Activity

The main factors contributing to an intensification in foreign economic activity and the realization of its strategic goals include the following: (i) stabilization of the social-political situation, (ii) clarity in the definition of goals and a realistic approach toward economic development during the process of transition to market relations, (iii) consistency and graduality of economic reforms, (iv) privileges for foreign investors as granted by current legislation.

The strategy for the development of foreign economic activity should be

prepared in organic synthesis with the basic lines of social-economic development in the medium- and long-term period. It also takes into account the tendencies and prognoses for the development of the world economy. The complex of goals for the development of foreign economic activity includes the following: (i) targeted assistance for the structural transformation of the national economy in the direction of creating the model of an "open economy", (ii) changing the character of Uzbekistan's presence in the world economy - both in terms of its product specialization and in terms of its contractual-legal and political conditions for its participation in world economic relations, (iii) ensure the economic security of the state, (iv) create a full-fledged foreign-economic complex.

To reach these goals, the government proposes to do the following: First, it must make a change in the structure of exports (in close coordination with the planned improvements in the economy). This entails a significant increase in the proportional share and absolute volume of goods with a high degree of processing, and especially R&D-intensive production (machine-building, aircraft construction, radio electronics, etc.), with a corresponding decrease in the share of raw-material branches. Secondly, it is necessary to establish, through marketing research, the new commodity-raw materials niches that are most-promising on the world market, and to concentrate on these areas. It is also essential to achieve the maximum development of scientific-technical cooperation, production cooperation, engineering, licensing, and other promising forms of foreign economic ties. Thirdly, it is important to achieve a favorable balance of trade with foreign countries and their commercial-economic groups, especially within the framework of inter-government economic relations with countries of Central Asia and the Commonwealth of Independent States (CIS). Fourthly, it is necessary to provide Uzbek enterprises with access to world markets of machinery, equipment, and technologies, to capital markets, and to international information and transportation communications in the capacity as both exporters and importers. Fifthly, the state must resolve foreign exchange and financial problems with foreign countries and international organizations (World Bank, IMF, and so forth). Lastly, it is necessary to create a well-functioning system to protect national interests by developing an effective mechanism to regulate foreign economic activities.

This complex of targeted goals presupposes making the selection of high-priority lines in the development of foreign economic activity. The starting points for the realization of this complex of measures consist of the following: (i) an evaluation of the current situation of foreign economic relations and a determination of the tendencies for their further development, (ii) the definition of the most competitive, export-oriented sectors of the economy, (iii) a determination of markets for export products and the opportunities for expanding these markets through an increase in exports and an improvement in the quality of goods and services.

4. Development of Export Potential and Improvement in the Structure of Exports

Traditionally an exporter of raw materials, Uzbekistan must gradually shift to the export of finished goods. In the next few years, it is necessary to reorientate the accumulated scientific-industrial potential toward the production of export goods (within

the framework of a special program). To achieve these high-priority objectives, it is essential to orient the development toward international cooperation and toward obtaining foreign credits and foreign capital. By increasing the degree of processing of raw materials exports can be significantly expanded. An important place in the development of export potential, however, belongs to measures of state support, standardization, uniformization and certification.

4.1. State Support of the Export Policy

The export policy during the transition period must be intimately linked to initiating state activity. The stimulation of exports should take the form of credit and financial levers. An important place in the system of credit measures to stimulate exports belongs to the conferral of preferential export credits and the insurance of export operations. The main forms of tax privileges for exporter enterprise that produce R&D-intensive goods can consist of the following: (i) deferred payment of taxes for the period when such production is being introduced, (ii) application of reduced income tax rates from the expansion of exports of R&D-intensive products.

Direct state subsidization of exports, which entails large expenditures, should be applied to a limited degree. Namely, it should be used only in those branches where the state has a particular interest, and one must take into account the level of production that exceeds the demands of the domestic market. In addition, special tax privileges should also be considered in cases involving foreign investments in high-priority spheres of the economy and in economically backward and ecologically disadvantaged regions. Besides, state organs should give exporters assistance in identifying prospective markets, should provide the requisite information, should organize trade exhibitions and fairs in other countries, and should assist in promoting domestic goods on world markets.

4.2. The Experience of Korea

In the beginning of the 1960s, the Korean economy was characterized by a small domestic market, an insignificant level of domestic savings, and limited natural resources. The per capita GNP was only US\$82. The total volume of exports was less than US\$50 million. Since 1962 (i.e., from the time when the first five-year development plan was implemented), the real GNP has grown by an average of more than 8 percent per annum. As a result of the economic transformations, the GNP has risen from US\$2.3 billion (1962) to US\$995 billion (1992), while the per capita GNP has increased from US\$82 to US\$6,700.2

Beginning in 1961, the growth of exports significantly exceeded the most optimistic prognoses. For the period from 1962 to 1994, the export of Korean goods rose from US\$54.8 billion to US\$93.7 billion. This is one of the highest rates ever recorded in the world.³ Simultaneously, as the country developed and the domestic demand increased, there was also a growth in imports, which rose from US\$400 million (1961) to US\$81.8 billion (1992). Changes also occurred in the export structure. In 1966, industrial products comprised 62.4 percent of total exports, but this proportion steadily increased thereafter, rising to 86.0 percent in 1971, then to 89.8 percent in 1976, and later to 95.7 percent in 1992.

Characteristically, the state provided every possible encouragement for exports, primarily by providing subsidies to exporters. According to S. Zhukov, export subsidies in the 1970s amounted to at least one-tenth of the GDP, and they were concentrated in top-priority branches with the greatest growth potential (machinery, electronics, textiles, ferrous and nonferrous metallurgy, petrochemicals, and shipbuilding). These branches were accorded primary attention, they were given preference in the supply of resources as well as special tax privileges. Bank credits were also substantial.⁴

4.3. The Experience of Japan

The growth in the export of Japanese goods after World War II was achieved, to a large degree, through the efforts of private enterprises. However, the creation of a favorable environment, which promoted the growth of exports (within the framework of a program to stimulate exports), also played a role. The state, while preserving the existence of competition as a mechanism, conducted a structural and organizational policy that aimed at industrialization, with an emphasis on increasing the international competitiveness of the country.

The main measures for stimulating exports consisted of the following: First, creation of the appropriate organizational structures: (i) the Council on Exports (1954) to coordinate the activity of all state organs responsible for export policies, (ii) the Japanese Society for the Development of Foreign Trade (1954) to conduct research on foreign markets and to create and perform the function of advertising centers for Japanese trade abroad. Secondly, export credits: (i) preliminary credits for export operations (1946-1972) for purposes of providing short-term credits to exporters for the production and shipment of export goods, (ii) credits for shipped goods (1953-1972), with rediscounting by the Bank of Japan at a low discount rate for short-term bills of exchange by exporters, (iii) by the Export-Import Bank of Japan (since 1951) to provide middle- and long-term credits for the export production of machinery, equipment, etc. Thirdly, tax incentives: (i) system of tax reductions from the income on exports (1953-1964) by excluding part of the income earned through exports from the sum of profits subject to taxation, (ii) system of tax deductions on exports (1953-1962) by including part of the export earnings as part of the loss category (as self-insurance). Fourthly, insurance on exports (since 1950) by providing insurance for exporters' loss of goods and capital. Fifthly, System of Export Inspection (since 1959), where by specially authorized organs inspect export goods with respect to their value and the improving of their quality. Lastly, protection of design: (i) the law on export operations (1952) forbids the export of goods that violate the rights of industrial property, (ii) the law on export design (1959) requires the registration of a number of export goods.⁵

4.4. The Situation in Uzbekistan

It is important to establish incentives to develop the export of services, including those that are pertinent to research and design, technology, ecology, and transportation. It is also essential to create joint financial-industrial companies with the participation of private and state capital that are oriented toward providing commercial credits for export-import operations for the appropriate countries, sets of countries, and regions.

Selective state support should accelerate the upgrading of the structure of industry. It should emphasize those branches that have relatively high advantages in terms of competitiveness on world markets. In Uzbekistan, these include the following branches: (i) agro-industrial complex, (ii) mining (including gold mining), (iii) fuel and energy complex, (iv) nonferrous metallurgy, (v) production of chemical fibers, plastics, and fertilizers, (vi) textile industry, (vii) machine-building, electronics and electric equipment, and aircraft manufacturing, (viii) production of construction materials. In these branches it is expedient to create a most-favored regime, to give an opportunity to develop export potential, and to confer tax and credit privileges that can ensure the most rapid possible transfer of labor and capital to these spheres. In the final analysis, the accelerated development of these branches make it possible to raise the competitiveness of the entire industry and ensure a start on the interrelated "technological chain" (which provides a multiplicative effect).

The agro-industrial complex is among the top-priority objectives for upgrading and modernization with the participation of foreign capital. The creation here of small enterprises, which do not demand large capital investments, will help - in a short span of time - to intensify the processing of agricultural raw commodities, reduce the level of losses, quickly recoup the initial expenditures, and obtain a significant economic effect in the very near future. It is also necessary to increase self-sufficiency in the basic branches of agriculture - the production of cereals, animal husbandry, and the cultivation of vegetables.

The top priorities in the agro-industrial complex include the following: (i) irrigation and improvement of land, (ii) intensification of the processing of agricultural raw materials, (iii) production of packaging materials and canning, (iv) manufacture of consumer goods.

In the fuel and energy complex, the primary goals consist of the following: (i) initiate the use of the existing productive potential to extract and process energy resources, (ii) reduce sharply the proportional expenditures of fuel and energy by shifting to energy-saving technologies, (iii) apply ecologically clean technologies for the production, transportation, and consumption of energy, (iv) modernize and upgrade the existing fixed capital and create new capacities, all on the basis of advanced equipment and technologies, (v) extraction and processing of oil and natural gas, (vi) construction of new natural gas pipelines.

The primary objective in the chemical and metallurgical complexes is to achieve more intensive processing of mineral resources and raw materials.

The main goals in research and development and in manufacturing high-tech machinery are as follows: (i) development of the production of agricultural machinery and the manufacture of machinery to irrigate and improve the soil, (ii) manufacture of automobiles and aircraft, (iii) production of tools and instruments, (iv) manufacture of consumer electronics (televisions, video and audio cassette recorders, refrigerators, etc.).

Other goals include the following: (i) improvements in the system of telecommunications and in the means of communications, (ii) development of tourism, including foreign tourism, (iii) ecological projects.

5. Standardization, Uniformization and the System of Certifications

One of the manifestations of scientific-technical progress in the foreign economic sphere is the development of a form of the international division of labor known as "the international technological division of labor." This is based on the specialization of individual national economies, branches, and firms toward the constant generation of the most modern science technology and innovation, on the expansion of cooperative ties in production, and in their transfer beyond the national framework.

Under these conditions, the active integration of the economy of the country in this international technological division of labor requires that it carry out a complex set of measures. Above all, this includes an improvement in the methods for evaluating and improving the technological level of new products, productive processes, and methods of work. To a large degree, this is due to the fact that contemporary, competitive products should accumulate the rational and progressive technical, productive, and organizational-managerial decisions that correspond to world standards.

The main link in providing international technological standards, as world experience has shown, lies in standardization and uniformization. These must embrace all stages of the product life cycle: generation of the idea, scientific research and experimental design, trial production, technological preparation of production, serial mass production, after-sale service, and so forth. Hence it encompasses not simply basic production, but also the auxiliary areas of production and technical service.

Under these conditions, the creation of a standardized and uniform production technology and organizational-management environment is a high-priority problem for resolving two tasks: (i) integration of the economy of Uzbekistan into the international technological division of labor, and, (ii) expansion of production and investment cooperation with foreign countries.

At the same time, an important and essential condition for expanding the export potential of the economy and for its effective inclusion in the system of world economic relations is the task of bringing the quality and production costs into alignment with the demands and conditions of competition on world markets. For these purposes, it is necessary to realize a gradual rapprochement between domestic and world standards of production and product quality, to introduce advanced systems for quality control over production, and to bring the certification of products into compliance with the law "on standardization" and with the norms of the International Organization for Standardization (ISO). To ensure that domestic certificates and quality labels are recognized abroad, rules and recommendations on certification should correspond to the existing norms of the ISO series 9000 and 10,000, the International Electrotechnical Commission, the European standards series 45,000 and 29,000, and other documents of international and regional organizations. An improvement in the production quality will be promoted by Uzbekistan's active participation in the work of international organizations for standardization, measurement, and certification, such as: the International Electrotechnical Commission, the International Organization for Legal Measurements, the European Organization on Quality, the International Conference on the Accreditation of Test Laboratories, the European Economic Commission. It is also

necessary to provide the accreditation for independent test centers and to carry out tests on products for their certification by international organizations.

The laws and resolutions of the government, as well as the normative regulations of administrative organs (both those currently in effect and new ones) should correspond to the laws "on standardization," "on measurements," and "on the certification of goods and services."

One of the factors ensuring a higher quality and more competitive products is the existence of standard measurements in the economy. To achieve uniformity, reliability, and greater accuracy in measurements in the process of producing competitive goods, it is necessary to develop the technical basis for providing standard measurements, to improve the national basis for calibration. It is also essential that enterprises design and develop both model and working means for quality control over exported products. The use of certification as an essential element in the modern mechanism for quality control in fact signifies that the country is closer to acquiring a civilized market.

At the present time, certification is firmly establishing itself in the economy. The system of "Uzgosstandart" (Uzbek State Standards) includes regional centers for standardization, measurements, and certification. They perform these activities in the oblasts and regions and, together with other organs of certification, are accredited in the National System of Certification (as organs for certification, with the right to issue the appropriate certificates at the local level). At the beginning of 1997, the National System of Certification had accredited and registered 54 organs for certification and 130 test laboratories, which operate as independent enterprises.⁶

For purposes of achieving further improvements in control over the quantity, quality, and prices of exported goods and services, the government plans to prepare a program to introduce certificates indicating the correspondence of exported goods to international registers. This concern, above all, the following goods: (i) ferrous and nonferrous metals, cable and pipe products, (ii) cotton fiber and products from its processing, (iii) crude oil, natural gas condensate, and products from their processing, (iv) chemical components and mineral fertilizers.

In this respect, it is essential to conduct serious preparatory work in the industry to introduce certification in the review of normative technical documentation and the criteria for evaluation. The gradual elaboration of a network of new certification centers (along with the modernization of existing ones), which includes equipping them with modern test equipment, is a high-priority goal in this sphere. No less important in the process of standardization and certification of export production is the need to take into account ecological requirements.

It is also necessary to exclude the possibility of a monopoly in obligatory certification. That is, it is essential to provide for a competitive base for the choice and accreditation of all organs and services that participate in certification. The organizations and test centers (laboratories) that seek accreditation should have the status of a legal entity. They should be sufficiently independent so as to exclude the possibility that administrative, financial, or other pressure can be put on their personnel or on the results of their certification. In the final analysis, the competitiveness of the certified products and the entering of export goods to foreign markets will depend on the level established

for these national standards.

6. Rationalization of Imports and Development of Import-Substitution Branches

The main goals of import policy that are being realized during the transition period are two-fold: (i) modernization and structural transformation of the economy, (ii) an improvement in the efficiency and competitiveness of the economy.

In the sphere of agriculture, it is essential to shift the emphasis from the imports of foodstuffs (and resources to manufacture food products) to the import of seeds from highly productive varieties, more efficient breeds of livestock, materials to produce the chemical and biological means to protect plants, machinery and equipment to store and conduct the complex processing of agricultural commodities, and efficient equipment for peasant and private farmer households.

It is necessary to give particular attention to progressive technologies and projects that entail the use of the most modern and efficient methods to cultivate, harvest, transport, store, and fully process agricultural commodities (up to the point of packing and the sale of finished goods).

In the import of machinery and equipment, it is necessary to shift from the purchase of particular machines (including the equipment for mining and processing branches) to the acquisition of whole ensembles of technological equipment and licenses to organize and expand promising lines of production. The latter produce goods that will enjoy demand on domestic, regional, and world markets.

The entire complex of work in this sphere should be realized within the framework of an import-substitution program. Above all, this entails the reconstruction and modernization of enterprises in light and food-processing industries, the expansion of production in foodstuffs and consumer goods, and the development of R&D-intensive branches.

It is rational to combine the import-substitution and export-oriented policies both in terms of space and time. This kind of "complex" development should be realized in a differentiated approach to individual areas and branches of the economy. The basic steps to realize this type of development include the following: Firstly, stimulating branches and production that are oriented toward the domestic market, with the temporary application of protectionist measures to protect them from the pressure of external markets. Modern economic policy in the majority of developed and developing countries is characterized by a reasonable protectionism and is aimed at promoting economic growth, establishing stability in the economy, and raising the standard of living. Under the conditions of a structural transformation, the temporary protectionist measures of the economy should be one of the priorities. This policy does not contradict to that accepted in world practice (within the framework of the World Trade Organization), which permits the introduction of temporary import restrictions. This measure would exert a stabilizing effect during the transition period and would contribute to stimulating investments on the part of both domestic and foreign capital. Afterwards, once production has been stabilized, it is possible to dismantle gradually the protectionist measures and reduce them to the level accepted in international practice. Secondly,

stimulate branches and production which produce goods that are competitive on world markets and that, from this perspective, have the greatest prospects. Thirdly, make exports not only for the purpose of acquiring foreign exchange (to pay for imports), but also to accelerate the technical upgrading and structural transformation of the economy. Fourthly, make imports not only to satisfy domestic producer and consumer demands, but also to develop export production. Fifthly, import, in significant quantities, such goods as advanced equipment, technologies, and equipment complexes that are needed to create an independent and integrated economic system. Sixthly, actively solicit foreign capital to finance the structural transformation of the national economy and to increase the scale of expanded production (with the emphasis on technological upgrading of the national economy, but also the education and retraining of personnel to satisfy staffing needs). Lastly, in those regions where the industrial base is weak and the transportation network undeveloped, but where there are rich labor and natural resources, it is reasonable to conduct primarily an "import-substitution" strategy. In areas with a high density of population, availability of highly skilled labor resources, developed industrial base, and network of transportation communications, the priority should be given to an "export-oriented" policy.

7. Small and Medium-sized Enterprises in Foreign Economic Activity

Small and medium-sized enterprises should and can hold a certain place in initiating foreign economic activity, expanding exports, and intensifying its diversification. Above all, this pertains to that part of the foreign market sphere, where large-scale production cannot satisfy the demand. To a large degree, this is linked both to the increase of differentiation and specialization of demand, and to the capability of small and medium-sized enterprises to respond with greater flexibility and rapidity to changes in demand on the international markets.

7.1. Legal Framework

At the present time, to foster the development of small and medium-sized business, Uzbekistan has created the normative legal basis and carried out institutional reforms. The foundation for all this are the laws "on entrepreneurship in the Republic of Uzbekistan," "on enterprises in the Republic of Uzbekistan," "on property ownership," and other pieces of legislation. The edict of the president "on initiating and stimulating private entrepreneurship" (adopted in the beginning of 1995) includes a broad spectrum of complex measures to promote the further development of small and medium-sized business. In accordance with the presidential edict of July 1995, the government - to assist small businesses - established a "Business Foundation" (Biznes-Fond), which is charged with providing preferential credits, consulting, and informational services.

To provide further support for private entrepreneurship and to create a market infrastructure, a decree of the Cabinet of Ministers (4 April 1995) established a special organ in the apparatus of the Council of Ministers of the Autonomous Republic of Karakalpakstan, oblast administration, and in the city of Tashkent. These organs are branches to coordinate and support entrepreneurship, private business in the sphere of production of consumer goods, and to provide various services. The main tasks of these

branches consist of the following: (i) design and implement, together with state-level and territorial organs, the production of competitive goods, (ii) steadily expand the growth of export deliveries and create joint ventures for the production of high-quality goods, (iii) actively solicit foreign investments for the technological modernization of existing enterprises and for the construction of new plants. For purposes of creating an integrated infrastructure of small and medium-sized business, a decree of the president (1996) established a "Chamber of Commodity Producers and Entrepreneurs of Uzbekistan."

7.2. The Role of Small and Medium-Sized Enterprises

In general, the development of small and medium-sized business, as world experience has shown, contributes to the formation of a middle class of property owners and also the expansion of a stable tax base. At the same time, the development of small and medium-sized business performs an important social role, which is associated with the creation of new jobs (especially in rural areas), and with the resolution of the problem of unemployment among the young.

Under the conditions of accelerated rates of scientific-technical progress, there is a great demand for industrial products of a unique or small-volume production, as well as for goods directed toward satisfying narrowly specific and local needs. It is economically efficient to place the production of such goods in small and medium-sized enterprises. Therefore, industrially developed countries have formed such an industrial structure that includes the close cooperation of large companies with a mass of small and medium-sized enterprises (independent and otherwise). This makes it possible to achieve lower production costs and to increase the productivity of labor.

The development and operation of small and medium-sized enterprises in many industrially developed and developing countries attests to the fact that these are given significant attention by both state and private social institutions. At the present time, they occupy a significant proportion in the total volume of industrial production and in the number of employees.

7.3. The Experience of Japan

Japan has a developed system of state support for small and medium-sized business, together with the requisite legal framework. Already in the 1940s, it had established the Office for Small and Medium-Sized Enterprises, which was later supplemented by the formation of nine regional bureaus in the Ministry of International Trade and Industry (MITI), the Small Business Finance Corporation, and also a whole series of financial-credit institutions to service small and medium-sized enterprises. The latter include the People's Finance Corporation, the Sogo Bank, the Shinkin Bank, the Shoko Chukin Bank, the Small Business Credit Insurance Corporation, and various other organizations.

Japanese legislation provides for measures to stimulate small and medium-sized business at all stage of its development: registration, formation, and growth. The measures to stimulate development include the grant of loans on preferential terms, the use of various tax advantages, the providing of technical and consulting assistance, the

delivery of informational services, and the education and retraining of personnel.

The legal basis for the development and support of small business in Japan is the Law for Small Business Cooperatives, the Shinkin Bank Law, the Sogo Bank Law and various other laws. In general, state support of small and medium-sized enterprises in Japan is directed at ensuring a structural transformation of the economy and stimulating the improvement of its technical level.

7.4. The Experience of Korea

In Korea, small and medium-sized businesses obtain support from the Korean Federation of Small Business, the Industrial Bank of Korea, the Citizen's National Bank, and the Korean Technology Credit Guarantee Fund. The Ministry of Trade and Industry coordinates the providing of support for small and medium-sized business.

7.5. The Situation in Uzbekistan

As foreign experience shows, the comprehensive and stable support on the part of the state is an essential condition for the development of small and medium-sized business.

Small business is intensively developing now in Uzbekistan. It is important that the state work out an effective strategy for its further development, taking into account the rich international experience. Small and medium-sized domestic enterprises should be aware that important items of export can be the products of handicrafts, the production of small textile, electro-technical and other branches of industry, and also the service sector. This will be promoted by the special features and capacities of small and medium-sized business, which are associated with the limited number of goods and services produced, with its capacity to satisfy individual demands, with its high demand elasticity in responding to quickly changing market trends, with its capabilities to quickly adapt its organizational and economic structure, and with its willingness to undertake economic risks.

Within the framework of general privileges directed at providing support for small and medium-sized business, it is essential that measures be targeted at encouraging and stimulating the export of goods and services by small business, especially in high-priority branches of the economy. In this regard, it is expedient to design a complex of tax privileges for small and medium-sized enterprises that engage in export.

The entire complex of measures to initiate foreign economic activity by small and medium-sized enterprises should be incorporated within the program for the development of such activity by small and medium-sized entrepreneurship. This program should envision the further development of the normative legal basis to support small and medium-sized business in foreign economic activity and to improve financial support as well as the licensing of machinery and equipment.

Conclusion

The paper gives a brief description of the overall transformation of foreign

economic relations in Uzbekistan. It touches the legal framework created after independence, assuming that getting rid of the rigid system of Soviet heritage is not an easy task but the prospects are encouraging. To promote exports the main measures introduced so far are tariff and non-tariff regulations, licensing, the establishment of Free Economic Zones, standardization, uniformization, certification. In order to achieve balanced foreign trade it is also necessary to control imports. The paper analyses the role of small and medium-size enterprises in foreign trade, bringing up the experiences of Japan and Korea as possible examples to follow.

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5

The Investment Climate and Investment Policy in Uzbekistan

F. N. Maksudov

Introduction

Uzbekistan, having embarked on a path to create a market economy, must inevitably enter into the process of integration into world economic relations. Therefore, we should consider those general world practices and trends that have an implication on the formation of investment policy. In the last decade, a leitmotif in the economic development throughout the entire world has been liberalization. This tendency has affected not only the post-socialist countries, which is entirely obvious and natural, but also developing and developed countries throughout the world. Liberalization is manifested both at the level of economic policy within an individual country and at the level of international economic relations. Today, it is a generally recognized fact that the liberalization of international trade, investment, and the movement of capital are capable of raising the level of efficiency and dynamism in national economies and, as a consequence, have become an important factor in economic growth.

1. Uzbekistan and the World Investment Process

The advantage of integration into the world economy - in contrast to the isolated, autarky way of development - is the fact that, under the influence of competition from the outside, domestic companies increase their productivity. Consumers profit from this because the spectrum of goods and services is expanded, and because prices are reduced (through greater specialization and the intensification of international competition). Furthermore, as an important factor for a dynamically developing economy, the expansion of economic space removes the problem of a relatively small domestic market and makes it possible to allow investments - if not needed in one country - to shift to other countries and regions.

An important element in the general liberalization is that of regional agreements. As an example, one could cite the creation of the European Union, which ensures the free movement of the labor, goods, and capital within the territory of the Union. Very promising too is the North American Free Trade Agreement (NAFTA). Cooperative ties are also being actively developed among the countries of the ASEAN. Of course, the agreement for economic cooperation within the framework of the Commonwealth of Independent States (CIS) and, especially, the agreement to create a Central Asian common market (involving Uzbekistan, Kazakhstan, and Kyrgyzstan) should also be mentioned. A special feature of the regional economic associations and unions created within the territory of the former USSR is the fact that these countries are addressing the problem of economic integration and cooperation simultaneously with the formation of a market economy, the process of recognizing and realizing regional interests runs parallel to the process of defining and realizing each country's own economic interests. In our judgment, it is precisely this factor that explains the relatively slow process of real regional integration. Nevertheless, there can be no doubt that, in the middle- or long-term perspective, these tendencies will dominate, and this is also true of the investment policies being pursued by the countries concerned.

An important factor in the development of foreign economic relations is the signing of bilateral agreements to regulate the terms of trade between the two sides. In particular, Uzbekistan has signed agreements with a number of countries in the CIS to

establish a free trade regime. These countries include Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, the Russian Federation, Turkmenistan, and Ukraine. Goods shipped from the above states are not liable to customs dues. In addition, Uzbekistan is actively involved in the process of concluding treaties for the grant of most-favored nation status. Such agreements have been concluded with the following countries: Austria, Belgium, China, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, India, Ireland, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Netherlands, Pakistan, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland, Turkey, United States and Vietnam.

By the middle of the 1990s, throughout the world more than 900 bilateral agreements about the mutual protection of investments had been signed, in which 60 percent were signed in the 1990s. Bilateral agreements have a very important significance for investors, since they create the legal guarantee for their foreign investments. A list of states with which Uzbekistan has signed bilateral agreements about the mutual encouragement and protection of investments includes the following: China, Czech Republic, Egypt, Finland, France, Georgia, Germany, Great Britain, Latvia, Lithuania, Pakistan, Poland, Slovakia, Switzerland, Turkey, Turkmenistan, United States and Vietnam. Here it is also necessary to note a whole number of agreements on the elimination of dual taxation. Taken together, the above facts show that the economic development of Uzbekistan is realized within the framework of general international practices. Although various countries and regions have different levels of economic development (and, correspondingly, different economic interests), the world economic space is nonetheless increasingly evolving from a situation where it represented a network of national economies (linked by trade and investment flows) to a single investment, production, and commercial field with regional and national sub-sectors. These trends are reflected as well in the sphere of direct foreign investments. The creation of a single investment system within the framework of the OECD - although still at initial stage - is indeed promising. The two dominant tendencies at present are the following: on the one hand, a growing volume of direct foreign investment, on the other hand, mounting competition for capital, along with a breakdown of the socialist system and the inclusion of a large number of new countries in the world economic space. These have been the key factors in intensifying competition on the world's capital markets.

1.1. The Competition for Capital

When we speak about the competition for capital, then (as the experts of the UN Conference on Trade and Development hold) we should take into consideration at least two main types.

1.1.1. The Competition among Multinational Corporations

The internationalization and liberalization of foreign economic relations leave companies ever smaller chances to feel secure in their own national "borders." Instead, they are forced to compete with multinational corporations for markets and for consumers. At the same time, the harsh competition forces the multinational corporations to take measures to reduce prices and to improve the quality of their goods. In turn, this

tendency increases the opportunity for developing countries and transitional economies, if the necessary conditions are created, to involve more extensively their own scientific and intellectual potential in this process.

1.1.2. Competition for Investments among Different Countries

One of the main causes of this competition is the growing awareness that the multinational corporations have at their disposal a great number of tangible and intangible assets, including capital, management, know-how, skills, and also the experience of operating on the world markets. As a result, there is an obvious attempt by the governments of many countries, not only developing but also developed ones, to create favorable conditions for potential investors. According to the UN Conference on Trade and Development (UNCTAD), between 1991 and 1994 the world made 373 amendments to existing legislation on foreign investments. Of these, 368 were aimed at liberalization. Below, we shall consider in more detail how these processes are unfolding in Uzbekistan.

All this occurs against a background of a growing volume of foreign direct investments (FDI), the rates of which exceed the rates of growth in trade. The volume of sales of foreign affiliates of multinational corporations comprise (according to the UNCTAD) more than US\$6 trillion per year. The total volume of FDI to developed and developing countries rose in 1995 by 40 percent and amounted to US\$315 billion. Of that total, the developed countries accounted for US\$270 billion of the export of FDI (42 percent higher than the indicator for 1994) and US\$203 billion of the FDI inflow (an increase of 53 percent from 1994). Developing countries accounted for US\$100 billion of incoming FDI and US\$47 billion of outgoing FDI (an increase of 15 percent over 1994). Moreover, China alone obtained more than US\$38 billion. In the last decade, China has been one of the leading countries in foreign investments. In particular, the correlation of FDI flows to gross domestic investment in 1994 amounted to 24.5 percent, and the FDI quotient represented 17.9 percent of the GDP - one of the highest indicators in the world. On the whole, investment flows are strongly concentrated in a small group of countries. The ten largest recipient countries of FDI account for two-thirds of the total volume, the 100 smallest recipient countries account for only 1 percent of the total volume of FDI.

