

**UZBEKISTAN'S REFORM PROGRAM:**

**ILLUSION OR REALITY?**

18 February 2003



## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY AND RECOMMENDATIONS .....</b>	<b>i</b>
<b>I. INTRODUCTION .....</b>	<b>5</b>
<b>II. POLITICAL REFORMS AND HUMAN RIGHTS .....</b>	<b>3</b>
A. POLITICAL CHANGE AFTER 11 SEPTEMBER .....	3
B. HUMAN RIGHTS: PROGRESS?.....	5
1. Arrests on religious or political grounds.....	5
2. Human rights groups.....	7
3. Torture and ill treatment of detainees .....	7
C. THE MEDIA.....	8
<b>III. ECONOMIC REFORMS: UZBEKISTAN AND THE IMF .....</b>	<b>11</b>
A. THE UZBEK ECONOMY.....	11
B. THE IMF PROGRAM AND GOVERNMENT REFORMS .....	12
1. Foreign exchange liberalisation .....	13
2. Agricultural reform.....	14
3. Banking.....	16
4. Trade liberalisation .....	17
5. Improving the business climate .....	19
C. ECONOMIC PROSPECTS AND GROWING POVERTY .....	20
<b>IV. OPPOSITION TO REFORM.....</b>	<b>22</b>
A. THE POLITICAL ELITE AND VESTED INTERESTS .....	22
B. BUREAUCRACY .....	24
C. SOCIETY.....	25
<b>V. CONCLUSION .....</b>	<b>26</b>
<b>APPENDICES</b>	
A. MAP OF UZBEKISTAN .....	30
B. GLOSSARY OF ACRONYMS.....	31



## UZBEKISTAN'S REFORM PROGRAM: ILLUSION OR REALITY?

### EXECUTIVE SUMMARY AND RECOMMENDATIONS

Since October 2001, Uzbekistan has been a key ally of the U.S. in the military campaign in Afghanistan. A U.S. base has been established and a far-reaching Agreement on Strategic Partnership was signed in March 2002. Uzbekistan, however, sits uncomfortably in a campaign known as “Enduring Freedom.” It is one of the most authoritarian of the post-Soviet states, with a poor record on human rights and an economy that still owes much more to Soviet central planning than the market.

The new relationship with the U.S. seemed to open up the possibility of a wide range of political, and economic reforms. At the beginning of 2002, many suggested that Uzbekistan had a ‘window of opportunity’ through which to push reforms in a favourable international environment. This report concludes that reforms have largely failed so far and that present international policies are unlikely to persuade the government to change course significantly in 2003.

Many Soviet structures have been preserved from repressive law enforcement agencies to an economic system still dominated by the state. There is very little press freedom, elections are entirely under executive control, there is no legal political opposition, and there is widespread persecution of regime opponents. At least 7,000 people are imprisoned for religious or political beliefs; torture and brutality in police custody and in prisons are commonplace.

The repressive political apparatus is matched by an economic system in which a small elite manages key export sectors, ensuring personal enrichment in the process. But the overall economy does not allow the growth of a significant private sector. Businessmen face a hostile bureaucracy, government interference, high taxes, and a constantly-changing legislative environment. The judiciary provides little defence of contracts, and the multiple exchange-rate system for

foreign currency ensures that access to U.S. dollars is possible only for a few favoured businessmen linked to government officials.

The state still dominates agriculture, and much of the product consists of state-order cotton. Almost no profit from export crops remains with farmers. Poverty is growing fast, and with it a sense of hopelessness, especially among young people. Illegal migration of the unemployed to cities is reaching record levels and producing a marginalised, embittered minority. This social discontent threatens to undermine stability and provides fertile ground for Islamic radical groups. Only labour migration abroad provides something of a safety valve.

This report examines the promises made by the Uzbek government to change the system. While political reforms were outlined in the agreement with the U.S., economic reforms have been the subject of a detailed plan drawn up with the IMF. This report examines how far the government has met its public commitments, and how much farther it has to go.

Political reform has been largely non-existent. A referendum in January 2002 was not monitored by international organisations, but observers concluded it was largely rigged in favour of the government. The electorate approved a two-year extension of President Karimov’s rule and the creation of a new bicameral parliament to replace the one-chamber, rubber-stamp body, but with no indication that parliamentary elections due in late 2004 would be more democratic.

There have been some small positive human rights steps, with a decline in arrests in early 2002 and the registration of one human rights group in March 2002. But arrests on the basis of political or religious ideas have continued, with hundreds sentenced in

2002 after trials that did not meet international standards. Several well-publicised cases of torture and killings in prisons have undermined positive moves, such as the visit of the U.N. Special Rapporteur on Torture. Other human rights groups seeking registration have been refused, and a number of human rights activists were arrested during 2002. Strong rhetoric on judicial reform by President Karimov has not yet translated to real improvements.

An IMF Staff Monitored Program (SMP) agreed in January 2002 was supposed to lead to major agricultural reforms, improvements in the banking system, trade liberalisation, and moves toward foreign exchange convertibility by July 2002. The government met none of the key targets, although it did achieve some less difficult technical requirements. The centrepiece – progress on foreign exchange liberalisation and convertibility of the Uzbek som – was not met, although there was some devaluation of official exchange rates and limited relaxation of the exchange regime.

After the government failed to take advantage of an extension of the reform program for an additional two months, an IMF mission departed in September 2002, offering to return only when the main planks were achieved. This failure was accentuated by bad government decisions, including new tariffs on imports and extra documentation requirements on private traders that seriously damaged cross-border trade and emptied bazaars across the country. Further decrees undermined the legal basis of privatised companies, suggesting they could be nationalised, and placed capital restrictions on import-export companies that ensured small and medium-sized companies would be unable to trade.

The reasons why the government failed to take advantage of an improved external environment and widespread international support to move on reform are complex but mostly relate to a political system dominated by vested interests at all levels that have a considerable investment in retaining the status quo. A bureaucratic machine that fears change and lacks the capacity to implement reforms has also slowed any program. A people with a long history of authoritarian rulers has also been slow to take independent action and struggle for new freedoms.

Visiting Western legislators and officials tended to take President Karimov's pro-reform rhetoric at face value. Few openly criticised the regime's appalling human rights record and hardly any commented

publicly on the lack of a functioning parliament or free press. While some compromises are necessary in an era of military action, this blindness to the problems of the system does not help those in the elite who have long pushed quietly for reform from inside. They are few in number and lack the clout to effect real change. But they are the potential future leaders whom Western partners of Uzbekistan should be supporting, rather than the present corrupt elite that has little interest in the success of any reform program.

Uzbekistan enjoyed a uniquely positive environment in which to pursue reforms in 2002. The longer they are delayed, the harder peaceful change will be. The need for reform has only been accentuated by rumours of President Karimov's ill health that have gained increasing credence. There is a danger that infighting over positioning for a succession could lead to serious instability in the absence of any normal political process for change at the top and against a background of sharp economic decline. Uzbekistan's future looks bleak unless serious economic and political reforms are implemented. Economic growth hardly keeps pace with the population; unemployment is rife, and poverty is deepening. Now is the time for these reforms. Delay may mean that they will never be effected at all.

## **RECOMMENDATIONS**

### **To the government of Uzbekistan:**

#### **On economic policy**

1. Address the outstanding issues of the IMF Staff Monitored Program, including:
  - (a) the devaluation and moves toward convertibility of the som and liberalised access to foreign exchange; and
  - (b) serious measures to diminish the state's role in setting prices for agricultural products, permitting farmers free choice in selling cotton and grain.
2. Annul government decrees threatening re-nationalisation of privatised enterprises.
3. Annul decrees and regulations restricting cross-border trade, in particular the decree on the minimum size of companies involved in import-export business, and end the high tariffs on private traders.

### **On political reform**

4. Begin moves towards greater political pluralism, including:
  - (a) permit all political parties, human rights groups and other NGOs to register with the Ministry of Justice; and
  - (b) reform the complicated process of registration and the implicit threat it holds over independent organisations.
5. Advance parliamentary elections to early 2004, with a package of measures designed to:
  - (a) guarantee that all registered social and political movements will be permitted to register candidates for the election;
  - (b) reform the electoral law and the law on political parties to make registration of candidates simpler, in line with existing recommendations of the OSCE/ODIHR;
  - (c) implement new regulations allowing the financing of political parties from independent sources;
  - (d) include representatives of all political parties on the electoral commission; and
  - (e) reform the regulations of the parliament to ensure that deputies have real access to information, to force ministers to appear before public hearings, and to allow genuine opportunities for debate.

### **On human rights**

6. Implement immediately measures to stem unwarranted arrests and abuses of human rights by law enforcement agencies and implement the forthcoming recommendations of the UN Special Rapporteur on Torture.
7. Establish an independent commission to investigate all complaints of police brutality and all deaths in custody and that has powers to make public the results of investigations and launch criminal cases against officials.
8. Use the amnesty announced on 6 December 2002 to release prisoners arrested on religious or political grounds, ensuring that decisions on release are decided by an authoritative commission and not prison officials.

### **On the media**

9. End harassment of journalists over critical articles and ensure that ministers hold press-conferences and face media scrutiny of their decisions.
10. Ensure that new laws on the media do not restrict access to information or introduce new offences that would limit freedom of the press.

### **To the government of the United States:**

11. Report publicly to Congress in March 2003 on the extent to which both sides have met their obligations under the Agreement on Strategic Partnership with Uzbekistan.
12. Use the democratisation elements of that agreement to draw up with the Uzbek government a more detailed public document of political reform measures that includes concrete benchmarks on electoral reform and the holding of early elections to parliament.

### **To the IMF:**

13. Continue to insist on real and full compliance with the terms of the Staff Monitored Program (SMP) before any discussions of a stand-by agreement can begin.

### **To other International Financial Institutions:**

14. Continue to link all lending to macroeconomic change and compliance with the IMF reform program.
15. Refuse new lending to the agricultural sector until serious reforms have begun, including addressing child labour and the exploitation of farmers.

### **To the European Union:**

16. Use the Partnership and Cooperation Agreement with Uzbekistan to raise issues of democratisation, human rights and economic reform, and draw up a timetable for reform in all three areas.
17. Prepare more common public positions with the U.S., and where appropriate, the Russian Federation, to provide a united policy of support for reform.

**To the EBRD:**

18. Insist that the EBRD annual meeting in Tashkent in May 2003 is conducted in an open manner that throws the spotlight on the political and economic problems faced by Uzbekistan and in particular:
  - (a) ensure that there is access to the annual meeting for international and local NGOs and other independent groups, including human rights groups;
  - (b) ensure that all journalists and delegates are provided visas and accreditation and that independent experts are permitted to speak and take part in the meeting as appropriate under EBRD rules; and
  - (c) arrange coverage of the meeting by an independent television producer and for the resulting program to be shown on Uzbek television with a full and correct translation.

**To international donors:**

19. Increase engagement with civil society, aiming particularly at boosting advocacy efforts, formation of associations, legal assistance, and attempts to put pressure on local and central government.
20. Increase support for media, including training for journalists and backing for associations of journalists, but also support for new, independent media outlets.
21. Increase training and defence for human rights activists, and support a widening of their activities into spheres such as economic rights.

**Osh/Brussels, 18 February 2003**

## UZBEKISTAN'S REFORM PROGRAM: ILLUSIONS OR REALITY?

### I. INTRODUCTION

Since independence in 1991 Uzbekistan has followed its own path of political and economic development, showing little enthusiasm for political pluralism or an open economy and preserving much of the essence of old Soviet structures. It remains a dictatorship, headed by President Islam Karimov, with no legal opposition parties and no free elections. A closed economy is run largely for the benefit of a small elite group of families in or close to the government.

Real politics takes place far from the public eye, in informal arrangements between powerful groupings that mix political power with economic interests. These are often termed clans, but are not necessarily based on any kinship; regional affiliation plays a role, but often alliances are simply built on mutual interest between different players. This elite rules the country with little regard for the broader society, and only a limited vision of future development. Corruption is rampant, reaching to the top levels of the political system.

Economic reforms have been carried out in what is termed the "Uzbek model" of development. In practice, this has meant almost no serious structural reforms have been made, and the economy is barely more open than in Soviet times. Some progress achieved in the early years of independence came to a halt in 1996, when the government faced an economic crisis, and introduced controls on foreign exchange convertibility. Since then restrictions on exchange have produced a thriving currency black market. Foreign investment has all but collapsed since 1997. The economy has survived on the hard currency revenue of commodities, primarily cotton and gold, which bring in some U.S.\$3 billion a year, enough to keep state-owned enterprises afloat and some social welfare in place, but not sufficient to boost growth.

By August 2001, when ICG last published a report dedicated completely to Uzbekistan,<sup>1</sup> the political and economic systems seemed to have slowed down into stagnation, with rising economic discontent, and political opposition increasingly channelled into radical Islamic groups, such as the Islamic Movement of Uzbekistan (IMU). In April of that year the IMF representative left Tashkent and was not replaced as the fund felt it was unable to have an impact on reform. The U.S. cut almost all macroeconomic reform programs, disappointed with the government's lack of commitment to real change. The human rights situation seemed to be worsening, with more than 7,000 religious and political prisoners, and no sign of any increase in political pluralism.

Uzbek officials pointed to the difficult security situation in the region, and the threat from militant groups based in Afghanistan and Tajikistan as a major reason for this lack of liberalisation. The new geopolitical situation that began to emerge after 11 September 2001 seemed to provide the potential for Uzbekistan to transform its security position. President Karimov quickly offered the U.S. the use of a military base as the build-up to the military campaign against the Taliban in Afghanistan began. An existing base in Khanabad, near Karshi in southern Uzbekistan, was turned over. It was used mainly as a logistics base and reportedly for some special operations, and the numbers of forces was relatively small – about 2,000 by late 2002. But it was clearly helpful to the U.S. in the early phase of the military campaign, particularly as doubts over the longer-term viability of bases in Pakistan and the Middle East remained very real.

Perhaps more importantly, the U.S.-led military campaign in Afghanistan severely damaged the most significant direct security threat to the Uzbek regime

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<sup>1</sup> ICG Asia Report N°21, *Uzbekistan at 10: Repression and Instability*, 21 August 2001.

– the Islamic Movement of Uzbekistan. Its bases in northern Afghanistan were destroyed, and many of its followers are believed to have died in the fighting.<sup>2</sup> Its leader Juma Namangani was reported killed, although rumours that he is alive continue to circulate. Some IMU remnants no doubt remain active but its organisational basis was destroyed.

Uzbekistan gained hugely from the U.S.-led campaign in Afghanistan but relations were not always easy. The saga of the Friendship Bridge that links Uzbekistan and Afghanistan caused considerable frustration among Western diplomats throughout October and November 2001. International agencies wanted to open the bridge, which had been closed for four years, to allow the delivery of food aid to northern Afghanistan. Uzbekistan cited security concerns and refused. Eventually, only a personal visit by Secretary of State Colin Powell in early December convinced the Uzbek leadership to open the border.

