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UZBEKISTAN - LEGAL ASPECTS OF FULFILMENT OF ECONOMIC RESTRUCTURING AND REFORMS

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Initial Situation on the Eve of Reforms

Before the announcement of its independence, Uzbekistan was one of the 15 republics of the former Soviet Union and had all the characteristic features inherent in a command and control economic system:

- which was based on general state property - private property had yet to be developed;
- the structure of the economy was over-monopolized and suffered from a long and deep economic and structural crisis;
- penetration opportunities into the World market were limited because of low production competitiveness.

Uzbekistan was:

- mainly a supplier of cheap raw materials and strategic mineral resources;
- a market for sales of finished products;
- an enclave economy without any direct access to the World market and with infrastructure and network communications concentrated mainly on the borders of the former Soviet Union.

As a result of the above and by the beginning of the reform process, Uzbekistan had an economic structure which was deformed in many respects and characterised by a backward technological level of manufacture and negative payment and trade balances. An analysis of the level of economic development of the former Soviet republics regarding national income per capita engaged in the national economy (as a percentage of the Union median of 100) shows that in 1979 the figures were: Russia -108%, Belarus - 101%, Latvia - 120%, Estonia - 123%, but for Uzbekistan only 77% - the lowest of all. This trend continued in the 1980s.¹

In 1990, the negative balance of inter-republican trade turnover in Uzbekistan amounted to R3.7bn, about 11% of GDP.² Having a potential opportunity for self-sufficiency with petroleum and other power resources, the Republic imported

more than 10 million tons of petroleum. Before its declaration of independence, Uzbekistan had no sufficient domestic sources of capital accumulation. The significant part of capital investments flowed to the Republic from the Union budget. About one-fifth of Uzbekistan's budget was formed by grants from this Union budget.

Moreover, Uzbekistan could not expect steady economic growth to become a reality due to the one-sided economic development caused by monoculture cotton planting. The major part of capital assets in industry, agriculture, construction, and transport were morally and physically worn out. The capital investment yield of industry was reduced. In comparison with 1985, by 1990 it was in industry generally only 97%, for the fuel and energy complex - 96%, metallurgy - 89%, machine-building - 95%, chemical and petrochemical - 94%.³ The level of capital accumulation in the 1980s was being steadily reduced: in 1980 - 28%, 1985 - 25%, 1986 - 23%, 1987 - 24%, 1988 - 15%, 1989 - 20%, 1990 - 21%.⁴ As a result of all these factors regarding the major living standard parameters, Uzbekistan recorded one of the lowest levels in the former Soviet Union.

As for the legislative base in the former USSR, law-creative activity as a whole (including in the economic sphere) was invested in the Union's bodies of state authority. On this basis, only state property was recognised - private rights and free competition were prohibited. By the time of independence, Uzbekistan's legal experts had no experience at all in law-creative work.

Role of the State in the Fulfilment of Economic Reform

After the proclamation of state independence, one of the basic targets of the Republic was the choice and bringing into existence of an independent social and economic development. This was based upon the national-historical characteristics of the population; its national traditions and customs. The specific demographic situation in the Republic is characterised by a high rate of population and human resources growth. The population of Uzbekistan was 23.4 million at the beginning of 1997. Of these, 8.9 million (38%) live in urban areas and 14.5 million (62%) in rural areas. The number of children aged under 16 was 9.8 million or 42.8 % of the total population in 1996 against 8.8 million in 1990.⁵ More than 100 nationalities and small ethnic groups live on the territory of the Republic.

Uzbekistan occupies a geostrategically favourable position in the centre of former Soviet Central Asia on the crossroads of the main routes to Central Eurasia. At the same time, the peculiarity of Uzbekistan's geographical location is that the country and its neighbours have no direct access to the sea. The specific nature-climatic conditions of the country are that agriculture is based on artificial irrigation and is thus rigidly limited by water resources. The major agricultural product is cotton.