At present, there are about 39,000 multinational corporations, which have approximately 270,000 foreign affiliates and more than US\$2.7 trillion of FDI assets at their disposal. Furthermore, the 100 largest multinational corporations account for about one-third of the aggregate foreign assets. The proportion of FDI to developing countries from the five largest investors (United States, Great Britain, Germany, Japan, and France) rose from 18 percent in 1990-1992 to 28 percent in 1993-1994. Moreover, the boom in FDI to the developing countries of Asia has continued. This region alone devours the largest part of the growing export of capital from the Asian countries themselves.

In the countries of the CIS, one can see a steady tendency for the volume of FDI to increase, but the real accumulated volume of investments is still far below the indicators for other countries that began this process considerably earlier. In particular (according to the UNCTAD), the per capita FDI in Uzbekistan amounted to about US\$11. That stands in marked contrast to US\$27 in the Russian Federation, US\$110 in China, and US\$672 in

Hungary. Uzbekistan's share of FDI in Central Asia is 21.8 percent.

2. The Investment Climate

Given the above competition for capital that is now developing between the various countries and regions, the formation of a favorable investment climate is acquiring great significance. The level of "maturity" in the investment climate is manifested in how potential and real investors assess their own investment risks. In the final analysis, these risks determine the viability, as well as the real volume of investment flows, to one or another country. Each company, given its own strategy of investment and its own situation in the competitive environment, independently assesses investment risks and makes investment in a given country accordingly. In addition, it is possible to draw a clear distinction between the approach of companies from Western countries and the companies of actively developing countries in the last few decades. The Western companies are distinguished by greater scrupulousness and meticulousness, whereby they spend a long time weighing the pros and cons, before taking a decision to invest in a given country. By contrast, companies of the so-called newly industrialized countries are more dynamic and active. One can characterize their strategy as dynamic and aggressive, whereby the main objective is to enter quickly into new markets and seize the top-priority positions. One could cite many examples of both the first and second strategy for penetrating a market. However, it is impossible to say that one or the other approach is better or worse. These are simply different strategies, based on the historical experience of these countries, on the accumulated business traditions, and the mentality of people who represent this or that country. In the final analysis, however, all of them attach great importance to the so-called investment climate in the country of potential investment. That is because it is exactly this factor that determines how one answers the question of the magnitude of the investment risks. Therefore, it makes sense to analyze the investment climate through the prism of investment risks.

2.1. Basic (Country) Risks.

These include the following: (i) political and social stability in the country of investment, (ii) the opportunities and conditions for transferring profits and other income from entrepreneurial activities out of the country of investment, (iii) other legal conditions governing investment (presence of laws and other legal mechanisms to protect the rights of foreign investors).

2.1.1. Political Stability

The investment climate in any country depends, above all, on its political stability. It is precisely this factor that allows the investor to plan carefully his activity, to be oriented not toward immediate profits, but toward the realization of long-term investment plans. Therefore, the most important feature of the investment climate of Uzbekistan is precisely the fact that Uzbekistan remains the most stable state in the entire Central Asian region.

2.1.2. Macroeconomic Policy

Another important factor is the macroeconomic policy conducted by the leadership of a country. Uzbekistan has established close relations with the World Bank and the International Monetary Fund. These relations are based on mutual respect and the attempt to find a constructive solution to common objectives. As a result of joint efforts, the World Bank in fact has begun to grant loans to support institutional transformations and also to promote the financial soundness of the national currency. It is also conducting negotiations for the terms of loans that are aimed at post-privatization support of enterprises and the support of the structural transformation of the financial sector. The IMF has also begun to provide the means to support the balance of payments as well as standby credits. Productive and constructive relations with the World Bank and the International Monetary Fund are an important factor for foreign investors in ensuring the irreversibility of the economic transformations being realized in Uzbekistan.

As a result of the realization of a policy based on an evolutionary, stage-by-stage economic development, the following has been achieved: (i) the inflation has been brought under control, and this is the most important factor for ensuring macroeconomic stability and the financial soundness of the national currency, (ii) a precipitous economic depression has been avoided, and economic stabilization has been achieved, (iii) the country has begun the basic structural transformations that are aimed at the optimization and rationalization of the branches of the economy (which, in the final analysis, should serve to raise its efficiency), (iv) denationalization and privatization have assumed an irreversible character, and the non-state sector of the economy is steadily growing, (v) the country is achieving a gradual integration into the world economy as well as a reorientation in foreign economic relations with countries in the "far abroad" (i.e. outside the CIS), (vi) the process of institution building that corresponds to the demands of a market economy is actively developing. Thus, the country has accumulated the critical factors that allow one to speak about the creation of the base for the transition to a qualitatively new level of macroeconomic relations.

2.1.3. Formation of Legal Framework

The years of independence are characterized by active work to create the legal framework for the operation of enterprises with foreign investments. The backbone of this is "the Law on Foreign Investments and Guarantees for the Activity of Foreign Investors," which was adopted in 1994. Its fundamental difference from a similar law adopted earlier in the USSR lies in the fact that it provides for a system of measures to serve as guarantees for the activities of enterprises with foreign investment. In particular, because the process of legislation in a country only just entering into the world market is characterized by frequent amendments and changes, the Law on Foreign Investments includes a special article to deal with this problem. Specifically, it provides that, if subsequent legislation should have an adverse effect on the conditions of investment, then - for a period of ten years - the investor has the right to reserve the same legal terms that existed at the time he began to make the investment. It has already been noted that stimulating exports is one of the fundamental components of the economic policy of the state. Thus, companies that produce export-oriented and import-substitution goods are

given the right to have a tax credit for the development of production for a two-year period. They are also given guarantees about the conversion of earnings into convertible currency to acquire raw materials and equipment, as well as the conversion of profits and dividends.

2.1.4. Incentives and Privileges for Foreign Investors

Another important factor in the investment climate has of late become the system of privileges and stimuli that various countries create for foreign investors. Different countries profess their own path and system for granting investors special privileges and preferential treatment. Many countries introduce, as temporary measures, individual privileges and stimuli for foreign investors in order to create a favorable investment environment. A tendency of recent years has been that not only developing, but also post-socialist and even developed countries grant more and more privileges for foreign investors. This is a manifestation of the competition for capital on the world market that was noted earlier. Countries with developed banking system strive, to a large degree, to use financial privileges, whereas developing countries and transitional economies - where the development of banking institutions and financial markets is still at rudimentary level - are primarily oriented toward so-called "fiscal privileges." There are different approaches to defining fiscal and financial privileges. In our opinion, the variant proposed below fully reflects the difference between these two types of incentives.

Fiscal privileges, which are widely applied in Uzbekistan, include the following: (i) tax holidays, whereby enterprises for a specified period are exempted from the payment of one or more kinds of (and sometimes all) taxes, (ii) reduction in the corporate tax rate (on income or profits), (iii) exemption from import duties, (iv) introduction of accelerated amortization, which also makes it possible to reduce the tax base and to carry out the upgrade of technological equipment more quickly, (v) special privileges to reduce the tax base, (vi) privileges for reinvestment, which exempt from taxation that part of the profit which is used to develop and expand production, (vii) special concessions for social programs, including a tax exemption for all the expenditures of a company to pay for social needs.

Financial privileges include state grants, subsidized loans, and guaranteed loans. These are used mainly by countries with developed banking systems. In essence, they represent state investments by the country seeking to attract foreign capital, with the investment being directed toward projects of foreign investors and aiming to serve the following goals: (i) give the personnel the training and skills needed to work with new technologies and equipment, (ii) improve the condition of physical infrastructures such as roads, water and energy supply, (iii) teach the families of foreign personnel the local language and other things needed to live in that country.

It is important to note that Uzbekistan is also gradually moving to the level where financial privileges are applied. In particular, a whole number of the most important investment projects are realized under state guarantees that the foreign participants of a project will repay the funds borrowed from various foreign sources. In addition, in 1997 Uzbekistan began the practical realization of the Law on Free Economic Zones. As is well known, the creation of such economic entities entails the development of the social and

economic infrastructure in the corresponding region. But that, in turn, requires certain investments from the part of the state itself.

2.2. Contractual (Pre-Investment) Risks

This category entails the following: (i) the duration and effectiveness of the negotiation process, (ii) the process of reconciling and approving contractual terms, as well as the presence and effectiveness of institutions so as to ensure that the parties concerned observe the terms set in the contract, (iii) opportunities to find the appropriate local partner, (iv) the existing system to assess the contribution to the charter (founding) capital of a newly established enterprise (in the form of equipment, technology, know-how, raw materials, etc.), (v) the legal basis for the protection of intellectual property, including questions of technology transfer. An important factor in the investment climate is the degree of development in the institutional infrastructure--that is, the institutions and organizations which contribute to the investment process and, in particular, operate to attract foreign investments. In Uzbekistan, all the necessary institutions for the investment process have been established in recent years (Table 1).

Table 1 Official Institutions That Engage in the Investment Process the Regulation, and Attraction of Foreign Investments

Institution	Function
1 Department of the Cabinet of Ministers for the Coordination of Foreign Economic Activity	Coordinate foreign economic activity
2 State Committee for Forecasting and Statistics	Preparation of investment policy and programs
3 Ministry of Foreign Economic Relations	Registration of enterprises as participants in foreign economic activity and the accreditation of branch offices of foreign companies
4 State Property Committee	Regulation of foreign investments in the processes of privatization and disposition of state-owned property
5 Ministry of Finance	Loan policy and issue of state guarantees
6 Ministry of Justice	Registration of enterprises with foreign investments
7 Ministry of Foreign Affairs	Issue of visas for foreign investors and foreign citizens working in Uzbekistan
8 Ministry of Labor	Issue of licenses for foreign citizens to engage in professional activities
9 Ministry of Internal Affairs	Registration of foreign investors and foreign citizens working in Uzbekistan
10 State Tax Committee	Taxation and customs regulation for the activity of enterprises with foreign investments

Table 1 cont

11	Central Bank	Regulation of procedures for the conversion (including process of conversion itself) and use of hard-currency funds
12	National Bank of Foreign Economic Activity	Bank services for foreign economic activities and realization of financing for projects
13	State Insurance Company, "Uzbekinvest"	Insurance of foreign investments against investment risks
14	Joint-Venture Insurance Company	Insurance against political risks "Uzbekinvest-International"(AIG/USA and Uzbekinvest)
15	Engineering firm "Uzinvestproekt"	Organize complex projects for the technical-economic justification of investments projects
16	Joint-Venture Enterprise "Uzising Interneshnl LTD" (Uzbek Leasing International LTD)	Long-term financing for the purchase and use of technological equipment
17	Center for the Coordination and Control over the Operation of the Securities Market (under the State Property Committee)	Realization of the state policy in the sphere of forming, developing, controlling and regulating the securities market; realization of portfolio investments through the acquisition of securities

Furthermore, the Chamber of Commodity Producers and Entrepreneurs, which was recently created, is to play an important role in establishing close relations between domestic and foreign business circles, and to assist in helping Uzbek companies to gain access to the world market. Therefore, we can speak about the presence of all the necessary institutions for the successful realization of investment projects. To be sure, the presence of a large number of institutions not only ensures that the problems will be fully addressed, but also makes the process of decision-making relatively complex. For this reason, the country is giving considerable attention to two questions: (i) the constant improvement and simplification of bureaucratic procedures, and, (ii) the establishment of control to ensure the observance between the normative documents, as prepared by the ministries and state agencies, and the laws. More importantly, to ensure that the foreign investor not become mired in a surfeit of official institutions, the state has created the Agency for Foreign Investments. This organ is to perform the role of guide for investors, as "one-stop agency." Its task is to provide information, to find partners, to assist in promoting investment projects, and to provide other services to help attract and provide favorable conditions for foreign investors.

Uzbekistan has a well-developed financial infrastructure to cater for the execution of investment projects with the application of the most complex forms of financing. In particular, the financial assistance from the export-import banks of Germany, Japan, the United States, and other countries, important projects for the economic infrastructure are being realized. For example, projects to modernize the sector of telecommunications

(including the construction of a segment of the Trans-Asian-European fiber-optic communications line), projects to renovate and modernize the Fergan Oil Refinery, the construction of an oil refinery in Bukhara, the development of facilities to tap the oil deposits at Kokdumalak, the reconstruction of the Tashkent airport , and so forth.

Uzbekistan is also realizing a whole series of projects in collaboration with the International Finance Corporation (IFC). These include the project to create a leasing company, in which (apart from the IFC) the participants include the National Bank of Foreign Economic Activity of Uzbekistan, the Maybank (Malaysia), and also the European Bank of Reconstruction and Development (EBRD). The EBRD has provided the first credit line of US\$60 million to support investment projects by small and medium-sized business in Uzbekistan. It has recently announced that, for these goals, it will provide another US\$120 million. As a result, this kind of credit line increases the opportunity for local banks to offer modern banking services. Together with the EBRD, the country is preparing a project to create an investment fund of ECU35 million for the post-privatization support of domestic enterprises. In addition, the EBRD will participate in a project to upgrade the Fergan Oil Refinery and the Syrdaria Hydroelectric Power Station, to design a strategy to attract foreign investments to the telecommunications sector, to create a number of joint-venture enterprises, etc. Another significant factor is the fact that all the largest consulting companies of the world now have offices in Uzbekistan. In particular, they provide the full scale of juridical, financial, and other services to promote investment projects. The country has amassed much experience in conducting open international tenders for investment projects in various sectors of the economy. In particular, this concerns international tenders in the mining, oil and gas, and telecommunications spheres.

2.3. Operational and Post-Investment Risks

This category of risks include the following: (i) the procedures and duration of the process for taking operational decisions, (ii) the degree of influence of the question of profits (and distribution) on the decision-making process, (iii) questions involving the organization of management, including such questions as the infrastructure of the investment project, the management of personnel, and financial management, (iv) accessibility and duration of procedures for obtaining local raw materials, (v) marketing on the local market, (vi) availability of skilled local labor, (vii) social security, including the security of foreign personnel working in a given country.

One of the features of the former socialist countries, including Uzbekistan, is the relatively high level of education among the general population. This implies that local employees can learn rather quickly to work with modern technologies. This not only raises the effectiveness of using such technologies, but also saves significant funds needed to raise the skills of employees. The political and social stability of society noted above is also manifested in the fact that foreign citizens working in Uzbekistan, as they themselves acknowledge, feel completely secure and comfortable at the personal level. The relatively high level of development of the infrastructure facilitates access to the sources of local raw materials on virtually the entire territory of the country. Thus, one can draw the conclusion that Uzbekistan has the requisite system of institutions, legal

norms, a labor force amenable to training, sufficient natural resources, and also a friendly environment for foreign investors. All this makes it possible to reduce the investment risks of foreign companies and to make the country more attractive for investment.

2.4. Problems Encountered by Foreign Investors

The foregoing discussion does not mean, however, that foreign investors do not encounter any problems in Uzbekistan. Obviously, problems and costs are unavoidable, because international investment cooperation represents a new experience for the country. The main point is that the Uzbek side manifests a real desire to work with foreign investors and to resolve with them any problems that might arise. To date, the investors have pointed out the following set of problems in Uzbekistan.

Firstly, the issue of convertibility. The question of the free access to hard currency is one of the key elements in assessing investment risks. Thus, Uzbekistan is steadily expanding the volumes of conversion through the inter-bank foreign exchange. In 1996 more than US\$3.3 billion was converted, whereas the previous year this amounted to less than half that amount (US\$1.5 billion). But even this increased volume, for the present, is still not sufficient to satisfy the entire volume of demand for hard currency.

The most important feature of the foreign exchange policy is the "reliance upon one's own forces," i.e. convertibility should be provided by export expansion. However, because of objective causes, such opportunities are rather limited for the time being. This is due, above all, to the fact that the basic export good continues to be raw cotton, but prices for this commodity on the world market are not stable. Under these conditions, the state - as one of its priorities - has designated the task of stimulating the diversification of sources for export earnings. In addition, it has embarked on a clear course of supporting investment projects for manufacturing (also with respect to providing free convertibility) if these are based on the utilization of domestic raw materials and serve to raise the export potential of the economy.

Another problematic issue, often raised by foreign investors, concerns the deficiencies in the banking system, especially with respect to the mechanism and current regulation of banking activities. In the judgment of investors, it is necessary to improve the system of handling cash and non-cash transactions. One of the problems mentioned is the relatively high cost of banking services. At the same time, the linkage of wage increases and labor productivity can be seen as a positive example of anti-inflationary measure. However, in objective terms, it restricted opportunities for newly created enterprises with foreign investments to attract first-class specialists. Therefore, at the end of 1996, the government adopted a resolution to exempt enterprises with foreign investments from this restriction.

Likewise, there is the high level of risk for investments in securities. That is due to three main reasons: (i) insufficient information disclosure, nor is there confidence in the reliability of the disclosed information, (ii) the discordance between the system of financial reporting of enterprises and that required by international standards, (iii) the low level of liquidity on the secondary market. The development of a stock market demands a certain period of time. Nevertheless, it is possible to see that Uzbekistan is undergoing a dynamic process of creating the necessary infrastructure for the securities

market. Parallel to this, it is actively advancing non-exchange forms for the realization of securities from domestic emitters (above all, enterprises and organizations). In particular, this includes offers of attractive investment projects to potential investors.

Foreign investors have noted that the rule of a "single regime of investment for all" is sometimes violated. This is manifested, especially, in attempts to establish various rules to regulate different categories of enterprises, for that leads to the violation of the rights of foreign investors (contrary to the country's legal guarantees). In fact, this is the manifestation of vested interests and the monopolistic tendencies on the part of former state associations, corporations, and the like. In legal terms, including questions of taxation, Uzbekistan has created more favorable conditions for foreign investors than even for domestic investors. But special official institutions, above all the Agency for Foreign Investments, is charged with assisting investors in resolving problems that arise in connection with attempts to violate their rights.

Although all investors note significant improvements in the question of providing information to potential and actual investors, but there are still problems in obtaining operational and reliable information, especially with respect to questions of macroeconomic transformation and data pertaining to particular branches. These are needed for evaluating the prospects for possible business in Uzbekistan. The government recognizes how important the availability of information is for attracting potential investors. In particular, by the time this essay is published, the government will have organized the issue of official quarterly publications (in foreign languages) on the main macroeconomic indicators.

2.5. Evaluation of the Investment Climate by the EBRD

With respect to the general question of the investment climate, it should be emphasized that the EBRD has conducted a comparative analysis of the investment climate in the post-socialist realm. Table 2 provides the data compiled on the basis of this analytical material.

As Table 2 shows, Uzbekistan is above-average for five of the eleven indicators. Among these, Uzbekistan is above all distinguished by the development of legislation, for which it has received the maximum rating possible.

Among the problematic indicators, the top priority belongs to the regulation of trade and the exchange rate. A rating of 2.0 corresponds to the following indicator characterization: inadequate liberalization of export and import, despite the almost complete convertibility of the current account of the balance of payments, there is a multiple (or dual) exchange rate, the regime for conversion is not completely clear. The effectiveness of legislation is below the average. This characterizes an inadequate clarity of normative acts and instances where these are violated. Despite the higher rating in short-term privatization, a certain backwardness is explained by the fact the majority of countries under review here have already made significant progress in this respect.

**Table 2 Evaluation of Various Indicators for the Investment Climate
(based on data compiled by the EBRD)***

Indicator	Uzbekistan	Average for Listed States**	Difference
Share of Private Sector in GDP	40%	50.20%	-10.00%
Enterprises			
Privatization of large enterprises	3	2.72	0.28
Privatization small enterprises	3	3.36	-0.36
Restructuring of enterprises	2	2.28	-0.28
Market and Trade			
Price deregulation	3	2.92	0.08
Regulation of trade and exchange rates	2	3.44	-1.44
Policy on competition	2	2	0
Financial Institutions			
Bank reform and liberalization of interest rates	2	2.32	-0.32
Stock market and non-banking financial institutions	2	2	0
Legal Reform			
Developmental level of legislation	4	3.2	0.8
Effectiveness of legislation	2	2.76	-0.76

*Calculations were based on a four-point scale for 25 countries of Central and Eastern Europe, the Baltics and the CIS

** The sum of the corresponding indicators of 25 countries of Central and Eastern Europe, the Baltics and the CIS

The lag in the reform of the banking system is due to those tasks that are still to be addressed: improvement of the financial soundness of banks, creation of mechanisms for bank supervision, full liberalization of interest rates, minimization of privileges for access to cheap refinancing, an increase in credits for private enterprises, and the broad presence of private and foreign banks.

2.6. Some Examples of Foreign Investments Projects

It is essential to note that the efforts of the government are already yielding their fruits, as a number of large investment projects are now being realized. These include projects like "UzDaewoo" (Uzbekistan-South Korea) to manufacture automobiles, "UzBAT" (Uzbekistan-Great Britain) to produce tobacco products, "Zaravshan-Niumont" (Uzbekistan-United States) to extract gold, and so forth. Let us here examine a concrete case of the realization of investment projects in Uzbekistan.

With the participation of the British company "British-American Tobacco," in 1994 the country concluded the largest deal in its history of privatization of state property and sale of part of this property's stock to a strategic investor. This world-famous tobacco company entered the Uzbek market under conditions of a stiff competitive battle on the Central Asian market with its main adversary, Philip Morris, which had bought up the tobacco industry in neighboring Kazakhstan. The project with British-American Tobacco

can be regarded as a classic example of a successful project for all the participating parties. British-American Tobacco is the sole producer of tobacco products and owner of the two largest processing enterprises in Uzbekistan. Under conditions of the free movement of goods within the framework of the Central Asian common market (which includes Uzbekistan, Kyrgyzstan, and Kazakhstan), this company has the opportunity to sell its tobacco products freely throughout the region. This way, Uzbekistan received almost US\$300 million of investments without having to grant any financial guarantees on the part of the Government. As a result of the scrupulous performance of all obligations by the investor, before one's eyes there has been a change in the Tashkent tobacco plant. At a fast rate too a new cigarette factory is being constructed in Samarkand Oblast. One must also take into account the fact that, according to the estimates of specialists, each job created in the tobacco industry creates an additional four jobs in corresponding sectors of the economy.

The project with British-American Tobacco is a good example of cooperation between the government of Uzbekistan and a foreign company. From the very beginning of the realization of the project, when certain difficulties in the negotiations arose between the company and its main local partner, the government deftly interceded to create a special working group. The latter assumed the entire task of coordinating all the work on the project and, in a short period of time, completed the process of negotiations and moved to the final signing of the contractual documents.

As noted above, investment cooperation with multinational companies is relatively new for the country, and hence it is only natural that some problems can arise. Thus, the access of British-American Tobacco to the Uzbek market for tobacco producers revealed yet another problem which, until then, had not appeared to be obvious. The point is that, in the tobacco industry, only imported tobacco products are subjected to excise taxes. At the same time, British-American Tobacco (more precisely, the joint-venture enterprise UzBAT with which it was joined), had to pay the excise tax. This situation placed local producers in an unequal position and made it economically disadvantageous to sell their goods in Uzbekistan, it thus ran contrary to the investment policy of the state. This situation was corrected by the establishment of an equal rate for excise taxes on all tobacco products sold on the domestic market. The government's display of "good will," and its desire to cooperate with a foreign investor, was also manifested in the fact that the Uzbek side assumed the following obligation before the British-American Company: during the first five years from the start of the realization of this project, the government agreed not to conduct any negotiations with another tobacco company.

Whereas the UzBAT project moved rather slowly (based on a preliminary and comprehensive analysis of the legal, financial, and technical conditions for realizing the proposed investments), an example of the diametrical opposite was the project realized with Daewoo, which was characterized by an aggressive strategy. The case of Daewoo serves as a graphic example justifying a risk strategy when entering into new, essentially unknown markets. Daewoo came to Uzbekistan with a proposal to make huge investments in a branch that hitherto had simple been nonexistent in this country: the manufacture of automobiles. In a record short period of time, the realization of a project to construct an automobile plant in the city of Asaka was underway, with a total value of

more than US\$ 650 million. Given the scale and strategic importance of this project, the state mobilized all the necessary forces for the most rapid possible start-up of the new production. As a result, in less than two years from the time the contract was signed, an enormous plant (with the capacity to produce 200,000 automobiles per year) had begun to produce vehicles. One can say that today this plant has become an object of national pride for the people of Uzbekistan, while Daewoo has gained the opportunity to expand effectively its business in Uzbekistan. The automobile industry is regarded in Uzbekistan as one of the most strategic branches of the twenty-first century. Apart from everything else, it should give the impulse to the development of a whole industry to produce spare parts and components.

In addition to this project, Daewoo has several other joint-venture projects. In the Fergan Valley, a project is being prepared to apply fundamentally new methods for producing cotton and producing thread. The joint-venture enterprise "UzDEU Electronics" produces 200,000 televisions and video cassette recorders per year; part of this output is exported to countries in the CIS. The joint-venture enterprise "Aloka DEU" produces digital telecommunications equipment, not only to satisfy domestic needs, but also for export. In 1997 "UzDEUbank" (where the EBRD is a co-founder) commenced operations as well.

As we have seen foreign investment involves both political and economic risks. The entering of foreign firms into the domestic market requires also a well-functioning legal framework. To stimulate foreign investments, host countries provide financial and fiscal incentives to foreign investors. Despite market imperfections and loopholes in the legal system, a number of large scale investments have been realized.

3. Investment Policy and Its Priorities

The main thrust of the investment policy of Uzbekistan is to prepare and implement projects that are consistent with the strategic lines of development in the economy. In the middle-term perspective, the priorities are the processing of raw materials and resources, and those which are directed at import-substitution and the development of export-oriented branches. Specifically, (i) the intensified processing of agricultural commodities, (ii) the organization of ecologically clean forms of mining and the intensified processing of raw materials and mineral resources (including the extraction and refining of oil and natural gas), (iii) the organization of modern information and telecommunications systems (including satellite communication), (iv) the production of resource- and energy-saving machinery and equipment, (v) the production of pharmaceuticals as well as medical instruments and equipment, (vi) the development of the tourist industry.

The investment policy of Uzbekistan is characterized by pragmatism and balance, and it is realized on the basis of the principle of emancipating the economy from political dogmas. In particular, this is manifested by the fact that the attraction of foreign investments (as noted above) is, in the middle and long-term perspective, one of the main priorities of the state's economic policy.

4. A New source of Foreign Investment: Islamic Financing

There is growing interest in Uzbekistan in such an untraditional source of financing as "Islamic financing." Islamic financing signifies the use of financial resources of the richest Islamic countries to fund investment projects that are of mutual interest. These projects are not necessarily realized in Islamic countries, however, the use of financial means should be realized on the basis of parity. The idea of Islamic financing unites more than 100 banks in Islamic countries, and these have a total volume of assets of more than US\$ 60 billion. Therefore, if it is possible to use such enormous sources of financing, then we firmly believe that this ought to be done. As world experience shows, in practice both Islamic and conventional financing can be used to realize simultaneously a single project.

5. Challenges

The formation and realization of investment policy is a process that requires a flexible and creative approach. Each stage of economic development reveals new goals and demands adequate measures for their realization. Investment policy should be directed at removing the existing problems that impede an increase in investment activity. In the investment policy of Uzbekistan, one can discern today the following problems.

First, an urgent question concerns an improvement in insurance, as a most important factor in stimulating the investment process. In particular, this concerns the creation of institutions in the state sector and the regulation of the market of insurance services, and also measures to stimulate new insurance institutions (underwriters, actuaries, and accident inspectors). A recently established national insurance company, "Uzbekinvest," has encountered stiff competition on the world market for insurance services. Hence it is necessary to intensify work to use all available channels, including inter-governmental ones, to promote "Uzbekinvest" on the international insurance market as the official insurance agency for Uzbekistan.

Secondly, the adoption of law on special economic zones, but also the objective fact of the preference of foreign investors to make Tashkent the main place of investment, and the need to develop the economic infrastructure of the regions - all this makes it urgent to work out a regional investment policy and to reorient investment flows to other regions of the country. In particular, if one takes into account the fact that, at the national level, a rather expansive system of privileges and incentives has already been worked out, it is reasonable to introduce new privileges and stimuli only at the regional and oblast level and within the framework of the authority of the oblasts themselves. This approach should make it possible to reduce the pressure of tax holidays on the budget and also would serve as yet another factor in stimulating foreign investment in the countryside.

Thirdly, a serious and urgent problem is still the ineffectiveness of the system of statistics on foreign investments. A major problem today is the tardiness, inaccuracy, and often the contradictions of statistical reporting. Many statistical parameters do not correspond to international standards and the norms of generally accepted reporting. In

other words, there are also problems in the compatibility of the data. In addition, a system of reporting the real flow of foreign direct investments is also not yet in place. In 1997, however, a new system of reporting is to be introduced that is equivalent to internationally accepted standards, and this problem should be resolved.

Fourthly, the question of duplication among various official institutions in certain functions of preparing and realizing investment policy. This reduces the general effectiveness of regulating the investment process. One can say, with confidence, that an active economic policy (including investments) of the state in the first years of economic transformation demonstrated its effectiveness in Uzbekistan. In particular, this is apparent in the fact that the country succeeded in avoiding a profound economic depression and has now moved to a level of economic stabilization. The main task of economic policy in the immediate future, in our opinion, should be the creation of conditions to raise the real investment activity in the country. This can be achieved by realizing a complex of macro- and microeconomic measures. Above all, this pertains to measures aimed at improving the banking and financial system. In particular, it is necessary to make a further liberalization of banking and financial policies, which is directed at giving legal entities and individuals the right to dispose freely of their resources in bank accounts. This will increase the confidence and trust of the population and investors in the banking system.