Despite this early difficulty in the relationship, a number of new agreements presaged a potential new opening to the West, and to the U.S. in particular. The first was a memorandum on support for economic reform, signed during a visit by Deputy Prime Minister Rustam Azimov to Washington in November 2001. It outlined the U.S. commitment to provide a further U.S.\$150 million in financial aid. There was no mention of political reform or human rights issues.<sup>3</sup>

Assured of greater international support, the Uzbek government turned to the IMF to discuss a new reform program that might lead to external financial support. In January 2002 an agreement – a so-called “staff monitored program” (SMP) – was signed committing the government to a range of initial reforms to be implemented before a financial arrangement could be discussed.

The second and more comprehensive agreement with the U.S – a Declaration on Strategic Partnership – was signed in March 2002, when President Islam Karimov visited Washington. It outlined a much more

detailed list of understandings, covering security cooperation; economic reforms; humanitarian affairs; legal issues, including cooperation with law enforcement agencies; and cooperation in the area of democratisation.<sup>4</sup>

These two agreements in particular – the political declaration with the U.S., and the SMP with the IMF – seemed to lay the basis for a new start for political and economic reforms. Many observers talked of a ‘window of opportunity’ for Uzbekistan and Central Asia as a whole. Suddenly promoted to world attention, and with enormous international goodwill after the assistance it provided in the campaign in Afghanistan, Uzbekistan was in a strong position to move forward with reforms during 2002.

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<sup>2</sup> See ICG Briefing. *The IMU and the Hizb-ut-Tahrir: Implications of the Afghanistan Campaign*. 30 January 2002.

<sup>3</sup> “Memorandum of Mutual Understanding between the Government of Uzbekistan and the United States of America on Further Development or Bilateral Cooperation and Support for Economic Reforms in Uzbekistan”. Published in *Pravda vostoka*, 6 December 2001.

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<sup>4</sup>Rather oddly, the “Declaration on the Strategic Partnership and Cooperation Framework between the Republic of Uzbekistan and the United States of America” was not published after it was signed, and only appeared later in independent media. It is still not available on U.S. government websites. The document committed Uzbekistan to:

“Further strengthening and developing democratic values in the society, ensuring respect for human rights and freedoms based on the universally recognised principles and norms of international law;

Enhancing the role of democratic and political institutions in the life of society; establishing a genuine multiparty system; developing political culture and activism among citizens; ensuring free and fair elections, political pluralism, diversity of opinions, and the freedom to express them; and ensuring the independence of the media;

Further strengthening and developing non-governmental structures, including non-governmental and public organizations, including independent media, as well as organs of self-government, and simplifying the process for registering them;

Ensuring implementation of the constitutional principle of separation of powers, improving the lawmaking process, and increasing the oversight functions of the legislature, including through the establishment of a freely elected and multiparty bicameral legislature.”



## II. POLITICAL REFORMS AND HUMAN RIGHTS

### A. POLITICAL CHANGE AFTER 11 SEPTEMBER

"[We are committed to] enhancing the role of democratic and political institutions in the life of society; establishing a genuine multiparty system; developing political culture and activism among citizens; ensuring free and fair elections, [and] political pluralism ...,"<sup>5</sup>

The political memorandum with the U.S. included these far-reaching commitments to political reform. However, none were implemented during 2002, and they were agreed after a referendum held on 27 January 2002 had already undermined their spirit.

The referendum asked voters to approve two changes to the constitution: to provide President Karimov with two additional years in office (by increasing the presidential term to seven years), and to establish a bicameral parliament with a lower chamber consisting of professional parliamentarians for the first time. The second issue – the new parliament – had attracted quiet support from the Organisation for Security and Cooperation in Europe (OSCE) and the EU, who hoped that it might provide the basis for at least a more competent legislature. But the extension of Karimov's term was apparently added later and caused some consternation among international observers.

The official explanation was that there was too much left for the president to do in the three years remaining until the next election. Unofficially, most observers assumed that it meant he was effectively declaring himself president-for-life.<sup>6</sup> According to official figures, 91.58 per cent of eligible voters participated in the vote; 93.68 per cent of voters approved the bicameral parliament, and 91.78 per

cent approved the extension of the president's term.<sup>7</sup> The referendum was effectively rigged, with huge pressure to vote yes. In many places, family heads voted for the whole family, and in most places, heads of administrations and *mahallas* (local communities) placed extreme pressure on the population to come out and vote. There was no independent monitoring by international organisations or local NGOs. The latter were not permitted to observe, and although 130 international observers were present, none were in any sense independent.<sup>8</sup> "I got the impression they were tourists who received gifts and were entertained well in return for their support for the referendum", the chairman of a *mahalla* in Tashkent said. "They had no interest in telling the truth, nor were they critical of the president. It was just a good chance for them to have a free tour of Uzbekistan".<sup>9</sup>

There was only a muted international response. Uzbekistan received a perfunctory rebuke from the U.S. State Department but the issue was not even brought up at meetings between U.S. legislators and President Karimov ahead of the vote.<sup>10</sup> Two days after the referendum, the Assistant Secretary of State for European and Eurasian Affairs, A. Elizabeth Jones, announced a tripling of U.S. aid for Uzbekistan, to U.S.\$160 million, making any criticism even less meaningful.<sup>11</sup>

Many international observers did not consider the referendum on the presidency particularly significant,

<sup>5</sup> "Declaration on the Strategic Partnership and Cooperation Framework between the Republic of Uzbekistan and the United States of America", 12 March 2002.

<sup>6</sup> For example, "Prezident pozhiznenno: Islam Karimov obespechil sebe eshche vosemnadsat let pravleniya" [President for life: Islam Karimov has guaranteed himself eighteen more years in power], *Nezavisimaya gazeta* [Moscow], 29 January 2001. Available at: [http://www.ng.ru/cis/2002-01-29/6\\_karimov.html](http://www.ng.ru/cis/2002-01-29/6_karimov.html).

<sup>7</sup> Although these figures do not have any serious connection with voters' real intentions, it is perhaps interesting to note that they indicate a decline in declared support since 1995, when 99.6 per cent of the electorate voted to extend the president's term in office from 1997 to 2000.

<sup>8</sup> This rather bizarre selection of observers included the chairwoman of the Central Electoral Committee of Belarus, Lidiya Ermoshina, and the chairman of the Central Electoral Committee of Azerbaijan. Neither country is known for its democratic electoral procedures. See presidential press service press release, 29 January 2002. Available at <http://www.press-service.uz/rus/pressa/p01292002.htm>.

<sup>9</sup> ICG interview, Tashkent, October 2002.

<sup>10</sup> "QUESTION: 'Josh Machleder, from Internews. I wanted to know if since you've arrived here whether or not the [forthcoming] referendum to extend President Karimov's presidency arose in any discussion ...?'"

SENATOR LIEBERMAN: "This topic did not come up at any of our meetings."

Transcript, Press Conference of Senatorial Delegation Led by Senators Joseph Lieberman and John McCain, 6 January 2002, Tashkent.

<sup>11</sup> "United States Pledges \$160 million to Uzbekistan", *UzReport*, 29 January 2002, at [www.uzreport.com](http://www.uzreport.com).

believing that Karimov would anyway have found a way to prolong his term if necessary. However, the need for elite circulation and political movement at the top in Uzbekistan is pressing. The precedent of the referendum and its international response was extremely damaging, allowing government officials to believe that there would be no significant repercussions to further undermining of the electoral system.

Part of the reason for the ambiguous international response was the general support for the idea of a new parliamentary structure. The bicameral parliament potentially represents a step forward for democratic institutions in Uzbekistan, although the motive for its creation may have been to undercut opposition to Karimov from provincial elites rather than promote political pluralism.<sup>12</sup>

The more significant question is whether elections to the new parliament will be in any way free or fair. At present no opposition parties are legally registered. Western countries have pushed for the government to register the Birlik party, and it has been permitted to conduct the necessary regional congresses as part of the registration process. It could be registered in 2003, although more likely as a 'social organisation', rather than a political party.<sup>13</sup>

The new parliament will consist of two chambers. A lower and full-time Legislative Chamber, consisting of 120 deputies, will be elected directly from territorial constituencies. The upper chamber, the Senate, will be elected from local councils, with six deputies from each region, and a further sixteen appointed by the president. The upper chamber is designed to reflect regional interests and will have the power to amend or delay legislation. It will also take over some powers relating to appointments, including confirmation of the prime minister.<sup>14</sup>

The new laws on the parliament have outlined some of its structures and powers but very little on how it will be elected. Previous elections have been blatantly rigged, with not a single opposition

candidate being successful.<sup>15</sup> The laws on the elections of the *Oliy Majlis*, on the Central Electoral Commission, and on political parties all require major revisions, along the lines of those suggested by the OSCE.<sup>16</sup> At present there are three ways of becoming a candidate: as the representative of an existing regional legislature, as the representative of a political party, having gathered 5,000 signatures, or as the representative of a "voters' initiative group" that has collected signatures of 8 per cent of voters in a constituency. In the new parliament, only political parties and 'voters' groups' will be able to put forward candidates, while regional legislatures will send their representatives to the Senate.

To be able to carry out elections that offer at least some level of political pluralism, the government needs to reform both the law and election procedures.

Foremost is the incredibly complicated and convoluted process of registering a political party that has ensured that no opposition group is legally permitted to function. The opposition party Birlik has begun the long process, which could lead to registration, by holding a series of regional assemblies. These have largely been held without interference, and there is some hope that Birlik will be registered as a 'social organisation', at least. But it really needs to be registered as a political party and be able to stand in the forthcoming elections.

Secondly, there needs to be a change to the almost impossible task of gathering signatures to support candidates. When a candidate is not to the liking of the authorities, these signatures can be rejected by the electoral commission. It is always easy to find one signature that can be questioned, or force someone to withdraw theirs. The whole system of signature collection provides far too much power to local authorities.

Thirdly, the law bans any financing of political parties except from a state electoral fund. This ensures that all parties and candidates are dependent on local authorities or other parts of the executive for financial assistance. Most political parties have no financial resources at all to run campaigns, even if they wanted to. The official parties are all entirely

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<sup>12</sup> See Alisher Ilkhamov, "Controllable Democracy in Uzbekistan", *Middle East Report*, Spring 2002.

<sup>13</sup> ICG interviews with Birlik activists in Qoqand, Ferghana, Andijan, and Tashkent, January 2003; on the background to Birlik and other opposition parties, see ICG Report, *Uzbekistan at 10*, op. cit.

<sup>14</sup> Laws on the new parliament were published on 27 and 28 December 2002 in the Uzbek press.

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<sup>15</sup> See ICG Report, *Uzbekistan at 10*, op. cit.

<sup>16</sup> "Uzbekistan: Parliamentary election, 5 and 19 December 1999, Limited Election Assessment Mission: Final Report" at [www.osce.org/odihr/documents/reports/election\\_reports/uz/uzb00-1-final.pdf](http://www.osce.org/odihr/documents/reports/election_reports/uz/uzb00-1-final.pdf).

pro-government in their views. But it is possible to imagine an evolutionary emergence of different views among them if they had some level of financial support from different sources that encouraged them to begin to represent particular interests more openly.

There is also a very serious problem with the intimidation of members of the opposition by government officials. Families and businesses of those wishing to stand against the government are often threatened. One potential opposition candidate told ICG: "They told me that either I could stand aside, or I would find that my family had a whole host of problems in their businesses, and I would never be able to work again".<sup>17</sup> Given the dependence of all businesses on the state in one way or another, such threats are very real.

Without any opposition participation, or the ability of voters to put forward truly independent candidates, the elections will maintain the present democratic façade, and there will be no stimulus towards greater openness and more circulation of elites. Given the commitments made in the political declaration with the U.S., it would be appropriate for Washington to push for changes in this direction, focusing on amendments to both laws and practice. The aim would be to achieve multiparty elections that produce a parliament able to oppose the worst excesses of the executive, provide some wider political inclusion, and constitute a forum in which the struggle among different regional and other elite groups could be conducted.

Given the widespread rumours regarding the health of President Karimov and the increasing expectation of a succession struggle, there is a good case for bringing elections forward to put a functioning parliament in place as soon as possible. At present they are due in December 2004. Given the lack of political institutions capable of handling a succession struggle peacefully, and the need for serious change in the political elite, the country needs early elections.

## **B. HUMAN RIGHTS: PROGRESS?**

*"[We are committed to] further strengthening and developing democratic values in the society, ensuring respect for human rights and freedoms*

*based on the universally recognised principles and norms of international law".*<sup>18</sup>

The U.S. put most of its diplomatic weight behind getting economic reform in 2002. But contrary to the assertions of some critics, it still pushed for progress on human rights, and it was clear that the government understood the need to make at least some cosmetic changes to its image in this area. In late 2001 and 2002, there seemed to be a decline in arrests of religious activists, or those accused of involvement in radical religious groupings, and a number of other steps that held out some hope for change.

### **1. Arrests on religious or political grounds**

According to the U.S. State Department, there were about 300 arrests in the first seven months of 2002 on religious or political grounds, compared with 1,500 on average in any seven month period in 1999-2001. These figures are little more than broad estimates based on those produced by local human rights groups that do not monitor all trials.<sup>19</sup> U.S. officials expect that by the end of 2002 there would have been 500 to 600 such arrests.<sup>20</sup>

Human rights activists have agreed that there was a fall-off in arrests in early 2002, and this is considered a certain level of progress. The decline in arrests was already evident in 2001, before the new engagement by the U.S. This may be because of a declining number of people with even the slightest connection to independent Islamic movements. It may also relate to an internal shift in policy, prompted by concern that relatives of the imprisoned were becoming an increasingly active group and thus posed a threat to stability. More than 800

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<sup>18</sup> "Declaration on the Strategic Partnership and Cooperation Framework between the Republic of Uzbekistan and the United States of America", 12 March 2002.

<sup>19</sup> U.S. State Department, Uzbekistan: International Religious Freedom Report 2002, released by the Bureau of Democracy, Human Rights, and Labour, 7 October 2002. Available at <http://www.state.gov/g/drl/rls/irf/2002/13990.htm>. In some cases, religious activists and those arrested for political reasons are tried on different charges, including drug-related charges, making it difficult to produce accurate figures. There are no official figures available.

<sup>20</sup> ICG interview, Tashkent, December 2002. The Independent Human Rights Organisation of Uzbekistan (IHROU) has given slightly lower figures, suggesting that arrests in 2002 totalled about 200, all on religious grounds, but these figures seem low compared with other estimates. ICG interview, Mikhail Ardzinov, Chairman IHROU, Tashkent, 9 December 2002.

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<sup>17</sup> ICG interview, Tashkent, November 2002.

prisoners considered to be in prison because of religious or political activism were released in an amnesty announced in September 2001.<sup>21</sup>

As of early December 2002, the Independent Human Rights Organisation of Uzbekistan (IHROU) estimated that about 6,400 people remained imprisoned on political and religious grounds. Of those, about 200 are members of political opposition parties, journalists or human rights defenders. Of those arrested on the grounds of religious activism, about 1,200 to 1,700 are considered "Wahhabis" (i.e. members of radical Sunni Islamic groups), 4,200 to 4,300 members of Hizb-ut-Tahrir, and 600 to 700 "pious Muslims not belonging to any political religious organisation".<sup>22</sup>

Many of those arrested in 2002 were members of Hizb-ut-Tahrir, a group with radical aims but no history of involvement in violence.<sup>23</sup> But there are also new arrests of those interested in other Islamic movements or groups, with no relation to radical political programs. Human Rights Watch reported that the Uzbek authorities have started detaining and prosecuting Muslims who study the works of the Turkish Islamic philosopher and mystic Bediuzzin Said Nursi (1873-1960).<sup>24</sup> In June 2002, twelve alleged Nursi followers were convicted on various charges and received long prison sentences. Nursi's works are legal and widely available in Turkey, are not directly political in nature and certainly do not advocate violence.<sup>25</sup> These kind of arrests are partly the result of sheer ignorance on the part of

Uzbekistan's security forces, for whom any Muslim activity not explicitly sanctioned by the authorities is seen as a threat.