Uzbekistan has substantial potential that ensures the political and economic independence of the Republic. There are more than 2,700 deposits of about 100 types of various useful minerals. Total raw mineral potential is estimated to be worth US\$3.3trn. As to gold reserves, the Republic takes the 4th place in the World. With gold production - the 7th place. Copper reserves are the 10-11th largest and uranium reserves the 7-8th largest in the World. Uzbekistan has unique fuel and energy resources. Known gas reserves amount to roughly 2 trillion cubic metres; coal reserves are more than 2 billion tons, whilst there are more than 160 petroleum deposits.⁶

The economic reform strategy pursued in the Republic is based upon five principles developed by the President of Uzbekistan. They are as follows:

- ridding the economy of ideological dogmas;
- the state is the initiator and main reformer;
- creation of a law-based society;
- maintain a strong social policy;
- gradual transition to market relationships.

Today, fulfilment of these principles provides for both social-political stability in the Republic and eases the transition to a market economy. One of the main principles of economic reform in Uzbekistan is the principle “the state is the initiator and main reformer”. It is necessary to note that the scope of state regulation and its particular forms and methods differ in different countries. As a rule, they reflect history, traditions, the size of a country, its geopolitical situation and many other factors. In the transition to a market economy, state regulation is of great importance as many functions of the totalitarian system have already been abolished whilst the new market framework has yet to be formed. During this period, economic management can be easily lost and replaced by spontaneous chaos. Thus, Uzbekistan proceeds from the fact that in a difficult transition period the state must be:

- the main reformer to determine the priorities of economic growth;
- the provider of a legal basis for economic reform;
- able to foster and support the viability of the economy, especially its structure-determining branches;
- willing to render them substantial assistance through price controls, preferential taxation and direct subsidy.

At the same time we should bear in mind that the state plays different roles at different stages of transition, from the formation of a market economy to the conditions of an already formed and well organized market economy. According to the concept of economic reform in Uzbekistan, the state in transition is obliged:

- to develop and consistently carry out the transformation of all spheres of economic and social life and to be an active participant in the reformation process;
- to form a legislative legal base and framework for economic reforms;

- to pursue a structural policy, including the formation and development of priority branches of the economy;
- to carry out the regulation of foreign economic activities;
- to create a favorable environment for institutional changes;
- to carry out effective social protection of the population;
- to act as a guarantee of economic freedom for enterprises and citizens and to minimize interference in their economic activity.

However, in accordance with progress towards a market economy, the role of the state in the management and regulation of the economy changes. Although none of the above listed functions ceases, the self-supporting and self-sufficient mechanisms of market economics becomes more important. In this way, the form, method, mechanism and basic direction of state regulation over economic reform processes are likely to develop and be enriched. The consecutive transition from direct to indirect methods of economic regulation with the help of conventional tools of financial, credit, tax and currency policy will occur. As to the initial stages of the fulfilment of economic reform, the main goal of the state was the formation of a legislative framework and legal base.

Peculiarity and Content of Legal Reforms in Uzbekistan

From the very beginning of economic transformation in the Republic it has become evident that there cannot be any reliable guarantees of economic reform fulfilment without appropriate laws and valid, normative certificates. The Republic legislative framework and the mechanism for legal support of reforms have been elaborated and developed on the basis of a study of law-creation work in many other countries, but with the peculiarities and development conditions of Uzbekistan taken into consideration. At the moment, the integrated system of state-legal regulation of reforms combines all branches of authority: the President, government, legislative, executive and judicial.

The basic, strategic reforms in the field of state construction and economic reformation were initiated and affirmed by the decrees of the President of the Republic of Uzbekistan, wherein the target trend of accepted decisions and the mechanism of their fulfilment were clearly shown. The decisions confirmed in decrees were detailed in the resolutions of the Cabinet of Ministers of the Republic of Uzbekistan. Long-term and permanent basic legal regulations and articles are specified in the laws. Within recent years, the mechanism of formulating and adopting legislative and normative acts has been formed. The principle of open and widespread discussion of major documents to be adopted has been ratified.