Fifthly, to develop the investment initiative, it is important to have a tax policy that provides incentives. It should be directed at creating a uniform system, ensuring "transparency" in the tax system, and reducing the number of taxes and also targeted payments. This includes the policy of unifying taxes and payments that have the same tax base (for example, the tax on underground mineral deposits and assessments for the non-budgetary fund to renew the mineral and raw-material base). The fiscal policy should place the main emphasis on initiating the use of alternative sources of revenues, both those now in existing and new ones (state short-term bonds, Eurobonds, etc.) In addition, this will have a substantial influence on reducing the emission burden on centralized credit resources.

Lastly, an important factor for creating the conditions needed to increase investment activity is an extension of the privatization process. Particularly, the completion of the process of transforming large enterprises into joint-stock companies along with the formation of a secondary market for securities are of utmost imperative. These measures, in combination with support for the development of private entrepreneurship and the development of market institutions, should serve to attract more actively the savings of individuals and legal entities. Along these same lines the government should prepare its policy to attract foreign investments, both direct and portfolio, which are aimed at acquiring stocks and other securities from domestic emitters. Steps should be made in the direction of a further reduction of state control over the activity of privatized, incorporated enterprises. This will make it possible to increase their economic independence and, accordingly, their responsibility for decision-making.

The realization of these measures will not only create the conditions, but also in purely economic terms will substantially reinforce the process of extending the structural transformations in industry. It will also promote the reform of agriculture and the

formation of a new type of agricultural relations. At the same time, mechanisms will be created to realize the structural transformations not only "from above" (i.e. by the state), but also "from below" - at the initiative of the economic actors themselves.

This set of measures in the monetary-credit and banking sphere, in the sphere of developing the non-state sector, and also the capital markets will make it possible to strengthen and develop those qualitatively new tendencies in investment policy that are now targeted in the economy of Uzbekistan. It must be emphasized that the investment program of the state in the last two years has been consistently implemented. By comparison, one can say that, according to the data of Russian experts, the Federal Investment Program of Russia in 1995 was implemented only at the level of 18 percent.

At the present time, there is an urgent need for a gradual change in the structure of capital investments through the growth of the country's own resources and the investment funds of enterprises attracted on a commercial basis. At the end of 1996, the structure of capital investments in Uzbekistan (according to the sources of financing) was as follows: the sources of the enterprises themselves was about 40 percent (4 percent more than at the end of 1995), the share provided from budgetary sources was 30 percent (2 percent more than in 1995). The share from bank credits dropped from 11 to 8 percent. The share provided by the population remained unchanged at 10 percent. Foreign investments in nominal terms increased in the first half of 1996 by 1.5 fold, however, their share of total investments decreased slightly, since the rate of growth of investments from other sources was significantly greater.

Conclusion :- Towards a Less Centralized, More Market-Oriented Investment Policy

At first glance, the main characteristic features of the investment policy should be a gradual, steady reduction in the practice of granting preferential credits from centralized resources. Such a practice creates the effect of "cheap money," artificially increasing the aggregate demand for this good. Moreover, this practice distorts market signals regarding the real state of affairs in the branches or the individual enterprises that receive these credits. In addition, it also reduces the economic incentive for the leaders of these branches and enterprises to realize the necessary structural transformations in their domain. And, finally, this practice is one of the main causes of the high rates of inflation.

The proportional share of centralized capital investments should be reduced by expanding the investment activity of the populace and by attracting foreign investors to the domestic capital market. The centralized capital resources, which in some measure will bear a preferential character, should be directed exclusively toward the realization of projects that have general economic significance and that have difficulty attracting alternative sources of financing (e.g. transportation and water infrastructures). In those places where this is possible and where there are several potential consumers of centralized investment resources, the organization of tenders should be obligatory. This concerns the preparation of a program for the "leading" branches of the economy, which should serve as the locomotive for economic development in other, affiliated branches. An example of such a realization, which demonstrated its effectiveness in Japan, Korea, and other Asian countries, could be the project to create an industry of spare parts and

components for the automobile industry in Uzbekistan. The realization of this project, which experts estimate to cost US\$ 2 billion, will enable the country to reach the world level with a competitive product that is fundamentally new in the country.

The realization of these measures of economic policy will enable the country, in a step by step manner, to lay firm foundations for subsequent economic growth. That growth, significantly, will be based on macroeconomic stability. At the basis of such stability will be a balanced macroeconomic policy and a gradual intensification of the role of market instruments for regulation, which will eliminate and displace the non-market, administrative tools that were used during the transition period.

6

Legal Reform in Uzbekistan as the Foundation for the Formation of a New Type of Economic and Social- Political Relations

M. Kh. Rakhmankulov

Introduction

From the first day of its existence as an independent country, the young Uzbek republic proclaimed that its main goal was to construct a democratic state based on a rule of law, on a socially oriented market economy, and with a maximum of attention to the mentality, spiritual and moral foundations, and history of the Uzbek people. In this respect, already at the very outset of the reform, as a condition for its successful implementation, the republic formulated the goal of conducting a fundamental legal reform. This reform was to encompass the following elements: (i) creation of a legal foundation and framework for economic, political, and social reforms, (ii) a consistent implementation of the principle of a division of powers between the legislative, executive, and judicial branches, (iii) the formation of a system of organs of state power and administration that would be capable, under the new economic conditions, of providing for the formation and realization of the legal foundations of the state, (iv) creation of an efficient system of law-enforcement, judicial organs to uphold the law and ensure its realization, (v) formation of a legal culture among the citizenry, and elimination of the legal nihilism that, in recent decades, had taken shape in all spheres of public life, (vi) protection of human rights and civil rights within the framework of general national and international agreements, peace, and stability.

1. Basic Principles and Dimensions of the Formation of a New System of Legislation

At the very outset of the reforms, the main emphasis was laid on the principles of building a state based on the respect of law. This included: the priority of law in all spheres of social life; linkages, through law, of the state, its organs, citizens, and their associations; inviolability and priority of human rights and rights for freedom; mutual accountability of the state and individual; and so forth. These principles were embedded in the Constitution of 1992. It was a document of extraordinary significance. It determined the main principles for the formation of legislative, executive, and judicial branches, as well as the principles for their interaction. It reflected the devotion of the state to advanced democratic principles, to human and civil rights. And it also established precise guarantees for the observance and implementation of these rights. In general, the Constitution of 1992 was not only a most important historical document, but also an achievement for the culture of the people, the fruit of the high level of its spiritual and moral development. The Constitution laid the foundations for an emerging complex of national legislation and the entire legal system. The creation of a legal basis became the nucleus of reform in all spheres of public life. This is entirely understandable: in a state based on the rule of law, it is precisely the law that becomes the main instrument in the hands of the state in directing the process of social development.

The work in forming a legislative backbone for reform was associated with a number of difficulties, the essence of which can be summarized as follows. First, law-making activity in the most important spheres of public life (in accordance with the constitution of the former USSR) was assigned to the central "Union"-level organs of state power and administration. The overwhelming majority of laws (and subsidiary acts) regulating economic, political, and social relations were formally adopted and produced

by the Supreme Council of the USSR and by the governments of the union republics. It was in this way that the Soviet system ensured the functioning of a single national economic complex, a single political, defense, scientific-technical, and cultural space. As a result, in the first stages of forming a national legislation, the country suffered both from a lack of experience in law-making as well as a shortage of trained juridical personnel. It was no accident that, in 1990-1991 (years distinguished by an increase in autonomy), the laws adopted by the parliament were often similar to foreign (especially Russian) analogs. See, for example, the "Law on Property in the Uzbek SSR" of 31 October 1990, the "Law on Banks and Banking Activity" of 15 February 1991, and the "Law on Entrepreneurship in the Uzbek SSR" of 15 February 1991. Secondly, the complexity and difficulty of the situation lay in the fact that the legislation of the country must be built on entirely new principles and must serve the task of attaining absolutely different objectives. Through the conception of state independence, it was to realize the construction of a state based on the rule of law and to establish a market economy. Uzbekistan has chosen its own, special path of development, which is based on the five principles of reform (as formulated by the President, I. Karimov). The incarnation of these principles presupposes the utilization of new, original approaches in legislation and in the construction of a new state. Thirdly, the new legislation should incorporate, on the one hand, the best traditions of the national state (based on the spiritual past and present condition of the people), and, on the other hand, it should correspond to advanced ideas and modern practice. Lastly, it was still essential to provide the political, economic conditions needed to ensure the superiority of law, to raise its authority, and to instill respect for law in citizens and officials. Under the conditions of the legal nihilism that prevailed earlier and especially during the transition period, this proved one of the most difficult tasks of all.

In accordance with the above difficulties and conditions, the policy on the formation of law was determined. Its main spheres consisted of the following. First, the consistent realization of the principle of the division of powers, together with the formation of a strong political, judicial, and legislative authority. The principle of division of powers, as the preeminent principle in the organization of state authority, was treated in Soviet political theory as "bourgeois." It was, for the first time, incorporated in the Constitution of Uzbekistan in 1992. The Constitution makes an exact definition of the structure and competence of legislative power (which is conferred on the parliament, *Oliy Mazhlis*) and executive power (which is conferred on the President and the Cabinet of Ministers operating under his leadership). The Constitution also defines the structure and basic principles underlying the operation of the judicial system, which includes a Constitutional Court, Supreme Court, Supreme Economic Court, as well as city and raion courts. Secondly, reinforcement of the legitimate, legal foundations of legislative activities. During the years of independence, a mechanism for the preparation of laws and subordinate legal acts has been developed. Law-making activity has been constituted as one of the most important functions of state activity. The place and role of the organs of state administration, public organizations, and associations in the law-making domain have been defined. Precise definition has also been given to the criteria that, in turn, determine in which situations the country is to adopt a law (*zakon*), and those situations it relies upon a decree (*ukaz*) of the President, a resolution (*postanovlenie*) of the Cabinet

of Ministers, and so forth. The country has established the principles of legislative activity, among which the most important are the following: people's rule, separation of powers, precedence of the Constitution and laws, legality and rule of law, social justice, democracy, priority of human and civil rights, priority of the interests of society, mutual obligations of state and citizen, priority of international law and international obligations assumed by the country. Therefore, during these five years of independence, Uzbekistan has formulated its goals and objectives as well as the principles underlying legislative activities. It has also created the system and mechanism for making laws, including its material and intellectual foundations.

1.1. A Brief Overview of New Laws Adopted

If one begins with the law "On the Establishment of the Post of President of the Uzbek SSR and the Adoption of Amendments and Addenda to the Constitution (Fundamental Law) of the Uzbek SSR" of 24 March 1990, since then the country has adopted approximately 240 laws. An analysis of this legislative mass reveals the following patterns. One special category of laws consists of legislative acts that strengthen the state and juridical foundations of independence and sovereignty. These include the following: (i) the resolution of the Supreme Council of the Uzbek SSR of 31 August 1991 "on the Declaration of State Autonomy of the Republic of Uzbekistan", (ii) the laws "on the Foundations of State Independence of the Republic of Uzbekistan" (31 August 1991), "on the election of the President of the Republic of Uzbekistan" (18 November 1991), "on the Referendum of the Republic of Uzbekistan" (18 November 1991), "on the State Seal of the Republic of Uzbekistan" (2 July 1992), "on the National Anthem of the Republic of Uzbekistan" (10 December 1992), "on the Official Language of the Republic of Uzbekistan" (21 December 1995), etc.

A significant part of the laws consist of a group of legal acts aimed at forming a system of state power and administration. Of particular importance were the following: the laws "on the Improvement of the Structure of Executive and Administrative Power in the Uzbek SSR and the Insertion of Amendments and Addenda to the Constitution (Fundamental Law) of the Uzbek SSR" (1 November 1990), "on the Foundations of State Independence of the Republic of Uzbekistan" (31 August 1991), "on the Cabinet of Ministers of the Republic of Uzbekistan" (6 May 1993), "on State Authority at the Local Level" (2 September 1993), "on the Organs of Self-Government of the Citizens" (2 September 1993), "on the Oliy Mazhlis [Parliament] of the Republic of Uzbekistan" (22 September 1994), and so forth.

The most significant bloc of laws (almost 40 percent) are those directed at ensuring the implementation of economic reform. These include: (i) the establishment of property relations based on a multiplicity of forms, (ii) creation of a market-type banking, financial system, (iii) stimulation of entrepreneurial and private initiative, (iv) development of a mixed economic system. The substantial size of this category of laws is due to the need to realize one of the fundamental principles underlying reform in the society (the essence of which is to affirm the priority of economics over politics), and also by the need to create a socially oriented market economy.

A separate set of laws pertain to the creation and improvement of the judicial and

legal system. These include the laws "on Constitutional Oversight in the Uzbek SSR" (20 June 1990), "on the State Procurator" (9 December 1992), "on the Constitutional Court of the Republic of Uzbekistan" (6 May 1993), "on Courts" (2 September 1993), "on the Application of Legal and Social Protection for the Personnel in the Militia [Police]" (31 October 1990), "on Lawyers and the Bar" (January 1996), and so forth.

A substantial set of laws seek to ensure the development of the democratization process in public life as well as the implementation of political reforms. Already in 1991, the country adopted the law "on Public Associations in the Uzbek SSR" (15 February 1991). Of great significance are the laws "on the Means of Mass Information" (14 June 1991), "on Freedom of Conscience and Religious Organizations" (14 June 1991), and "on Political Parties" (6 June 1996). The seventh session of the Oliy Mazhlis (1st assembly) reviewed the first version of the laws "on the Guarantees and Freedom of Access to Information," "on the Defense of the Professional Activity of Journalists," and "on the Plenipotentiary (Ombudsman) of the Oliy Mazhlis for Human Rights."

Another set of laws pertain to the establishment and development of defense and the military. This includes laws "on Defense" (3 July 1992), "on Universal Military Duty and Military Service" (3 July 1992), "on the Military Oath" (3 July 1992), "on Alternative Service" (3 July 1992), as well as a resolution of the Oliy Mazhlis "on Military Doctrine" and other laws and decrees.

Another large and important bloc of laws provides for the construction of various branches and sectors of the national economy and for the shaping of the country's foreign policy. The main distinctive features, which are characteristic of the process of establishing a national system of legislation, amount to the following. The laws, especially those adopted during the early stages of development, often bore the character of juridical declarations and statements of principle. It was not uncommon for these laws not to be concrete acts for direct implementation. To a significant degree, this was due to the immaturity that lay at the basis of these laws: the reforms were only beginning and it was important to determine the approaches and principles, and that was in fact done by adopting such laws that posited fundamental principles. This situation was also due to the fact that, at this point, the legal mechanisms and institutions (i.e. the instruments of law) were not yet worked out, and this had an impact on the content of the laws. It was also necessary to "accumulate" juridical material, to construct the mechanisms for legal regulation, and to establish these firmly in codified acts. With time, this was in fact done: in 1994-1995, the country adopted the civil, criminal, and labor codes, as well as a criminal procedural code and other forms of legal codification. For example, in 1992 (at the outset of the reform), the it adopted an Anti-Monopoly Law. This law was important even under conditions where the process of denationalization and privatization had only begun. In a profoundly monopolized economy, it was important to proclaim the principles of an economic mechanism based on free competition. In December 1996, under conditions where the de-nationalization of property had attained a significant level, a Competition and Anti-Monopoly Law on the Goods Markets was adopted. This law, in greater detail, regulated relations that had actually taken shape and were in the process of development. The same can be said of the law "on banks and banking activity," which was subjected to repeated revision and amendment, and which brought the country ever closer to world standards and demands.

The foregoing feature is related to another, related characteristic of the law-making process. Laws, especially at the first stage, contained many base norms, which gave the executive branch the authority to establish a legal regime over a given set of relations. In addition, in some cases the law provided that, under concrete situations, the Cabinet of Ministers was to adopt the appropriate resolution. For example, there are many such norms in the law "on Denationalization and Privatization." According to article 2, pt. 18, "the income from de-nationalization and privatization are to be accumulated in special funds. . . . The order for the formation and utilization of the funds from denationalization and privatization are to be determined by the Cabinet of Ministers under the President of the Republic of Uzbekistan." One could cite an enormous number of such examples. In other instances, the legislature delegated to the executive branch the right to determine the character of legal regulation for the corresponding relations. As an example one could cite the resolution of the parliament from 14 June 1991 "on the Transfer of Certain Powers of the Supreme Council of the Uzbek SSR of Regulating Land Relations to the Cabinet of Ministers under the President of the Republic of Uzbekistan." In third cases, the legislature determined one or other set of principles, and then ruled that all legislation (including the normative acts from the so-called "branch" or "agency") be made consistent with these principles and basic premises. These tendencies were also a result of the developing legislative system. At the same time, this was a normal process, characteristic of a transition period in a society undergoing reform. The experience of Uzbekistan once again confirmed the need to confer on the executive branch significant authority and power. Only under these conditions is it possible to carry out reforms quickly and decisively, including those measures that are not popular with the masses. Only under these conditions is it possible to react to a dynamically changing political and economic situation, and to adopt measures to ensure the stability that is so essential for uninterrupted development and for the implementation of reform.

The resolutions of the Cabinet of Ministers, together with the normative acts issued by various branches of the administration, still occupy a significant place in current legislation. It happens that, at the level of ministries and state agencies, rules are promulgated that either neutralize the essence of existing laws or contradict them outright. The Ministry of Justice has the responsibility to provide expert judgments on ministerial and agency rules and to bring these into conformity with general state laws. At the same time, there are still problems here, the administrative-bureaucratic method, deeply rooted over the preceding decades, does not vanish in an instant. However, as a positive process, one should point out the constant expansion of social relations regulated by state law. This is a reflection of the effort of the state to construct a society based on the rule of law, where the instrument for regulating social relations is not an administrative rule or instruction (issued by a state administrative organ), but a law promulgated by the country's parliament.

1.2. Laws to Adopt

In general, the accumulated complex of laws, the experience in legislation, and the stable, predictable development of society - all this has enabled the Oliy Mazhlis to define precisely its program of action for the period of 1996-1999. The requisite attention

will be accorded to the questions of expanding the economic reforms.

It is now planned to adopt a tax code, a customs code, laws "on the State Finances", "on the Budget System", "on Price Formation", "on Tariffs and Customs Duties", "on Mortgages" and a number of other laws to ensure economic reform. During this period, the country will adopt legal codes on family, housing, civil procedural, and economic-procedural matters. It will also promulgate laws "on the Implementation of Judicial Decisions," "on the Militia [Police]," "on Internal Troops," and other laws to give a new impulse to the legal and judicial reform. There are also plans to adopt dozens of laws that pertain to various branches of the economy, culture, defense, state construction, and foreign policy. The most important targets for the law-making activity consist of the following: (i) secure the legal foundations and mechanisms to protect human rights, (ii) provide the legal basis for judicial and legal reform, (iii) create and expand the legal basis for the new system of economic relations.

2. The Formation of the Legal Framework for a New System of Economic Relations

An integral, unifying element for economic reform has been the construction of a democratic, market-type legislation. "Only if there is a strong legal foundation," wrote I. A. Karimov, "is it possible, with full confidence, to reconstruct the old, obsolescent system, and to construct a new society with a civilized market economy."¹ This was, probably, one of the most difficult tasks. That difficulty is explained by two factors. First, the unity of the national economic complex in the former USSR was ensured by an integrated economic, civil legislation, which was all promulgated by central authorities. From this it followed that the new-born republic had no experience in making laws to regulate economic relations. Second, it was not possible to use the earlier legislation in its full complex. That legislation was designed to regulate an entirely different type of relations, it was based on the use of administrative, planned methods of management, which in turn presupposed total nationalization and monopoly of state forms of property ownership. Therefore, it was necessary to rewrite completely the legislation ("from page one"), by relying on the approaches worked out in world practice as well as by drawing upon historical and cultural traditions. It must be said that the most difficult problem of constructing the legal foundations for a market transformation was, on the whole, successfully resolved during the first five years of independence.

2.1. The Constitution

The principal foundations for the market legislation were laid in the Constitution. As the Fundamental Law of the country, it provided a political and legal foundation, i.e. it served as the source for all other laws aiming to realize economic reform and develop market relations. The Constitution established the equality of all forms of property ownership, and declares that private property is to be protected by the state. On the level of a Fundamental Law, the Constitution defined the goals of reform - decentralization, de monopolization of the economy, and strengthening of the autonomy of enterprises and producers. The Constitution firmly established the inadmissibility of direct state intervention in economic activities. It proclaimed the freedom of economic activity and

entrepreneurship. President I. A. Karimov has expressed the following idea: "People who control their own property should become the foundation of social and political stability."² This idea has been incorporated into the corresponding norms of the Constitution. After securely fixing the basic direction for the Uzbek path of development, the Constitution has integrated the basic ideas of a market economy, which then underwent development in the legislation. The norms of the Constitution, which determine the basic principles for the organization of the economic system, have been expanded and developed in more than 100 laws. A functional analysis of these laws, together with the substantial mass of auxiliary administrative instructions and regulations adopted in the first and second stages of economic reform, make it possible to distinguish the following main groups.

2.2. Laws Determining State Control

As a considerable legal volume during the first stage, one group consists of laws determining the principles of state control over the economy. These include laws "on the Foundations of the Independence of the Republic of Uzbekistan," "on Mineral Reserves," "on Land," "on the Cabinet of Ministers of the Republic of Uzbekistan," "on the organs of local self-government," and a number of others. These laws determine the exclusive sphere of state property as well as the distribution of powers between the central government and local organs of governmental authority and administration. This set of normative legal acts include the decrees by the President and the resolutions of the government. These documents are directed at reorganizing ministries and agencies, with their transformation into conglomerations, associations, and other forms of economic organization that correspond more completely to the demands of emerging market relations. They also determine their principles, forms, and methods of work. An important place in this group belongs to normative legal acts that ensure state regulation of monetary-credit relations, taxation, the financial system, and so forth. This group of legislative, normative legal acts are constantly undergoing development because the dismantling of an administrative-bureaucratic system of economic administration could not be accomplished in a very short period of time. In the very near future, this group of legislative acts will be supplemented by laws and other legal documents to determine the mechanisms and methods of state planning for the national economic complex. And this should bear a fundamentally different character from that of a planned economy. At the legislative level, it is necessary to regulate the principles, the order for compiling the state budget, and the mechanism for managing state finances. It will also be necessary to adopt laws to ensure the accelerated development of those economic branches that the government deems to have the top priority, as well as a number of other measures.

2.3. Laws Concerning Property Relations

Another group of laws consists of legal documents to fix the principles underlying the organization of property ownership, and also the mechanism for regulation property relations. Some laws already adopted ("on Property," "on Land," "on De-Nationalization and Privatization," and others) have created the legal basis for the formation of private property, for de-nationalization, and for privatization of so-called

"publicly held property."

2.4. Laws Concerning the Creation and Operation of Economic Entities

This group of laws consists of those legal acts that establish the juridical basis for the creation and operation of economic entities within the framework of market relations. Examples include the laws "on Cooperatives," "on Peasant and Farmer Households," "on Economic Corporations and Partnerships," "on Banks and Banking Activities," and "on Stock Markets and Stock-Market Activities." These laws create the basis for the rapid formation of diverse types of enterprises: leasing, joint-stock, farmer, partnerships, and companies with limited liability. There has also been an intensive development of the market infrastructure: goods and raw material exchanges, securities exchanges, dealer and intermediary activities, and audits. The above set of laws and supplementary administrative regulations have created legitimate conditions for the formation of a class of private property-owners, for the development of small and medium-sized business, for the intensification of entrepreneurial activity, and for the development of a securities market. For example, today the country has more than 4,000 joint-stock companies and over 130 investment institutions that hold licenses from the Center for Control over the Formation of Securities Market. About thirty-five normative acts that directly regulate the exchanges market have been adopted and put into operation.³ Thus, the legal, normative basis for the operation of a securities market in Uzbekistan has already been laid in the laws "on the Mechanism for the Functioning of a Securities Market," "on Joint-Stock Companies and Protection of Stockholders' Rights," "on Securities and the Stock Market," and others. Nevertheless, it is necessary to develop and improve these normative acts.

It is necessary to design and adopt a series of normative documents, including laws "on Financial Intermediaries and Consultants," "on Deposits," "on the Registration of Stockholders," "on Settlements and Clearing Activities," and "on Trustee Management." In the emerging mechanism for the legal operation of the securities market, more and more significance must be given to legislation. The Center for the Coordination and Control over the Operation of the Securities Market (subordinate to the State Property Committee) has prepared a series of normative documents. These include "a Statute on the order for the Admission, Registration and Placement of Securities from Foreign Emissaries in Uzbekistan, and from Uzbek Emissaries Abroad," "a Statute on the Acquiring of Stock of Privatized Enterprises and Joint-Stock Companies by Non-Residents," "the Statute on the Conversion of Hard-Currency Funds of Non-Residents that are Held in Uzbek Securities," etc. In essence, these documents should be regarded as part of the normative regulations of state administration. However, in the immediate future, the norms established in them will receive formal incorporation into law. This will give greater stability to the exchange market and generate greater confidence from the part of foreign investors. On the whole, this group of legislative acts is in a state of constant development. In the immediate future, it will also be necessary to adopt laws "on Bills of Exchange," "on Non-Bank Financial Institutions," "on Leasing and Leasing Companies," "on Companies with Limited Liability," etc.

2.5. Laws Facilitating the Integration into the World Economy

A group of laws, significant both in terms of their volume and complexity, pertain to the active integration of Uzbekistan into the world community. A number of laws have created the legal basis for the active solicitation of foreign investments. These include the laws "on Foreign Economic Activity," "on Foreign Exchange Regulation," "on the Membership of Uzbekistan in Various International Organizations," "on the Protection of Investments," as well as a number of basic decrees by the President to stimulate foreign economic activity, international agreements with the leading world powers to ensure mutual protection of investments and to avoid double taxation. These laws have served to integrate Uzbekistan into the global system for the division of labor. For example, the law "on Free Economic Zones" (3-5 April 1996) established the framework for the creation and operation of free zones, which create new opportunities for attracting domestic and foreign capital, introducing advanced technology, and acquiring managerial experience. The law "on the use of foreign funds" (12 September 1996) defined the basic forms for realizing foreign loans, determined the authority of state organs with respect to questions of borrowing abroad, created the mechanisms for serving the foreign debt, and so forth. An important role in regulating the process of attracting foreign investments belongs to the presidential decree "on Supplementary Measures on the Stimulation and Operation of Enterprises with Foreign Investments" (31 May 1996) and "on Supplementary Incentives and Advantages Granted to Enterprises with Foreign Investments" (30 November 1996). These laws reflect the essence of the investment policy of the government. The latter is aimed at providing comprehensive support to those enterprises with foreign investments that engage in productive activities and, especially, those that are oriented toward exports or import-substitution.

2.6. Laws of Social Policy

Finally, an extremely important set of laws provide for the realization of a fundamental principle of reforms - a strong social policy. The laws "on Employment," "on the Social Protection of Invalids," "on the State Pension System," "on Education," together with a number of presidential decrees and government resolutions, have made it possible to protect the most vulnerable strata of the population (notwithstanding the extremely complex economic situation). These legislative measures made it possible to avoid the massive deterioration in living standards and impoverishment of the masses, and to protect stability and respect for the government and its market reforms.

2.7. The Creation of the Legal Foundation and its Implications

The foregoing makes it possible to conclude that, during the last five years, the country has created a legal foundation for a market economy. An analysis of the process by which it was created and an examination of the application of laws lead to a number of conclusions, which are of fundamental importance for the further improvement of the legal framework for economic reform.

First, the system of legal regulation of economic relations proceeded amidst the constant influence of liberalization and democratization. This process bore an evolutionary, stage-by-stage character. And this was due to the constant expansion of the

sphere utilizing commodity-money relations, value categories and institutions, gradual transition from administrative methods to a system based primarily on the market and the use of horizontal methods of management. Commodity-money relations could not develop under conditions where society was dominated mainly by a single state form of property and where a planned system for the management of production and distribution still prevailed. The broad scale operation of commodity-money relations is only possible when entities with different forms of property ownership participate in economic relations (i.e. in relations of productions and exchange), when output and goods (and their value) are determined by the marketplace. The broader the sphere of activity for commodity-money relations, the more intensive the process of liberalization and democratization in the economy and society as whole.

The Constitution of an independent Uzbekistan laid the legal foundations for the operation of commercial-money relations and, thereby, created the conditions for the development of a market economy. According to article 53 of the Constitution, the foundation of the economy consists of different forms of property, not only state property or cooperative property, but above all private property. Market relations are impossible without private property, but this does not at all mean that society has no need for state property. The latter is required not only to resolve macroeconomic problems, not only to ensure social-economic development and to satisfy the needs of society, but also to sustain the functioning of the state itself and its organs. In this respect, in the course of implementing economic reforms, the country continues to encounter on-going problems involving the relation between plan (predictive) principles and the horizontal, contractual ties. Democratization and modernization of the legal foundations of economic relations have developed in a complex fashion and continue to do so. There were objective and subjective factors that did not always promote, indeed at times impeded, the realization of objectives for expanding market relations. The objective factors were due to the fact that the law (by its very nature) is more conservative than the economy, and hence it did not always manage to keep pace with the dynamic developments in economic relations. The subjective factor refers to legal consciousness, to the knowledge and respectful attitude toward laws and other legal acts, including their conscientious observance and correct application in everyday life (on the part both of citizens and officials). The first factor, as an objective process, to some degree has been eliminated by active, law-making activities. Overcoming the subjective factor is considerably more complicated. It demands large-scale, careful everyday educational and preventive work.