Arrests of religious activists have not solely focused on Muslims. There has also been increased pressure on non-orthodox Christian groups, such as Jehovah's Witnesses. In November 2002 a Jehovah's Witness was given a suspended jail sentence for distributing literature, and members of Christian churches, such as Baptists, have faced harassment.<sup>26</sup>

Harassment of the relatives of those arrested also continues. Darmon Sultanova from Khorezm province, whose two sons were sentenced to death and husband jailed in 1999, says the security agents still keep her under constant surveillance:

The reason that the police have isolated me by threatening everyone who communicates with me is not only that I have been portrayed as an anti-state element and a mother of extremists but also because I give interviews to foreign journalists and tell them the truth about the situation of religious freedom in my region. NSS [intelligence service] and police officers openly tell me that my hardships will ease if I keep quiet.<sup>27</sup>

Although arrests have continued, an amnesty announced in December 2002 offered hope that some prisoners would be released. It was expected to affect as many as half of all prisoners, but religious and political prisoners probably much less than most. Among religious prisoners, only those who had rescinded their beliefs would stand a chance of being released, and there was widespread scope for prison authorities to interpret the amnesty as they saw fit, or according to levels of bribes that could be extorted from prisoners or their relatives.<sup>28</sup> It was difficult to predict how many prisoners might be freed, but some observers suggested that it would not be many more than the number arrested since the last amnesty in September 2002.<sup>29</sup>

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<sup>21</sup> U.S. State Department, *Uzbekistan: International Religious Freedom Report 2002*, op. cit.

<sup>22</sup> ICG interview, Mikhail Ardzinov, Chairman IHROU, Tashkent, 9 December 2002. These can at best be only rough estimates of the real figures. Other organisations have much higher figures, with the Human Rights Society of Uzbekistan (HRSU) claiming up to 30,000 political and religious prisoners. ICG interview, Tolib Yakubov, Chairman, HRSU, 14 December 2002.

<sup>23</sup> Hizb-ut-Tahrir is a legal organisation in most Western countries, including the UK, where it has its headquarters. The Government of Uzbekistan has called on Western countries to ban the organisation, claiming that it is a terrorist group. It was banned in Germany in early 2003 for distributing anti-Semitic tracts. No proof of violence has been shown in trials of hundreds of Hizb-ut-Tahrir members in Uzbekistan. See also ICG Briefing, *The IMU and the Hizb-ut-Tahrir*, op. cit.

<sup>24</sup> For more on Nursi, see the website, [www.bediuzzian.org](http://www.bediuzzian.org)

<sup>25</sup> Human Rights Watch Briefing Paper, "Religious Persecution of Independent Muslims in Uzbekistan from September 2001 to July 2002", 21 August 2002.

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<sup>26</sup> "Uzbek conviction of Jehovah's Witness may set precedent for crackdown on Christian proselytisers", Eurasianet, 2 December 2002. [www.eurasianet.org](http://www.eurasianet.org).

<sup>27</sup> ICG interview, Tashkent, 17 November 2002.

<sup>28</sup> "The presidential decree on amnesty dedicated to the 10th anniversary of the Constitution of Uzbekistan" issued 3 December 2002.

<sup>29</sup> Mikhail Ardzinov gave a higher figure, suggesting that up to 2,000 people could be released. ICG interview, Tashkent, December 2002.

## 2. Human rights groups

In March 2002 the Independent Human Rights Organisation of Uzbekistan (IHROU), led by Mikhail Ardzinov, was finally given official registration, after many years of harassment and persecution. This was widely acclaimed as a major step forward and seemed to be accompanied by a relaxation of restrictions on other human rights activists. But further attempts by human rights groups to register were thwarted.

In October 2002 a human rights group, Ezgulik, was denied registration for the second time in the year. Its first application had been turned down on technical issues in the application. Having corrected these, it re-applied, but was again refused.<sup>30</sup> The Human Rights Society of Uzbekistan (HRSU), led by Tolib Yakubov, remained unregistered, and six of its members were arrested between May and September 2002.<sup>31</sup> Understandably, the HRSU is much less willing to point to any positive developments in 2002 than the IHRSU

According to a U.S. State Department press release, "... divisive tendencies within these [human rights] organizations are slowing progress [on registration]".<sup>32</sup> Although the human rights movement is riven by divisions, it does not seem fair to blame the non-registration of Ezgulik or others on the movements themselves, rather than the government.

The whole registration process has turned into something of a political game, with much more

importance attached to this bureaucratic procedure than seems warranted. Once an organisation is registered, there is always a fear that registration can be taken away, and it often serves as a reason for a more pro-government stance by an organisation. The formality of registration also provides the Government with a claim to progress that is often not particularly significant in terms of overall human rights. The registration of the IHROU in March 2002 has been repeatedly cited as strong evidence of progress, but its actual impact on human rights defence seems to have been fairly limited.

What is really needed is a change in the law on registrations of NGOs, and an end to the tortuous process in which the Ministry of Justice can find fault with almost any application that is deemed politically undesirable. There should be no significant obstacles to legal registration of such organisations, and explanations for any refusal should be made publicly on very limited grounds, such as national security concerns or the illegality of the group's planned activities. Again what is needed is systemic change rather than one-off cosmetic registrations that can easily be taken away again.

## 3. Torture and ill treatment of detainees

A long dispute with the International Committee of the Red Cross (ICRC) over prison-visits<sup>33</sup> was at least partially resolved in September 2002, and the prison-monitoring regime was resumed, although the "ICRC is still expecting that there will be a common understanding on the practical implementation of its procedures".<sup>34</sup> Some human rights groups claim that conditions in prisons began to improve in 2002 as did OSCE officials who visited these institutions. The IHROU recorded only four deaths in detention in 2002, compared with 30 or more in previous years.<sup>35</sup> Again figures are disputed among different human rights groups.

In a positive step, the UN Special Rapporteur on Torture, Theo van Boven, was invited to visit

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<sup>30</sup> Zayavlenie obshchestva prav cheloveka Uzbekitana "Ezgulik", [Statement of the human rights society Ezgulik] 15 October 2001.

<sup>31</sup> Yuldash Rasulev (Karshi, Kaskadarya) was arrested on 24 May 2002 and sentenced to seven years imprisonment. Elena Urlaeva, chairman of the Tashkent city branch of OPChU, was arrested on 27 August 2002 and committed to a psychiatric hospital. They were both released in the January 2003 amnesty. Tursunbai Utamuratov (Mangit), chairman of the Karakalpak Republican branch of the HRSU was arrested on 4 September 2002. Djura Muradov, Chairman of the Nishan district of OPChU (Kashkadarya) was arrested on 16 September 2002 and sentenced to six years imprisonment. Norpulat Radjanov (Nishan, Kashkadarya) was arrested on 16 September 2002 and sentenced to five years imprisonment. Musulmonkul Khamraev (Nishan, Kashkadarya) was arrested on 16 September 2002, and sentenced to 5 and a half years in prison.

<sup>32</sup> U.S. Department of State paper, "U.S. Engagement in Central Asia: Successes", 27 November 2002.

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<sup>33</sup> For more information, see the ICRC's Press release, 19 April 2002, "Uzbekistan: ICRC encounters difficulties in visiting places of detention". Available at: <http://www.icrc.org/Web/eng/siteeng0.nsf/iwpList457/C03607BC962916CEC1256BA0005FB526>.

<sup>34</sup> ICRC press release distributed to diplomatic corps in Tashkent, 23 December 2002.

<sup>35</sup> ICG interview, Mikhail Ardzinov, Chairman IHROU, Tashkent, 9 December 2002.

Uzbekistan in November-December 2002. However, he faced obstacles in investigating some of the most notorious places where torture is believed to take place, including the detention cells of the SNB.<sup>36</sup> While the Special Rapporteur was visiting, Iskandar Khudoberganov was sentenced to death by a court in Tashkent on 28 November 2002 on terrorism-related charges, apparently on the basis of confessions obtained through torture.<sup>37</sup> According to reports from international human rights groups, Khudoberganov was submitted to regular beating, electric shocks, and suffocation, and was injected with drugs, in an attempt to gain a confession.<sup>38</sup>

The Khudoberganov case is only one of dozens recorded by human rights groups in 2002. Police brutality is a routine part of investigations, and most cases go unreported and are never investigated.<sup>39</sup> In 2002 there were for the first time two trials of security service personnel for their role in the deaths of detainees. Again this was a positive step, but the lack of publicity surrounding the trials suggested that these were isolated responses to particularly egregious cases for the sake of the international community, rather than the start of a real campaign to clamp down on torture.<sup>40</sup>

Two of the most horrific cases concerned prisoners in the Jaslyk prison camp. Two religious prisoners Muzaffar Avazov and Khuzniddin Alimov, were apparently killed on 8 August 2002 by being submerged in boiling water. Even government officials were apparently shocked by this incident, but were forced by security ministers to explain to Western ambassadors that the deaths resulted from an unfortunate accident with a kettle.<sup>41</sup> As one Western diplomat admitted: "It was not merely the incident that was so disturbing, but the complete lack of any interest in the government in investigating the incident".<sup>42</sup> Expert evidence

collected by the British government proved beyond doubt that the men had been deliberately submerged in boiling water.

During the Muslim fasting period of Ramadan, there were many reports of prisoners being forced to give up their fast, and there are regular reports of religious prisoners being refused permission to pray, instead being forced to sing the national anthem at prayer time. The Koran is banned in prisons, although Christians are permitted access to the Bible.

There is no evidence that there has been any significant decline in levels of police brutality or ill-treatment of prisoners during 2002. The visit of the UN Special Rapporteur is a positive sign, but until some evidence emerges that UN and other international recommendations are being implemented, there is no real cause to talk of serious progress in this field.

### C. THE MEDIA

*"[We are committed to] ... diversity of opinions, and the freedom to express them; and ensuring the independence of the media..."*<sup>43</sup>

A major step forward, at least formally, was the ending of pre-publication censorship in May 2002. Officially, such censorship was specifically outlawed by the constitution, but in reality all newspapers had to submit copy to the censor's office prior to publication. The result was a national press that almost nobody read, full of news of the cotton harvest and official decrees. In essence the press had not changed since the Soviet period. As one leading journalist explained:

Information about the activities of the government and the president is divided into the internal and the external. For society, official external doses of information are given out, minimal in the extreme, a long way from the truth, and at times simply laughable in their absurdity. And what they do in reality, what their aims are – that remains a big secret.<sup>44</sup>

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<sup>36</sup> The SNB, or National Security Service, is the successor organisation to the Soviet-era KGB.

<sup>37</sup> "International support for alleged torture victim sentenced to death grows", IRIN, 4 December 2002. Available at: [www.irinnews.org](http://www.irinnews.org).

<sup>38</sup> For instance, see Press Release of Human Rights Watch, 4 December 2002, "Uzbekistan: Alleged Torture Victim Sentenced to Death", at <http://hrw.org/press/2002/12/uzbek1204.htm>.

<sup>39</sup> See ICG Asia Report N°42, *Central Asia: The Politics of Police Reform*, 10 December 2002.

<sup>40</sup> Ibid.

<sup>41</sup> ICG interviews, Tashkent, November 2002.

<sup>42</sup> Ibid.

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<sup>43</sup> "Declaration on the Strategic Partnership and Cooperation Framework between the Republic of Uzbekistan and the United States of America", 12 March 2002.

<sup>44</sup> ICG interview, Tashkent, November 2002.

The abolition of censorship did not have an immediate impact on the content of newspapers. They still dutifully reported the successes of the cotton harvest, and ignored any negative news. But over the next few months, slightly more critical articles began to appear in some, notably the Russian-language newspapers *Pravda vostoka* and *Zerkalo XXI*. Some of the most critical articles were about the procurator's office, normally immune to outside criticism. But a major speech by President Karimov in August 2002 criticised its activities and thus gave a certain basis for further media coverage. However, in many cases where a critical article was published, the authorities immediately called in journalists or editors to warn them not to stray too far.

More controversial subjects, with no official quotes or speeches to fall back on, are still absent from the press. There is no discussion of Uzbekistan's failure to fulfil the IMF program in 2002, very little on human rights abuses, and never on specific cases, nothing about political opposition, and nothing on the internal workings of the system, or corruption at high levels. And most certainly there is never any direct criticism of President Karimov.

In other media, there was even less change, with state television (still the main source of news for most) continuing to concentrate on success stories as its primary news fare. There are some independent, commercial radio stations, but they, too, do not dare to push the boundaries of the accepted. One journalist at such a station described the continuing reluctance to comment on internal politics:

Journalists in the news service maintain a balance between the tedious domestic official news (travels of the president around the country, the beginning of the harvest, etc) and more lively international news (road disasters, bomb explosions, cultural news), which come mainly from Russian sources.<sup>45</sup>

Overall, press and other media remained firmly under state control. The reason for continued suppression of free reporting in the absence of the formal censor is not difficult to explain. In interviews with ICG, several journalists indicated that they had been

warned orally by government officials that the end of censorship should not be taken as meaning that they were free to write what they wanted. Others have been called into government bodies to hear complaints from officials about critical articles.<sup>46</sup>

Everybody understands what these warnings mean. Since almost all the media is state-owned in some way or another, they are all dependent on state finances to survive. Each editor can be dismissed by the state body which finances the paper. Each editor can likewise dismiss any journalist who is causing trouble. But journalists can also be subject to a whole range of other sanctions, from problems with the tax police to threats of physical violence or imprisonment.

Some of this censorship stems from central government organs, such as the presidential administration, where editors have been warned "not to go too far", or not to cover a certain issue. Other journalists have been called in by the organ they are criticising. A journalist who criticised the procurator's office, for example, was reported to have been called in to the General Procurator's office to hear its complaints. Alisher Sayipov, a Kyrgyz reporter for the Voice of America, was beaten up by Uzbek border guards when he was returning from Tashkent to Kyrgyzstan. Sayipov had written a series of articles on corruption among Uzbek border guards, and had ironically been attending a conference on media and corruption organised by the OSCE and the Open Society Institute when they decided to get their revenge.<sup>47</sup>

Thus almost every state institution is capable of enacting its own form of censorship, sometimes even violently. In the regions, censorship is primarily a function of local government. *Hokims* (heads of local government) regularly harass or pressure local media that step too far. Sobirjo Ergashev, correspondent of the newspaper *Inson va Qonun*, went on trial in July 2002 on dubious charges of extortion after writing articles about embezzlement by local officials in the town of Toy-

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<sup>45</sup> N. Mitrokhin, "Tsenzura kommercheskogo radioveshchaniya v Uzbekistane (vzglyad iznutri)" [Censorship of Commercial Radiobroadcasting in Uzbekistan (a view from within)], 28 November 2002, on [www.centrasia.ru](http://www.centrasia.ru).