With the purpose of promoting collective discussion and decision-making on the main issues of economic reformation, an “Interdepartmental Council on Economic Reforms, Entrepreneurship and Foreign Investments” under the President

of the Republic of Uzbekistan has been created. This Council works out a general strategy of social and economic growth and the practical tools and means to put it into effect. It elaborates recommendations on the perfection of the legal base for economic reforms, drawing out models and programmes of economic transformation in the Republic including the choice of measures to foster entrepreneurship and to attract foreign investment.

The legal basis of economic reforms up to present is as follows. The basic principles of market legislation are stipulated in the Constitution of the Republic of Uzbekistan. Being the Basic Law, it provides the base for all other laws directed towards fostering and supporting a market economy. Article 53 of the Constitution specifies parity of all forms of property. The main goals specified in the Basic Law are demonopolisation, decentralisation of the economy, and the strengthening of the independence of enterprises. The Constitution affirms non-interference of the state directly into economic activity and the freedom for entrepreneurial economic activity is proclaimed. In the Constitution it is underlined that private property is under state protection.

The legal base for economic reform at present comprises more than 100 basic laws relating to the economic sphere. These laws, according to their purposes, functional orientation and aims, can be grouped as follows:

- The first group of laws is directed towards the creation of a legal base framework of state independence and economic self-sufficiency of the Republic. They are, *inter alia*, “On the bases of state independence of the Republic of Uzbekistan”, “On mineral wealth”, “On the Cabinet of Ministers of the Republic of Uzbekistan”, and “On local state authority”.
- The second group creates a base for qualitatively new economic relationships including, *inter alia* laws on property, on the land code, on privatisation, and on rent.
- The third group creates the framework for a new mechanism of management and institutional transformation. It comprises the laws regulating all aspects of activity of economic entities (such as enterprises, organizations, and others). Among them are laws on enterprises, on agricultural cooperative societies, and on farmer’s facilities.
- The fourth group determines legislative rules and regulations specifying Uzbekistan as an actor in international relationships on an equal footing with partners. They are, again *inter alia*, the laws on foreign trade activities, on foreign investments, on guarantees for foreign investors, and on the membership of the Republic of Uzbekistan in international organizations.
- The fifth group is formed by the laws ensuring reliable constitutional and legal human rights, thereby providing social guarantees and support for the people. They include laws on employment, on social protection of invalids and handicapped people, on state pension maintenance, on education, and on the basic principles of youth policy pursued by the government.

Structural Transformations in the Economy of Uzbekistan

Developed within the years of reform, the legislative base has facilitated economic structural transformation in the Republic. In the course of reformation, concrete and specific measures on structural changes have been developed and realised. These measures are directed towards:

- development of the fuel and energy complex to achieve power independence;
- weakening the dependence of the Republic on imports of products that are of great importance for the national economy and population through the development of import-substitution manufactures;
- the processing of major kinds of agricultural raw materials such as cotton, silk, fruit, vegetables, and other products;
- accelerating the growth of consumer goods production.

Positive results of economic reform have become evident in that the main problem of achieving macro-economic stabilisation has been solved, thereby creating a steady base for economic growth. The macro-economic policies implemented by the Government of Uzbekistan were aimed at financial stabilisation, stopping the recession in industrial output, whilst increasing investment in key sectors of the economy.