Secondly, the gradual, stage-by-stage evolution of legal means that adequately reflect the dynamics in economic relations has led (and will continue to lead) to a change in the structure of legislation and the branches of law. An analysis of actual practice shows that the construction of a model of legal regulation, in virtually all branches of the economy, begins with laws and administrative regulations. As the country achieves stabilization in those relations being subjected to state regulation, it becomes necessary to adopt laws. Furthermore, the appearance of a rather large legislative mass and the confirmation of certain legal principles (which lay the basis for approaches) gave rise to the codification of legislative materials. Taking into account the need for a new social system, in recent years the Oliy Mazhlis (parliament) has adopted a number of codes, including the civil, criminal, and labor codes. These codes establish the principles and

basic norms for regulating certain spheres of law and major spheres of public life. Among these codes, of particular importance is the Civil Code. Compared with the other codes, it is most closely adapted to market relations. One can say that it constitutes the legal foundation for these relations. Sometimes, it is referred to as the "constitution of the market." And there is a good share of truth in that. Part one of the Civil Code was confirmed by the Oliy Mazhlis on 21 December 1995. The confirmation and implementation of the Civil Code, as a single law, was an important event in the legal practice of the country. The process of building a legal basis to secure the regulation of relations amidst the continuing development of a market economy is still underway. Work is being conducted on proposals for a family and marriage code, as well as tax and customs codes; the country must also work on drafts for a land code, a housing code, and other laws. It seems that, in the foreseeable future, the structure of legislation should evolve in the direction of an increase in the proportion of formal laws from the legislative branch. This corresponds to the demands of a market economy, for which stability and order in "the rules of the game" are an important condition. This, in turn, can be achieved only through formal law, not administrative regulations. At the same time, such a tendency will impose special demands on the quality of laws. These still have no small number of general declarations; they lack the mechanisms to secure the implementation of the rules.

Thirdly, the development of a system of legal instruments, along with the increasing complexity of economic relations, will lead to a change in different legal branches, in their content, and in the dialectical relations between them. Indeed, the demolition of the bureaucratic system of administration has led to the diversion of public relations from administrative law to civil law. The development of foreign-exchange, credit, and monetary relations on new market principles, together with the appearance of a securities market, has led to a change in the methods of legal regulation. And that means a change in the branches of law. Appearing too are new branches of relations, which in turn require the appropriate and adequate legal mediation. In the legal system, one must also find a place for commercial and trade law, competition law, banking law, insurance law, contract law, and information law. A conceptual reexamination is needed to consider the content (and locus within the general legal system) for laws pertaining to labor, agriculture, environmental protection, and other spheres.

Fourthly, securing the preeminence of law and the effectiveness of legal regulation of economic relations is unthinkable without an efficient system that is capable of guaranteeing their realization in the marketplace. What does this guarantee mean? First, the most important guarantee for the implementation of a law is its superior quality. The more profoundly a law reflects practical needs, the more optimal is the structure of the law itself. And the prospects for its implementation are just that much greater. "Laws must be viable," wrote I. A. Karimov, "and closely tied to practice." Secondly, in the immediate future, it will be necessary to concentrate on the creation of effective mechanisms to realize laws. This is a major problem in legal practice for the entire legal system. It often happens that laws and certain norms are not activated because of the lack of real instruments to ensure implementation. It seems that, in the first instance, the mechanism for realizing laws should be contained in the law itself. This is a problem of juridical legislative practice that the legislature itself should resolve. At the

present time, work is underway to prepare and improve a draft law "on the Preparation and Unification of Draft Legislative Bills," and its adoption in the next period should make it possible to resolve this problem. Thirdly, the mechanism for realizing laws should be ensured through the creation of a broad range of auxiliary rules and regulations from state agencies. In 1996 alone, the Ministry of Justice provided expert assessment of almost 1,500 normative and regulatory acts from government agencies. An analysis of this practice makes it possible to speak of the necessity to create a coordinated, efficient, and integrated system for the formulation of normative regulations and rules of state agencies. These demands, which should be observed in this matter, include stability, order, predictability, compatibility with the spirit of reforms and laws, and - most important - accessibility for a broad circle of entrepreneurs and economic entities. Fourthly, the mechanism for ensuring the implementation of laws (including those pertinent to the economic sphere) cannot be constructed without an efficient judicial system and criminal judiciary more generally. The courts often emerge as a symbol of criminal jurisprudence. The civil, economic, and property disputes - as earlier - do not appear to be an essential part of their activities. The fastest possible adoption of a civil procedural code, together with a consistent implementation of judicial reform, should bring about the resolution of this problem as well. It is important to create a mechanism for the unconditional implementation of judicial decisions. Today, it is not uncommon for judicial resolutions - above all, in the sphere of economic, property, and civil disputes - not to be implemented. In accordance with this, in February 1997 the President of the Republic of Uzbekistan promulgated a decree "on Measures to Ensure the Implementation of Decisions by Economic Courts." This decree stipulates the following: (i) the State Tax Committee and local tax organs are to ensure the timely implementation of decisions of economic courts to exact state duties and penalty fees payable to the budget, (ii) economic courts, together with the organs of the state Procurator, when confronted with facts of deliberate noncompliance with judicial decisions, are to apply against the guilty officials the appropriate measures (as foreseen in the Criminal Code) and, in the establishment of banks, they are to apply article 112 of the Economic Procedural Code. The Supreme Economic Court has been empowered, together with the related ministries and state agencies, to prepare and confirm a fixed order for the implementation of decisions by economic courts. The Ministry of Justice, together with the Supreme Court, has been instructed to prepare a draft for laws on the implementation of judicial resolutions and on the status of the judicial executive authority. Today, the status of the judicial executive authority is determined by the instruction of draft law (a normative act from a state agency). The laws adopted above create real guarantees for the implementation of court decisions and will give an appropriate status for the judicial's executive authority. Fifthly, the level of qualifications of judges and jurists working in the economic sphere requires improvement. An analysis of the emerging national legislation allows one to draw the conclusion that, with respect to criminal law and process, there have been rather substantial changes, but it is difficult to compare these with the changes in civil and economic law. Here one can see the emergence of completely new institutions, principles, branches, and forms of legal regulation. Unfortunately, it must be noted that these new spheres of law - even today - are still not being taught to students in the legal faculties. But concrete conflicts are springing up and will increase. This is normal for a developing market. It is necessary to organize the general curriculum of practical

jurists on the basis of a long-term program based on the new civil, economic, banking, and international private law. It is necessary, and as expeditiously as possible, to create article-level commentaries to the existing legislation. Sixthly, the market cannot develop without a legal infrastructure - i.e. a well-developed institution of the legal profession, legal consulting firms, and market for legal services. Today, this entire sphere is oriented mainly toward the sphere of criminal procedural law and does not always possess a legitimate basis. The resolution of these problems should be promoted by the adoption, at the VII session of the Oliy Mazhlis, of laws "on the Legal Profession" and "on the Notaries System." The time has now come for an effective governmental protectionist policy with respect to domestic enterprises in the juridical infrastructure. Seventhly, the most important guarantee for the implementation of laws is an effective system to ensure accountability for infractions and violations. Under the conditions of a totalitarian system, legislative practice searched for a resolution to the problem of raising the effectiveness of the mechanism to ensure accountability by taking the path of ever harsher, stringent sanctions. However, the intensification of repressiveness of mechanisms has not had an impact on the effectiveness of measures to provide accountability. The broad development of commodity-money relations, the reform of property relations-these changes have created conditions for the construction of a system of accountability that sufficiently reflects the laws of a market economy. Legislation about accountability under market conditions should be constructed in such a way as to take into account the following principles: the inviolability of property ownership, the freedom to make contracts, the guarantee that all have equal rights to restore violated rights and to have recourse to the protection of the courts, complete restitution for losses and liability for guilt. Economic entities must have the freedom to select the means for protecting their rights. There must be an absolute right to compensation for damages, including harm to intangible assets.

3. Legal Reform: An Important Factor in the Stable Development of Society and the Economic System

The objective of reform in the system for criminal justice, as a whole, arose from the very beginning of the time that Uzbekistan acquired independence. There were three main reasons for this: (i) the courts and institutions of criminal justice were strictly centralized and represented a highly ideologized system which could not ensure the efficient resolution of tasks posed during the transition period, (ii) having formulated the construction of a state based on law as its goal for social development, the country needed to confer on the court the status of an independent branch and to determine the principles of its operation, (iii) under the complicated conditions of the transition period, a complex, well-organized judicial order and criminal justice became one of the most important factors for a successful implementation of reform - in the economic, political, and social spheres of life.

3.1. The First Stage

The first stage of reforms developed under conditions of the general chaos and legal confusion that prevailed in the post-Soviet space. It also developed under

conditions where the country took a course toward acquiring independence and assertion of its sovereignty. The content of this reform in the legal system and the entire system consisted of the following.

First, one reform was to reorganize the organs of criminal justice and to subordinate them to organs of state authority, and also to create mechanisms and structures that could ensure law and order in the country. In October 1990, the Supreme Council of the Uzbek SSR issued its resolution "on the Reorganization of the System of Internal Affairs." In addition, the parliament adopted a number of resolutions to staff the Supreme Court, its working organs, and provincial courts (resolution of the Supreme Soviet of the Uzbek SSR, 31 March 1990). On 20 June 1990, the law "on Constitutional Oversight in the Uzbek SSR" was adopted. It created and staffed the Committee for Constitutional Oversight. A resolution of the Supreme Council of the Uzbek SSR (12 June 1991) transformed the organs of the State Arbitration of the Uzbek SSR into the Supreme Arbitration Court. On 20 November 1991, the law "on the Arbitration Court for the Resolution of Economic Disputes" was adopted.

Secondly, the adherence to an active personnel policy for selecting and assigning cadres in the system of criminal justice, together with the improvement of their level of professional preparation and political maturity, should correspond to the requirements of this important stage in the transition process. In 1991-1992 alone, of the total volume of legal documents published by the Supreme Council of the Uzbek SSR, two-thirds pertained to questions of staffing the leading positions of courts, procuration, and other organs for the preservation of law and order.

Thirdly, another dimension was the intensive reinforcement of the material-technical and informational base of courts and, above all, the organs for preserving law and order. This included the strengthening of the social protection of these cadres. In October 1990, the law "on the Intensification of the Legal and Social Protection of Personnel in the Militia" was adopted. In 1992, the country issued the law "on the Order of Compensation to Witnesses, Investigators, Translators, and Other Staff," as well as a number of the normative legal acts and decisions of the government.

Lastly, another step was to intensify and, in a number of areas, to increase the stringency of accountability for certain socially dangerous acts and the violation of public order. In February, a law is being adopted "on the Intensification of Criminal Responsibility for the Theft of Means of Transportation." A law of 14 June 1991 made the appropriate changes and additions to the Code of the Uzbek SSR on administrative offenses and in the criminal procedural code of the Uzbek SSR. A law of 20 November 1991 made changes in a number of legislative acts with the aim being to intensify accountability for ecological offenses. On 13 January 1992, the Supreme Council of the Uzbek SSR issued a resolution "on the Intensification of Accountability for Violating the Traffic Rules." In January 1992, the country adopted a law "on Accountability for Violation of the Established Order for the Export of Commodity and Material Valuables." A resolution of the Supreme Council of the Uzbek SSR (14 January 1929) provides that enterprises (organizations) are entitled to engage in certain spheres only on the basis of special authorization (licenses). The purpose was to establish order in this sphere of emerging entrepreneurship. Consistent work, on the one hand, to intensify and

strengthen the system of criminal justice, and, on the other hand, to increase criminal accountability for a number of crimes, for violations of public order and legality - all this enabled the government to provide law and order during this difficult transition period. Speaking at a session of the Oliy Mazhlis, I. A. Karimov noted that, "during a difficult transition period, the organs of law enforcement and the courts . . . ensured the observance of law and order and did not permit, as happened in some neighboring countries of the CIS [Commonwealth of Independent States], an uncontrolled outbreak of crime."

3.2. The Formation of an Independent Legal System

The content of the next stage in the formation of a legal system in the country was work on the formation of its legal and legislative foundations. As is well known, the young state inherited a deeply ideologized system of criminal justice. Personnel policy, the goals, objectives, the substance of activities, the legal foundation, and even the resolution of concrete cases were determined and resolved on the basis of party directives. The court and the entire criminal judicial system performed the role of a repression apparatus, which was to defend above all the interests of the state. It was precisely this judicial and legal system that became embedded in public consciousness. As a result, at this stage it was necessary to create a legal basis for the activities of criminal justice and, above all, judicial activities, that would correspond to world standards, that would establish the principles of a democratic society, and that would ensure the effective protection of human rights. These principles were reinforced, above all, in the Constitution of Uzbekistan of 1992, and in the laws and other normative acts that were adopted in accordance with it.

Above all, Uzbekistan has securely fixed the principle that the court and judicial system form an independent, self-standing branch of state power. For the first time, the Constitution of Uzbekistan devoted a special section to the judicial branch: Chapter XXII, "Judicial Authority in the Republic of Uzbekistan." At the very beginning of this chapter, in article 106 of the Constitution, one finds the following text: "The judicial power in the Republic of Uzbekistan acts independently of the legislative and executive powers, political parties, and other social associations." This norm is reiterated in article 2 of the law "on Courts" and fully corresponds to article 10 of the Universal Declaration of Human Rights and article 1 of the United Nations Resolution on the basic principles concerning the independence of judicial organs (1985).

The Constitution reinforced other fundamental principles of the judicial branch. First, it affirmed the independence of courts and its subordination to the law alone (article 112). To secure this principle, the law guarantees the inviolability of the judges. This norm in article 112 of the Constitution found development in the laws "on Courts." According to article 70 of this law, the person of the judge is inviolable. This applies not only to his person but also to his housing, office, means of transportation, and communications. In cases where it is necessary, the judge and his family are to be afforded personal protection. The life and health of the judge is under special protection by the state and, in an obligatory fashion, is insured at the expense of the budget. The judge may not belong to any party or engage in any other activity for which he receives

compensation. The Constitution provides that the chairman and members of the Supreme Court and Supreme Economic Court cannot be deputies of the Oliy Mazhlis, and that the performance of duties of the chairman and members of the Constitutional Court is generally incompatible with the duties of deputies (article 108 of the Constitution).

A second principle is the publicity of the legal proceedings and openness of judicial sessions (article 113 of the Constitution). Exceptions to this rule are established only by the law. For example, according to article 19 of the Criminal-Procedural Code, a judicial session is to be closed to the public if there exists the danger of a disclosure of state secrets. The verdict of the court is pronounced at an open judicial session, regardless whether the judicial proceedings were held in open or closed court. For purposes of providing publicity to the activities of the courts, the court can inform the mass media and representatives of public organizations and labor collectives about any given trial. An open judicial inquiry can be conducted directly at enterprises, institutions, or organizations.

A third principle is the absolutely binding character of judicial decisions (article 114 of the Fundamental Law). According to this article, judges can demand that citizens and officials implement the decisions of the court. The judges have the right to demand that state, public, and other institutions submit any information required to provide justice. State organs, public organizations, officials, juridical entities, and individuals are obliged to carry out the demands of the judges. The realization of this principle is ensured by the appropriate legal mechanisms. For example, articles 180 and 181 of the Code (on administrative malfeasance) cites disrespect for the court and for the failure to take measures for specific decisions, and provide for administrative accountability. Article 232 of the Criminal Code, which addresses deliberate disregard of the court, provides for criminal punishment.

The fourth principle provides that judicial proceedings will be conducted in the Uzbek language, Karakalpak language, or in the language used by the majority of inhabitants in a given area. Each has the right to use a translator and to address the court in his native language.

The fifth principle is the right to legal defense. This right to professional juridical assistance is guaranteed at every stage of the investigation and court proceedings. It is important to point out that the verdict or decision of the court with respect to the accused can be nullified if the latter has not been provided legal assistance.

These principles formed the foundation of the emerging legislation to regulate the judicial and legal system. One can divide these laws and administrative regulations into three main categories.

The first category consists of legislation determining the status of organs of the judicial branch and criminal justice more generally. The activity of the Constitutional Court is charged with providing an integrated, harmonious cooperation of all branches of the legal system and with examining cases that concern the constitutionality of laws issued by the legislative or executive branches. This is guaranteed by the Constitution and also by the Law on the Constitutional Court (adopted 30 August 1995). The highest organ of the judicial branch in civil, criminal, and administrative justice is the Supreme Court. The decisions taken by this court are final and subject to obligatory

implementation throughout the country. It also has the right to provide oversight over the Supreme Court of the Autonomous Republic of Karakalpakstan, as well as the oblast, city, raion, and military courts. The Supreme Court examines cases in the first instance (in a court comprised of three judges), cassation cases, and cases reviewed as part of its supervisory function. It exercises control over lower courts with respect to the implementation of decisions and guidelines of the Plenum. On the basis of the Constitution, a system of economic courts has also been constructed. The State Arbitration system, which had existed earlier, was an integral component of the executive branch and defended primarily the interests of state organizations. Now the economic courts constitute a separate judicial system. The system of economic courts consist of a Supreme Economic Court, the Economic Court of the Autonomous Republic of Karakalpakstan, and the economic courts in each oblast (province). The status of these courts, as well as the principles for the organization of their activities, are determined by the law "on Courts." The law "on Courts" also reflected the best achievements of world practice in the protection of rights. In particular, it has firmly posited the presumption of innocence, which was not even mentioned in previous legislation. The law "on Courts" contains the norms to ensure the following: order of election, appointment, and removal of judges; the procedure for providing justice; the secrecy of judicial sessions in which the judges make decisions; accountability for disrespect toward the court and for interference in the review of concrete cases. If, in previous laws, some of these norms existed in some degree, the statute about the material and social support of the judges corresponds to their high status. This is an absolutely new norm; it attests to the recognition of the state's recognition that it must ensure the well-being of those who serve in the judicial system. The law established categories of judges (according to qualifications) and service ranks for those employed in the courts. These measures, together those cited above, are designed to strengthen the authority of judicial personnel, to improve their qualifications, to reduce the turnover in cadres, and to improve their material well-being. The more qualified personnel in the courts - that is, those who endeavor to raise their level of professionalism, who have greater seniority - are promoted in rank and position and also receive a higher salary. There have also been changes in raion (district) and city courts, administrative courts have been established here. Military courts have also been established and democratized. Earlier, they were under direct subordination to the Supreme Court of the USSR. Hence, the Supreme Court of the republic did not have any relations with military justice. Now, as an independent state, Uzbekistan has its own armed forces. In accordance with the law "on Courts," justice in military affairs is the responsibility of the Military Collegium of the Supreme Court, the military court of the armed forces, and the military courts in individual garrisons. This category of laws includes legislation that determines the status and the order for organizing the activity of organs of criminal justice (the laws "on the Procurator" of 9 December 1992 and "on the Legal Profession" of December 1996). There remains the task of adopting laws "on the Militia [Police]" and several other laws.

A second category of laws consist of formal statutes and administrative regulations that determine the material, procedural law, which are to guide the judges in resolving disputes or criminal and civil cases. It is necessary to note once again that this legislation could not be composed in an instant and hence is still in the process of

preparation. The most significant laws in this group adopted recently include the criminal code (22 September 1994), civil code (21 December 1995), labor code (21 December 1995), criminal procedural law (22 September 1994), code on the use of airspace (7 May 1993), economic procedural code (2 September 1993), and the code on administrative responsibility (27 March 1994). Of considerable significance too were laws not bearing the character of a code (for example, the law "on the Appeal of Actions and Decisions that Violate the Rights of Citizens"). The VII session of Oliy Mazhlis examined the drafts of the tax code and a criminal-executive code. Their adoption, along with the approval of a new civil procedural code, will be of great significance in constructing the legal foundations of the judicial system.

A third group of laws consists of international legal documents associated with the legal system, and which Uzbekistan has endorsed. Inter alia, these include the following: (i) "the Universal Declaration of Human Rights", (ii) "the International Act on Civil and Political Rights", (iii) "the Fundamental Principles concerning the Independence of Judicial Organs", (iv) "the Convention of Legal Assistance and Legal Relations in Civil, Family, and Criminal Cases", (v) "the Convention on the Order for Resolving Investment Disputes between States and Foreign Investors" (6 May 1994), (vi) "the Vienna accord on international agreements", (vii) "the Convention of the United Nations on the Struggle against the Illegal Trade in Narcotics and Psycho tropic Substances", (viii) "the Hague Convention of 1 March 1954 on Questions of Civil Trials" (accepted by Uzbekistan on 22 December 1995), (ix) "the New York Convention of 10 June 1954 on the Recognition and Implementation of Foreign Arbitration Decisions" (accepted by Uzbekistan on 22 December 1995), (x) "the United Nations Convention of 30 August 1996 on Agreements for International Sale and Purchase." In addition, a significant mass of legal document consists of bilateral international agreements about providing legal assistance, and Uzbekistan has concluded such agreements with a large group of states. In ascribing to the above international legal documents, Uzbekistan has proclaimed its acceptance of these principles and mechanisms, which were prepared by the world community for purposes of ensuring a just judicial system. Above all, these include the following principles: the right to an effective restoration of rights through competent national courts, impartiality in the investigation and judicial treatment of criminal and civil cases, equality of all before the law and court, the right to humane treatment and respect for the dignity of the individual and his rights, the right for a higher judicial instance to review the verdict, etc. The majority of these principles found reflection in the legislation of Uzbekistan. At the same time, the mechanism for the implementation of international law into the national framework, and the mechanism for the application of international law to judicial and law enforcement organs-both of these require substantial preparation. Certain steps in this direction have already been taken. For example, the country has adopted the law "on International Agreements" (1995). However, this has brought only a partial solution to the above questions.

Thus this review of the existing legislation allows one to draw the conclusion that, in general, Uzbekistan has created the legislative and legal foundations for courts and criminal justice in general. The next stage of the judicial and legal reform has begun, when it will be necessary to carry out a functional transformation of the activity of judicial organs. It should be done in close cooperation with the expansion and

improvement of the existing legislation.

3.3. Problems to Solve

The task is to create efficient legal mechanisms, which could develop the legal basis of court activities and criminal justice. The main dimensions of improving the existing legislation will consist of the following.

First, consistent expansion of judicial protection. Thus, every dispute of a legal character should be resolved by a court. This follows from article 44 of the Constitution. However, a number of laws still retain the sphere of relations whereby certain disputes are resolved by the executive decision of administrative organs.

Secondly, conditions for genuine competitive confrontation in the course of the judicial process. These principles are embedded in the existing legislation, but require a mechanism for their realization. For example, in accordance with article 511 of the criminal-procedural code, a protest by the state procurator must be automatically reviewed (as a function of supervision), whereas there is no obligatory mandate to review the complaint by the defense lawyer. The procurator can participate as a state accuser in a court, or he may decline to participate (based on article 409 of the criminal-procedural code). In the event of non participation by the procurator in the court, the judge himself pronounces the indictment and then collects and examines the evidence pertaining to the guilt of the accused. In this case, there can be no competitive confrontation or impartiality of the court.

Thirdly, preparation of legal mechanisms to protect the fundamental human rights at every stage of the criminal trial. The supervising appellate instances receive a significant number of appeals from citizens about unwarranted arrests, prolonged detention, and delays in examining criminal and civil cases. In some cases, the reasons for such practices are to be found in the laws themselves. For example, article 419 of the criminal-procedural code confers on courts broad opportunities to send cases back for supplementary investigation. Practice shows that the courts use this right excessively and often without sufficient reason. At the same time, the accused has no right to appeal against an unwarranted arrest or against the term of detention.

Fourthly, preparation of legal mechanisms to ensure the realization of the principles of the independence of courts and judges. Even if not frequent, there are nonetheless instances where local executive organs interfere in the handling of specific cases and attempt to review the work of a court. Furthermore, a detailed legal regulation should deal with the relations between the court and the means of mass information.

Conclusion

In April 1996, the Oliy Mazhlis adopted a resolution confirming the program for the further development of judicial reform. The goal of the program is to expand the democratic transformations in the country, to define the citizens' relations to the court (as an organ charged with defending their rights and legal interests), to expand the sphere of jurisdiction, and to increase the role of the courts in providing for legality and social justice. The program foresees measure to Uzbekistan to adhere to international legal acts

on human rights and to bring the laws into compliance with these norms. It is also planned to adopt important, codificatory acts, to determine and resolve problems due to the application of laws, and to insert the requisite correctives into the existing legislation. The Program also foresees measures for a further democratization of the judicial system and improvement in the prestige of the court. It is proposed to prepare a mechanism to regulate the activity of the councils of judges and other judicial social associations. There are also plans to realize other measures, which are aimed at improving the selection, training, and retraining of judges, to create legal guarantees and mechanisms for the implementation of judicial resolutions, and to raise the legal culture of citizens.

Endnotes:

1. I. A. Karimov, *Uzbekistan na puti uglubleniia ekonomicheskikh reform* ['Uzbekistan is on the Path of Expanding Economic Reforms'] (Tashkent: Uzbekistan, 1955), p. 27.
2. I. A. Karimov, *Nasha tsel': svobodnaia i protsvetaiushchaia rodina* ["Our Goal: A Free and Prosperous Motherland"], vol. 2 (Tashkent: Uzbekistan, n.d.), p. 69.
3. V. A. Chzhen, *Den'gi i finansovye rynki. Teoriia i praktika stroitel'stva demokraticeskogo gosudarstva* ["Money and Financial Markets. The Theory and Practice of Building a Democratic State"] (Tashkent: Izdanie Goskomimushchestva Respubliki Uzbekistana IPK "Shark," 1996)

Appendix 1 Basic Categories of Laws Adopted by the Oliy Mazhlis of the Republic of Uzbekistan (1990-1996)

Year:	1990		1991		1992		1993		1994		1995		1996		Total	
	R	L	R	L	R	L	R	L	R	L	R	L	R	L	R	L
Laws establishing state sovereignty	9															
	2	16	7	11	6				2	2	1	1	1	39	18	
Laws to implement the economic reform																
	7	1	12	19	12	16	16	20	5	5	4	8	4	10	9	74
Laws to create and develop organs of state administration																
	26	2	17		6	6	6	5	5	2	15	1	6	3	81	19
Laws to establish the judicial and law-enforcement system																
	26	3	12	7	15	6	11	9	6	5	14	6	12	3	96	39
Laws to promote the process of democratization and political reform																
	7	4	4	1	2	1	1	1	2	2	10	2	5	1	24	12
Laws to promote military defense																
	4		8	5	2	1	1	1			3		2	2	19	6
Laws to promote foreign policy																
	2	10	24		24	22	1	13	13	45	2	25	2	141	5	
Laws to promote the construction of different branches of the economy																
	10	7	8	11	14	67	61	2	5	9	9	8	22	20	11	
Normative-legal acts to organize the activities of the Oliy Mazhlis																
	53	27	22		22	21	8	36	13	180						
Total	129	8	106	38	109	49	101	57	55	24	140	25	85	33	717	234

Type of Law: Resolution (R) or statutory Law (L)*

* Resolution (postanovlenie) and statutory law (zakon)

7

The Experience of Political Reform in Uzbekistan

R. Z. Djumaev

Introduction

During the last five years, Uzbekistan has undergone enormous trials and overcome incredible difficulties. At the same time, today one finds the first substantial results of intensive and creative work. What has been accomplished, unquestionably, will fill the pages of the modern history of Uzbekistan as the most enormous historical events, which - for decades to come - will determine the development of an independent state. Specifically, first, the last five years have confirmed that the choice made was correct and that the principles for the reform of the society were well-grounded. Second, the country enjoys social and political stability, domestic tranquillity, inter-ethnic harmony, and all this has created the conditions for the formation of a multi-national society. Third, having confidently embarked on the path of independence, the necessary preconditions are laid for the further, stable development of the society. Fourth, the country has revived its rich spirituality, culture, and traditional values in combination with an openness to the world community and contact with the civilized values of the rest of the world. Fifth, the people of Uzbekistan today are prepared to evaluate the results of the advancement of economic and political reforms, and their compatibility with generally recognized democratic norms and principles. It now faces the task of making a sober analysis of the oversights and shortcomings, the causes of backwardness, and the factors that retard the realization of reform. Sixth, based on the principle that economics must take priority over politics, and having begun to realize economic liberalization, the country has come fully to the point for embarking on the liberalization of the political and legal system.

1. An Overview of the Past Five Years (1992-1997)

The five years since independence have fully confirmed that the country made the right choice and that the principles for reforming the society were well based. The main initiator and coordinator of reform was the state, which, on a legal basis, realized the transition to a market economy in a balanced, deliberate, and step-by-step process.

Until Uzbekistan achieved independence, it was far from easy to stop the emerging manifestations of a crisis in the economy and to prevent them from blowing up into a full-scale chaos, with all the attendant acute political confrontations. The need to prevent economic collapse made it unacceptable to attempt a destructive revolutionary path for the realization of economic and political reforms. From the very outset, the state was an opponent of the "shock therapy" not only with respect to the economy, but also politics. In the realization of reform, it took into account the mentality of the people, the special features of its Weltanschauung, its national customs, traditions, and the people's way of life.

Uzbekistan has achieved macroeconomic stability and strengthened its national currency, the sum. It has also deepened and expanded the scale of privatization, significant structural changes have been carried out in the economy. There have also been major improvements in the creation and development of market institutions, in the social sphere, and in the standard of living. In the political sphere, the country has constructed the institutions of power, which are oriented toward democratic principles and norms. In the spiritual sphere, it has created the requisite conditions for the spiritual renaissance and development of its people, which can then serve for joining universal human values

and world culture.

The state embarked on the transformation of society with a precise program after giving profound consideration to the real economic, social-political, and spiritual-moral situation in the country after the disintegration of the USSR. Based specifically on these circumstances, the state has followed a course of reform implementation through stages, realistically weighing the possibilities for achieving concrete ideas. In addition, it has mobilized all its resources to resolve the top-priority tasks that it set for each stage.

The republic has correctly assessed its past and the present situation, and it has found constructive ways to solve complex, large-scale problems. As a result, the targeted parameters and the reform policies have been successfully realized. In analyzing the activity of the state and the advancement of society along the path of renewal, one must take note of the following. Firstly, the institutions of state authority constructed by President I. A. Karimov are adequate for the contemporary development of Uzbekistan. Secondly, the society itself has become more mature. Thirdly, citizens have become freer, perceive the real results of their activity, and have more confidence in themselves. Lastly, all the conditions for the integration of Uzbek society into world civilization are created.

1.1. The "Uzbek Model"

The experience of five years of independence allows one to say that the reform model chosen by Uzbekistan was the only one suitable for the existing conditions. Today, this is also recognized by the international community. How does this manifest itself?