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<sup>46</sup> ICG interviews, Tashkent, November-December 2002.

<sup>47</sup> See "EU statement in response to the OSCE Representative on the Freedom of the Media, Mr. Freimut Duve, on Uzbekistan", Permanent Council N°417, 24 October 2002, Available at [http://europa.eu.int/comm/external\\_relations/osce/stment/uz241002.htm](http://europa.eu.int/comm/external_relations/osce/stment/uz241002.htm).

Tepa in Tashkent province that exposed corruption in land distribution.<sup>48</sup>

There are many more such cases, but usually journalists know the limits, and stay within them. Sometimes they are criticised for 'self-censorship', but as one editor pointed out, it is less self-censorship than self-preservation.<sup>49</sup> Some journalists have argued that their colleagues should be more forthright, but it is understandable that many are reluctant to push too far. Here the protection that the international community can offer is extremely important, although as with the case of Sayipov, even attendance at international conferences does not necessarily help.

Journalists also face huge problems in gaining information. Official information is hard to get, and the government regards much of its work as secret. Officials rarely give interviews or press conferences. The Minister of Internal Affairs, for example, has never had to face the press over torture allegations, and even less controversial subjects are seldom touched on by the prime minister or other government officials. President Karimov frequently urges journalists to be more active and more critical. A first step towards this end would be for him to make ministers hold regular press conferences.

A new law on freedom of information in theory asserts the right of journalists to gain access to official information, but contains some potentially dangerous points, including a ban on the "distortion of information", which in a broad interpretation would stop much journalistic analysis. Clauses on the information security of state and persons are very broad, and according to one newspaper editor could prevent criticism of government officials or investigations into government corruption: "This is just another tool for [government] censorship and control".<sup>50</sup>

The abolition of censorship was a particularly useful public relations gain for the government. It was repeated by many foreign delegations as a sign of progress, but the impact so far has been slight. Journalists still work under extremely difficult conditions, financially as well as politically, and few

are brave enough to push critical reporting beyond the limits, knowing too well the possible consequences.

One outlet for critical journalists that is becoming increasingly influential is the internet. A string of news and politics sites offer space for (usually anonymous) contributions from critical reporters. Access to such sites is sometimes blocked by the authorities but has improved since the removal of the monopoly held by the Uzspak internet service provider.<sup>51</sup> As access expands through internet cafes, schools and universities, it will become an increasingly important information source for the general population. As this area becomes more influential, however, the government is likely to attempt to reverse liberalising moves.

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<sup>48</sup> "Uzbekistan: Journalist Denounces Unjustified Prosecution", Reporters Without Borders, 29 July 2002. Available at [www.rsf.org/print.php?id\\_article=3168](http://www.rsf.org/print.php?id_article=3168).

<sup>49</sup> ICG interview, Tashkent, November 2002.

<sup>50</sup> ICG interview, Tashkent, February 2002.

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<sup>51</sup> A great many sites remain blocked including [www.birlik.net](http://www.birlik.net), [www.Uzbekistanerk.org](http://www.Uzbekistanerk.org) and other political and news sites. Even the information provider set up jointly by UNDP, the Open Society Institute and NATO has been subject to such censorship.



### **III. ECONOMIC REFORMS: UZBEKISTAN AND THE IMF**

At the U.S. embassy in Tashkent, the unofficial slogan was '2002 – year of economics', and all possible measures were taken to persuade the government to move forward on reforms. Mostly this took place through support for negotiations with the IMF, and focusing on some basic structural changes, primarily moves toward foreign exchange liberalisation and convertability of the Uzbek som.

There was some progress on the IMF program, at least until June, and there were hopes mid-year that lasting change might occur. But by December 2002 diplomats in Tashkent were growing increasingly despondent, as the key elements of the IMF program remained unfulfilled, and the government unveiled a series of decrees that far from liberalising the economy, seemed to represent serious steps backwards.

#### **A. THE UZBEK ECONOMY**

Even a brief overview shows why the IMF reforms were so critical. The economy has stagnated and failed to achieve any significant reforms for several years. Poverty is widespread, and among many people there is a deep sense of despair about the future.

President Karimov's view of economic reforms was based on what he called an 'Uzbek model' of development. The central idea was a gradual move to a market economy without undergoing the social and economic problems experienced by other countries in transition from central economic planning. In the first few years of independence, there seemed some justification for this policy: industrial production remained high, GDP apparently did not collapse as it did in other CIS states, and state subsidies and a widespread welfare system seemed to ensure that widespread poverty would not ensue.

However, this policy was not sustainable, with industrial production only supported by increased government subsidies, and rising social welfare costs undermining monetary policy. Since 1996 the economic system has been gradually collapsing under its own weight of subsidies and controls. Although GDP continues to rise, according to official figures, rates of growth are slow, and hardly

match population growth.<sup>52</sup> High but underreported inflation (around 50 per cent, according to estimates by international financial institutions) further undermines growth. Gradual growth in GDP per capita in the mid-1990s has been reversed, falling from U.S.\$684 in 1999 to U.S.\$451 in 2001.<sup>53</sup>

As growth slows, and unproductive expenditure continues to remain high, government revenue is in sharp decline. Uzbekistan faces pressures from a rising budget deficit.<sup>54</sup> Although the tax burden is extremely high, widespread evasion and falling incomes have cut collection sharply. The government still spends a major portion of the budget on subsidies, particularly to the energy sector, and also funds directed loans to unprofitable state enterprises.

Reports on Uzbek television of the opening of gleaming new modern factories seldom correspond to the grim reality of the declining industrial sector. In a few areas – oil refining, food-processing – there is some hope that profitable enterprises can eventually emerge. But most of the industrial capacity in its present form survives only because of subsidies and high import tariffs. "If we had an open economy, 95 per cent of our factories would be bankrupt", suggested one Uzbek business adviser.<sup>55</sup> Quality of production is low, prices are high, and management skills are in short supply. The picture is typical of transition countries before reforms are introduced, and Uzbekistan faces the same prospect of industrial bankruptcy and unemployment experienced in Russia and elsewhere in the early 1990s.

There is very little true privatisation in the industrial sector. So-called joint-stock companies, which are considered private enterprises, always retain at least a 50 per cent government equity share, and directors of factories remain responsible to their sectoral

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<sup>52</sup> Almost all statistics in Uzbekistan are unreliable, and those related to economic growth cannot be considered definitive. Alternative figures were provided by the IMF until 2000, but for 2001 there are no reliable alternatives to government figures.

<sup>53</sup> Figures from Government of Uzbekistan and IMF, cited by the Asian Development Bank.

<sup>54</sup> According to official statistics, it is projected at 2 per cent. The Economist Intelligence Unit (EIU) predicts a figure of 2.5 per cent [EIU Country Report, "Uzbekistan at a glance: 2003-04", available at [www.eiu.com](http://www.eiu.com)]. But local independent economists argue the real figure will be much higher. ICG interview with independent economist, Tashkent, 2 February 2003.

<sup>55</sup> ICG interview, Tashkent, November 2002.

ministry. These directors are among the least progressive elements of the business and political elite, but have considerable political power through their control over resources and the influence of their ministries. They have little interest in opening up import/export potential, since their only possibility to retain sales is through a captive domestic market.

Continued government support for these enterprises is unsustainable in the long run, but opening up the economy to imports would effectively close most of them. Chinese exports, in particular, would undercut most domestic production in all spheres. There is little alternative to mass privatisation as a way of introducing better management and attracting foreign capital that could save at least some enterprises. This process will, of course lead to greater unemployment, at least formally, but many who are employed at factories do not actually work there in any real sense, so the social impact may be much less than would appear from official statistics.

In 2003 the government expects growth of 5 per cent, and hopes to keep inflation between 12 to 16 per cent. If things carry on as in 2002, however, it will be a surprise if the economy grows at all. The only prospects for growth are from possible higher cotton prices. The inflation target seems impossible to meet, since present unofficial figures put it at around 50 per cent, and the government intends to lift some prices on government subsidised goods. It also seems likely that the increasing monopolisation of the retail trade will only raise prices.

These unrealistic projections reflect an official world on which the real problems of the Uzbek economy do not seem to impinge. Many officials lead isolated lives, away from the everyday reality of ordinary people's struggle for survival. In many cases, they are acting on information that gives a much brighter picture than is warranted, and it is often not clear if the government itself has adequate information to take appropriate decisions. A senior banker from the Central Bank of Uzbekistan told ICG that the institution often massages figures when reporting on the economic situation:

Senior officials are afraid to admit honestly to the president that there is a negative tendency in some sectors of the economy...government officials prefer to compromise their honesty

rather than lose the power and wealth they get in return for loyalty.<sup>56</sup>

These officials never have to face the press, or angry voters. Their only real concern is to please their immediate superiors, and that means maintaining a continuing belief in the bright future of the Uzbek economic model.

## **B. THE IMF PROGRAM AND GOVERNMENT REFORMS**

The need to reform the economy is clear, is accepted rhetorically by the government, and is universally recognised by the population and international organisations. So considerable hope was engendered by the decision of the government to sign an agreement with the IMF on 31 January 2002.<sup>57</sup> The agreement was to carry out a so-called Staff Monitored Program (SMP), designed to address some of the most significant structural problems posed by the economic system. An SMP is a series of agreed reforms that are not supported financially by IMF credits, but which can lead to a stand-by arrangement with budgetary support if all elements are fulfilled.

The SMP consisted of 25 commitments that the government promised to meet within six months. At the heart of the agreement were three main aims: tightening monetary policy; significant movement towards currency convertibility; and agricultural pricing reforms to raise incomes in rural areas, and thus to a certain extent limit the social impact of currency conversion. Broader commitments were to improve the business environment and liberalise trade.

The IMF mission to Uzbekistan in September 2002 concluded that the major objective of the Staff Monitored Program (SMP), the liberalisation of the foreign exchange regime, was "not achieved in full". It also sharply criticised the huge new import tariffs introduced in July and August 2002, which were "not in line with understandings under the SMP". The IMF concluded that the performance of Uzbekistan under the SMP was "unequal", and suggested that

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<sup>56</sup> ICG interview, Tashkent, November 2002.

<sup>57</sup> Government of Uzbekistan, "Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding," 31 January 2002. Accessible at [www.imf.org](http://www.imf.org).

negotiations on a possible stand-by arrangement could be resumed when the Uzbek authorities had completed the measures still unfulfilled under the SMP.<sup>58</sup>

All this was fairly diplomatic language to disguise the failure of the government to meet any of the central requirements of the SMP. The government responded by asserting that convertibility would still be introduced by the end of 2002, and that it would continue to seek a stand-by agreement in 2003. The IMF's fairly tough stance surprised some diplomats who had suggested that Uzbekistan's lack of success in meeting commitments would not stop the IMF concluding that enough progress had been made to permit resumption of lending.<sup>59</sup> Several diplomats claimed that the IMF had resisted considerable U.S. pressure to reach an agreement, although this was strongly denied by U.S. officials, who said they were happy to allow the IMF to come to its own conclusions.<sup>60</sup>

Despite the clear dissatisfaction of the IMF, the Uzbek government would not admit to failing. Even in June 2002, when it was clear that there had been only limited progress in meeting the IMF targets, Uzbek television reported that "the IMF delegation saw for themselves that in a short space of time, Uzbekistan fulfilled all the 25 requirements stipulated in the memorandum".<sup>61</sup> In July, with the key goal of currency convertibility no nearer, President Karimov still insisted that "Uzbekistan has practically fulfilled all its obligations under the IMF staff monitored program".<sup>62</sup>

However, after the failure of negotiations in September, the IMF made no further visits in 2002. A mission did begin on 12 February a long scheduled two-week visit to review the previous year's economic performance. Nevertheless, the chances of reaching a stand-by agreement seemed to have shrunk, despite further government promises that

convertibility would be introduced during 2003.<sup>63</sup> A more detailed examination of the SMP and the government response demonstrates how far the government still has to go to satisfy the spirit of that document.

## 1. Foreign exchange liberalisation

*"We plan to gradually lift all restrictions on access to foreign exchange for current account transactions and achieve exchange rate unification by the end of the SMP period".<sup>64</sup>*

Foreign exchange convertibility became the real test of the SMP, and the anticipation and promises dominated much of the discussions over economic policy during 2002. The SMP committed the government to reducing the spread between the official and black market rates to less than 20 per cent, from a difference of over 100 per cent in 2001. There were positive moves even before the IMF program was agreed: in November 2001 the government took some initial steps to reduce the spread between the official and black market rates.

According to the SMP, the government "intends to achieve the reduction in spread through a progressive liberalisation of access to foreign exchange and not through any systematic official intervention in the market". In practice, the opposite happened. Almost coincident with each IMF mission visit to Tashkent, the government adopted administrative measures to try and force the black market rate down towards the official rate, by limiting the supply of soms to the market. The alternative option of floating the currency at the black market rate, which probably reflects something like its true value, would have serious costs for vested interests within the government. In particular, the banking sector would suffer severely, with the cost of loan servicing denominated in foreign currency suddenly rising by 40 per cent. This would mean a significant increase in the local currency costs to Uzbekistan of paying off its debts.

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<sup>58</sup> Joint Statement of the Government of Uzbekistan and IMF, Tashkent, 20 September, 2002.

<sup>59</sup> ICG interviews, Tashkent, November 2002.

<sup>60</sup> ICG interviews, Tashkent, December 2002.

<sup>61</sup> "Uzbek President Meets IMF Official", BBC Monitoring, 21 June 2002, Source: Uzbek TV, 2nd Channel, Tashkent, in Uzbek 1400 GMT, 21 June 2002.

<sup>62</sup> Press conference by President Karimov and U.S. Secretary of Treasury O'Neill, Tashkent, 17 July 2002.

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<sup>63</sup> David Stern, "Uzbek government renews currency reform pledge", Eurasianet, 18 January 2002; available at: [www.eurasianet.org](http://www.eurasianet.org).

<sup>64</sup> Letter of Intent, Memorandum of Economic and Financial Policies, and technical memorandum of Understanding [between the Government of Uzbekistan and IMF], Article 5, 31 January 2002. Available at: <http://www.imf.org/external/np/loi/2002/uzb/01/index.htm>.

Access to foreign exchange remained severely restricted. There was an increase in the amount that individuals could exchange each quarter, but this remained very limited. In theory, a decree in August 2002 liberalised business access to foreign exchange, ending the system of foreign exchange licences.<sup>65</sup> In reality, bankers claim that the decree changed nothing: "You won't find any new companies in the list of those receiving access to exchange of soms into hard currency. They will find hundreds of reasons to refuse you. There's just no point speaking about this decree functioning in any way".<sup>66</sup>

Lack of access to foreign currency has had a huge impact on foreign investment. Companies such as Daewoo-United that are not permitted to convert their soms into hard currency have accumulated billions of soms in profits which they are unable to realise:

Dozens of foreign firms and joint-ventures have not been able to convert their soms since 1997, and are all waiting for a miracle, but meanwhile they have suffered severe losses, because of the huge level of real inflation.<sup>67</sup>

Some firms manage to repatriate profits through barter schemes but these are limited by the lack of exportable goods in Uzbekistan that can be bought for soms.