GDP grew by 1.6% in 1996, industrial production was up 6%, consumer goods production rose 8%, retail trade turnover grew 21%, paid services rose in value by 9.9%, investment from all sources of financing rose by 6.9%.⁷ GDP increased by 5.2% in 1997. For the first time, the manufacturing capacity of GDP outstripped the dynamic growth of the population. The capacity of GDP per capita has increased by 3.2%. In 1997, the manufacturing capacity of industrial production exceeded the initial 1990 level by 12.7%. In comparison with the index of 1996, the increase was 6.5%. Economic growth in Uzbekistan in 1997 was helped by an increase in investment of 17% which was channelled into the construction of new enterprises. As a result, the production capacity of petroleum, gas condensate, natural raw gas, electric power, coal, and precious metals has increased. At the same time the production capacity of consumer goods has increased by 11.2%.⁸

Structural policy was concentrated on the modernisation and supply to firms of up-to-date, high-tech equipment and the creation of new enterprises producing products of high added value. It should be emphasised that the structural reorganization of the economy has been fulfilled alongside an active investment policy. Thus, 63% of all investments were channelled to industrial sectors of the economy. Foreign investment was attracted (US\$1.1bn in 1997) and focused on structural economic reorganization to solve certain problems. Large raw material enterprises such as the compression station at Kokdumalak (production capacity amounts to 2.5 billion cubic metres of gas per year) and the Bukhara oil refining factory were beneficiaries. In 1996, Uzbekistan's first car manufacturing plant began production - a joint-venture with the South Korean

“DAEWOO” Corporation. Around 50% of output will be exported to Central Asia, Russia, China, Pakistan and Iran. At the same time, several plants and factories to produce car spare parts were also built.

Economic structural transformation has resulted in an increase in foreign trade turnover and an improvement to the structure of exports and imports. In 1997, the value of foreign trade turnover amounted to US\$9bn, whilst total export volumes rose due to a four-fold increase in deliveries of petroleum, oil products and natural gas, a 7.4-fold increase in automobile production, a 6.8-fold increase in chemical fibre output and a 64% increase in clothes production. The import of many products decreased as a result of the growth of domestic manufactures, for example, the import of food and consumer goods was reduced by half thereby improving the import structure. The share of equipment and production goods in total import volumes increased to 74%. This met outlined strategic priorities regarding economic growth.

Meanwhile, solving the prime issue of reform promotion requires the further protection of structural economic reorganization. Special priority here is given to branch structural transformations and, especially, to those that are connected with the accelerated development of the base sectors of the economy. The development of the fuel and energy complex must be supported by a concurrent policy on energy saving. Structural policy in the metallurgical complex must be aimed at increasing non-ferrous metals production. The development of the chemical industry must be based on the most complete exploitation of domestic resources.

Taking into account that resources of natural gas have a high content of aroma hydrocarbons, it is necessary to create large complexes to produce polythene, polystirole, and other such products. The development of high-tech industries takes priority. The development of agricultural mechanical engineering, above all, machines and equipment used in cotton production, remains the main orientation in branch specialisation. At the same time, the machine-building complex needs to expand production of machines and equipment used in the processing of local raw material, technological equipment for the light and food-processing industries, small mechanisation tools and other farming equipment. An important place in structural economic reorganization is also allocated to the development of the motor industry, radio-electronics, the electro-technical and petrochemical industries, and finally aircraft building. The growth of these basic trends in branch structural policy is to be an important source of the further economic growth of Uzbekistan.

Notes

1. "People location in USSR", Moscow, Misl., 1986, p.40.
2. I. Karimov, "Uzbekistan – it's own model of transition to market relations", Tashkent, 1993, p.15.
3. National Economy of Uzbek SSR in 1990. Statistical Yearbook, Tashkent, 1991, p.199.
4. Ibid, p.11.
5. Human Development Report. Uzbekistan, 1997, Tashkent, p.52.
6. I. Karimov, "Uzbekistan on the Threshold of the 21st Century", Curzon press, 1997. pp.139-147.
7. Human Development Report. Uzbekistan. 1997. Tashkent, p.35.
8. "Achievement of stabilisation (is a) priority task". I. Karimov. Narodnoe slovo, No.41, 26 February, 1998.