First, the most cogent confirmation of confidence in the Uzbek model of reform is the large volume of foreign investments that are now flowing into the country. Thus, after five years of independence and after many foreign businessmen and entrepreneurs have carefully examined and studied the reform process in Uzbekistan, the economy of Uzbekistan has now attracted more than five billion dollars of foreign investment. Businessmen never go where there is a lack of confidence in the state authority, or where the government cannot ensure law and order, social and political stability and democracy. In short, the attraction of foreign investment in such a volume offers striking proof of the confidence in the reform model of Uzbekistan.

Second, in continuing its course of reform, renewal, and progress, Uzbekistan has now become an active and full-fledged member of the world community. The country has its own voice, its proposals and initiatives elicit support from the world community. A remarkable example of this has been the support for Uzbekistan's initiative to mediate the crises in Afghanistan and Tajikistan. International organizations have supported Uzbekistan's initiative to ban the sale of weapons to Afghanistan as the most important condition for liquidating what is, potentially, one of the most dangerous hotbeds of conflict in the contemporary world.

Third, Uzbekistan has established diplomatic relations with many of the leading countries around the globe. Altogether, it now has diplomatic relations with more than 120 countries.

Fourth, as a full-fledged member of the United Nations and the Organization for Security and Cooperation in Europe (OSCE), Uzbekistan has completely accepted and

affirmed the Universal Declaration of Human Rights and other fundamental documents of the main international institutions on this issue. Thus, within the framework of the OSCE, Uzbekistan has signed three basic documents that provide for the protection of human rights and freedoms.

During this recent period, the country has also joined many important conventions. The VI and VII sessions of the Oliy Mazhlis (parliament) examined and ratified a series of other international agreements on human rights. The republic has a fully developed "National Center for Human Rights," and is currently in the process of establishing the institution of an ombudsmen to address violations of human rights. In accordance with the measures taken by the government to develop and protect human rights, the UN office in Uzbekistan has begun work on a human rights program. Insofar as possible, this program will be realized with the participation and support of other diplomatic missions and international organizations. Its all-inclusive goal is to prepare a single, consistent strategy, which is designed to determine and strengthen legislative means for the protection of human rights in Uzbekistan. A positive influence on the organization of regional measures in this question has come from the Bureau of the OSCE for relations with the member states in Central Asia (which was recently opened in Tashkent). In the course of 1996, in Tashkent alone it conducted three international conferences.

On 21 July, at a session of the member states of the European Union held under ceremonial circumstances in Florence, the European Union and the Republic of Uzbekistan signed an Agreement of Partnership and Cooperation. The signing of this agreement attests not only to the mutual attempt to create the basis for active partnership. It also offers eloquent proof of the fact that Uzbekistan is successfully building a democratic society, and that the peoples of this republic are bound together by such general values as respect for human rights, civil liberties, and a state based on the rule of law. Today, one can say with satisfaction that, during the years of independence, much has indeed been done in the sphere of creating the legal preconditions for a consistent realization of the principle of the priority of human rights - over all other values. However, there is still an enormous amount of work to be done.

Fifth, recognition of the effectiveness and productivity of the Uzbek model of reform can also be seen in the activities of some other members in the Commonwealth of Independent States (CIS). Namely, these are drawing upon the experience of Uzbekistan in undertaking the reform of their own political and economic systems. History has shown the correctness of Uzbekistan's course of a socially-oriented market reform for countries with a transition economy. Uzbekistan also has its own authoritative voice in the activity of political and economic structures established within the post-Soviet space, such as the CIS and the Central Asian Union.

1.2. International Recognition of the Model

One might ask: why did the republic need the recognition of the world community for its model of reform? In essence, this was needed for full-fledged membership in the world community, for an isolated development would inevitably doom the country to failure to the role of eternally attempting to catch up. Recognition was also needed in order to acquire strong, permanent partners, with whose assistance

Uzbekistan - on the basis of mutual advantage - could defend its state and national interests.

Stability and peace, a realistic and balanced policy, the creation of a solid legal framework, a powerful system of guarantees and privileges by the government - all this creates the Uzbek model uniquely attractively for foreign investors. And without such investment, the economy, given the backwardness it inherited from the former USSR, would lack the means to modernize, and it would therefore be in no position to compete on world markets.

Finally, recognition of the Uzbek model of reform by authoritative international organizations and advanced countries means an orientation toward democratization. And in that respect Uzbekistan is endeavoring to achieve the highest world standards. It is very pleasant to note that the complex problems facing the republic in this respect, and the endeavor to resolve these constructively, have been received with considerable understanding abroad. In other words, they take into account Uzbekistan and have begun to understand the country better.

2. The Adoption of New Constitution

As already emphasized above, the main programmatic objectives of all the reforms conducted in Uzbekistan are comprised of the following. Firstly, establishment of social-political and economic stability, including civil tranquillity and harmony. Secondly, development of national self-consciousness and inculcation in the citizens of a sense of patriotism and pride in their country. Thirdly, strengthening of law and order, with the supremacy of law. Fourthly, observance of human rights and freedoms irrespective of race, nationality, religion, age, or language. Fifthly, ensure the material well-being of the people, and the prosperity of both state and society. Lastly, support for individual activity and initiative, for freedom of entrepreneurship, for stimulation and incentives to promote the development of market forms of economic activity.

Realization of these goals is only possible under conditions where there is the consistent formation of a stable political system. The precondition for this was the proclamation of independence, the adoption of a new constitution, the formation of a system of legislative, executive, and judicial branches, and the creation of democratic institutions. The years of independence have been a period of painstaking, intense work to create the foundations for national statehood. An enormous political event in the life of the country was the adoption of the Constitution of the Republic of Uzbekistan in December 1992. One can confidently say that this political act was the realization of a centuries-old dream of the peoples of Uzbekistan for freedom and social justice, for independence and the restoration of a national state, for the restoration of traditions of past generations and a rich spiritual heritage.

The constitution reflects the path and means for constructing an independent democratic state and a civil society with all its diversified system of legal rights and liberties. It also shows an awareness of a distinctive national path of development and the priority of universal human values over party, class, and national interests. The Constitution incorporated a declaration of the strategy for the development of an independent Uzbekistan. One can now confirm that the model of political and state

building, as embedded in the Constitution, guarantees to the citizens of Uzbekistan a free choice of their political, economic, and social way of life.

How does this look in practice? Let us begin at the very beginning 4 March 1990, when the republic first embarked on the formulation of a new constitution. At that time, a fundamental renewal of the political system and the structures of state organs, the delimitation of power and functions of republic-level and local authorities, and the like - none of this was a goal for its own sake, from the perspective of the country's leadership. The construction of new structures would be impossible without a cardinal reconsideration of the role, place, and significance of the individual. After all, it was not easy or immediately possible to understand the obvious truth about the essence of man, not only as an object of the historical process, but also as its creator, or the truths about individuality in the most profound sense of the word. All this had been denied for so long by many "leading figures" in science and politics.

The principles proclaimed in the previous constitutions of the former USSR (about the "Soviet people" and "property-ownership by the entire nation"), along with the moral codes designed and aggressively inculcated, were nothing more than abstract ideological (more precisely, propagandistic) smudginess, without any real content whatsoever. Obviously, in such a society (amidst the distortions of a dominant ideology), the subjects of the historical process ignored - in the name of abstract goals - the mutual interests, traditions, and the way of life. In a word, they could not allow the latter to develop freely. As a consequence, not a single people, not a single nation, not a single republic could develop as long as they were a part of the former USSR.

2.1. The Role of the Individual

Therefore, in determining the strategy for future development, top priority was given to the following. Firstly, a practical understanding of the role of the individual. Secondly, a recognition of the need to construct a truly human and democratic society. And it should be a society which does not only guarantee the requisite minimum of rights and liberties (as proclaimed in the Universal Declaration of Human Rights), but which would create a truly broad field for individual activity, self-realization, and self-government of the individual. If one were to speak about the main thrust of the Constitution, above all it is this focus on the individual, for it contains the most concentrated differentiation and balance of interests of individual people, social groups, and society as a whole. It was this conceptual basis that provided the most important principles for the construction of a socially oriented market economy in Uzbekistan. It is precisely on this conceptual basis that the country is now constructing the political system of a sovereign Uzbekistan - a new, emerging system of relations, actions, ideas, and institutions produced by the realization of authority and state administration.

The theoretical and methodological principles embedded in the Constitution make it possible, in practice, already today - through the organs of administration - to adopt an organization principle in the policy for the realization and reinforcement of sovereignty, to concretize the policy of sovereignty, and to ensure its optimal operation. However, the most important role and focus of the Constitution on the realization of the genuine interests of the individual consists in the fact that it creates a broad field for

unleashing the activity throughout the entire system of politics and economy - namely, it stimulates the productive, practical activity of the masses, social movements, political parties, and individuals.

2.2. Power

The Constitution incorporates all the foundations for the construction of a democratic state based on the rule of law. How does it express this? No political system can exist without resolving the problems of power, its essence and realization. It seems that in Uzbekistan this power is not understood as coercion, rather, it is understood as an influence exerted on others for purposes of realizing the interests of the entire people, and it is based on serving the interests of the individual. Hence this concept has advanced significantly ahead of the traditional notion of the essence of political power. The genuine idea of democracy in the Fundamental Law consists, above all, in the fact that it includes the mechanism to realize this power. If one speaks of a more profound meaning of this mechanism (which is not immediately apparent to a superficial examination), then above it is the fact that one must do more than simply abolish the Soviet slogan "everything is for the benefit of man, everything is done in the name of man." All the previous constitutions, in one or another form, contained this principle. However, in practice, it remained at the level of abstract declarations.

2.3. Self-organization

With the creation of the Constitution of an independent Uzbekistan, the emphasis was shifted from the governance of the citizens' activities to enabling them to organize this activity themselves. As a result, it found not only the optimal methods of governance, but also for reviving the best traditions of national self-governance, which found broad support among the population. The functioning of these organs such as the councils of respected elders (aksakaly) and the committees of communities (makhallii), and the enormous work that they perform, offer testimony to this. What more democratic forms for the realization of power could one propose?

2.4. The Construction of Civil Society

Therefore, it is clear that only the individual who has a broad spectrum of political and economic rights can construct a civil society. This idea became the basis of all the articles in the Constitution, the precondition for the creation of such a society in the republic was the declaration of the independence of Uzbekistan and the consistent steps toward the establishment of its sovereignty. Of course, one could object that this is not original and that the main goal - the individual - is characteristic for the majority of constitutions, especially in the democratic states of the West. To be sure, the centuries-old traditions in the development of democracy were given a most meticulous study and used in Uzbekistan to its advantage. But there is still one unique feature in the path of development taken by Uzbekistan. This consisted not only in the fact that it enriched the values accepted by the entire world by adding a new content. Rather, it consisted in the fact that, while overcoming an onerous practical legacy (transmitted by the action of previous constitutions and the former system), the country in a

fundamental way it has changed distorted interpersonal relations that had been formed as a consequence of the previous order.

The leadership begins with the assumption that normal interpersonal relations, free of pathological elements, always existed in Uzbek society, comprising what is called the "healthy roots of a nation." It is precisely these roots, which are manifested in the form of the community self-government and in the form of national traditions and customs, that constitute the foundation of a civil society and political system. All this reflects the elements of Eastern democracy, a national spirit that repudiates any form of dictatorship. Therefore, one of the goals set by the Constitution (and, consequently, for the entire further stage of social development), should be to bring these normal interpersonal relations to the surface. In other words, the task is to give our society an opportunity to overcome the distortions that developed in interpersonal relations.

2.5. Confirming State Authority

Naturally, in creating the Constitution of Uzbekistan, the country's leadership could not have, and did not have, the moral and political right to follow the lead of "anarcho-democrats" (with their fondness for mass meetings) or fundamentalists of various stripes. Rather, the leadership understood clearly that, to achieve self-regulation based on solid stability, it is precisely a strong state authority that must play the most important role. Consider, for example, the measures taken by the leadership to introduce and strengthen the national currency. Neither in terms of international law nor in sheer moral terms did the country violate a single point in its agreements with neighbors and partners. At the same time, however, because certain neighbors conducted this policy by relying upon coercion (and, sometimes, by outright dishonest methods), the leadership could not simply cite "objective causes" and violate the right of its citizens, subjecting them thereby to a whirlpool of shock and larcenous seizure of their means of subsistence that they had earned through honest labor. Thus, as the government of Uzbekistan introduced and strengthened its national currency, and notwithstanding the difficulties (which had were due to external causes), it endeavored to adhere to the firmly-entrenched principles of the Constitution. Above all, that meant respecting the constitutional principle for the transformation of the people's life in accordance with their needs and interests. The confident steps taken toward economic stability and achieving convertibility of the som confirm the correctness of this course of action.

2.6. The Uniqueness of the New Constitution

The Constitution - in terms of its structure, main thrust, and content - differs fundamentally from the constitutions that were previously valid. This is entirely understandable. On 31 August 1991, a new independent state - the Republic of Uzbekistan - appeared on the political map of the world, and on 8 December 1992 its new constitution confirmed the vitality of this new state. That constitution was permeated, from the first to last line, by the idea of sovereignty and the guarantee of its citizens' rights and liberty.

The significance and unique features of the Constitution lie in the fact that it logically flows from all the world's achievements in the sphere of protecting human

rights and developing democracy. It does not contain a single line that, directly or indirectly, would make a citizen's rights dependent on sex, nationality, age, race, or religion. The Constitution establishes a broad field of activity for political and economic pluralism, a multi-party system, unencumbered performance and protection of democratic principles, and the formation of social movements and organizations. At the same time, it establishes a reliable barrier to anarchy, coercion, violations of public order, schism in society, inter-ethnic and confessional conflict, war, and anti-democratic encroachments. The Constitution of 1992 is directed toward the development of such democratic principles as the guarantee of the rights and liberty of citizens, the priority of universal human values, nonintervention in the internal life of individual citizens or the society as a whole, and the non violation of their rights and dignity.

The Constitution broadly reflects the special national character of the country. An example of this is the recognition of Uzbek language as the official language, the constitutional establishment of the status and functioning of national organs for local and state administration and self-governance, whereby the Oliy Mazhlis as parliament, with such lower organs that include local administrative heads, chairmen, and venerable elders, and the use of national terms to designate administrative-territorial units (e.g., the terms *aul* and *kishlaki* to designate villages and settlements). All this, taken together, reflects the special Eastern dimension of democratic development and excludes the possibility of an excessive concentration of power. The Constitution also provides a precise definition of the functions of the legislative, executive, and legal branches.

2.7. Orientation towards Market Relations

The greatest significance of the Constitution consists in the fact that it is specifically oriented toward the emerging market relations. Thus, it opens a broad opportunity for a multiplicity of property forms and guarantees the opportunity for all to develop, including the form of private property. This is apparent in all the points and articles of the text of the Constitution, which is precise, complete, substantive, and also free from dispersion, ambiguity, and disorganized presentation.

2.8. Incorporating Domestic Values and Foreign Experience

The Constitution reflects the will, spirit, social consciousness, and culture of the peoples of Uzbekistan. Above all, it is devoted to universal human values and the priority of international law. It is not limited to a single political ideology, the confrontation of classes, or the dictates of parties. Nor does it propagate the oppressive dominance of the state over citizens. The Constitution incorporated almost all the principle doctrines of the Universal Declaration of Human Rights: the inviolability of life, person, and freedom of the individual. The Constitution is the result of the country's own search. In reality, it is the product of each country's striving for independence and liberty. In constructing this constitutional edifice, the legislature drew upon the domestic experience in statecraft, which goes back many centuries. Drawing upon national interests and aspirations, the Constitution embraced a progressive constitutional experience that had been accumulated by the most diverse countries of the East and West, North and South.

In considering foreign constitutional experience, the Constitutional Commission began with the premise that the fundamental laws must be a single, integral whole. The most important criterion was the practical result of constitutional law.

The foreign constitutional experience, to speak more concretely, was invoked for the Constitution through the following. First, the principles of constitutional regulation: the division of powers, human rights, support for international legal norms, and the stability of the Constitution. Second, the organization of the text in the preamble and the division into sections, chapters, and articles, as well as the logic in their exposition. Third, conciseness of content so as not to create excessive regulation, which would fetter real state and social life (hence too the absence of the so-called "allusions" to future laws). Fourth, rejection of ideology, i.e. the monopoly of a single ideology, instead, the affirmation of freedom of thought, speech, conscience, conviction, as well as patriotism. Fifth, constitutional guarantees through the supremacy of the Constitution, establishment of a Constitutional Court, and a special order for amending the Fundamental Law. Sixth, a presidential republic as one of the forms of direct popular rule, for the Constitution defines the legal status of the President as the head of the state and executive branch.

The Fundamental Law - in contrast to the previous "Soviet" constitutions - does not have the predominance of the Euro-centric constitutional regulation. But it has a reasonable inclusion of the norms of a civil society, separation of powers, and the limitations and balance of power that are characteristic of democratic constitutions in the countries of the West. Here too one senses the influence of the spiritual traditions of Islam, and the constitutional conception of the state as a large family, where the leader is responsible for tranquillity, dignity, and material well-being.

It would be no exaggeration to observe that the Constitution of Uzbekistan is the creative unity of domestic state, social, spiritual-cultural demands for progress, and the world experience in stable constitutional self-development. It establishes the following hierarchy of values: individual, society, state. The individual - free, self-conscious, independent - is an integral element of a civil society. A civil society is a self-organized nation, the true source and bearer of all authority. The state - as a sovereign, democratic, legal entity - is the defender of the interests and rights of the individual and society. In this sense, the Constitution emerges as a peculiar kind of social contract between the citizen, society, and state authority.

2.9. The Structure of the Constitution

The Constitution consists of six sections, which in turn are comprised of 26 chapters with 128 articles. The preamble is quite brief and elevated. Its essence is that the Constitution is adopted by the people, the sovereign ruler of the country, and expresses its will. The first section is a summary of the basic principles of a constitutional order, and the second is an Uzbek Bill of Rights (in other words, an integral and expansive system of individual rights). The state does not confer rights, rather, the citizen - consciously and responsibly - exercises a complex of inalienable rights that are endowed through his liberty. The third section is unusual - indeed, it appears, something not found in a single other constitution. The basic goal of this section is to restore the traditions of a civil society and, through law, to constitute public associations and relations that will

provide a true and healthy development. The fourth section is devoted to the state and administrative-territorial structure of the state. There is a separate chapter about the Republic of Karakalpakstan. The fifth section establishes the new system of state power on the basis of a separation of powers and lays out the structure of higher and lower organs of the state. The sixth section treats the order for making amendments to the Constitution.

The structure of the Constitution shows its intention to achieve five main objectives: (i) domestic tranquillity, i.e. national and social harmony, (ii) personal liberty and freedom of choice, (iii) political stability, (iv) material well-being and economic growth, and, (v) performance by the state of its duties before the people.

Thus, the political and legal history of the peoples of Uzbekistan has been enriched by a document of enormous significance. Adoption of the Constitution is a necessary and inevitable phenomenon in the history of the Uzbek people. As President I. A. Karimov observed at the VI Session of the Oliy Mazhlis, no state can become truly independent without incorporating in its Fundamental Law the principles of state and social order, the rights and liberties of its citizens, and the economic foundations and strategic directions for the development of society.

Indeed, the state cannot become truly independent and democratic without a constitution to fix securely its foundations and moral values, the basic principles of legislation, the system of the main thrust of the activity of the organs of state power, administration, courts, and procuracy. At the present time, the republic is conducting intensive codification work in various branches of law. It has adopted a criminal code and a criminal-procedural code, it has published approximately 140 laws and other normative legal documents, which serve as a solid legal basis for the democratization of social and state institutions as well as the development of the economy, culture, education, science, and technology. It has created the legal conditions for the intensive development of economic, commercial, cultural, and diplomatic relations with foreign countries, and for the accelerated integration of Uzbekistan into the political and commercial-economic system of the world.

3. The Legislative and State Structure

As a result of the democratic and multi-party election a parliament - the Oliy Mazhlis - has been formed as the supreme legislative organ of the state, along with local organs of state authority. During the years of independence, a certain amount of work has been done to create organs of the executive branch - the government, ministries, committees, concerns, associations, and local administrative organs. A clumsy, ineffective mechanism of state administration - which presupposed administrative and bureaucratic methods of rule - has been subjected to constant reforms.

A critical consideration of the 70 years that the country experienced as part of the former USSR shows that tragic errors were made in the choice of the means and instruments to achieve national and social progress. The system which developed for the governance of society was ossified and dogmatic, based on a centralization and monopolization of rule, on a planned economy and system of production, on the social forms of distribution, on the controls over the system of labor and consumption, and on

the politicization and ideologization of public consciousness and upbringing. Today it is obvious that this socialist state, which proclaimed itself to be democratic and based on popular rule, in fact demonstrated its totalitarian, official-bureaucratic essence. And its ruling and executive apparatus (a ruling elite stratum of members of the party-state elite, the "nomenclature") was alien to the interests of the people, to the special features of each nationality. Soviet rule, as an ideologized and politicized form of statehood, showed that it was alien and unacceptable for the Eastern mind and its aspirations.

Naturally, under conditions involving an optimization of political construction on fundamentally new philosophical and legal foundations, it would be unthinkable to create and realize in Uzbekistan a model of the state on these ideological foundations, or to transform and reconstruct it to fit the traditional national models. That would be impossible because such an approach would not have any historic roots. It is also impossible to return to the Soviet system, where a single party-state apparatus usurped and monopolized all branches and levels of power (legislative, executive, and judicial), and extended its dictates to all spheres of life in society.

3.1. The Process of State Building

At the present time, the country is successfully overcoming the first stage of devising a theory for state-building. From the legislative measures and normative acts already adopted, and from the practical steps taken to reorganize the structures of authority and administration, it is evident that the key to the formation of a new political order will remain the method of the evolutionary, step-by-step restructuring of organs of authority and administration. This approach, together with the realization of the idea of a reformist role of the state, will present an opportunity to seek and select the most constructive forms of organization for society and to augment the model of social-political structures with a new philosophical content.

One feature of this innovation is the formation of a flexible and mobile state structure. As is well known, the former system was characterized by the multiplicity of intervening links and stages. For example, within the territory of Uzbekistan, the system of administration had 45 ministries and agencies (including 28 all-union and 17 republic-level), these organizations controlled the most important spheres of politics, economics, and education. With control over a significant part of the property in the republic and its national wealth, these agencies ruled through political and economic Dictate. In essence, these organs held state authority in Uzbekistan, depriving local structures of the republic many rights and functions of rule.

The current priorities in state construction are being determined in accordance with the adopted program of democratization of power and authority and in accordance with the principles of market relations and a reasonable combination of centralism and decentralization. The realization of these principles will make it possible not only to change the political structure of society in a fundamental way, but also to create qualitatively new organs. Thus, a significant part of the ministries and agencies that are engaged in economic activities, were reorganized into state associations, corporations, and concerns. And that has given them the opportunity to become directly involved in market relations. Other subordinate state agencies were reorganized into companies

with an autonomous, independent status. A third group, whose activity was associated with questions of education, culture, and the like, acquired the rights of committees. At the same time, the new quality of the state has evoked the objective need to define organizational attributes essential for an independent republic. Namely, that means such organs as a ministry of defense, a state tax administration, a national bank, a committee to handle the affairs of state property, and so forth.

To a significant degree, all these measures reduce both the number of organs for administration and economic management subordinate to the Cabinet of Ministers and the number of employees in these organs. There is also a corresponding decrease in the number of structural branches at the local level. The result is a higher level of control and effective operation in the whole administrative system.

The transition period has not conclusively established, but only delineated the contours of the state and non-state systems of administration. The real situation, new processes and tendencies, and further praxis will undoubtedly present many forms, materials, and mechanisms, whereas, the latter can secure the formation of a relatively complete and integrated social-political structure for an independent state to act in the sphere of governing people, society, and production. Nevertheless, it is already clear today that the creation of central organs and their structural subunits - by themselves - cannot automatically eliminate tensions in their relations with representative and administrative systems.

As has been shown from the experience during the recent years of independence, the manifestation of vital qualities is largely retarded and fettered by an inadequately developed juridical base, by weak legal protection for their activity against the persistent administrative and command methods, by the work style of local administrative organs. The bureaucratic apparatus often continues to interfere actively in their internal affairs. The elimination of Communist Party control in many central administrative organs, to some or another degree, eliminated their ideological dependence on a party monopoly, but did not fully eliminate its consequences. Political pluralism, in one way or another, affected the apparatus of staff employees, but thus far their environment preserves the priority of group, elite interests over state, national interests. The intensification of commercial tendencies in the administrative apparatus also strengthens private-property psychology among state employees and creates the conditions for corruption. And all this transpires against a background of the inefficacy or nonexistence of mechanisms for implementation and laws, and that creates the conditions for laws to be ignored or interpreted arbitrarily so as to serve the interests of individuals or special groups.

The above shows that the conception of state structure now emerging continues to bear the burden of strictly centralized planning and does not exclude the possibility of using administrative organs to exert pressure on non-state forms of self-government and democracy or on independent economic and commercial structures. Therefore, it is extremely important in this transition period to realize the initial inventorization and systematization of state and non-state forms for the organization of administration, and to consider the needs for new structures and the expediency of giving a particular organ the legal status of an independent entity or association.

3.2. Reforming the Executive Branch

The significant changes in the system of state construction have also affected the organs of the executive branch. The methodological basis for reexamining the traditional view on the development of this component of the political system was the statement by President I. A. Karimov: "During a certain period of history, when statehood itself is being created, and still more during a transition period ...a strong executive branch is nonetheless essential."¹ Well-known events in a number of countries in the CIS have confirmed this conclusion by the country's leadership that an excess of democracy and pluralism is fraught not only with a fall in the prestige and authority of the government, but also with the possible loss of the state integrity of society, general culture, and morality. And without these one cannot expect the operation and implementation of social and economic laws, the elementary principles of a civilized, lawful community, or the rules of mutual relations between the individual and the state. At the same time, all this shows that the policy adopted by the country - to strengthen the executive branch - corresponds not only to the national-historical traditions but also to the internal needs of the transition period.

3.2.1. The Re-establishment of the "Khokim"

One of the important steps to constructing strong authority was the transformation of local organs of administration and the re-establishment of the institution of the khokim (oblast and raion administrative heads). From the most ancient times, for example, the ruler was seen by Uzbeks as the guarantor of tranquillity and prosperity, as the "shield of the people and country."² In the course of the centuries, the level of respect and trust in the government was directly proportion to the people's relations to the khokim and rulers. Above all, the people valued a strong but just sovereign, who "protects and ensures good order for the population"³ and who acts like a "shield of justice."⁴ Therefore, the re-establishment of the institution of the khokim in public consciousness is not to be construed as totalitarianism and dictatorship. On the contrary, above all, one discerns here a return to legality and order, to discipline and obedience before the law. In comparison with the former executive committees, the apparatus of the khokim is smaller and more mobile. In general, the formation of these organs is conducted on a professional basis, which makes it possible to resolve, on a high level of competence, any questions that arise.

3.2.2. The Granting of Official Status to the "Makhallii"

In connection with state construction, it is essential to reexamine the definition of the legal status of lower units of administrative-territorial classification. Accordingly, that means the transformation of the self-governing community (makhallii), the councils of respected elders (aksakaly), and other primary units and social forms of self-government into components of the state structure. At the present time, the country has more than 10,000 such territorial-demographic units, which encompass over 86 percent of the total population. The process of creating community organs (makhallii) in city micro-raions and in other zones of new construction has been completed, in the final analysis, this has made it possible to provide a high social level of localization for the common

cohabitation of people.

The makhallii, in a historical and contemporary sense, emerge as a precise expression of a social-demographic, cultural-spiritual and territorial-administrative unit. The subjects of this are mutually bound by the integrity of tradition and customs, by the forms of social interaction, and by legal, economic, family and other relations. It is precisely in these contexts from much earlier times that: the principles of community have been defined, confirmed, and regulated, the systems of ideological perspectives and world-views were created, and public opinion was formed. It is also through the makhallii and its organs of self-government that the state realized its direct interaction with the family, religious confessions, control and implementation of its decisions, contacts with cultural and educational institutions, establishment of law and order, and so forth. And, despite the significant volume of work that they must perform, they remained - over an extended historical period - complementary and auxiliary structural elements in the system of district and urban organs of governmental administration.

At the same time, the makhallii committees - during the period of economic, political, and social tensions - demonstrated their essence as state institutions by providing, within their territories, discipline and order, by resolving conflicts, and by dealing with economic and other everyday problems. Therefore, the grant of official governmental status was one of the most important steps in forming a flexible, mobile, and strong executive branch, and in making the transition to a true democratic form of popular sovereignty.

The makhallii committees have based themselves on a firm foundation of communal and collective philosophy. In so doing, the makhallii committees - more than any other state organs - are capable of effectively dealing with problems, defending the interests and rights of inhabitants, providing assistance to the development of small entrepreneurship and business, creating public funds of assistance and charity, realizing other forms of social assistance to the population, supplying fully their territories with the production needed for an effective infrastructure, and providing the basic cultural needs. In so doing, they take into account the development of all forms of property and economic activity.

3.3. The Individual and the State

In preparing the theory of statehood, it is necessary to have a special approach to the choice of forms in the social order. In the Fundamental Law of Uzbekistan, the state is declared to be a "sovereign democratic republic,"⁵ where the "people are the sole source of state authority"⁶ and where "the absolute supremacy of the Constitution and laws is recognized."⁷ As is apparent in these citations from these articles and norms of the Constitution, the new state formation is totally devoid of any political or ideological colorings and does not contain any signs and features of class differentiation in society. At the same time, in assessing the character of this order, it excludes any ideological "isms," and that by itself signifies the separation of the new state from the category of "all-nation" (*obshchenarodnyi*) and "socially homogenous" (*sotsial'no odnorodnyi*) values and ideas that were propagated before and turned into a theory of state construction.

In other words, the fundamental *Weltanschauung* and methodological basis of

the national statehood are not the dogmas of the theory of socialism, which posited the "priorities of general interests," "the collective psychology," the total freedom and human rights. Naturally, the new system emphasizes the mutual relations between the individual and the state, where both elements of the state-structure are organically linked through mutual rights and obligations. Thereby the state ceases to spawn and increase the number of social dependents, the individual realizes the objective necessity to resolve his own problems by relying on himself, on his current and potential opportunities. In addition, the state does not assume responsibility for providing people with the sources and means of existence, it only creates and presents each person with the conditions and the spheres in which the individual can find the means to satisfy his own needs and realize his natural talents.