The government had been promising convertibility at least since 1999, and each promise had been broken. The potential losses to businesses linked to government ministers remained the main obstacle to further moves towards a single exchange rate. Concessions to these vested interests – including clamping down on small private traders and giving them almost complete control over import-export operations – do not seem to have been enough to persuade them that they would not lose significantly from any change. The success or failure of economic reforms is now intimately linked with foreign exchange convertibility. Without real movement on this issue, there is no basis for any further IMF agreement.

## 2. Agricultural reform

*"To promote further growth and reduce poverty, we intend to introduce a number of reforms in the agricultural sector".<sup>68</sup>*

More than 60 per cent of the population is estimated to be involved in the agricultural sector in some way or other. It is not only the chief employer, but also the key source of government revenue, primarily through cotton production. There is no private ownership of land, although there are some private farmers. However, they are highly dependent on state structures and local government for a range of services, including water provision, technical assistance, etc.

There are three types of farm. The *sherkat* is essentially a modern version of the old Soviet collective farm. In theory, a policy is in place to move from these collective arrangements towards more private farming.<sup>69</sup> Private and *sherkat* farms produce most of the country's main agricultural products, grain and cotton, while the third type of farm, essentially small private plots (*dekhan*), produce much of the fruit and vegetables.

The *sherkhat* provides little incentive for workers to contribute except through administrative methods. Most workers are paid very small wages, and sometimes only receive goods, such as cotton-oil, in kind. In most cases, they remain in the collective because they also receive small plots on short leases on which they grow vegetables and other crops that they can sell at the bazaar.

Private farmers receive land on a lease of 49 years, and in theory are free to grow their own crops. In practice, they are usually forced to grow a certain percentage of cotton and sell it to the state at minimal prices. One private farmer in Andijan province told ICG that growing cotton made no profit, but allowed her to grow more profitable crops on the other half of her land.<sup>70</sup> Avoiding these orders from above is difficult. A private farmer in Kokand

<sup>65</sup> ICG interview, senior banker, commercial bank, Tashkent, September 2002. The decree is "On cancellation of licensing and measures improving entry and sale of consumer goods on internal market of Uzbekistan", 20 August 2002.

<sup>66</sup> ICG interview, Tashkent, November 2002.

<sup>67</sup> ICG interview, banker, Tashkent, September 2002.

<sup>68</sup> Letter of Intent, Memorandum of Economic and Financial Policies, and Technical memorandum of Understanding [between the Government of Uzbekistan and IMF], Article 7. 31 January 2002. Available at: <http://www.imf.org/external/np/loi/2002/uzb/01/index.htm>.

<sup>69</sup> ICG interview, Abduvakhid Juraev, Deputy Minister of Agriculture and Water Resources, Tashkent, October 2002.

<sup>70</sup> ICG interview, Andijan Province, October 2002.

was threatened with having his water supply cut off if he refused to sow the required amount of cotton.<sup>71</sup>

Export revenue is above all dependent on the cotton harvest. Uzbekistan remains one of the world's top producers of cotton, harvesting about 3.2 million tons in 2002.<sup>72</sup> Revenue from cotton exports amounts to around U.S.\$1.5 billion, about half of all hard currency earnings. The extremely high dependence on cotton leaves the economy vulnerable to price changes and climatic conditions, but greater diversification is unlikely while the budget needs this revenue so desperately.

The reality of the cotton sector is grim in the extreme. Andijan province was singled out for praise in the harvest in 2002, being the first *villoyat* in the country to meet its plan targets. Its methods, however, were less than humane. In one district of the province, teachers claimed that school children starting from the second grade (ages eight to nine) were forced to collect cotton.<sup>73</sup> The director of the hospital in the Kurgan-Tepa district was ordered by the *hokim* to send his personnel to the cotton fields.<sup>74</sup> Children and students are a useful source of free labour, but they not only lose education for this period, they are also housed in very primitive conditions and are often worked extremely hard. Although child labour is banned in Uzbekistan, there is little attention to these issues and only limited international pressure to stop abuses.

Cotton is picked for minimal wages (rates range from 25 to 125 soms per kilo, approximately two to ten U.S. cents, depending on the quality). It is all sold to the local cotton-processing factory at low prices. Private farmers<sup>75</sup> get paid approximately 45 soms per kilo, while state farms get much less. Cotton-processing factories are all state-owned, so there is no competition on price for the farmers. Those who

work in the factories are viewed as exploiters by the farmers, but they also complain that they have to wait up to five months for their minimal salaries.

The real money is made in Tashkent by the cotton barons, who export the crop for hard currency. On average 1 to 1.2 million tons of cotton fibre is produced each year. Cotton export is run by a state monopoly operated through several non-competitive companies but it is all under the informal control of a number of senior government ministers and advisers, mostly grouped around State Adviser to the President Ismail Jurabekov, a former deputy prime minister and a leader of the so-called Samarkand clan. Often referred to as the 'grey cardinal' of the regime, attempts to remove him from power in 1998 were largely unsuccessful. He has retained an advisory position and works through a network of his own supporters in various ministries.

Much of the money from cotton exports goes into the state budget and as such is a key revenue source for the regime. The real earnings from cotton are magnified by the foreign exchange regime. Since all payments are in soms, and all receipts are in hard currency, it is particularly advantageous for the cotton sector to retain the present system.

Agricultural workers are little better off in other sectors. The NGO Centre for Democratic Initiatives investigated tobacco production in Urgut district, where most farmers produce for the joint venture, UzBAT, set up by British-American Tobacco. Prices are set by UzBAT and the local government, without consultation with farmers, and in 2002 reportedly reached 120 soms per kilogram. According to this information, an average family in Urgut grows 800 to 1,200 kg of tobacco every year, for which a collective farm receives 150,000 to 200,000 soms (U.S.\$130 to \$174). Of this the farmer receives 60,000 to 80,000 soms (U.S.\$52 to \$69).<sup>76</sup>

This yearly income is, of course, hardly enough to feed a family of six or more. So why do the farmers carry on in this exploitative system? Their real income comes from their work not on the *sherkat*, but on their own small plots of one or two hectares, where they grow grain or vegetables, and sometime raise cattle. Since these plots are given out by the local authorities, normally on a three-year lease, the

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<sup>71</sup> ICG interview, Kokand, April 2002.

<sup>72</sup> Official web site Uzreport.com, "Uzbekistan ends cotton harvest with 3.2 ml tons of 'white gold'", 8 December 2002. Available at: [www.uzreport.com](http://www.uzreport.com).

<sup>73</sup> ICG interviews, Andijan province, October 2002.

<sup>74</sup> Ibid.

<sup>75</sup> Private farmers are those who have leased land from the local authorities (private ownership is not permitted). As part of the conditions of the lease, they agree to sow a certain amount of cotton every year, normally around 50 per cent in most regions. Cotton growing is not profitable under present conditions, but they are forced to do it by the local authorities. Private farmers who refuse to sow cotton risk having their lease revoked, or their water supply cut off.

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<sup>76</sup> ICG interview with director of the Centre Iskandar Khudayberganov, Tashkent, November 2002.

farmers cannot refuse to grow tobacco on the farm for next to nothing.

This whole system is extremely advantageous for the local authorities and for companies engaged in buying agricultural products. But it has resulted in grinding poverty in much of the countryside, and the emigration of many young people, either to cities or out of the country entirely.

### 3. Banking

*"We ...plan to implement a number of measures aimed at enhancing the role of the banking system in the economy".<sup>77</sup>*

The banking sector has also produced influential members of the ruling elite. While they form one of the most progressive groups in the government, they fear the impact of conversion on the viability of the banking system.

In theory, commercial bankers favour a liberalised foreign exchange regime. All banks are required to have at least 25 foreign exchange booths, although these are all loss-makers since nobody sells foreign currency in exchange bureaux where the rate is so much lower than in the black market. Moving to a convertible currency would provide the banks new business in foreign exchange.

In the absence of normal commercial business and foreign exchange transactions, many banks have largely flourished on their political connections and access to quotas for foreign currency, rather than on any ability to provide real banking services. Taking up foreign loans in hard currency has proved particularly lucrative. A foreign loan to a bank is normally only approved for businesses wanting to import major industrial goods, such as equipment. In practice, most of these loans are used to buy consumer goods, which are then sold for soms. Those with access to the favoured quota system of hard currency can then buy back dollars at the preferential rate in order to pay off the loan. Most of these loans are nonviable at the market rate, and hence many banks fear that conversion at the market

rate will lead to a series of bankruptcies in their sector.

The banks are not private or independent in any real sense. All are under strict government control and forced to provide loans under government direction, even to enterprises that are clearly not economically viable. This process was supposedly ended by a decree issued as part of Uzbekistan's obligations towards the IMF, but in reality, non-formal government direction of loans continues to be common practice. Indeed, there is little alternative for the government if it wishes to keep nonviable enterprises operating, since they would seldom qualify for truly commercial loans.

The government has introduced a panoply of measures to keep the cash economy restricted and ensure that people use banks instead. In most cases, according to the law, payment for buying and selling must take place through a bank. The problem is that there are restrictions on how much money the seller is able to take out of the bank at any one time. The legal restrictions on cash withdrawals have largely been lifted formally, but in practice banks will often say they simply have no money to give out, leaving traders with no access to their own cash.

This situation has led, according to a well-placed economist, to "a catastrophic growth of a whole criminal business based on illegal encashment operations".<sup>78</sup> Instead of receiving payment for a sale of goods into a bank account, from which it may be difficult to receive the money, traders use companies who will 'cash' bank transfers for a payment of around 13 per cent of the total.<sup>79</sup> This method is expensive and illegal, but offers businesses something an Uzbek bank cannot – immediate access to their own money.

Since banks are also obliged to provide access to account information to the intelligence services, and other government bodies, most businesses would rather not use banks at all. A series of measures have given all sorts of government bodies access to account information. In September 2002 a new regulation ordered banks to report any transaction greater than 6,500,000 soms (approximately U.S. \$6,500) to the tax authorities. According to bankers, the department for fighting economic crime under the

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<sup>77</sup> Letter of Intent, Memorandum of Economic and Financial Policies, and technical memorandum of Understanding [between the Government of Uzbekistan and IMF], Article 8, 31 January 2002. Available at: <http://www.imf.org/external/np/loi/2002/uzb/01/index.htm>.

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<sup>78</sup> ICG interview, official of the Ministry of Finance, Tashkent, December 2002.

<sup>79</sup> Ibid.

procurator also has full access to all their accounts. Bankers are worried that the 'struggle with economic crimes' will have no impact on the real law-breakers, but will "...further weaken the position of commercial banks, frightening away clients".<sup>80</sup>

Under Article 8 of the IMF memorandum, the government promised to end its interference in the operations of commercial banks. In fact, complains one commercial banker, "...there is direct interference by the authorities in our operations with clients".<sup>81</sup> Until there is true independence, banks will not be trusted by businesspeople, and most commerce will remain in the black economy, keeping tax revenues down, and assisting in the criminalisation of business and the corruption of government agencies.

#### **4. Trade liberalisation**

*"We also plan to make further progress with respect to trade liberalisation"*<sup>82</sup>

The commitment to trade liberalisation was not part of the narrow conditions of the SMP, but of the memorandum that pointed to further developments that would follow the SMP. Although not covered by the 25 short-term conditions laid out in the memorandum, new restrictions on trade clearly breached the spirit of the agreement. By the end of 2002, new government restrictions on small traders had decimated Uzbekistan's bazaars and led to a massive outflow of trade to neighbouring countries. By January 2003 the government was resorting to border closures in an attempt to restrict the outflow of hard currency to neighbouring Kyrgyzstan and Kazakhstan.

The 6 May 2002 decree of the Cabinet of Ministers, N°154 "On regulating the import of goods by private persons into the territory of Uzbekistan", announced new customs tariffs for so-called shuttle traders – private traders who travel to Russia, China, Turkey and other countries and bring back cheap consumer goods, particularly clothes, for resale at bazaars. These traders were already subject to various customs

duties and small trading taxes, although many were able to avoid much of the bureaucracy. From 1 June 2002 new tariffs on imported goods were introduced, amounting to 50 per cent for food items and industrial equipment and 90 per cent for other goods. Anyone selling at the bazaar would require a raft of new documents for imported goods, including health and safety certificates, and customs receipts.

This decree sparked waves of protests by shuttle traders and sellers of consumer goods at markets nation-wide. Although the decree was only supposed to apply to goods imported after 1 June 2002, in practice tax and police officers launched regular raids on markets to confiscate any goods that did not have the new documentation.<sup>83</sup> In an unprecedented move, bazaar traders went on strike in July, to protest the new measures. There were reports of scuffles between traders and police, and organisers of strikes and protests were reportedly arrested. Central Asia's biggest consumer goods bazaar, the Hippodrome, on the outskirts of Tashkent, was closed for reconstruction, leaving thousands out of work. Prices for consumer goods shot up by two or three times, as traders began to pay the new tariffs. Other traders simply gave up, or began to trade illegally, selling door to door.

The other result of the draconian restrictions was to push most trade out of the country into Kazakhstan and Kyrgyzstan. The markets of Shymkent, a Kazakh town not far from Tashkent, became the main destination for shoppers from the capital. From the Ferghana Valley, Uzbeks crossed to the Kyrgyz bazaar at Kara-Su, near Osh. A Kazakh diplomat's estimate that about U.S.\$4 million a day was flowing out to Kazakh markets in October 2002 might be an exaggeration, but even conservative estimates suggested that total cross-border outflow of hard currency was reaching U.S.\$100 million a month.

The government justified the new measures as a tool to combat contraband, regulate imports, and block the import of low quality goods. The real reasons are more difficult to establish: some ministers seem to have believed that they would reduce demand for hard currency and make achieving convertibility easier. Other versions suggested that ministers

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<sup>80</sup> ICG interview, senior banker, commercial bank, Tashkent, September 2002.

<sup>81</sup> Ibid.

<sup>82</sup> The full text of the Memorandum of Economic and Financial Policies, Technical Memorandum and Letter of Intent are available at the IMF web site <http://www.imf.org/External/NP/LOI/2002/uzb/01/INDEX.HTM>.

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<sup>83</sup> Decree N°1150 dated 20 June 2002 "On endorsement of regulations of accounting and sale of goods imported by private persons" allowed goods imported before 6 May 2002 to be sold without new documents from the customs office and quality certificate, but was widely ignored.

involved in the retail trade, such as Deputy Prime Minister Usmanov, wanted to take control over all imports, and force the shuttle traders out of business. The regulations certainly create new opportunities for graft among officials. Probably the truth is a mixture of personal financial interest and political intrigue, but the results were so disastrous that more conspiratorial versions have even suggested that the move was a deliberate attempt to undermine President Karimov or to block economic reforms.