3.4. Legal Authority : the "Olii Mazhlis"

Law is the sole, constant criterion in evaluating the legal and social equality of all citizens, regardless of their national, party, religious, and social characteristics. It also determines and regulates the norms and principles of all social relations that are admitted in society for purposes of self-development. The legal authority in the republic belongs to the supreme state representative body, the Olii Mazhlis. Above all, it must be emphasized that the Olii Mazhlis represents a new type of parliamentary state-political institution of society. It reflects the on-going qualitative changes in the development of democratic principles in the administration of social and economic processes. In terms of fundamental principles, Uzbekistan is the first country in history to acquire a representative organ that was constituted on a professional basis with a multi-party mandate. This is one of substantial indicators of the movement of Uzbek society toward a civilized, lawful structure of authority. Another significant element is also to be seen in the characteristics of democratic elections. Namely, on 25 December 1994, the people demonstrated an advanced political culture and literacy as well as commitment to social and national unity and integrity, to civil harmony, and to the independence of the country. The ideas of democracy and strong state power, of the supremacy of law and the liberty of the individual--are not contradictory conceptions and phenomena, but mechanisms that consolidate the nation and minorities, classes and social groups, to ensure moral and psychological stability.

The laws adopted by Olii Mazhlis aim not only to fill the vacuum in legal and legislative space that followed the declaration of independence. These laws reflect the adopted policy of pursuing an evolutionary, stage-by-stage transition to a civil society and a civilized market, and to the establishment of a strong executive branch with the state and social defense of the population. The functional viability of the Olii Mazhlis is measured not by the quantity of laws examined, but by the quality and consistency of documents that it approves. Above all, this involves changes in the methodology for preparing legislative bills. Of great significance is the transition to a system of examining whole packages or blocs of documents that bear general national significance. Without denigrating the value of laws adopted earlier, one must nevertheless recognize that many of them suffer from ambivalent formulations, from an inclination toward being mere proclamations, and from the abstractness and lack of specific provisions. This leads to different interpretations, different readings, and different commentaries. It is no accident

that more than 30 percent of previously adopted laws have been amended and revised and that specific articles have had to be reformulated. In this sense, the institution for monitoring current law (which was recently created) will have a broad sphere of activity. The structure and content of law will only acquire a perfected form when all its component parts have been harmonized, when it will not seek to prove and persuade, but will embody the truth of legal norms, moral principles, and general human rules.

In accordance with the Constitution and "the Constitutional Law on the Oliy Mazhlis," the parliament realizes legislative authority exclusively. This refers to the creation of a new mechanism to prepare the basic rules for interaction among members of society, between the individual and groups during the second stage of the transition to market relations. In other words, the legislative organ of the republic at this stage is striving (while taking into account collective opinion) to prepare and adopt laws that can optimize the process of strengthening stability, civil tranquillity and harmony, the economic well-being of citizens, and the integrity and unity of society. Only by applying these principles is it possible to have real participation of the people in running the state, and only on the basis of this is it possible to maintain and improve the legislative practice that has been devised in recent years. This means that parliament gives new attention to pushing through proposals of local concern (e.g., construction of a bridge or water pipeline in a particular district). But it also means that parliament gives attention to establishing such principles as the supremacy of law in society, strict order and discipline, protection of the constitutional rights of every citizen--regardless of race, nationality, religion, and language.

The observance and implementation of these principles make it necessary to reconsider the very essence of the people's representation. It seems that one must cease to regard people's representatives solely as "delegates of the people." As far back as 1774, Edmund Burke (after his election to the British House of Commons) asserted that the votes sent him to parliament so that he would act in the higher interest of the country. In this sense, the deputies of the Oliy Mazhlis are solving a difficult task: while representing the interests of their electors, while heeding their own beliefs, and while realizing the desires of general interest groups, they are also acting in the higher interests of the country. The ability to find wise compromises in the name of working out the most feasible, effective solutions is the creed of every deputy. Above all, this concerns the realizing of their basic function - law-making.

3.5. Towards a Well-Built Legal System

Uzbekistan has been independent for just five years. Although much has been done, there is still much to do. In this sense, the spectrum of legislation in Uzbekistan is now almost unlimited; every new day raises new problems that can become the basis for legislative measures. Apart from that, life makes its own corrections in existing law. And laws are deemed obligatory for all, but the needs, interests, and capacities of citizens - especially now - are undergoing constant change. This in turn gives rise to contradictions between life and existing law, even law that is splendidly prepared and seems to "work." As a result, one of the most difficult duties of the deputies is to make the maximum effort to reduce these contradictions to a minimum. It is essential that the coercive authority of

laws not exceed the bounds of what is absolutely necessary, that the laws themselves protect the changing, real interests of Uzbekistan and its citizens, and that the laws correspond to real needs.

It would not be entirely correct to think that the largest number of legislative proposals in the country stem, allegedly, from the executive branch, and that the former Supreme Council merely rubber-stamped these resolutions. Let us examine to see if that was really the case.

First, it was specifically the Supreme Council that performed an enormous amount of work in creating the legal basis that, in essence, became the foundation of the state structure in Uzbekistan. Here are only a few of the truly historic achievements of the former Supreme Council: adoption of the Constitution of the Republic of Uzbekistan, preparation and adoption of laws determining the authority and responsibility of the legislative, judicial, and executive branches, preparation and adoption of a large bloc of legislative decrees laying the legal basis for a market economy and providing social protection for the population during the transition period.

Second, the Supreme Council not only examined political measures that had been recommended, but often rejected and modified them, inserted its own substantial corrections, and offered its own legislative proposals. The Supreme Council laid the basis for a role of the Oliy Mazhlis with greater initiative in working out domestic and foreign policy, and in enhancing its activity in interaction with the judicial and executive branches.

To be sure, certain shortcomings - inertia, insufficient organization, meekness - were to be seen in the work of the Supreme Council. First of all, the Supreme Council was often hindered by the fact that, although it spoke in the name of the people, it "spoke with many voices" (as the Americans have aptly described their own Congress).

The current composition of the Oliy Mazhlis, which was chosen in a multi-party election, has a much broader popular mandate and, thus, it has strong legal authority. This means that the Oliy Mazhlis should, above all, realize a strong (but not coercive) legislative policy. It must once again be emphasized that a strong legislative policy is consistent. It is based on the supremacy of law, awareness of the needs and interests of different social forces and individual people, it relies upon these forces, it is unimaginable that it not take into account the interests of the people.

The activity of the Oliy Mazhlis signaled the beginning of a new stage in the development of independent statehood. The laws adopted by the Oliy Mazhlis contribute to the fastest possible stabilization of the economy, the freedom of entrepreneurship, the protection of individual rights and liberties, and raising the authority of independent Uzbekistan in the international arena. The Oliy Mazhlis bears enormous responsibility for the fate of the country, not only before the present, but also future generations. Its cognizance of this, in the final analysis, will determine the fate of the people not only in the immediate, but also in the more distant future. This truly historic responsibility, and the laws adopted on the basis of a recognition of this, can have a fundamental influence on the emerging model of a lawful, democratic state and civilized community of citizens.

4. Democratization of the Political System : Parties and Movements

During the past five years Uzbekistan has achieved substantial results in terms of creating a sound basis for its new order. The first stage of economic reforms will go down in history not only because of the broad opportunities that they created in the economic sphere, but also because of the systematic eradication of old stereotypes of thinking and the old psychology from the people's consciousness. However, it is still too early to say that all the barriers of the command-administrative times have been dismantled. One of these onerous legacies is the persisting monopoly of the state on the realization of power. A political system based on this, under present conditions, is not in a position to ensure the accelerated development of society and economy. As world practice has shown, every state requires a mechanism to regulate the vitally important relations between central and local authorities. The role of such a mechanism increases substantially if it involves a state with a democratic political system. Under these conditions, it should regulate relations in such a way as to provide for the optimal combination of central and local interests.

4.1. Centralization versus Liberalization

The need for centralization of certain functions always exists in a state. Otherwise, it is impossible to ensure unified legislation, or the preparation and implementation of a single, consistent policy with respect to the economy, society, and science and technology. However, centralization should be realized within reasonable limits. Everyone knows what negative consequences ensued from the excessive centralization under the command-administrative system.

Centralization under the current development of society should not be realized through the old, traditional approach, whereby more and more questions belonged to the sphere of activity of higher levels of the government. Instead, this should be realized through a delegation of operational functions and competence to lower organs. This does not at all mean a weakening of centralization as such, but rather refers to a strengthening of the autonomy of local organs of authority. The bolstering of centralization and of the autonomy of lower organs through decentralization are essentially two sides of the same coin. To avoid excessive centralization, it is necessary to have an effective mechanism that includes an integrated system of political, economic, and legal guarantees.

The political guarantees should include liberalization of the political system, strict observance of the principle of separation of powers, intensification of democratization, development of self-government, and expansion of the authority of local organs of governance. These guarantees should fundamentally change the whole complex of relations between upper and lower instances of authority.

The economic guarantees include legal recognition of different types of property ownership as well as active implementation of market relations. This, to a significant degree, will limit the opportunities for central organs to interfere in the operational activity of lower organs. Besides, this will give rise to the need to use primarily economic - not administrative - methods. The legal guarantees include observance of the principle

of the supremacy of law, intensive renewal of existing legislation, and the ascription to the central organs only those powers that it really needs for the realization of a single state policy in all spheres of the life of society.

The powers ascribed to central organs should ensure a unified system in the political and economic life of the state. The authority of local organs should be directed toward the efficient resolution of local problems, but within the framework of general state policy toward economic and social development, the protection of the environment and natural resources, and so forth. Decentralization should not bear a one-time character. As Uzbekistan advances along the path of political, economic, and legal reforms, the process of decentralization - which takes into account the concrete needs for the development of society - should continue.

The liberalization of the political system in Uzbekistan and the radical economic reform create favorable conditions for an improvement in the correlation of power in central and local organs. That entails a substantial expansion of the parameters of autonomy for the lower units in the political and economic structures. Furthermore, it is essential to consider mechanisms to safeguard this autonomy. Some components of this mechanism are already operating now, but others still need to be prepared.

President I. A. Karimov has designed and is realizing the fundamental principles for the transformation of the political system of an independent state. The characteristic features of this transformation include the following. Firstly, the main factor in shaping the political system is the idea of constructing an independent state with a great future. Such a state will ensure all civil rights and individual liberty, peace and material prosperity, and also the opportunities for the harmonious development and improvement.

Secondly, the fundamental objective of development in this system is the concrete individual - i.e. his needs and interests, his life and activity, his psychology, customs, and spiritual world.

Thirdly, the operation of the political system determines, in the final analysis, the political activity of individual citizens. The citizen does not exist for the political system, but vice versa, the political system should be based on the needs of the individual. Only that kind of political system has legitimacy and stability.

Fourthly, this conception of the goals of development and operation of the political system allows one to take a new approach to understanding the nature of the existing authority relations. These are understood solely as the interaction and cooperation of all the constructive forces of the country, their goal is to reinforce the independence of Uzbekistan and to secure peace and domestic accord.

Fifthly, to reach this goal, state authority in all branches (judicial, legislative, and executive) and at all levels (central and local) must continue to be strong - i.e. capable of consistently, stage-by-stage, and resolutely implementing all the programs of political and economic reform.

Sixthly, the democratization of the political system in Uzbekistan presupposes the productive cooperation of all constructive political forces with the strong system of state authority. This ensures the integrity of the political system and the stable functioning of

both its institutional and hierarchical structures.

Lastly, the political system is legitimate at the ideological, structural, and personal level. Uzbek society totally and unanimously recognizes the basic goal of state policy - the construction of a lawful, independent, and democratic state as well as a just, democratic civil society. The ideology of national independence reflects the needs, interests, and goals of each Uzbek. This is the foundation of the legitimacy of the political system at the ideological level.

In three referendums (17 March 1991, 29 December 1991, and 26 March 1995), the people of Uzbekistan endorsed the goals, structure, and methods for realizing the political system. The elections of the President of the Republic, the Oliy Mazhlis, the extension of the President's powers, etc.--all this attests to the fact that Uzbek society recognizes the existing political system as the only legal order. This constitutes the structural level of legitimacy in the political system. Further, the sociological studies at the national level attest to the enormous personal authority of President I. A. Karimov as well as the popularity of those serving in his government. This is the personal level of legitimacy in the political system. In short, legitimized in all these ways, the political system of Uzbekistan has all the grounds to regard itself (and to be so regarded) as truly effective and stable.

4.2. Entering the Second Stage of Transformation

As Uzbekistan embarks on the second stage of social-political and economic transformation, the requirements for further stability underscore the urgent need to optimize the extractive, regulatory, distributive, symbolic, and reactive capabilities of the political system, and to improve its facility for adaptation. As I. A. Karimov has observed, "we are building a civil society. This means that, with the formation of our state system, heterogeneous functions of governance will be transferred to the people, to public organs of self-government."⁸ In other words, the political system of Uzbekistan is striving to optimize the extraction of natural and human, intellectual and physical resources from civil society.

The construction of a developed civil society requires a further optimization of the system of elections to organs of the representative branch, recruitment to state and military service, expert and analytical services in the political structures, taxation, other mechanisms to augment the budgets of political institutions, etc. The stable operation of the political system in the future is possible only insofar as it wields and uses these potential resources and improves their utilization for the targeted goals. The use of intellectual, moral, and physical potential of citizens (along with the rich natural and material resources) have high-priority significance. The mobilization of these resources is ensured by the application of a comprehensive system of moral and material incentives, and also by appeals to the needs, interests, goals, responsibility, and patriotism of the members of society. The more effectively and more broadly this extractive capacity is used, the stronger will be the dependence of the existing political system on an emerging civil society. And that much stronger too will be the guarantees against any totalitarian dictate and arbitrariness.

Simultaneously, there is an expansion of the regulatory capacity of the political

system. It is precisely through the maximally realized capacity to govern, regulate, coordinate the behavior of individuals and groups, and exert an influence on civil society that a state can be deemed to be strong. A strong state that cooperates with civil society cannot ignore civilized forms of direct influence (through laws, decrees, normative acts) as well as indirect mechanism for regulating prices and wages, shaping public opinion, setting interest rates, and collecting taxes. Therefore, the simultaneous use of extractive and regulatory capabilities constitutes the specific peculiarity of the political system of Uzbekistan.

The technological level of modern production, together with the needs of scientific-technical modernization, impose qualitatively new demands for the reproduction of the subjects of production. There is a growing importance of various kinds of targeted social programs, effective patronage of a social state over the spheres of education, science, and public health - all of which are important for the stable development of society and the viability of its political system. In this sense, the state should increase its role in the redistribution of national wealth. Otherwise, sooner or later, one of the corporate elements of civil society (a social group, or a bureaucratic stratum, which has control over the acquisition and redistribution of the national product) will begin this redistribution according to its own, illusory conceptions of popular needs. Or they will simply become parasites on society. Only a strong democratic state, in cooperation with a developed civil society, can optimize the use of distribution opportunities. And the greater the need for redistribution, the more democratic must be the political system that performs this task.

The effectiveness of the cooperation between the state and civil society is determined by the degree of public confidence in authorities, i.e. by the support that the authorities' measures enjoy among the general population. This determines the symbolic opportunities of a political system. The state always endeavors to keep its finger on the pulse of public opinion, to construct its own positive political image both domestically and abroad. This requires the preparation of a strategic system to regulate and shape public opinion, and to conduct political, philosophical, and sociological studies in the sphere of "public relations." On the whole, the republic comes to recognize that populism can only bring short-term successes. In the final analysis, everything depends on the degree to which a political system is capable of realizing its pronounced objectives. Therefore, the goals offered to society are aimed at a correspondence between the real levels of social development and the actual goals of both the politicians and dominant majority of subjects in the political system. Only this is the real guarantee for the stability of a political system. Thus, the reactive capacity of a political system is self-evident. In other words, a political system becomes truly stable, capable of self-development, if it has the capacity to react adequately to changes in external and internal conditions.

In this sense, a radical method for increasing the adaptive capabilities of the political system of Uzbekistan at the current phase is the evolutionary, gradual expansion of liberty. This comes through an incremental expansion of the autonomy of subsystems such as local structures of governance, organs of self-government, political parties, social organizations, societies, creative unions, etc., but within the framework of preserving the political system as a whole. This signifies a democratization of governance, an increase in feedback at all levels, and the elimination of the autonomous, independent posture of the

state vis-à-vis civil society. In other words, the republic is now making the transition from the realization of power through coercion and compulsion to the realization of power through cooperation with civil society.

Only if the state comes as close as possible to the needs of civil society, and only if there is a maximum of democracy in conjunction with a broad social basis of political recruiting, voluntary support, and professionalism, only then is it possible, in the long term, to stabilize the contemporary political system. In the final analysis, everything depends on the individual, as both a subject and object in the political system for realizing power. In that sense, the prospects of the political system of Uzbekistan, which are oriented towards and serving every member of the society, correspond to the requirements of state and society with a truly great future.

Based on stereotypical thinking that was formed during the totalitarian epoch, one is accustomed to identify the state with a certain alienation. That is, one sees the state as a colossus, which, using all its mechanisms for coercion and pressure, levels him and puts him under common standards that are fixed in the appropriate articles of various law codes (moral, criminal, etc.). The very phenomenon of authority is still, at times, understood as an apparatus of coercion and force. It seems that even to admit the context of coercion in understanding the mutual interaction of the emerging state and civil society will bring a double devaluation: (i) it will devalue the social theory itself, allowing false interpretations and wrong orientation that ultimately lead to incorrect theoretical conclusions, and, (ii) it will derail the practical establishment of a civil society.

Therefore, in both practical and conceptual terms, we emphasize once again how essential and important it is to understand the essence of power as the mutual assistance of all components of society in the name of realizing general objectives. In this case, the goal is to develop and strengthen the independence of the country, to establish peace and stability (both in the region and in the world), and to achieve the material well-being, spiritual renaissance, and thriving of all the peoples who reside in the republic. These goals and this conception of the essence of power do not contradict the essence of a civil society. It is precisely the civil society that is in a position to ensure stability in the state, since priorities are given to "horizontal, not vertical, interpersonal relations." What does this mean?

A civil society, as a discrete social space and system of independent institutional, interpersonal relations and resultant set of social organizations, has the task of protecting the independence of the individual and preserve one's right to remain as one is. Therefore, normal, non-pathological interpersonal ties (which aggregate and accumulate in various movements, associations, institutions) express themselves above all in the defense of concrete social interests. It is remarkable that Uzbekistan has taken decisive steps toward the legal consolidation of these social interrelations. In emphasizing the significance of civil society, we do not segregate it from the functioning of the state. Thus, a strong state strengthens the civil society. This proposition does not require special proof. This concerns such spheres as policy, understood in the context of the mutual support not only of the state's functions of power, but also the personal interests of the citizens.

4.3. Political Parties

The activity of individuals, and their unification in the sphere of policy, always constitute an independent factor. This determines both the status and significance of political parties. It is precisely for this reason that political parties constitute indispensable components of a civil society. However, in expressing the interests of certain social groups and ensuring their real movement toward the realization of power, political parties are inseparable from the state itself. Here is apparent the contradictory character of political parties, which is expressed in the delimitation of spheres and interests of civil society and political authority, but at the same time aspires to achieve their optimal convergence. This is a source of the development and strengthening of political parties. It is precisely what determines the status of parties within the single social-political space of a country. The point is that the closer a party is to the structures of power, the greater its identification with these structures. Under the conditions of a totalitarian society, such a position led to the "stratification" of parties. The monopolistic existence of the Communist Party of the Soviet Union (CPSU) was the reason why it became the main "state within a state" and why, despite its huge number of members, it became alienated from the people and society (in effect juxtaposing the latter to itself).

Only under conditions of political pluralism can parties act as an inalienable part of civil society. It is necessary to transcend the stereotype that the existence of a large number of parties in society is a guarantee for de-stabilization, political discord and turmoil. This danger does really exist, but should not be absolutized any more than one should think that a large number of parties ensures that a society will be democratic. If there is no civil society and political accord, the existing parties will live off what it has acquired from monopolizing one or another sphere of political life, the parties will pursue narrow group or personal interests. As a result, proclaiming themselves to be the opposition, they will engage in destructive caviling and, often, drift toward extremist positions. Such a situation can only be overcome by creating a single political and social space, which will comprise the basis of cooperation between the civil society and lawful state. In other words, the condition for the legitimacy of various political parties and movements initially should be not the opposition to official authorities or total support for it, but rather the expression and defense of the interests of the broadest strata of society, of various social groups, and - above all - the individual. If parties want to exist and function in a full-fledged manner, they must constantly keep the individual in mind. When we say "individual," we do not have in mind a certain leader (with his ambitions), nor a narrow social group (for example, the former party elite-nomenclature), but concrete individuals who comprise the "living cells" of a civil society. The accumulation of the citizens' interests, their articulation and defense, and then the coordination of these interests with those of the state--all this determines the real condition of society. Consequently, the most important factor in ensuring stability in society is the cooperation of a strong state authority (where the executive branch is non-party) with political parties and movements, which express the interests of various social groups.

The differentiation and establishment of the optimal sequence in the realization of their social interests, the coordination and harmony in this--such is the foundation of social stability. On the contrary, an imbalance here leads to confrontations, destabilization, and the emergence of conflicts and crises. All this is extremely important

at the present time for Uzbekistan. A strong state apparatus, above all, is currently endeavoring to preserve stability in the society, but this apparatus has problems in its middle and lower echelons. A multi-party system is only emerging, therefore, maintaining a balance of interests for various social forces is an additional burden for the upper echelons of state authority. This is a drain on the resources and time from the consistent implementation of economic reforms. Therefore, the operation of a multi-party system represents an important link in the radical political transformation of social peace in the country, in the development of a civil society, and consequently constitutes yet another stage in the economic reform as well. These general theoretical and methodological conclusions about the peculiarities of the social operation of the political system most fully reflect the special character of the rise and genesis of various parties and movements.

If seen on a political and social diagram, the peak point of activity came precisely during the agony of the former CPSU and the emergence of an enormous number of parties and movements with various orientations. Two factors had an enormous influence on their subsequent fate. One was the realization of the basic programmatic demands of these parties (e.g., the realization of state sovereignty, recognition of the Uzbek language as the official state tongue, etc.) insofar as these represented the interests not of individual citizens, but all of society (or at least large social groups). As their interests were realized, they became as a rule less active. The second factor was the strategy and tactics of these parties movements, and their individual leaders. Thus, the lack of precise programs, destructive activities, refusal to seek a compromise, support of left-wing extremist and fundamentalist forces by some parties and movements - all this could not fail to elicit preventive measures by the leadership. Because of these factors, many of the formulated goals and objectives of the party "Erk" and the movement "Brilik" were either realized by President I. A. Karimov or (if they did not correspond to state doctrine) were disregarded.

4.3.1. The People's Democratic Party of Uzbekistan ("NDPU")

At the present time, a truly multi-party system is beginning to emerge on the political map of Uzbekistan. If the status of some parties ("Vatan tarakkiyati," "Adolat," and "Miliy tiklanish") can be described as a transition to gradual, but de facto recognition, the largest party is the People's Democratic Party of Uzbekistan (NDPU: Narodno-demokraticheskaia partiia Uzbekistana). Established on 1 November 1991, it now has about 400,000 members. To a large degree, this status of NDPU is due to the fact that it has an open, approved organizational structure and special functional characteristics. This party has given considerable attention to the development of managerial skills and the intellectual potential of its members at the middle and upper echelons of the party, and also to its material base. Despite a certain departure of members from the party in 1991-92, it subsequently succeeded in attracting large entrepreneurs, businessmen, and significant part of the youth (especially the active and ambitious), who, with a renewed core of the party, constitute the backbone of the parliamentary faction of the NDPU. Outfitted with a strong, disciplined, material, and informational base, this party has taken a long-term perspective and placed its main emphasis on activity at the grassroots--in primary organizations, especially in makhallii at the raion (district) level. The

involvement in the everyday concerns of citizens established the legitimacy of the NDPU, although here, with respect to strategy and tactics, the party leadership did much that had also negative effects. Thus, having supported the course for the de-politicization of the populace (the goal being social stabilization), the party thereby lost a certain part of its members. Similarly, the reaction of party ideologists to "de-ideologization," which many understood to mean "no kind of ideology," weakened the position of the party with respect to preparing its own ideological conceptions.

As a result, it came to be dominated by general, rather amorphous slogans and propositions. This led, for example, to a certain populism, which was expressed in an attempt to express the interests of "the entire people" - and we know, from history, what such an abstract aspiration can lead to! It also brought, initially, an attempt to flirt with religion. It all had the effect of producing a party program that was incoherent with respect to its economic and social planks. Endowed with an amazing capacity to borrow the positive ideas and slogans of its opponents, the NDPU proved unable to produce its own new ideas for the stage of a real transition to market relations. This reflected, on its part, a certain conservatism and inflexibility. The most serious shortcoming of this party, in our opinion, was its lack of openness and its self-centeredness. This first expressed itself in the lack of skills to cooperate with parties and movements with similar programs and ideas (for example, the "Vatan Tarakki" Party), with the opposition, and with various leaders. After all, one cannot base clearly-defined and constructive tactics and strategy solely on borrowing from others. And although the party always sharply denounced any fundamentalism (which could not fail to evoke the sympathy of liberal elements in society, such as the intelligentsia and entrepreneurs), it was unable to propose any kind of positive economic and social programs.

4.3.2. The Party for Progress in the Fatherland ("Vatan Tarakkieti")

The "Vatan Tarakkieti Party" was formed in the spring of 1992, with more than 34,000 members. Its organizational structure consists of a congress, Central Council plenum, oblast and raion committees, and political clubs. The status of the Vatan Tarakki Party at present is explained by the difficulties in establishing this party, by the lack of strong and well-known leaders, and by a narrow spectrum of practical goals. Having proclaimed itself at the outset as the party of the intelligentsia, entrepreneurial circles, and the youth, this party has nonetheless been unable to realize or express the interests of these groups. Parts of the intelligentsia, the emerging circles of entrepreneurs (tired of confrontation), and the youth (disillusioned in the slogans of Leninism) proved to be closer to the centrist, liberal programs of the Vatan tarakkieti Party. This is explained by the initial popularity of this party.

However, it did not prove possible to realize all these programmatic elements, and that in turn led to the withdrawal of some members from the party. This was further abetted by the rather amorphous position of the party leadership on many questions, for that neutralized the party's participation in resolving essential problems in public life. With an objective base, the Party Vatan Tarakkieti would be in a position to strengthen its significance in the social-political space only if it were to adopt effective, urgent measures to activate the party's leadership and become more cooperative with state

structures, the NDPU, the Social-Democratic Party as well as other parties, movements, and peripheral organizations.

4.3.3. The Social Democratic Party ("Adolat")

On 17 February 1995 in Tashkent, the Social-Democratic Party "Adolat" held its first, founding congress. The party's memberships included many deputies from various levels, it also had broad representation from the scientific and technical intelligentsia as well as employees in state institutions. The party shares social-democratic ideas, calls for a struggle to assert the principles of social justice, opposes any "primitive barbaric methods of social progress," and so forth.

4.3.4. Other Parties

Other parties have also been established. On 25 May 1995, the democratic party "Millii tiklanish" (National Renaissance) held its first (founding) congress. On 27 May 1995, the movement "Khalk birligi" (Unity of the People) also held its founding congress. Since these parties and movements are still in the stage of formation, it is rather early to speak about their significance in the political system of Uzbekistan.

4.4. The Degree of Political Maturity

The need to stimulate the activity of political parties, social organizations, and movements is one of the most urgent tasks in the current stage of development in Uzbekistan. And this is no accident. Time has shown that many far-reaching goals of political parties either remained meaningless abstractions or went beyond the general democratic transformation being conducted at this stage through the efforts of the state. For this there are objective reasons. Firstly, all the existing political parties entered into the political space at the initial stage in the formation of a new political system.

Secondly, the degree of linkage between theoretical propositions and practical activities of the party proved to be minimal. A comparison of the official declarations of political parties with the objective results of their activity reveals an enormous gulf between the two. The absence of tangible results means that all the declarations by the leaders of these parties are meaningless.

Thirdly, the existing political parties do not have deep ties to the main social groups. Fourthly, the objective dependence of political parties on the real impulses of the on-going reforms is still in the stage of gestation. Lastly, the existing law "on social organizations" does not sufficiently deal with the specifics entailed in the operation of a multi-party system. The most important cause of the weakness of political parties lies in the fact that the fundamental processes of social development - stratification and differentiation in the social structure, the identification of social interests, and their aggregation and accumulation - have only commenced.

The fact that the boundaries of social stratification are not sufficiently clear (or indeed the fact that they are still nonexistent) has in turn caused the vagueness in defining the nature of the existing party groupings. And if these boundaries are determined too slowly (not only in programmatic and theoretical terms, but above all in

real political actions to affect the future), they can be complicated by the still more explosive involvement of newer social groups (often with contradictory interests, needs, values, norms, and the like). At the same time, the attempt to accelerate the process of "party maturation" is not only one that is unrealizable, but also one that is fraught with serious consequences. As I. Khakamada writes, "the first consequence of a coercive [cartelization] of a multi-party system will be a real explosion of political posturing... A political system based on party structures that have been mechanically glued together will bring destabilization, not stability."⁹

The main goals of the activity of any real political party must consist of the following: (i) identification of the party with a distinct social group as its political base, (ii) as far as possible, an expansion of this base, the consolidation of ever broader social strata around the party's programmatic propositions, (iii) forecasting of changes in the social structure of society, in the system of its interests, and in the goals for their maximum possible realization (and, consequently, in the realization of political power).

The social differentiation of society, together with the preservation and development of traditional social-psychological, religious, and ethno-national factors, have always found reflection in the party divisions. The conglomerate social base of a wide spectrum of parties plays an enormous role in the creation and viability of political parties. But of no lesser significance is the specific relation with various subunits and links in the realization of power. Particular attention should be given to the process of forming special elite parties, their mutual relations, and their bonds with the state apparatus. That the state has supported the process of forming a multi-party system has been perceived by the leaders of these political parties as an open invitation to share in the realization of power. In the presence of strong political parties, this has a major effect, however, the amorphous and fragile parties of the transition period are not capable of using the opportunity extended to them by the state. Rather, this amounts only to the occupation of leading positions by individual figures of the various parties.

The organizational and political fragility and amorphousness of political parties in Uzbekistan affects both their strategy and their tactics. As a rule, parties avoid an official declaration of their strategy and tactics. Instead, these are often replaced by deliberately vague, widely advertised manifestoes. The amorphousness is also apparent in the programs of several parties. Thus, to judge from the programmatic statement of the Party "Millii Tiklanish" (National Renaissance), one could boldly characterize this as an educational rather than political party. Until now, "Adolat" has not asserted itself as a truly social-democratic party. Nor could the Party "Vatan tarakkieti" in practice express the interests of its base of social groups. The political programs of these parties are amazingly similar to each other, an observer not deeply inured to political games, at first glance, would not be able to understand how these parties differ from each other.

Lacking a sufficiently strong social base, the leaders of these parties maneuver through the use of particular words in their titles, to confer greater weight and attractiveness, they use words like "democracy," "justice," "national renaissance," "progress of the fatherland," and so forth. The voter who is not deeply immersed in politics can hardly determine, for example, how the "democratic" party differs from the "social-democratic" or the "popular-democratic" parties. And although, in the 1995

elections, political parties could receive tens of thousands of votes, we cannot say that the people consciously voted for precisely these parties. At the same time, those elections showed how important and necessary is the struggle for votes in the content of democratic electoral system by means of multi-party participation, more active involvement of social organizations in the formation of representative power for the people to express the will of the majority and to act in the interests of the entire society. This has been summoned to provide for the creation and effective operation of a civil society and state based on the rule of law. The success of the reforms can now be ensured only on the basis of unifying - around the current president - the political parties and social organizations to perform this task. They must make a comprehensive study of the strategic problems of the state and, as far as possible, assist it to function effectively, not to pose ideological opposition, such is the basic activity of political parties in the majority of developed countries of the world. Active during the periods of the pre-election struggle, the parties in parliament - represented by their deputies in fractions - subordinate themselves to the higher interests of the state and to the interests of the nation. It is precisely in this way that the problem of harmonizing different interests finds its civilized resolution.

Having repudiated many of the former principles of the party leadership, the leaders of parties lost major opportunities to organize party work at the local level, not to mention the procedures for the official acceptance and expulsion of party members, the prestige of party membership, and so forth. This could not fail to cause a break in the direct link between the organizational form and the social content of political-party institutionalization. Of course, it is necessary to reject the negative experience of the Communist Party leadership, and as quickly as possible. However, it had accumulated enormous experience from its work in grassroots organizations! It is simply astonishing to see how quickly this was forgotten and lost.

Meanwhile, the struggle to attract members, expand the social base, and strengthen grassroots organizations were and remain functionally necessary element in any political party. To reject this is like sawing off the limb on which one is sitting. However, the need for party self-identification is rather strong now. We do not agree with the sweeping assertion about an alleged political apathy and passivity of the youth. The youth is very keenly interested in the problem of creating a multi-party system and in inter-party cooperation. It is quite another matter that the political parties lack these conditions and opportunities, and do not produce young and energetic leaders who could bring a new impulse to the activity of these parties. The selection and targeted involvement in "big politics" of the most active and capable part of the youth (accomplished through a broad, voluntary, and orderly base) is the next problem to be faced, with the adoption of the new law "on political parties," this can significantly stimulate the development of political parties.

However, one cannot ignore the fact that, at the present time, various strata of society are becoming convinced of the possibility of political organization without the participation of political parties. This is due not only to the loss "of party illusions" (as the main organizer of activity in society), as some specialists assert, but is much more due to the fact that a simple voter cannot discern what all these political parties represent and how they differ from one another. As a consequence, this tendency is leading to large-

scale absenteeism and massive refusal of voters to participate in elections.

In general, fissures and fragmentation are organic feature of many emerging political systems in a transition period (especially in developing countries). Hence, even under conditions where a certain economic stabilization is achieved, it is hardly likely that this fragmentation will give way to some kind of integrating ties "from below." And if the government somehow can initiate the creation of political parties, it is nonetheless impossible to eliminate the fragmentation (characteristic for this stage in the development of political parties) either by governmental decrees or by the creation of anew new parties or party coalitions. Even in the most democratic regimes (where democracy itself, or at least its slogan, is established by a decree of the state), the fragility and amorphousness of political parties will not contribute to the realization of these slogans. Moreover, they can become a destabilizing factor in society; one need not go far to find examples here - neighbors in the CIS are a case in point! We can see that the profound interrelations in the contemporary political sphere in these countries bear an extremely complicated, diverse, and contradictory character. They are caused not only by the initial stage in the formation of parties in these countries, but above all by the very emergence of a mixed economy, by the hypertrophied political cultural and pluralism, by the backward political consciousness of various leaders in the political parties, and so forth.

Furthermore, a no less important role in this is emerging from attempts by the newly constituted social groups to occupy their own niche in the economic and political life of society. For this stage, it is natural to form temporary political coalitions that, as a rule, can consolidate various social groups only for a relatively moderate term. However, an authentic, profound aggregation and realization of the fundamental interests of concrete social groups cannot be achieved through such coalitions. Therefore, at the first signs of a new political cataclysm, these coalitions rapidly disintegrate. In unstable systems, precisely such political parties and coalitions can become so-called "pressure groups" and thus become a force capable of destabilizing the social and political situation.

Political coalitions can be formed not only, as it were, "in moments of take-off" for political parties and movements, but also during the final moments of their decline. Having discredited themselves, having shown their lack of substance, have revealed their anti-national essence, political parties - in a desperate attempt to save themselves - can embark on compromises that they had earlier deemed unacceptable. This could also be with official authorities if the latter shows a certain tolerance. They thus correct their course, revise their programmatic principles, and endeavor to suppress (if only for a short time) internal disagreements and squabbling. It is even possible to adopt a certain transformation in policy, where by questions involving the struggle for power are replaced by such questions as defense of human rights, ecology, education, and the like, to the fore now comes criticism directed only at certain aspects of official policy and activities. The present "opposition," as the situation in Uzbekistan stabilizes, will become more and more consolidated; it will not fail to use every mistake in the state's strategy and tactics. In our view, however, this will not give it the needed constructiveness in its position, by contrast, a constructive oppositionist strategy proposes not only (and not so much) to exploit the mistakes of others, as to prepare its own vision of social development, to work out and to realize its own program for transformation. And it is

precisely this that the leaders of today's "opposition" lack!

Obviously, the situation with respect to the formation of a multi-party system in the country is far from simple. But this is only natural. The real process of developing a multi-party system in Uzbekistan is only beginning. Unfortunately, this process is advancing through the well-known "path of trial and error," although many countries (including those in Asia) have traversed this stage long ago and have enormous experience in inter-party cooperation and party building. However, this experience is not being used or even studied, although the examination of foreign history and theory of political cooperation is an important stage in the realization of a true multi-party political system (and, hence, democratization of social and political life). The active study of problems involving a multi-party system is a task that one must now begin (so as not to find oneself, again, at the tail-end of unfolding events).

This raises a further question: under the existing circumstances, is it still possible to establish more new parties? We hasten to reply: it is possible, but only under certain conditions. Firstly, by that time society must have developed the necessary objective conditions, i.e. whereby these newly created social-political associations identify themselves with concrete social strata and can express their interests. Secondly, these parties must renounce confrontation in the name of constructive work and must not lock themselves inside the framework of narrow group interests, rather, their programs can express the interests of broader strata of the population. Incidentally, the possibility and openness for linking their party interests with social interests is a basic condition for the cooperation and mutual assistance of various movements and forces in the name of realizing long-term strategic goals. Those goals include the development and reinforcement of the independence of Uzbekistan, maintenance of stability, and advancement along its own path of renewal and progress. This will be an important condition for legitimizing the movement to power in the emerging civil society.

The above generalization in possible scenarios for the development of political pluralism attest to the fact that the diversity in the political spectrum signifies the presence (or absence) of multiple variants in the intellectual and ideological foundations on which is constructed the unity and integrity of a given party or movement. The attempts to proclaim themselves as "de-ideologized formations" is absolutely unrealistic. Any party, regardless of its significance, has always placed and continues to place a broad goal before itself: the realization of political power, the inculcation of a certain world-view in its members, and the formation of the corresponding stereotypes and value orientation. Thus, despite all the distinctive and differentiating factors, practically all parties and movements of the republic - as the basis of their activity - set the goal of forming an ideology of market relations, free individual, general human values, and the equality of all people (regardless of nationality, social status, and the like). Making these top-priority goals, these parties attempt to achieve social justice and equal opportunities for people in attaining their material well-being, improving their standard of living, and so forth.

Thus, an analysis of the present political situation shows that, during the transition period, the political system is primarily distinguished by its structural instability and incompleteness, but also by a high degree of mobility and fluidity. It is

precisely these characteristics that ensure an active intensification of a number of tendencies, which contain the basic principles for the formation and development of the political system. Among the leading tendencies, one can discern the transformation of one type of party into another, or the shift of a party from a political orientation to cultural-educational work. Another essential tendency is the possibility of transforming a party from a leading, state party into an oppositionist group, and vice-versa. A third tendency is the possible merger of several parties on the basis of a compromise platform or, contrariwise, the breakdown of one party (on the basis of a schism) into several parties and movements.

Practical experience shows that, as parties and movements consolidate their positions in the political system, each makes an attempt to expand significantly its social base and its active influence on the masses. Therefore, in the course of the inter-party development, they may achieve gains with respect to the absolute and relative numbers of representatives from different strata of society. This can attest to changes in the organization and political line of these parties and movements. In other words, the struggle to increase the number of members and supporters was always the general line of any political organization.

4.5. Learning Democracy

Rather than just promulgate political freedoms by decree, one should first prepare citizens and society for an adequate understanding of these freedoms. This can be achieved in two ways: the long process of enlightenment (hence the importance today of the heritage and traditions of jadidism ["New Method Movement"], which does not admit extremism and political excess), and the equally long process of economic transformation. Only a society with sufficient material well-being and enlightenment is in a position to use the instruments of political liberty for purposes of its own development. Confirmation of this truth can be found in a number of countries - on the one hand, the prosperous states of Singapore, Taiwan, and Malaysia, and on the other, India, Bangladesh, and some countries of Latin America where political freedom brought neither peace nor economic prosperity.

If one follows the logic of historical development, then one can derive the following most important conclusion: a necessary period of stabilization must lay between totalitarian and democratic societies. At the present time, Uzbekistan has acquired a variant, with a certain combination of democratic institutions (parliament; universal election of the president, emergence of a multi-party system) and the unconditional priority of the presidential authority over other political institutions. The ensuing period will be characterized by an ever intensifying influence of democratic institutions. The decrees of the president about further steps to reform the economy, the elections to the Oliy Mazhlis on a multi-party basis, and much else - all this represents steps toward a truly democratic society.

There is another historical lesson: Uzbek society, which is essentially traditionalist, has its own rhythm in the development of social processes. The furious rate of political transformation, which is characteristic of Russia, is unacceptable for a slow-moving Central Asian society. Contrary, one may disrupt and undermine the natural

course of historical processes, which are only now being established in this region. To whip them into moving at a faster pace is entirely in the spirit of Bolshevik extremism. No democratic state can function normally without the mutual cooperation and assistance of the social and political structures. The most urgent task in the present development of Uzbekistan is not only to buttress the foundations of civil society, but to form mechanisms for reverse social ties, to establish mutual assistance between the state and civil society, and in the long term to subordinate the state to the control of society. President I. A. Karimov has repeatedly noted in his speeches that, as the development of democracy is realized in the country, one takes into account the complicated and contradictory social-economic situation in the region, but also the interests of its citizens. According to the President, it is precisely on the basis of these premises that a double task is being resolved: the creation of a powerful statehood, with the strengthening of the independence of the republic, and the transition to civilized market relations.

The main conditions for the successful development of these processes are peace, stability, and civil and national tranquillity. Apart from political parties, institutions of political mediation will play a large role in the realization of these processes. The parties are not the only intermediaries between the state and civil society, between the authorities and the people. Similar functions are performed by other components of the political system - that is, institutions which are not necessarily political entities. These include trade unions, various foundations, national cultural centers, creative unions and other public associations, means of mass information, labor collectives, and so forth. In developed states, in terms of their specific purpose, these belong mainly to the civil society and only in situations where authorities do not provide conditions for their normal operation, do they become involved in the political system and engage in the political struggle. These institutions play an important role in the formation of political systems during transition periods.

But this does not signify that, in the name of achieving stability in society, the state makes every effort to interdict or retard the process of political and social pluralization. The main thing is something else: the capacity and readiness of institutions of political mediation to advance the program of social-political and economic transformation and to have the authorized mandate of the people for this. Although the Constitution declares that "no part of society, political party, social organization, movement, or individual person can act in the name of the people of Uzbekistan,"¹⁰ this article is not a barrier for political activities with a constructive program of reform that reflects certain aspects of the social, collective, group, or their own opinion.

The deterioration of mutual relations commences only when the institutions of political mediation encroach on the independence of the state. They do so if they attempt to undermine its democratic foundations, to superimpose the monopoly of one or another ideology, or one or another state or political institutions. The consequences of this phenomena (which reached a peak development during the post-perestroika period) are still being felt. At the present time, the institutions of political mediation not only have determined their place in the political system of society, but also expressed their concrete position and their vision of the state structure of the republic. Public opinion regards as populism and cheap politics the characteristic penchant for criticism in the first stages of independence, the sweeping criticism of everything for the sake of

popularity and political dividends, and the use of pluralism to distract society's attention from the essential problems at that stage. All this can only be regarded as opposition to democratic reforms.

Conclusion

One of the criteria for evaluating the productivity and prospects for the functioning of the Uzbek political system is the fact that institutions of political mediation open broad opportunities for practical, ideological, and organizational activity, which can contribute to strengthening civil peace and stability. This significantly raises the prestige and authority of the institutions of civic accord and legitimize their operation and participation in realizing political power. Today, this will permit the institutions of political mediation, by using democratic means, to diminish economic and political tensions and to support the living standard of the population, especially the most vulnerable social strata.

Thanks to them, the country has created and clarified the real outlines of a political structure of society and state that can harmonize the interpersonal and intergroup relations and optimize the state and social systems. Political diversity consists not in the number of organizations and parties, but in the possibility for a constructive political dialogue. And the goal of such a dialogue is to find common points of view in understanding and judging processes and tendencies, in preparing a joint program, and in leading the country to a more advanced position.

The strengthening of social partnership and solidarity in Uzbek society is the principal, real task to be achieved by the state, political parties, and the institutions of political mediation. This can ensure the effective political and economic independence, the stabilization of the situation in the region, and the creation of conditions for a rapid growth in the material well-being of the people.

Endnotes

1. Molodezh' Uzbekistana, 23 February 1993. [All ellipses, where in quotations or main text, are in the original--Translator.]
2. Alisher Navoi, *Sobranie sochinenii v 10-i tomakh*, vol. 10 (Tashkent, 1970), p. 20.
3. *Ibid.*, vol. 10, p. 34.
4. *Ibid.*, vol. 10, p. 234.
5. *Konstitutsiia Respubliki Uzbekistan* (Tashkent: Uzbekistan, 1992), p. 9.
6. *Ibid.*, p. 10.
7. *Ibid.*, p. 11.
8. I. A. Karimov, *Osovnye printsipy obshchestvenno-politicheskogo i ekonomicheskogo razvitiia Uzbekistana* [The Basic Principles of the Social, Political, and Economic Development of Uzbekistan] (Tashkent: Uzbekistan, 1995), p. 13.
9. *Nezavisimaia gazeta*, 26 April 1994.
10. *Konstitutsiia Respubliki Uzbekistan* (Tashkent: Uzbekistan, 1992), p.10.

8

The Open Foreign Economic Policy of the People's Republic of China: The Special Features and Main Thrusts of Reform

A. A. Isadjanov

Introduction

Under the conditions of the emergence of the Republic of Uzbekistan as an independent and autonomous state, and the formation of a socially oriented market economy, it has become essential and imperative to study the experience and problems of integrating the national economy into the world economy and those of global economic exchange.

The experience of foreign countries shows that the process of integration into the world economy is associated with structural changes in the national economy. Such changes are elicited, to a large degree, by the development of international branch and territorial concentrations, specialization, and cooperation in production. They also follow from the formation of a new mechanism for foreign economic relations.

China has accumulated considerable experience in the sphere of building an open foreign economic policy. The high level of dynamism in the economic development of the People's Republic of China in the last decades is due to the profound changes in its entire system of social production. These changes were the result of a new strategy for the social and economic development of the country and were further due to the cardinal economic reforms adopted at the third plenum of the Central Committee of the CPC in December 1978.

The main result of the social and economic development of the country during the years of reform was the completion, ahead of schedule, of its strategic plan to quadruple (by the year 2000) the gross domestic product (GDP) of 1980 and to achieve a level of "modest sufficiency" for the general population. These results, to a considerable degree, were due to the preparation and implementation of an open foreign-economic policy.

1. Special Features and the Main Dimensions in the Formation of China's Open Foreign Economic Policy

An important component of the general economic strategy of China was the decision to pronounce an "open door policy" in the sphere of foreign economic relations. This policy provides for a broad development of foreign trade, commercial-industrial cooperation, the attraction of foreign capital (in various forms), the creation of special economic zones, the diversification of credit-finance relations with foreign banks, the export of labor, and the application of other flexible forms of cooperation.

Since the beginning of the economic reforms in China (1978), much has been done in the sphere of developing foreign economic relations, attracting foreign investments, increasing the volume of foreign trade and diversifying its geographic flow, and decentralizing foreign economic activity.

The policy of openness is a basic component of China's economic reform. This policy was formulated on the basis of a realistic reexamination of the conceptual bases of the strategy and tactics for building a new China. It also entailed a comprehensive consideration of changes in the international economic and political situation, in the status of productive forces, and in the efficiency of social production in China itself. An important element in the open foreign-trade policy of China was the recognition of the

need for an organic integration of China in the international division of labor and international economic relations.

1.1. Concrete Measures

The open foreign economic policy (which was proclaimed at the third plenum of the Central Committee of the CPC in 1978 and confirmed at the XII Congress as having "a long-term, strategic character") has been legally incorporated into the laws and statutes of the People's Republic of China.

For purposes of the organizational strengthening of this course, China has carried out a number of large-scale, long-term political and economic measures. To a significant degree, these have predetermined the main thrusts of the further development of foreign economic relations of the Chinese People's Republic.

The sessions and permanent committee of the National Council of People's Representatives, the State Council of the People's Republic of China, and pertinent ministries and agencies have adopted a significant number of normative acts, rules, and statutes for this sphere: "the Law of the People's Republic of China on the Income Tax from Enterprises of Mixed Ownership", "the Statute on the Regulation of Labor Relations in Enterprises of Mixed Ownership", "the Statute on Special Economic Zones in the Province in Guangdong", "the Law of the People's Republic of China on the Income Tax from Foreign Enterprises", "the Law of the People's Republic of China on Economic Contracts with Foreign Countries", "the Law of the People's Republic of China on Enterprises with Foreign Capital" and many others. The country has achieved the development of credit and financial cooperation with foreign countries, the expansion of international activity by Chinese banks, and the establishment of the right of foreign banks to engage in operations in China. China has joined the International Monetary Fund, the International Bank for Reconstruction and Development, the Asian Development Bank, and other international financial and economic organizations.

1.2. Goals and Means

The goal of this policy is to make maximum utilization of foreign sources of financial and economic assistance as an auxiliary lever to modernize the economy, to expand economic potential, and to move China-by the end of the century-to an advanced position in the production of the most important categories of products.

The means for realizing the policy of "open door" include diverse and flexible forms of foreign economic cooperation such as the export of labor, the formation of special economic zones, the creation of enterprises that are either founded as joint ventures or created wholly through foreign capital, etc.

The main organizational measures to ensure this policy of open doors included the reform in the system for administering foreign trade, the establishment of contractual and legal mechanisms for long-term economic cooperation, and the gradual adoption of the domestic legislation of the People's Republic of China to the demands for such cooperation.

The characteristic features of the policy of "open doors," given its goals, are the

following: (i) long-term framework, large-scale operations, (ii) an orientation primarily toward the markets of developed industrialized countries and the countries of East Asia, (iii) a faster rate of development in foreign economic relations (compared to the growth of the GNP), (iv)

a diversification and improvement in the structure of foreign economic relations, (v) a step-by-step systemic reconstruction of the mechanism for administering foreign economic relations, (vi) a substantial influx of foreign capital, (vii) the formation of a multi-tiered territorial openness of the economy.

1.3. Plans to Extend Foreign Economic Relations

In the 1990s, in accordance with the resolutions of the XIV Congress of the Chinese Communist Party, the country plans to make a significant expansion in its foreign economic relations. China plans to expand the open territories and to create a multi-tiered and multi-channelled openness on the basis of accelerated tempos for the development of foreign economic relations of the inland provinces and autonomous regions. Having developed Shanghai's Pudong in the early 1990s and opening its doors for foreign investment, the country plans to increase the openness of cities along the banks of the Yangtze and to accelerate the economic development of areas in the delta and the entire basin of the Yangtze River.

An important thrust in the intensification of reform in the foreign economic sphere is deemed to be an increase in the use of foreign investments, an improvement in the investment climate, the establishment of favorable conditions for investment, and the organization of economic activities for foreign investors. Plans are also being made for the active solicitation of foreign investments - primarily for the infrastructure and basic branches of production, for the technical modernization of enterprises, for the support of capital- and technology-intensive branches, and (on a reasonable scale) for use in the spheres of finance, trade, tourism, and real estate.

During the years of reform, China has accumulated considerable experience in attracting foreign capital and in experimenting with various methods for soliciting such investment. Undoubtedly, the substantial results obtained in the sphere of attracting foreign investments, the expansion of the volume of foreign trade, the development of the country's territorial openness-were attributable to the broad institutional changes in the sphere of foreign economic relations.

2. Special Features and the Character of Institutional Changes in China's System of Foreign Economic Relations

The main lines of reform in this sphere envision a broad influx of foreign capital (in the form of credits and FDI), the development of foreign trade, the strengthening and expansion of the export base, and the reconstruction of the mechanism for managing foreign economic relations. The strategy of the Chinese leadership in the foreign economic sphere was aimed at the further integration of the country's economy into the world economy. This was to be achieved by expanding the trade volume and by adopting a more open foreign economic policy.

2.1. Decentralization of Foreign Trade

Until 1978, the structure for managing foreign economic activity was based on the principles of strict centralization and the large-scale application of administrative methods. The Ministry of Foreign Trade held a monopoly over the conduct of foreign trade transactions. Directly subordinate to the Ministry of Foreign Trade were the foreign-trade companies and their branches in various cities. On the whole, the Ministry assumed complete responsibility for profits and losses in the sphere of foreign trade. Under these conditions, China took the following measures to reform its system of foreign trade relations: (i) elimination of the Ministry's monopoly over the conduct of export-import operations, (ii) creation of new foreign-trade organizations, which would represent an alternative to the Ministry, (iii) reductions in the list of export goods that were under the exclusive control of the Ministry, (iv) conferral, to a large number of enterprises, of the right to enter directly into foreign markets, (v) grant full authority to the local organs (in provinces, autonomous regions and cities under central jurisdiction) with respect to questions involving foreign trade and attracting foreign capital.

The entire responsibility for enforcing the customs legislation was placed on a newly created organ, "the Central Customs Administration of China." In the beginning of the 1980s, on the basis of several organizations (the Ministry of Foreign Trade, the Ministry of Foreign Economic Relations, the State Committee for the Control of Foreign Investments), China also established a "Ministry of Foreign Economic Relations and Foreign Trade of the People's Republic of China."

The liquidation of the monopoly held by the Ministry of Foreign Trade in this sphere contributed to the formation of a significant number of new foreign-trade companies. China established the "All-China Corporation for the Import and Export of Machinery and Equipment" (under the Ministry of Machine-Building and Electronics), as well as another organization to export and import metallurgical products (under the Ministry of Metallurgical Industry), yet another organization to export and import chemical goods (under the Ministry of Chemical Industry), etc.

At the same time, China also established local foreign trade companies at the level of the province, autonomous region, and cities directly subordinate to central authorities. These include the Foreign Trade Corporation of the Province of Fujian, the Shanghai Foreign Trade Corporation, the Corporation for the Import and Export of Machinery of the Province of Shanxi, and so forth. The right to engage directly in foreign trade activity has further been delegated to the large state industrial enterprises—such as the Dalian Plant for Heavy Machine-Building, the Harbin Bearings Plant, the Shandong Tractor Works, and so forth. A significant number of the entities that engage in foreign trade activities have been unified in trade centers, which encompass a number of types of goods: electronic and electric goods, machinery and equipment, metal and chemical goods, textiles and clothing, products of light industry, arts and handicrafts, medicines and other health products.

Under the conditions marked by a decentralization of the system of foreign economic activity, China developed new forms of economic cooperation with foreign partners. Taking into account the contingents of the labor force and the opportunities for its export, China has created specialized committees to organize its utilization abroad.

These include the Chinese Corporation for the Construction of Civilian Projects, with representatives in Europe, the countries of Africa and the Near East, and so forth.

The institutional changes were widely applied to the infrastructure of foreign trade activities. In the sphere of transporting foreign trade cargoes, the All-China Foreign Trade Transportation Corporation conducts its activities with representatives from the United States, Germany, Belgium, the Netherlands, Japan, and Hong Kong. Other organizations include the Chinese Company for Oceanic Shipping (which has an extensive network of branch offices and representatives abroad), the Chinese Freight Corporation, as well as many other companies and firms.

2.2. Reform of Related Financial Institutions

The institutional changes in the system of foreign economic relations were also linked to a transformation in the mechanism for financing investments. China has also created and reorganized the Investment Bank of China, the Industrial Trading Bank of the People's Republic of China, the Bank of China, and the International Corporation of China. These financial institutions aim: (i) to attract foreign investments to provide financing for the construction of new projects or the reconstruction and modernization of existing enterprises, (ii) to evaluate the economic expediency and utility of investment projects, (iii) to realize international operations in the special economic zones and establish relationship with foreign banks, (iv) to make foreign investments. As a result of these changes, there has been a significant expansion in the authority of local government organs. The latter have assumed a large part of the power of the Ministry of Foreign Economic Relations and Foreign Trade in determining state plan objectives with respect to the export of the foreign-trade companies located on their territory.

3. Attraction of Foreign Investments

An important thrust in developing of foreign economic activities of the People's Republic of China is the large-scale solicitation of foreign investments. Here China has pursued the following objectives: (i) apply the newest achievements of science and technology, and the advanced experience in management, (ii) mobilize additional resources for the structural transformation of the economy, (iii) raise the skills and qualifications of Chinese personnel, (iv) increase foreign exchange earnings.

The solicitation of foreign investment has been a key component in the open foreign-economic activity of China. The country's success in attracting foreign investments, to a large degree, has been due to the creation of a favorable investment climate on a significant part of its territory. The basic elements of this climate consist of the following: (i) low labor costs, (ii) inexpensive rates for the right to use land, (iii) sufficient level of development of production and social infrastructure in areas with special investment privileges, (iv) special taxation, preferential immigration and customs system, (v) a well-developed system of legislation with respect to foreign economic affairs, customs and foreign exchange. The main forms of attracting entrepreneurial investment to China have been enterprises based on one of the "three capitals": (i) joint-venture enterprises, (ii) cooperative (contractual) enterprises with foreign investments, and (iii) enterprises based entirely on foreign capital.

4. Regional Aspects of the Open Foreign Economic Policy

An important part of the openness in the foreign economic activity of China has been the attempt to take into account the regional dimension. On the basis of the open doors policy, China has taken steps to give an additional impulse to the development of the country's western and internal regions. At the beginning of the economic reforms in the late 1970s, there was a substantial difference in the economic development of internal, western, eastern, and southeastern regions of China. And, in part, these differences have persisted up to the present time.

4.1. Forms of "Openness"

The main forms of "openness" included the creation of special economic zones (SEZs), "open" seaport cities, zones for high tech and free trade, and open zones along the country's borders.

4.1.1. SEZs

The main peculiarities of the special economic zones (which were created in the provinces of Guangdong, Fujian, Hainan), was the simplified system for border control, a preferential tax treatment, and the broad independence of local administrative organs with respect to establishing and organizing foreign economic ties. In addition, special export-oriented enterprises have been created in these zones. For example, on Hainan Island, there are five specialized regions or districts: Haikou (financial sector, electronics, and food-processing industry), Sanya (tourism, folk handicrafts production), Yangpu (petrochemicals and construction materials), Basuo (metallurgy and the chemical industry), and Qionghai (export-oriented agricultural production).

4.1.2. Open Seaport Cities

The "open" seaport cities were established along the eastern coast and included the following: Dalian, Jinhuangdao, Yantai, Qingdao, Nantong, Shanghai, Ningbo, Wenzhou, Guangzhou, Lianyungang, Zhanjiang, Beihai, Tianjin, and Suzhou.

4.1.3. High Tech Zones

The high-tech zones began to be created in China at the end of the 1980s. At the beginning of 1991, the State Council approved a plan to develop twenty-seven high-tech zones in various regions of the country. The principal goals of these zones are to develop the most advanced technology-intensive branches, to attract foreign capital to experimental production lines, to design new technologies and materials, and to commercialize scientific and technological innovation.

The conferral of the status of high-tech enterprise to domestic and joint-venture enterprises entails giving them the following: (i) preferential treatment in taxes and customs, (ii) exemption from import duties equipment and machinery purchased abroad for scientific research and experimental engineering projects, and (iii) during the first three years, authorization for the zones themselves to determine the use of their foreign

exchange earnings.