As a result of the trade restrictions introduced during summer and autumn 2002, thousands of private entrepreneurs lost their capital and incomes. Often confiscated goods were bought by shuttle traders on credit, which they were then unable to repay. One such entrepreneur from Khazarasp in Khorezm province, Murodbek Djumaniyazov, committed suicide by self-immolation after he and other traders were beaten up by the police for demonstrating in front of the tax office. According to human rights activists from Khorezm, tax officers confiscated goods from Djumaniyazov three times. The last time he lost U.S.\$2,000.<sup>84</sup>

Many of these confiscated goods appear to have been resold, either for government revenue or for private gain by officials. Traders allege prosecutors and tax and customs officials have forced private shops and traders to buy confiscated goods that lack the requisite quality certificates and customs documents. According to a trader in electronic goods, the procurator's office forced him to buy confiscated clothes and shoes for 1 million soms (about U.S.\$900) or face inspections that would close his business or require him to pay bribes.<sup>85</sup> A trader in Tashkent said:

The government says it protects our markets from imported low quality goods but then makes us sell them in our shops while they take the money from us. I had to buy U.S.\$200 of confiscated goods to register my enterprise. It's a profitable business for law-enforcement officers as they don't hand over the full amount [to the government] they take from us.<sup>86</sup>

According to one bazaar trader (who like many traders has an alternative 'official' job, which earns

him 11,000 soms a month (approximately U.S.\$9), the decree has merely created more corruption and higher earning power for customs officials. Traders pay taxes on only a small proportion of their imports and show the resulting documentation to tax officials. The rest of the goods are imported free of duty with the connivance and payment of customs officials.<sup>87</sup>

According to a Kazakh diplomat, some 20,000 people were crossing the border into Kazakhstan daily in October 2002 to buy goods, taking up to U.S.\$4 million per day out with them.<sup>88</sup> Others suggested the figures were less – perhaps U.S.\$1 million to \$2 million, but that similar levels were also leaving for the huge Kara-Suu market in southern Kyrgyzstan. Certainly the outflow of funds had not been expected by those behind the decree, but it was pure common sense. By December 2002 many goods in Tashkent – particularly clothes and other consumer items – were up to 100 per cent more expensive than in Kazakhstan, and there was less choice of products.

The new trade tariffs dismayed the international organisations attempting to support reforms and were singled out for criticism by the IMF mission that visited Uzbekistan 11-20 September 2002. The mission referred to "restrictive external trade measures not in line with the understanding under the Staff Monitored Program".<sup>89</sup> In response to this criticism and protests of traders, the government reduced customs tariffs to 40 per cent for food items and industrial equipment and 70 per cent for other goods imported into Uzbekistan after 1 October 2002. For companies, the customs tax for non-food items was reduced first to 20 per cent,<sup>90</sup> then to 10 per cent from 1 December 2002, and was eliminated as of 1 January 2003.

These concessions seemed a move away from the earlier policies but further decrees moved back towards a near-monopoly of trade by well-connected companies. A decree issued in December 2002 established new minimum requirements for a licence for a company involved in wholesale trade. First, the

<sup>84</sup> Phone interview with Khaitbay Yakubov, 15 November 2002.

<sup>85</sup> ICG interview, Tashkent, January 2003.

<sup>86</sup> ICG interview, Tashkent, January 2003.

<sup>87</sup> ICG interview, Tashkent, November 2002.

<sup>88</sup> ICG interview, Tashkent, October 2002.

<sup>89</sup> Joint Press Statement of the government of Uzbekistan and the IMF, Tashkent, 20 September 2002.

<sup>90</sup> See UzReport, "Importniye poshliny dla chelnokov snizheny na 20-22 per cent" [Import taxes for shuttle traders reduced to 20-22 per cent], 3 October 2002, [http://81.29.68.227/rus/disp\\_news.cfm?ch238&dep=238&vr ec=8202](http://81.29.68.227/rus/disp_news.cfm?ch238&dep=238&vr ec=8202).



company needs its own warehouses and equipment; secondly, at registration, it needs capital of at least U.S.\$25,000, a large sum in Uzbekistan. Few companies are able to meet these demands. The decree concluded with an instruction to local authorities to re-register all trading firms and individuals by 1 January 2003, a vast opportunity for bureaucratic delay and corruption.

According to one well-informed observer, the decree "...leaves only three companies that can really comply with this decree".<sup>91</sup> The three he named are all under the control of leading members of the government. This may be a slight exaggeration, and other companies may be able to register in the future, but the decree is clearly a serious blow to small and medium-sized companies that engage in wholesale trading, and a further move by members of the elite to establish almost full control over lucrative sectors of the economy.

The mass outflow of hard currency to markets in neighbouring countries seriously undermined retail trade inside Uzbekistan. In December 2002 the government closed borders, allegedly as protection against epidemics, but universally believed to be to prevent people from buying goods outside the country. This has had a devastating impact on trade but it also has considerable human consequences in a country where many people have family living in neighbouring countries. "My sister died in Shymkent last night but I can't cross the border, and the border guards insist I get a telegram to prove her death", said a man interviewed at the Uzbek-Kazakh border. "It is cruel to ask for a telegram from people who have just lost their loved ones. We are tired of these endless inhuman decrees which only make us suffer!"<sup>92</sup>

## **5. Improving the business climate**

*"...to permit the private sector (and especially the SME sector) to contribute to both real growth and job-creation, the government will progressively dismantle existing restrictions and regulations to facilitate the ability of economic agents to do business ..."*<sup>93</sup>

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<sup>91</sup> ICG interview, Tashkent, December 2002.

<sup>92</sup> ICG interview on the Uzbek-Kazakh border in Chernayevka village, January 2003.

<sup>93</sup> Letter of Intent, Memorandum of Economic and Financial Policies, and technical memorandum of understanding

The government (and some diplomats) have tended to view the IMF SMP as a checklist of largely technical requirements to be implemented fairly mechanically, before the IMF would offer budgetary financing. The IMF's view was that it was a broader reform program that would need to be complied with in spirit in order to move forward with a second stand-by program. It was not merely the failure of the government to meet any of the main elements of the IMF program that led to such a collapse in optimism in 2002. It was also the additional restrictions and regulations that undermined the whole basis of market economic reform and contradicted government commitments to liberalise the business environment.

One of the most unwelcome decrees that emerged in late 2002 was that on privatised enterprises.<sup>94</sup> It emerged from the work of a special commission that discovered many shops and small service enterprises had changed their activities from that which they had been engaged in when originally privatised in the early to mid-1990s. Bread shops had become internet cafes, laundrettes grocery stores, and so on. The most important point of the decree declared that any business found to have changed its activities without official permission since it was privatised could be re-nationalised and resold.<sup>95</sup>

The decree effectively licensed local authorities to seize any local business, since most have changed their activities in some way or another, and resell them at a profit. In terms of tackling corruption, promoting small business and guaranteeing property rights, the decree was a disaster. But it seemed in tune with an attempt by leading business-political groups to ensure control over almost the whole retail trade, from bazaars to corner shops. There was also a danger that the decree would be used to close down internet cafes, the rapid spread of which was apparently worrying some in authority. This would be in line with other socially restrictive decrees such

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[between the Government of Uzbekistan and IMF], 31 January 2002.

<sup>94</sup> Postanovlenie kabineta ministrov "O faktakh narushenii v deyatelnosti privatizirovannykh ob"ektov torgovli I sfery obsluzhivaniya" [On facts of infringement in the activities of privatised objects of trade and service sector], 21 November 2002.

<sup>95</sup> The owner would be compensated with the price paid at privatisation, which would be almost worthless after several years of inflation and depreciation. It would also not take into account any investments made in the business.

as those banning billiards and forcing night clubs and restaurants to close at midnight.<sup>96</sup>

Diplomats suggested that the team of economists leading the IMF program around Deputy Prime Minister Rustam Azimov may have been bypassed by these decrees, which were clearly agreed by other members of the government separately with the president. Regardless of how they came about, they seemed to be reason enough on their own to block any agreement with the IMF. Although they do not directly contradict the letter of the SMP, they certainly go against its spirit. Instead of following through on its promise to ease restrictions on enterprise, the government has taken retrograde steps that arguably leave the economy in worse shape than when the IMF program was agreed in January 2002.

The pressure on business increased dramatically as the government sought short-term gains for the budget and government bodies sought new possibilities for extortion. Leaders of *mahallas* (local communities) were reportedly told by the SNB to report on any wealthy people in their neighbourhoods, presumably for further investigation by the security bodies and tax authorities.<sup>97</sup> Pressure to collect taxes has begun to destroy any incentive for business. The tax system does little to encourage entrepreneurship, and hidden taxes in the form of bribes to government organs make life for the small and medium-sized businessman even more difficult. A businessman from Namangan complained that:

We are paying almost half our profits in taxes, besides paying bribes to representatives of the procurators's office, the fire and sanitary services, the tax committee and the police who all have the right to inspect us. If you do not pay them under the table they will find

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<sup>96</sup> In a bizarre decree issued in October 2002, apparently by Tashkent city council, billiards was banned nation-wide, and billiard halls were closed. Billiards is a popular activity in Uzbekistan but the decree was justified by government officials with the claim that billiard halls had become centres of drug dealing and gambling. This type of socially restrictive decree is becoming more typical of the government, partly because of a Soviet mentality that social ills are best tackled by repression, and partly because many regular attendees at night clubs and billiard halls are children of the elite. Government decrees against places of entertainment often reflect the inability of the few families who control politics to control their own children.

<sup>97</sup> ICG interview, Tashkent, October 2002.

unbelievable regulations and internal instructions which will block your business.<sup>98</sup>

This widespread corruption is hugely damaging to business, and attempts by some government organs to tackle it seem to have made little headway. The Ministry of Justice has implemented frequent raids on local authorities in response to complaints by local businessmen, but these 'administrative methods' do little to tackle the underlying problem, which is the lack of accountability of local authorities and government bodies, the inability of the mass media to discuss such issues, and the lack of an independent judicial system or procurator to whom complaints can be addressed.

### C. ECONOMIC PROSPECTS AND GROWING POVERTY

This stagnating economy can continue to function at some level for a number of years without facing serious challenges to its viability. Continued commodity exports provide enough resources for the government to maintain a minimal social welfare net and, more importantly, fund the security services on which it increasingly depends. However, for ordinary people, the outlook is grim. The result of economic stagnation and high inflation is a constant erosion of living standards. The government has refused to conduct any official poverty assessments, but it is clear that in both urban and rural areas, poverty is widespread.

Average state salaries are between 20,000 and 30,000 soms (U.S.\$17 to U.S.\$26)<sup>99</sup> a month in Tashkent, and even less in rural areas. For the minority who have jobs in the private sector, wages are higher, but employment is hard to find. For young people, in particular, the lack of career prospects is leading to widespread disillusionment, and increasingly youth are seeking ways to emigrate.

Zahira is the fairly typical product of a one-time middle class that is fast disappearing. She hopes to get a full-time job after she finishes her masters' degree but she is not optimistic. At present she survives on her salary from a job in an academic institute (12,000 soms or U.S.\$10 a month), her

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<sup>98</sup> ICG interview, Namangan, November 2002.

<sup>99</sup> Currency conversions on the black market were being made in February 2003 at the rate of 1150 soms to the dollar. The official rate at the time was 960 soms.

student's stipend (8,000 soms or U.S.\$7) and the pension of her mother, with whom she lives (20,000 soms or U.S.\$17). Of their total monthly income of 40,000 soms (U.S.\$34), 7,200 goes on utilities, and 4,000 on public transport. The remainder, 28,800 soms (U.S.\$25) has to cover food, medicine and all daily needs for a month. Buying clothes or footwear is almost impossible. Some additional income comes in the summer from selling fruit and vegetables from a garden plot, and occasional odd-jobs are available such as cleaning the houses of foreigners or rich people.<sup>100</sup>

Zahira is from a 'middle-class' family, well-educated and with prospects in any normal society of a good job. Many well-educated young people are left with little choice except to either work in the government for very small wages or to seek ways to emigrate. The fortunate few gain jobs in international organisations. For the unlucky, the prospects are grim.

One former student of Tashkent University, returning after three years abroad, noticed some sharp changes:

The first thing you notice is how much poorer people have become. They wear old clothes, they don't eat meat very often – they buy only the bare necessities. The other noticeable change is that people have become more religious. People that I knew three years ago, who didn't want to even hear about Islam, now walk around with little prayer books in their hands.<sup>101</sup>

Lacking the right connections in the political system, the educated middle classes are slipping backwards because of the failure to reform the economy and widen employment opportunities. Recent restrictions on small businesses have only worsened their situation.

For the truly poor, the situation is often even more desperate. Although official figures suggest that unemployment is at 0.4 per cent, the reality is very different. Every day in every city of Uzbekistan the unemployed gather at unofficial labour markets. In Tashkent they are often arrested by the police, since they are effectively trying to work illegally – those coming to the city need a *propiska*, or registration card, to seek work. *Propiskas* can be bought, of

course, but the price of U.S.\$500 to \$1,000 is beyond these people. Instead, they pay bribes to local policemen not to turn them in, when they have money, or suffer imprisonment or deportation to the provinces, if not. For the well-connected minority these problems do not arise. A banker in a commercial bank complained how some young people from powerful families manage to get jobs after one phone call, despite lack of qualifications or legal registration in the city.<sup>102</sup>

For ordinary people, every day is a struggle for survival. Zafar, who has spent more than a year on the labour exchange, described his day at the Kuyluk bazaar:

Often the police come by and take unemployed people away in buses. If you can pay 2,000 soms (U.S.\$1.5) to the police they let you go, and you can wait for work.... Sometimes there is no work for days, and you go home with an empty stomach.<sup>103</sup>

Most of the work is physical labour on construction sites, decorating or cleaning rich people's houses. Wages are as low as 1,000 soms (U.S.\$0.8), but can be up to 5,000 or 6,000 soms, depending on the employer.

The political implications of their position do not pass them by: "We build huge houses for state officials, who have a salary of no more than 50,000 soms. We all understand that this is state money, which *hokims* and procurators have stolen from us and used to turn us into slaves".<sup>104</sup> Indeed, it would be surprising if these contrasts in lifestyle, and the constant humiliation and persecution from the police, did not have some impact on the political consciousness of the unemployed. There seems to be a greater willingness to complain among the poor. One unemployed man from Tashkent said:

Before I was afraid to say anything to you, but now on the contrary I want to let everybody know what is really going on in Uzbekistan. I would rather live under Islamists than under these 'democrats'. I used to be afraid of the words Hizb-ut-Tahrir or IMU, but now when

<sup>100</sup> ICG interview, Tashkent, December 2002.

<sup>101</sup> ICG interview, Tashkent, December 2002.

<sup>102</sup> ICG interview, Tashkent, December 2002.

<sup>103</sup> ICG interview, Tashkent, December 2002.

<sup>104</sup> ICG interview, Kuyluk bazaar, Tashkent, December 2002.

the police beat me and humiliate me, 'I think I'm ready to kill them all myself.'<sup>105</sup>

These are not just the marginal elements of society who have somehow slipped through the cracks of the welfare state. Many have higher education – perhaps as many as 30 to 40 per cent. It is difficult to know how many people are working in the informal economy but estimates in Tashkent go as high as 500,000. Such figures are replicated across the country in each urban centre. The clampdown on bazaar traders will only add to their numbers.

Declining living standards, a rapidly growing population, and a new generation with no real prospects for satisfying employment is a dangerous mixture for Uzbekistan. The patience of the people and their ability to adapt to the system and survive under difficult circumstances has so far kept social discontent under control. Obviously, high levels of repression also play a significant part in preventing private discontent from spilling over into public action. Increasing levels of labour migration abroad by young people, especially young men, is also an important safety valve. But the marginalisation of many people is increasing rapidly, and there is a growing sense that economic prospects are not going to improve.