4.1.4. Free Trade Zones

"Free trade zones" are essentially closed enclaves, and the terms for their operation are made maximally similar to those at an international level. The area allocated to most of them does not exceed several square kilometers. The main objectives in creating such zones is to develop the service sphere (storage; transportation; packing and preparation of cargoes, trade, and other forms of service). These zones are distinguished by a preferential and flexible policy, which ensures the free flow of goods, investments, and labor. In these zones, China encourages foreign investment in the infrastructure for foreign-trade activities (ports and storage facilities) as well as investments in the financial sector.

4.1.5. Open Border Zones

In the early 1990s China began the intensive development of its border trade. These zones are located in the northern and northeastern regions of China. Thus, Mudanjiang embarked on the realization of a large-scale program to develop the transport infrastructure in the northeastern region. Thanks to its favorable geographic location, this region should be transformed into a large transport and financial-commercial center for northeastern Asia. In this region, a zone for international commercial-economic development (with the participation of all the countries in this region) has also been established.

4.1.6. Open Sea Zones

The "open sea zones" have been created in the delta of the Yangtze River. This includes the development zone of Pudong created in the beginning of the 1990s, and is intended to attract direct foreign investment in the sphere of production and to promote the development of science and technology, finance, insurance, and banking. The design and realization of this project attests to the expansion of the open policy and the shift in the center of gravity from the southern and southeastern regions (Guangdong and Fujian, the most developed in economic terms) to the areas of eastern China and to the delta of the Yangtze River.

Compared to the initial period of reforms when there existed a considerable gap between the levels of development of different areas, through establishing SEZs and various types of open zones these differences are on the way to converge.

Conclusion

In general, the Chinese experience affirms that an important dimension in the economic reform is the preparation and realization of an open foreign-economic policy. An examination of the experience in the formulation of the open foreign-economic policy in China encompasses at least three main dimensions: First, on the basis of the Chinese experience, it is possible to conduct a theoretical study and to make generalizations about the role, significance, and content of foreign factors in economic development, in the

integration into the world economy, and in the international division of labor. Secondly, of practical interest here are a number of aspects: the concrete forms, methods, and devices for integrating China's economy into the world economic system, specifically, the practice of "opening" individual territories and regions, the experience in using various forms of commercial-economic and production-investment cooperation with foreign countries, and, finally, the measures to liberalize foreign-economic activity. The urgency of studying the experience in attracting foreign investments, to a significant degree, contributes to understanding the evolution and basic thrusts of state policy in this sphere, the mechanisms for utilizing foreign capital, and the degree and character of its impact on the economic and social processes of China. Thirdly, a study of the experience of economic transformation in China, including the foreign-economic sphere, will make it possible to assess more accurately China's potential as a prospective partner in large-scale commercial-economic, production-investment, and scientific-technological cooperation.

9

China: The Results of Reforms

S. S. Guliamov

Introduction

Uzbekistan is taking a keen interest in the Chinese experience. This is only natural, since the two countries have much in common: in terms of history, economic development, culture, and spiritual values. In the course of centuries, the two countries were strongly bound together by the Great Silk Route. The moral values of the Confucianism that existed in China (as an ethical and political teaching) are compatible with those of Islam, especially with respect to family roots, concerns about the young generation, veneration of elders, and the like. Therefore, Uzbekistan can apply for its own benefit the advanced experience of China. China is one of the most ancient states on our planet. In terms of population, it is the largest country in the world (with 1.25 billion inhabitants). Its territory occupies 9.6 million square kilometers, an area almost equivalent to the entire European continent.

In 1949, China embarked on the path of an independent, socialist line of development and subsequently achieved considerable success. In contrary to other socialist states, in the 1960s and 1970s, however, its economy entered upon a period of stagnation and decline. In the late 1970s, China began to shift from a centrally planned economy to one based on market relations. The peculiarity of China consists in the fact that the reform did not entirely renounce socialism or deny the leadership of the communist party. Plans based on five years and more were also retained. But the country reduced the binding operational plans, and made much broader use of indicative (targeted) forms of planning.

1. The Flow of Reforms in China

In the years since 1978, China has undergone significant changes in its political, economic, and social life. In December 1978, the XIII session of the Chinese Communist Party held its third plenum which adopted plans for a so-called socialist renewal in four main spheres: industry, agriculture, military and science and technology. As a result, enormous changes have taken place in the economic landscape. Indeed, the impressive economic reform has attracted the attention of the entire world.

As already noted, the transformations intend to entail a transition from a centralized system of economic management to a "socialist market economy." The most important change was to replace the people's communes with a system based on the family unit. This created opportunities for millions of peasants to show their initiative, and in a short period of time the country became self-sufficient in food and raw materials.

There were also changes in investment. Whereas earlier funds had gone primarily to develop heavy industry (in accordance with the model of the former USSR), investment policy now gives special attention to light industry and textiles.

Since 1984, the reform has been extended to the city as well. At this point, the planning assumed an indicative form and opened a broad vista for the formation of market relations. The successful completion of reforms in China was determined by two main factors: (i) state management and control over its implementation, and (ii) the gradual, stage-by-stage realization of reforms. When difficulties in the economy did arise (*viz.*, in 1979, 1984, 1988, and 1992), the leadership of China took decisive measures to ensure stability in social and economic development. As a result, they were able to avert a process of decline and to preserve the possibilities of continuing the reform. The success was also predetermined by the strong social

safety net and by the individual initiative of the population.

According to data compiled by the Asian Development Bank, in the course of the reform it was the middle strata of Chinese society that ensured stability in price formation, an improvement in living standards, and growth in other social and economic indicators. Plan directives were prepared with respect to the production of the most important goods. Free, unregulated prices were introduced for foodstuffs and for manufactured consumer products.

Yet another important and distinctive feature of the reform consisted in the fact that, despite the significant scales of privatization, it was not extended to large state enterprises. Although their share of the GDP decreased to 20 percent, they continue to account for no less than 45 percent of the total industrial output.

Western authors (for example, Fisher, Dornbush, and even Shamlenzi in his book, *Economics*) write that the tempo of transformation in China is slowing down. The facts, however, contravert such claims, the reform is being consistently advanced and extended. Thus, in the last two years, China has adopted important laws that have helped to bring order to many branches of the economy. Since 1994, there have been serious changes in foreign exchange operations, taxation, and finance. The system of determining the interest rate through market mechanisms, the adoption of open market operations, and the preparation for a convertibility of the yuan are continuing without interruption.

It is striking that China takes a critical attitude in assessing the successes achieved thus far, and that it does not deny the difficulties and serious problems. The government openly speaks about the fact that the level of economic development is still low. Large amounts of energy and raw material resources are expended, and yet these still are not sufficient to satisfy the needs of the processing industries. The quality of production is improving but slowly, and the assortment of goods changes only rarely. The value added is extremely low, the competitiveness of goods on world markets is similarly limited. The expenditures in construction are huge and serious excesses are tolerated in this sector. In a word, the efficiency of the economy is not high, and the country is still dominated by extensive methods.

The government of China has set for itself the goal of an intensification in production and has prepared a new model of economic development. This model foresees, in particular, the aggressive application of the most advanced achievements in science and technology, a rational utilization of resources, and an improvement in the system of economic management.

The resolution of the outstanding goals are associated with a broad-scale dissemination of market mechanisms. This will serve as the fundamental stimulus and lever for the transition to a new model of economic development. The experience of recent years has shown that the adoption of market mechanisms yields substantial results. This is expressed with particular clarity in the competition on domestic and international markets.

Above all, the Chinese have reexamined the methods of economic management. Some 40 percent of the leaders have either voluntarily resigned from their positions, or been removed and replaced by entrepreneurial personnel.

2. Reforming the Agricultural Sector

The arable land of China amounts to 1.49 billion mu (100 million hectares), which corresponds to a per capita average of 1.33 mu (0.88 hectares). Under these conditions, it is no

easy matter to supply the country with all the foodstuffs that it requires. The communes established in 1949 were simply incapable of dealing with this problem. Though about 80 percent of the population lives in the village. Beginning in 1978, the communes began to break down into family units. As a result, agriculture acquired favorable opportunities for the development of its production forces. In the process of reforming, the economic and administrative objectives of the communes became separated from each other. In lieu of 56,000 communes, some 72,000 townships and towns were established. In addition, 840,000 committees of the rural population (uniting 150,000 peasant households) were set up. These function as the owners of land and agricultural inventory.

About 99 percent of the production brigades introduced various forms of the family unit. In the process of making the transition to this new form, the collective ownership was distributed on an equal basis, usually, this meant an allocation of 70 percent according to the total number of individuals and 30 percent according to the number of working people. In the future, such distribution of land will also take into account the potential capacity of households.

At the present time, 40 percent of the fixed capital in the village is in the form of collective property (compared to 90 percent at the end of 1970). Thus, at the present time the basic productive unit in the village is the peasant family or household, which now has control over the fixed production capital, housing, liquid assets, and reserves of agricultural products. The number of such families has increased nearly three-fold since 1981, in other words, the peasantry has been transformed into real property-owners. How is this being carried out?

2.1. The Contracting System

The peasant family concludes a contract with the community (rural committee or production brigade) to utilize a plot of land. Each family is leased, for a term of fifteen to thirty years, a plot of land ranging from 0.5 to 0.8 hectares. At the present time, as an experiment, land is also being leased for a period of forty to fifty years. The contract requires that part of the agricultural products of the family producers be sold to the state at stable prices. The community allocates funds to the general community fund and pays the agricultural taxes. The remaining agricultural products are left totally to the disposition of the peasant: he can sell it to state procurement organizations or on the market. One is reminded of the "New Economic Policy" (NEP) in the USSR in the 1920s, this method has also been widely utilized in Taiwan and in other countries. Yet another innovation consists in the rule that indigent households are exempted from the tax and the obligatory delivery of goods. The contract usually is concluded before the onset of agricultural work. Peasants who do not fulfill the terms of the contract can be deprived of their land plot.

The family unit encompasses 98 percent of all Chinese peasants. Such farms themselves determine the volume of output sold to the state. In exchange for such sales, a family can purchase (on special terms) machinery and equipment as well as fertilizer from the state. Half of the arable land is irrigated, and this means that it requires an organized system of irrigation and land improvement.

Family farms have a strong labor discipline. When conditions require, they also work at night. Peasants endeavor to use high-quality seed and small-scale machinery (e.g., mini-tractors) to cultivate the land. They make widespread use of the method of planting small cotton seedlings instead of seeds. The harvesting of cotton is done by hand. They are actively applying

the method of growing cotton plants under thin covers (a method, incidentally, that was applied in Andizhan, Uzbekistan in 1996 and yielded excellent results). All this has enabled China to emerge as the world's largest producer of raw cotton. Besides, each year, the country produces more than 400 million tons of grain (465 million tons in 1995, for example). By the end of the century, the level of this indicator is expected to reach four times of that in 1980.

In particular, it should also be noted that private ownership of land does not exist in China. Land belongs to the state, it is only leased to individual citizens.

2.2. The Emergence of Township Village Enterprises (TVEs)

Earlier, the agricultural population was not permitted to engage in the auxiliary activities, such as handicrafts and the like. The reform eliminated such restrictions. As a result, the village now houses 12 million small producer shops and enterprises that employ 80 million people (the so-called township-village enterprises). This reform process has provided work for 150 million people (from which 70 million in cities). Peasants are also permitted to engage in small-scale trade, to sell goods in distant towns, and to purchase agricultural machinery and means of transportation. They now own 70 percent of the tractors and 65 percent of the trucks located in rural areas.

China also permits village inhabitants to hire labor. About 1 percent of the peasant families now exercise this right. In addition, it is also possible to sublet land plots to a second party. The authorities encourage the concentration of land in the hands of entrepreneurial peasants.

2.3. The Procurement Mechanism

From time to time, the procurement prices on agricultural goods are raised. Since 1978, they have been increased two-fold as a whole; for specific crops, the increase varies--for example, 2.3 times for grain, 1.62 times for cotton and oil, and 1.65 times for sugar. However, the state procurement prices are still almost 30 percent beneath the cost of production.

The country has also reformed the system for state procurement of agricultural products. These are realized through contracting (at set prices) and through intermediaries (at market prices). The mechanism for procurement is approximately as follows: the state establishes a plan for the 23 provinces, which is based on a term lasting several years. The provinces, in turn, extend this plan to the individual townships, which thereupon make contractual agreements with subordinate peasant committees. These contracts determine the volume and structure of sown acreage, but the committees (together with the households) establish the volume of goods sold. As we understand it, this is essentially a state procurement order. Through this procedure, the state purchases 30 to 35 percent of the grain, more than 70 percent of the vegetable oil, and 95 percent of the cotton.

The grain is then used to feed the cities and to create stockpiles of provision reserves. For each centner (hundredweight) of grain sold under the state contract, the peasant receives (at fixed prices) 3 kilograms of diesel fuel and 6 to 10 kilograms of fertilizer. If the terms of the contract are not fulfilled, the peasants must purchase all this on the open market, where prices run 2 to 4 times higher than the state prices. The grain left over and in the hands of the peasant household can be sold at commercial prices, which are 2.5 times higher than the official

procurement prices. In China, the sale and purchase of certain agricultural products (except grain) is freely conducted through the marketplace. This includes pork, eggs, and vegetables. State control over prices on these goods has been abolished.

As for the tax system, the country is carrying out the transition from an agricultural tax in kind to a tax in money. Its structure has been improved. Thus, the volume of the tax on goods sold depends on its volume and its form, it ranges from 2 to 10 percent.

2.4. The Influence of Confucianism

We would like here to make a small digression. In speaking about the economic reforms of China, one cannot overlook the fact that the ideas of Confucianism have exerted a strong influence on them. In accordance with its teachings, the state has set for itself the following economic objectives: (i) ensure a careful expenditure of resources, (ii) provide the people with a prosperous life, and, (iii) preserve the production surpluses. According to the ideas of Confucianism, the state is a large family, its wealth should be distributed equally, taxes should be realistic, agriculture should be conducted well, and all, without exception, must perform their duties conscientiously.

3. The Achievements of Chinese Reforms

Thanks to the transition from the people's commune to the family production unit, the agrarian sector has undergone a rapid development. The living standards of the rural population have increased. For example, during the last ten years, half of the peasants have built new homes for themselves. Here their personal interests coincide with the economic interests of the state. There has also been a growth in the production of goods. The structure of planting has changed: whereas earlier only grain was produced, now other branches are developing, thus making the agricultural sector more diversified.

3.1. The Transformation of Agriculture

It should be emphasized that the number of people working in villages has decreased by 70 million. To solve the employment problem in villages and townships, the country is building a large number of industrial enterprises. By the year 2000, it plans to reduce the number of agricultural employees by 70 percent—that is, retain only 30 percent of the current level of rural employment.

It bears noting that a similar situation can be observed in Uzbekistan, where 62 percent of the population lives in rural areas. According to current plans, 40 percent of the labor force freed from agricultural production will be re-channeled to jobs in rural industry, trade, and services; another 20 percent will be employed in other branches in the village; and only 10 percent will relocate to work in urban industrial plants.

The widespread application of the family unit has given rise to a number of other problems. Under conditions characterized by shortages (machinery and equipment, fertilizer, and fuel), state investment in agriculture has nonetheless decreased from 17.8 percent of the budget expenditure to just 5 percent. The savings funds of the community have also decreased, since part of these resources have been distributed among the individual family contractors. In the family household contractors, the savings for productive purposes does not exceed 20

percent. These are expended mainly for purposes of construction. Under such conditions, support is given to preserving the family contractor for many years, the attempt to form the large-scale type of farm, and the voluntary formation of procurement cooperatives, for all this will help to ensure the independence of peasant agriculture.

The so-called "new economic formations" in the village are organized on the basis of branch and territory. They now amount to more than 480,000 units and encompass 4.2 million people (of whom 28 percent work as hired laborers). At the same time, China has approximately 2,000 state enterprises; in the majority of cases, their land and production equipment are distributed among workers on the basis of households. The country has 14,400 stations for agricultural experiments, 7,000 centers for veterinary experiments, 2,500 seed-growing companies, 2,600 meteorological centers, and 500 centers for the dissemination of scientific-technological information about agriculture.

Nevertheless, the material and technical basis of Chinese agriculture continues to remain at a low level. The gains noted above have been achieved primarily through manual labor and the productive use of animal draught power. This fact makes it possible to conclude that, if Chinese agriculture were to make a large-scale application of modern machinery and introduce new varieties of plants, biotechnology, and chemicals, its productivity would be still higher.

Primary attention is given to agriculture. Plans have been made to produce 450 to 500 million tons per year (that is, 400 kg. per capita), and this goal is being successfully attained. For the last twenty years, the productivity of grain crops has increased by a factor of 2.4 (with the per hectare output being 53 centners for rice, 30 centners for grain, and 37 centners for maize or corn). Rice now occupies approximately 20 percent of the planted land area. In the course of China's many centuries of history, more than 100,000 varieties of rice have been developed. In addition, the country grows barley, millet, and buckwheat. Significantly more potatoes are being grown, and these are producing good harvests. Among the industrial crops, large areas are allocated for cotton and tobacco. With 4.5 million tons of cotton per year, China is now the world's largest producer. The annual harvest of tea amounts to 0.5 million tons. There is a widespread consumption of green tea, black tea, on the other hand, is exported. China is also the world's largest producer of silk.

In the animal husbandry branch, the situation is considerably more difficult. It is used both as a source of foodstuffs and as a source of animal draught power. But even in this branch one is struck by the positive improvements.

The villages have also extensively developed handicrafts production—for example, weaving, the collection and processing of various medicinal herbs, and so forth. People ordinarily do this when they are not busy with field work. Some families and specialized brigades engage in particular spheres of activity. This entire experience is of great significance for the country.

One of the main objectives of the ninth five-year-plan (1996-2000), and also for the subsequent period, is the industrialization of the village. During the last six years, the volume of imports of goods has dropped to one third. In the most profitable branches, a single "industrial system" has been established. Initially, an "industrial-commercial system of agriculture" performed its functions on an autonomous basis. This was the initial form of industrialization. Since 1993, when the Chinese government declared the "construction of a socialist market

economy" to be the main objective of its economic reform, the goal of transformation in the village is the commercialization and specialization of agricultural production, along with the "development of trade, industry, and all forms of joint management in agriculture."

In Shandong and other provinces, the "industrial method" has withstood the test. As a result, "main" enterprises have been established. These service the needs of farmers and the plants that process agriculture products. This in turn led to a specialization of farms. By the end of 1995, some 13,600 "main" enterprises had been established in various provinces.

This new approach has increased the marketability of goods from farmer households and has also led to an increase in profits. Thanks to the industrialization in densely populated areas, it also became possible to eliminate the shortage of land and to increase the efficiency of agricultural production. But in this sphere too there are some unresolved problems. Agriculture has enormous social significance in China, but its economic returns are still low. If the total growth of production in the economy was 10.2 percent in 1995, the increase was about 4.1 percent in agriculture (compared to 17.8 percent in industry). The following table shows the basic economic indicators for the development of agriculture in China for 1995.

The transformations in the village have had a major impact on the development of industry, which of course has had its own successes. With the grant of autonomy to enterprises, with the transition from administrative to economic methods of management, China has abolished all the instructions that impeded the growth of production. At present, state orders now account for 69 percent of demand. The centralized distribution of resources has been abolished, enterprises have been given the right to find their own clients and partners, a share of the earnings remain with the enterprise. Taking into account the current market conditions, the enterprise can set its own price on what it produces. The directors of enterprises have complete autonomy.

Table 1 Agricultural Production in 1995

Category	1995 Output	Percent Increase from 1994
Gross Domestic Product	5.773 billion yuan	10.2
Grain	465 million tons	4.5
Cotton fibers	4.5 million tons	3.7
Fruits	41.9 million tons	19.7
Meat	50 million tons	11
Milk	5.48 million tons	3.7
Cattle and oxen	159.39 million head*	6.8
Sheep and goats	273.27 million head*	13.6
Hogs	441.4 million head*	6.5

*At the end of 1995

3.2. Special Economic Zones (SEZs)

With respect to the applicability of the Chinese experience to Uzbekistan, one must pay heed to the SEZs. Since 1980, China has created five such zones and declared fourteen cities as to be "open." In 1985, China established a special economic area in the Yangtze Delta. In 1990,

another series of areas and cities acquired the same status. It has also established tax-free zones.

The SEZs are oriented toward foreign markets and concentrate specifically on manufacturing industries such as electronics and consumer goods. More importantly, scientific research, production, and trade comprise a single, integrated complex. In these zones, foreign investors are given favorable incentives such as tax-exemption and the issue of visas. The state confers on the special zones significant autonomy in managing their economic affairs. The basic purpose in establishing such zones is to attract foreign investment, to introduce advanced foreign technology and methods of management, and to obtain information about conditions on the world market.

As an example of what SEZs can yield, one might offer the example of Shenzhen (which occupies an area of 372 square kilometers and shares a common border with Hong Kong). Here, in 1980-1992, the average annual growth of GDP was 45.3 percent, the volume of export increased 63.7 percent. (In 1992, the total exports and imports from the five SEZs amounted to 24.3 billion dollars, 14.7 percent of the total trade of China.) The living standard of the population in this zone is the highest in China (being 5 times higher than that of the country as a whole). At the same time, it must be pointed out that foreign capital is invested primarily in trade, tourism, construction, and in enterprises that engage in the assembly of imported components.

What kind of society is being built in such zones—capitalism or socialism? Deng Xiaoping responded to this question by saying that it is of no importance for us. The main thing is that production increase, that the state be strengthened, and that the living standard of the people rise. In other words, it does not matter what color the cat might be, black or white; the main thing is that it catch the mouse. In short, the economy should be above and independent of ideology.

3.3. Private Ownership and Foreign Participation

In China, more than 17.5 million people are members of partnerships and engage in individual forms of economic activity. They give the government more than one billion yuan in income. Their economic development depends on favorable international experience. They constantly expand their ties with foreign firms, for whom special, favorable conditions have been established. China now has 8,900 enterprises that engage in cooperation with foreign firms. They have a total capital of 20 billion dollars. A significant proportion of their products correspond to world standards.

Apart from Shenzhen, the southern part of China has other SEZs—in Zhuhai, Shantou, Xiamen, and Hainan. Cheap raw materials, advantageous terms of lease, access to sea routes, and the sale of goods for hard currency on world markets are all factors that serve to create a favorable climate for foreign investment. For its part, the Chinese side sends workers to these zones (thereby reducing, if only slightly, unemployment), has an opportunity to raise the living standard of the people employed here, and manages the economy in ways that correspond to the demands of the world market. Taxes are assessed in foreign exchange, these are then used to purchase foreign-made machinery and equipment. It would be reasonable and expeditious to use this experience in Uzbekistan as well.

If earlier China, with all its strength, had endeavored to realize the slogan of "death to

capitalism," at present it is conducting an "open door" policy. Fundamental changes in this sphere are associated with the creation of companies that include the participation of foreign capital. In industry, such companies are being practiced on a large scale. Their volume amounts to about 30 billion dollars, more than 200 enterprises are jointly operated with foreign partners. The number of joint-ventures is constantly increasing, inviting investors from Hong Kong, Taiwan, Thailand, the United States, Japan, Singapore, and the Philippines.

There have also been important changes in foreign economic relations. The total sum of export-import operations amounted to 1 trillion dollars, that is double the amount of the seventh five-year-plan. The volume of foreign investments exceeds 160 billion dollars. The state's foreign currency reserves amount to 73 billion dollars (at the end of 1995).

3.4. The Infrastructure

China has also undergone a rapid development in its construction, communications, and the fuel and energy industries. Two years earlier than originally planned, it has built a railway line of 11,000 km (linking Hong Kong to Chinese territories). It has also brought on-line a new electrical network with a total capacity of 70 million kilowatts. There has also been an acceleration in the process of establishing telephone lines, as a result, some 58 million new subscribers have now been added.

3.5. The Improvement of Living Standards

The living standards of the population are also gradually improving. The growth of income amounts to 7.7 percent in the city and 4.5 percent in the village. The sale of consumer goods has increased, on average, by 10.6 percent. Some 4.3 billion square meters of housing have come into use. The number of citizens below the poverty line has fallen from 85 million to 65 million.

4. The Building of Socialist Market Economy

The socialism being constructed in China is still at early stage of development. The creation of its material and technical base will occupy the period until the end of the twentieth century or a still longer period of time.

According to Chinese leaders, the socialist modernization of the country will be carried out over three stages: (i) by the year 2000, the gross production of industry and agriculture is to increase four-fold of that in 1980, while the living standards of the people will achieve a middling level of prosperity; (ii) by the year 2021 (the hundredth anniversary of the Chinese Communist Party), China will become one of the middling-developed countries; and, (iii) by the year 2049 (the hundredth anniversary of the Chinese People's Republic), the country will be transformed into a well-developed socialist state. And, for the realization of these tasks, the country has already attained the first steps of success.

As has already been pointed out, China has a five-year-planning system, but simultaneously has opened a wide path for a market economy. In the national economy, along with the preservation of a leading role for state ownership of property, there is hidden unemployment and the use of hired labor. But, most important, the country does not permit the formation of a class of exploiters. The economy of China is diversified, with different forms. It

has state, community, private, individual, and state-capitalist enterprises.

One must also laud the Chinese experience with respect to the environment and the maintenance of cleanliness in populated areas. One can see cleaning ladies wearing white shoes and white gloves. The principal form of transportation for Chinese is the bicycle. On the main streets, one sees thousands of people going to or coming from work on bicycles. The Chinese say that the bicycle is cheap, clean, and also good for one's health. They do not use trucks to transport small cargoes. The price of bus tickets rises with the number of stops and one is forced to go on foot if it is a short distance. At the bus stops, the driver is obliged to shut off the motor. This is done both to protect the environment and to save fuel.

The Chinese are very thrifty. For example, at gasoline stations, you will see that not a drop is wasted, that all the work is performed so as to prevent evaporation. Every cent is saved. The yuan, a stable monetary unit, is earned with hard work; it is highly valued; it enjoys a high degree of confidence. But it is easily spent-at every step, one finds everything that one could want. The shops have a large assortment of meat, sausage, fish, vegetables, rice, various sweets, and other food products. The number of private cafes is endless. Thus, although China has not renounced its socialist orientation, it has nonetheless admitted serious changes in the theory and practice of realizing this basic idea.

5. Lessons to Learn

One can learn much from China. From the foregoing, the following conclusions can be drawn: First, economic reform in China began in the village. This is the most important special feature here. Secondly, China did not seek models to emulate. Here one acted on the basis of many centuries of development, and came to the conclusion that "the seeds appropriate to one's homeland will give a large harvest." A country that applies Western technology does not, to the full degree, observe the rules of Western democracy. It makes extensive use of the idea of collectivism, and there is no drive or aspiration for a radical change. Thirdly, at the very outset of economic reform, the country worked out its strategy and determined its goals for the short- and long-term (more precisely, in three stages). Lastly, the country follows this rule: "In the beginning, go slow, then look around, then move forward."

China did not undergo a "shock therapy," i.e., it remained remote from such radicalism. Rather, it acted under the principle that "one must be slow in making haste." Initially, it conducts a local experiment, then expands this or renounces it altogether. Here one is concerned about the stability of society and, above all, about stability in the economy. The most sensitive question is that of prices. They are gradually regulated. Here one finds an important truth: discoveries in the economy are few, but the secrets of the market have been known to mankind at least since Adam Smith in the eighteenth century. With respect to the exchange of the Chinese yuan, it would not be amiss to recall the theory of money. Namely, it performs three functions: (i) as a means of exchange, (ii) as a measure of value, and (iii) as a means of saving. Adam Smith regarded money as the main locomotive of production. But what quantity of money should a country have? Is the more the better? Sir William Petty, still in the eighteenth century, declared that money is like fat in the human body, i.e. it is dangerous to have too much or too little, and it is better to have a moderate amount. The quantity of money is directly proportional to the quantity of goods and services and is inversely proportional to its turnover. In other words, if money "does not circulate," it becomes all the more in demand. Thus, money should be issued

proportionately to the growth in production and services. It seems that China, and a number of other countries, are respecting this rule.

The main cause of the success in China rests in the fact that there is iron discipline. Diligence, order in production, the art of management, inter-personal relations at work, responsibility-all this finds its reflection in a business-like and calm environment.

Success in the implementation of reform have been achieved without a sharp change in the instruments of labor. If new technologies have been adopted here, the development of the country would unquestionably have been accelerated. The experience of economic management in China, the resolution of problems in making the transition to a market, the financial methods -all this constitutes a major school.

Given the small size of the territory (relative to the size of the population), it is no simple matter to provide the world's largest population with work, food products, clothing, management for the production process, exchange, supply and consumption, an improvement in the cultural level, and participation in competitive international markets. This all requires a high level of talent, skill, order, sense of responsibility, will power, and firm discipline. And in this regard there is much to learn from the Chinese.

As for the experience of Uzbekistan, in following the path of independence, by 1996 the country has achieved significant success in some areas. The year of 1997 became a kind of turning point. The reforms began to yield positive results; the economy is making confident strides forward. Concrete changes are especially tangible in the sphere of industry-the volume of its production, compared with the previous year, rose by 5 percent. The non-state sector has come to assume a leading position. Substantial changes in the economy have brought the country to the point where the volume of production of competitive goods of daily necessities is now constantly increasing. The position and influence of Uzbekistan on the world market is growing stronger; the volume of foreign trade is increasing; the list of goods is becoming ever more diverse.

During the short period that has elapsed since the declaration of its independence, Uzbekistan has concluded many treaties with foreign states about economic and cultural cooperation. It has signed fifteen such documents with China alone. In Uzbekistan there are joint-venture enterprises with China for the production of thermoses, televisions, and mini-tractors. On 15 October 1992, the Chinese embassy was opened in Tashkent. The president of Uzbekistan, I. A. Karimov, and the leaders of China have established relations with each other. This is opening the door to a further strengthening of the historically friendly relations between the two nations.

Conclusion

The President of the Republic of Uzbekistan, Islam Karimov, has declared (in a welcome greeting to the participants of a scientific conference on the "Special Features of the Chinese Experience in Reforming Society") that one of the powerful states of the world-the People's Republic of China-has demonstrated an admirable example of respect for hard work, great creative potential, and wisdom. It is providing a model of a carefully thought-out and consistent reform of society.