#### **IV. OPPOSITION TO REFORM**

The failure of the government to take advantage of the improved external situation in 2002 and push forward with economic reforms raises the question of why it is so reluctant to fulfil its promises. There are three main reasons. First, the political system is built on support for President Karimov from groups with a vested interest in the present order. They are more concerned with political struggles amongst themselves than with national economic reform. Secondly, the system of governance and bureaucracy at large act against change. And thirdly, society has not pushed hard for change from below and, according to some views, is not ready for radical economic and political restructuring. Understanding the balance among these three factors is essential to developing initiatives aimed at encouraging changes in government policy.

##### **A. THE POLITICAL ELITE AND VESTED INTERESTS**

The main reason that the policy of engagement by Western governments has borne such small fruit is that few people in the elite have any personal interest in seeing reforms succeed. The political system is dominated at the centre by a few families who simultaneously occupy key government posts and dominate most of the key sectors of the economy. For these figures, who are the country's decision-makers, there is little real incentive to push for major reforms. Under the present system, they have gained considerable wealth and influence, and they face a loss at least of income under any economic shake-up. They are extremely fearful of change and believe that letting go of some of their levers of control over society will lead to unrest and loss of power.

At the top of the apex is the sometimes contradictory figure of President Karimov. Among all the government ministers, he may be the only one who has a real long-term vision for the country, but it is less and less connected to economic prosperity and more and more linked to his hold on power. His rhetoric is sometimes refreshing but seldom followed up. He has charisma, has often charmed visitors, and has successfully developed a number of myths around his persona. One central myth has been that Karimov's apparent dominance of the decision-making process makes it easier to implement reform, if a decision is made at the top. Although definitive

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<sup>105</sup> ICG interview, Kulyuk bazaar, Tashkent, December 2002.

analysis of the decision-making process is impossible from outside the system, the evidence suggests that Karimov is either incapable of or unwilling to challenge the power of significant political groupings.

Views of Karimov as a reformer battling against a conservative collection of clans around him are probably no longer tenable. As one expert within the government apparatus explained, the economy is centralised because it is used as a key tool of political and social control. An Uzbek analyst claimed:

Though there is clearly a close grouping of a few families who have a vested interest in keeping the economy closed, the major impediment to liberal reforms is the president, who wishes to hold power indefinitely and uses the economy as the most effective instrument of manipulation of the masses.<sup>106</sup>

There is a serious question about the access to information that the president enjoys. According to one former official who worked with him, information is carefully filtered before it arrives on his desk. When translating for international delegations visiting Karimov, interpreters have often left out controversial words or subjects.

Others disagree, and portray the president as sincere in his desire to implement reforms but unable to counter those around him. But this image of the 'good Tsar', undermined by his courtiers, is far too simplistic. The system is in large part a reflection of Karimov's political choices, and his choice of supporting groups reflects his own mistrust of his wider popular legitimacy. An independent expert on domestic politics stated:

The state bureaucracy and clans in Uzbekistan support themselves by strengthening the personal regime of the president. Clans have become interlaced with the government. Therefore, it would be naive to state that the question is how to tear them apart. Only by changing the nature of the regime can we change the established order.<sup>107</sup>

Key ministers are grouped in competing blocs based both on clan or regional affiliation and on personal financial interests. The basis of these groupings is

sometimes described in terms of regional clans: the Tashkent, Samarkand and Ferghana clans being the most influential. It is true that there has been a regional basis to some political-business groupings but this is not the only factor in how individuals cooperate: much revolves around access to financial resources, and such groupings are more flexible than a strict regional clan basis would suggest.

Nevertheless, at its most simplistic, the political battle can be explained in terms of struggles between these groupings, and primarily between a Samarkand grouping, led by Ismail Jurabekov, presidential adviser on agriculture and water resources, and Timur Alimov, viewed as head of a Tashkent clan, and an official in the presidential administration. This analysis places senior figures in one or the other camps, with the powerful interior minister Zohirjon Almatov, for example, being linked to Jurabekov, while SNB chief Rustam Inoyatov is linked to the opposing Alimov camp.

In reality, the situation is more complex, with several centres of power, and alliances among groupings shifting on issues and personalities. An appreciation of these key players and their allies is important to understanding why the process of reform is so difficult.

Much of retail trade and import/export operations is largely under the control of Deputy Prime Minister Mirabror Usmanov, who among other interests, controls the Ardu chain of supermarkets. First Deputy Prime Minister Kozim Tulyaganov, a former mayor of Tashkent, is alleged to have widespread property interests. Elijor Ganiev, promoted to Deputy Prime Minister in November 2002, has considerable influence in foreign trade issues, and is closely linked to the security forces, which form an increasingly powerful political bloc. Indeed, interior minister Zohirjon Almatov is probably the most powerful of all ministers, and is often mentioned as a potential successor to Karimov. SNB chief Rustam Inoyatov, linked to the Tashkent clan, is considered a rival of the interior minister and has a potent combination of intelligence on all members of the elite and considerable financial resources through family businesses.

All these figures have little obvious interest in changing a system that has served them well in the past. Even those sometimes pointed to as reformers, such as Deputy Prime Minister Rustam Azimov, have little experience of working in a real market economy.

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<sup>106</sup> ICG interview with a leading expert on domestic politics. September 2002.

<sup>107</sup> ICG interview, Tashkent, 2 February 2003.

If Azimov does have a better understanding than most of what economic reform involves, he seems to have subordinated reform programs at least temporarily to his political ambitions.

In all cases, government ministers have been deeply involved in a system of corruption in which they have achieved significant personal wealth. Any serious structural reform will undermine their chief sources of income, which tend to come from control over commodity exports or licensing of business activities, in other words from government control over the economy. Lessening that control – introducing market reforms – would immediately reduce their economic power, and their political and social control.

In theory, in a more open economy, a corrupt elite could gain even more financial benefit from increased foreign investment and greater economic growth. But this is unattractive to the present elite for two reasons. First, they are not used to working in an open economy, where they need to compete with other players on market terms. Secondly an open economy threatens their political position, by providing the potential for economic power to disperse to new political forces. This has been one of the results of Kazakhstan's economic policy, where a corrupt but more open economy has led to a powerful political opposition backed by business groups and officials opposed to President Nursultan Nazarbayev.

The dynamics of the political elite have come to the fore in early 2003 because of the widespread rumours that President Karimov is seriously ill. Evidence of poor health has been alluded to before,<sup>108</sup> but a variety of sources have suggested that his illness worsened significantly in late 2002. Fears about the president's future are stimulating a serious conflict within the elite for the succession, and this battle is paramount compared with issues of economic reform or other political change.

In January 2003, rumours about President Karimov's health intensified. According to an official of the Cabinet of Ministers, "Karimov is now preoccupied with his own poor health and we will most probably see a change of leadership this year".<sup>109</sup> Officials of course deny there is any problem, and it is understandably difficult to gain hard evidence of the real situation, but it does seem likely that Karimov is thinking increasingly about succession scenarios.

If this analysis of the political system is correct, it has far-reaching implications for external efforts to promote reform. With no significant constituency within the government in favour of reform in the sense that it is perceived by international actors, it is not surprising that there has been so little progress. Disputes over the succession threaten to keep reforms on hold as the elite concentrate on infighting. The lack of progress in the second half of 2002 on any aspect of reform may well be related at least partly to this intensifying political struggle.

Arguably the concentration on economic rather than political reforms has come from a mistaken understanding of how the system works. This elite is largely self-perpetuating and does not let independent figures into its midst. This sense of stasis in terms of personnel is one of the key problems for reform. Circulation of elites is vital to break the log-jam, and the introduction of some element of free political association and electoral process is probably the only way to begin to bring new people into the system.

In many positions in the government there are people who have a wider perspective for future development and an understanding of the difficulties of the present situation. Often these are not real decision-makers, but rather middle-ranking officials retained for their specialist knowledge, in foreign affairs for example, or because they are otherwise useful in dealings with international organisations or foreign countries.

But there is no evidence of a serious group of reform-minded politicians in positions to push reforms forward. Indeed, the political system almost precludes the emergence of such a group, since all bureaucrats, parliamentarians and local officials are entirely dependent on the state for their existence.

## **B. BUREAUCRACY**

Even with a reform-minded leadership, the present system would be difficult to change. The bureaucratic machine that was developed during the Soviet period and has changed little since is fundamentally at odds with attempts to reform. State officials have for the most part adapted to the present system and made it work to their own advantage, generally through corruption of the rules and regulations to their own advantage.

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<sup>108</sup> ICG Report, *Uzbekistan at 10*, op. cit.

<sup>109</sup> ICG interview, Tashkent, January 2003.

In particular, bureaucratic inertia and lack of competent officials in local government is a serious obstacle to any change. Ambitious civil servants seek posts in Tashkent, and few government officials are interested in leaving the capital, except for a particularly lucrative post, such as provincial governor. Corruption and nepotism are rife in the provinces, and personal financial interests of local officials usually run counter to any reforms.<sup>110</sup> Agricultural reforms in particular are at the mercy of local officials, who have inordinate power to interfere in farming, whether in private or state enterprises.

There has probably been less change in bureaucratic personnel in Uzbekistan than in any other Central Asian state. The use of patronage and dependence on state resources as a key source of loyalty make any serious change very difficult under the present system. Any far-reaching reform in politics and economics will have to consider how to transform the state bureaucracy. In theory a new generation coming into state institutions should be having a positive impact. In practice, young people are too often forced to take up the corrupt practices of their seniors to survive.

### **C. SOCIETY**

It would be unfair to suggest that all pressure for reform has come from outside. Even with a weak civil society, and little independent media, there are many people within Uzbekistan who are working for change. Some do this within the system, even from positions close to the top of government. Others work in international organisations, NGOs, and human rights groups or are simply citizens who wish to see changes but have little idea of how they can contribute. Yet, there is a widespread conviction among the Uzbek elite that their country is not ready for democracy, a free press or any of the other attributes of an open society that Western organisations so often demand. They cite a different mentality, a low level of social activism, and a history of authoritarianism as reasons for the present system.

True, Uzbek society on the whole tends to be conservative and there is little evidence of people pushing from below for their rights and for wider

change. But it is wrong to interpret this as some kind of primordial political passivity that dooms reforms. In most cases, the population has simply adapted as best it could to reality. People understand that pushing for change in most instances will bring them little but trouble and have attempted to accommodate to the system, however unpleasant it may be. The conviction that little can be changed has ensured that the number one priority of many young people is migration to countries such as Russia, South Korea and Turkey, where even illegal casual labour is much more lucrative than the alternatives at home.

If migration is one response to the system as it stands, the alternative is to somehow adapt to the given reality. This means that businessmen follow the rules of the game and become involved in corrupt alliances with state officials. People use their connections at all levels to try and gain some kind of advantage. Even relatively honest officials are forced to become involved in corrupt practice in order to survive.

Liberalisation and democratisation would involve considerable upheavals in society. With no tradition of political pluralism, opening up the political and economic system would inevitably produce greater short-term instability. However, the alternative – a decaying authoritarian system, with a dysfunctional corrupt economy, and widespread popular discontent feeding into ideas of Islamist utopias – seems certain to be worse in the long run.

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<sup>110</sup> See the article, "Four problems of farming", in Uzbekistan obozi (Tashkent), 5 November 2002, for examples of the ways in which local officials have distorted central decrees on agriculture to their own advantage.

## V. CONCLUSION

By early 2003 interpretations vary only slightly among the international actors. There are very few voices calling for an early agreement with the IMF, unless there is real movement by the Uzbek government. Although there is some difference among the IFIs, with the Asian Development Bank (ADB) taking a more flexible stance, there is fairly wide agreement that the government is a long way from reaching a stand-by agreement with the IMF, and that rapid change would be necessary to put things in place by April-May 2003, in time to attract investors when the EBRD is scheduled to convene in Tashkent. This increasingly critical stance among Western embassies and governments is beginning to undermine consensus on the 'positive engagement' approach to Uzbekistan.

A series of visits by Western officials and legislators was supposed to further engage the Uzbek leadership, by pushing on issues of democratisation and economic reform. In reality, this does not seem to have happened. At least in public, most visiting delegations did little except express thanks to Uzbekistan for cooperation in the war against terrorism and very seldom addressed issues of human rights or political change.

One journalist compared the visits of Western delegations to the old days of Communist Party delegations from Moscow:

All inspectors from Moscow of any rank were always given plov [the Uzbek national dish], and plenty to drink, and they always gave excellent reports. And now after independence this tendency can strangely still be seen. Many diplomats, once they are in the tender hands of our Uzbek leaders, quite happily sing along under their direction.<sup>111</sup>

This is certainly unfair on some visiting delegations, but others such as that of U.S. Treasury Secretary Paul O'Neill, in July 2002, were plainly just badly briefed and unable to understand the reality of the situation.

It would be unfair to suggest that the U.S. has stopped pushing the government on human rights issues. On individual cases, they have been particularly supportive of activists, much more so than most EU embassies. Most of this work is done by the active local embassy, however. The impression is that it is not always backed up fully by delegations from Washington, although this is denied by embassy officials, who claim that there is unprecedented cooperation across government departments.<sup>112</sup>

The approach of pushing reforms as hard as possible privately, while publicly demonstrating support, seemed to some diplomats to be paying off in mid-2002, with movement apparent on both economic reforms and human rights. On 26 August Secretary of State Colin Powell reported to the U.S. Congress that Uzbekistan is making "substantial and continuing progress" in meeting the human rights and democracy commitments contained in the Joint Declaration of March 2002. This judgement permitted the release of a further U.S.\$45 million in assistance, which was dependent on such progress.

The statement to Congress was based on very limited evidence of progress, much of it cosmetic in nature, however, and from the U.S. point of view things started to go wrong from that point. The U.S. position of positive engagement was initially supported by other Western states, but in late 2002 a more critical tone was beginning to emerge from some other Western embassies.

The British government in particular argued against trying to persuade the IMF that the Uzbek government had completed enough of the SMP to move to a stand-by agreement and led a much stronger line in criticism of its record on human rights and attitudes towards the press. This resulted in protests by the Uzbek Ministry of Foreign Affairs, and some discomfort among U.S. diplomats.<sup>113</sup> The new British line also seemed to inform a visit by UN Secretary-General Kofi Annan, who strayed from his

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<sup>111</sup> Anvar Usmanov, in a radio program on U.S. Congress hearings on Central Asia. Available at: <http://www.svoboda.org/programs/rtl/2002/rtl.070402.asp>.

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<sup>112</sup> ICG interview, Tashkent, December 2002.

<sup>113</sup> See speech by Ambassador Craig Murray at opening of Freedom House, 17 October 2002. The speech is available at the British Embassy web-site at [www.britain.uz/inform/presrel.htm](http://www.britain.uz/inform/presrel.htm).



prepared briefing to tackle human rights issues with President Karimov.<sup>114</sup>

A series of new decrees undermined economic reforms, and by December U.S. officials were also increasingly critical of the government's progress on all fronts. Assistant Secretary of State for Democracy, Human Rights and Labor Lorne Craner, who visited in June and November, was much more critical in public comments on his second visit. Disillusionment seemed to be setting in generally among the international community, with few able to voice any hope for more progress in 2003.

If the U.S. policy was not successful in promoting significant change in Uzbek policy, it was not through lack of engagement or enthusiasm. The EU, on the other hand, failed to use its potential influence. Not a single senior EU official visited Uzbekistan in 2002. The Partnership and Cooperation Agreement is the main basis for bilateral relations, and past meetings under it have been underused to raise human rights and political change.

This has changed somewhat, with more attention to these issues in joint meetings. At a session of the EU-Uzbek Cooperation Council on 27 January 2003, the Europeans expressed strong concerns about cases of torture in detention centres and asked for impartial investigation of deaths of prisoners or people in custody.<sup>115</sup>

International financial institutions also play a significant role in assisting Uzbekistan. In March 2002 officials discussed the World Bank's assistance strategy. It involves two scenarios. Under one, the World Bank would offer up to U.S.\$150 million over three years if Uzbekistan had no significant deterioration in the macroeconomic environment. Under the other, it would provide U.S.\$350 million if structural reforms were accelerated along the lines proposed by the IMF.<sup>116</sup>

While World Bank commitments have been modest due to the lack of economic reforms in the last few

years,<sup>117</sup> the Asian Development Bank (ADB) has been somewhat more flexible. In December 2002 it agreed the first U.S.\$30 million tranche of a U.S.\$110 million loan aimed at education support.<sup>118</sup> The money goes directly into the budget, contradicting the general line from the IMF and the World Bank that budgetary support should only follow agreed structural reforms.

The European Bank for Reconstruction and Development (EBRD) also has made significant investments in Uzbekistan, but is becoming more sensitive to the lack of reform and the problems of corporate governance. Rather than provide funds to state enterprises, the Bank has tried to shift resources to the small and medium-sized enterprise (SME) sector. This makes sense, but the reality of credit lines to SMEs is rather less encouraging than it seems.

By the end 2002 the EBRD had lent \$149 million to 86 SMEs in its credit lines through local banks.<sup>119</sup> But some of the SMEs involved make money through taking advantage of the difference in the exchange rates while they are using credits to promote their businesses. There are some success stories under these schemes (which have also been begun by ADB and other institutions) but despite the efforts of the Bank to try and boost structural reform by supporting the private sector, there is a danger that such schemes can create a constituency that will only lose from foreign exchange convertibility.<sup>120</sup>

The EBRD has run into considerable criticism for deciding to host its annual meeting in Tashkent, in May 2003. Human rights groups have understandably argued that Uzbekistan is a long way from meeting the requirements of its Article 1, which demands commitments towards market economics and democratic principles on the part of shareholders. But if the meeting does go ahead, the Bank should attempt to use it to boost support for reform and

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<sup>114</sup> His initial briefing from staff was described by diplomats as looking like 'something prepared by the Uzbek permanent representative'. ICG interviews.

<sup>115</sup> From "EU & Uzbekistan – 4th Meeting of the Cooperation Council", Press release, Brussels, 27 January 2003. Available at: [http://europa.eu.int/comm/external\\_relations/uzbekistan/intro/cc4.htm](http://europa.eu.int/comm/external_relations/uzbekistan/intro/cc4.htm).

<sup>116</sup> ICG interview, David Pearce, Country Representative, World Bank Uzbekistan, Tashkent December 2002.

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<sup>117</sup> As of 31 March 2002, total commitments (cumulative and net of cancellations) amounted to U.S.\$534.1 million, of which U.S.\$304.8 million, or 57 per cent, had been disbursed as of 28 February 2002. See "The World Bank Group in Uzbekistan" at the World Bank's web site: <http://lnweb18.worldbank.org/ECA/Uzbekistan.nsf/ECADocByUnid/1C7938B4458019F785256B89006BE6EF?Opendocument>.

<sup>118</sup> ICG interview, Peter Darjes, ADB Country Director, and Manuel Perlas, Deputy Country Director, December 2002.

<sup>119</sup> EBRD, Strategy for Uzbekistan, available at [www.ebrd.org](http://www.ebrd.org).

<sup>120</sup> ICG interviews, January 2002, Tashkent.

throw the spotlight on the worst aspects of the Uzbek regime.

The EBRD has requested free media coverage and access for international journalists to the meeting. However, it is important that the Uzbek population also has access to true information about the discussions. While the authorities are probably resigned to a string of critical articles in the Western press, they feel confident that they can present the meeting at home as a glowing tribute to Uzbekistan's economic policies. The EBRD should insist that an independent program-maker be permitted to film the conference, and that the program is subsequently shown on national television. It should also insist on independent translation at the event and encourage as much coverage as possible in the Russian media, which is widely followed in Uzbekistan.

The 'reform through positive engagement' approach is unlikely to work in Uzbekistan. It assumes that there are forces within the government that seek reform but are stymied by lack of technical expertise, external security threats, or conservative forces in positions of power. It assumes further that these positively inclined forces need encouragement and support to win over enemies of reform or those who fear it endangers stability. If in fact the government has little or no interest in reform in and of itself, and merely seeks to implement measures to provide the basis for a new flow of external funds, however, there is little hope that the policy will succeed.

What then is the alternative? A more forceful approach risks alienating the government entirely, although there are key strategic reasons why it still needs the West. The alternative in security terms is a renewed alliance with Russia, something that Karimov would see as a failure of his foreign policy. U.S. need for Uzbekistan as a military partner is fading as attention moves away from Afghanistan. The military base at Khanabad is no longer seen as of primary strategic value, although that assessment may change in a fast-moving geopolitical arena. Nevertheless, the West has little to lose from a tougher, more critical stance with the regime, and arguably much to gain.

Three political areas need fundamental change if Uzbekistan is to reverse its decline:

- an end to the most egregious of human rights abuses and limitations on the power of the security services;

- an opening up to new ideas, and an end to censorship of the media, whether de jure or de facto. and
- moves toward a democratic system, including holding early parliamentary elections under international observation in which at least some opposition candidates are permitted to campaign.

There is also a fairly simple set of recommendations that would move the economic reform process forward again.

- reversal of the decrees of late 2002 on nationalisation and restrictions on wholesale trade;
- real moves toward convertibility, to be achieved before the EBRD meets in Tashkent in May 2003, with no subsequent administrative measures restricting normal access to foreign currency; and
- substantive agricultural reforms aimed at increasing prices for farmers and their commercial independence;

If these three areas are addressed, there is clearly a possibility of negotiating a stand-by agreement under which IMF credits could be issued. This should not be a mechanical process, but rather one in which the spirit of the reform process is respected, including as much political liberalisation as possible. It is going to be difficult to overcome some of the main obstacles to economic growth, such as government interference in the economy and corruption, without a level of media freedom and a mechanism for bringing new and more independent people into the ranks of the elite.

If none of this happens, or it happens in a piecemeal way with no overall commitment to reforms, the international community will need to develop a new approach. The EBRD has begun to push for more Article 1 implementation elsewhere, in particular in its country strategy for Turkmenistan.<sup>121</sup> However, it has been much less critical of Uzbekistan's political development. In its latest country strategy it admits

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<sup>121</sup> Article 1 of the EBRD's Establishing Agreement says: "In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics".

that progress has been slow but also asserts that “Uzbekistan has stated its commitment to, and is making some progress towards, implementation of the principles of Article 1 of the Agreement Establishing the Bank”.<sup>122</sup>

If there is little improvement in the situation by May 2002, the EBRD should announce a review of its activities in Uzbekistan in light of Article 1 implementation. Other IFIs, who have no political conditions to govern their activities, should also consider their position if economic reforms make no progress in the first six months of 2003.

The U.S. has much more limited levers than some observers seem to think but certainly the foreign aid that is presently conditional on commitments in the bilateral agreement should not be provided unless there is a swift and meaningful change in policy. This would need evidence of implementation of the recommendations of the UN Special Rapporteur on Torture, the release of significant numbers of political and religious prisoners, and a much more significant drop in arrests than occurred in 2002. But it would also need evidence of changes in democratisation, such as the registration of *Birlik* as an organisation that can put forward candidates in elections, and changes in electoral law.

The problem with the whole reform process is that too often there can seem to be progress because of decrees issued or small technical changes implemented. Much of the optimism in May and June 2002 was based on formal changes, well presented, but with little evidence of serious systemic impact. There needs to be much more open analysis of apparent steps forward, and candid appraisals of reforms by the international community.

There is very little for the international community to lose by publicly pushing harder for further reform, and being candid about the shortcomings of the system. This approach does, however, need to be matched by increased engagement with society, and with potential partners in government across a wide spectrum of issues. In education, health, civil society and some parts of the economy, there are potential projects that can be funded. There is still a huge need for international involvement with the media, although some areas – media conferences, for example – seem to have been overdone.

There was an air of gloom in Uzbekistan at the end of 2002. Hopes raised by U.S. engagement at the beginning of the year had not been realised. In some ways, for ordinary people life has gotten worse, with rising prices, high taxes on imports, and the curtailment of opportunities for small traders. Apparently minor issues, such as a nation-wide ban on billiards, or the forced closing of restaurants and bars by midnight, only contribute to a widespread sense of social malaise. For young people there is little sense of commitment to the country's development, and a high proportion of youth seek employment possibilities overseas. In such a scenario, mobilising society to rebuild the economy poses serious problems.

If no serious reforms are forthcoming over the next twelve months, the patience of the international community, including the U.S., will begin to wane. Discussions among Western diplomats over whether the security relationship would survive a failure to establish a real political and economic relationship demonstrate that the strategic importance of military bases is beginning to fade.

The economy will continue to decline, unless serious steps are taken, and the patience of society will begin to wear thin. “The situation represents a huge powder keg ready to explode at any time”, claims one opposition activist.<sup>123</sup>

A combination of a repressive security apparatus and the revenue from commodity exports could prevent serious destabilisation for several years. But many officials far removed from the opposition can see the situation getting much worse. A leading banker suggested:

Now, after seven years of economic decline since 1995, the process of liberalisation is going to be painful. But if we do not begin reform, then we will never stand on our own two feet, because present policies will lead to a catastrophe.<sup>124</sup>

The window of opportunity, much discussed in 2002, will not be open forever. If it closes, and the West begins to lose interest, the prospects for Uzbekistan will be gloomy indeed.

**Osh/Brussels. 18 February 2003**

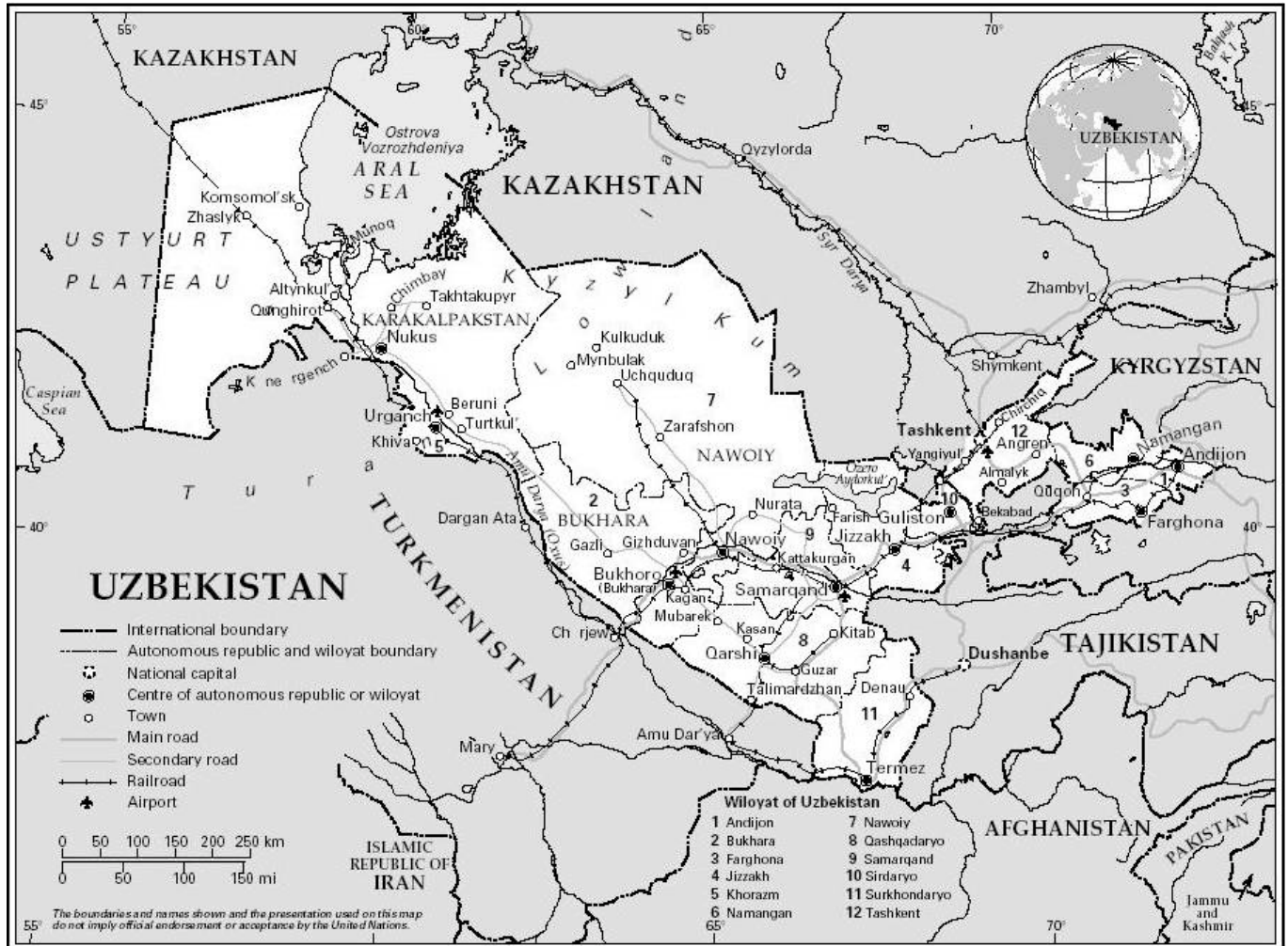
<sup>122</sup> Country Strategy Overview: Uzbekistan, [www.ebrd.org](http://www.ebrd.org)

<sup>123</sup> ICG interview, Vasila Inoyatova, Tashkent, 10 December 2002.

<sup>124</sup> ICG interview, Tashkent, December 2002,

## APPENDIX A

### MAP OF UZBEKISTAN



Map No. 3777 Rev. 3 UNITED NATIONS  
 August 1996

Department of Public Information  
 Cartographic Section

## APPENDIX B

### GLOSSARY OF ACRONYMS

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<b>ADB</b>	Asian Development Bank	<b>NSS</b>	National Security Service
<b>BBC</b>	British Broadcasting Corporation	<b>ODIHR</b>	Office for Democratic Institutions and Human Rights
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>OPChU</b>	Society of Human Rights of Uzbekistan ( <i>Obshchestvo zashity Prav Cheloveka v Uzbekistane</i> )
<b>EIU</b>	Economist Intelligence Unit	<b>OSCE</b>	Organisation for Security and Cooperation in Europe
<b>EU</b>	European Union	<b>OSI</b>	Open Society Institute
<b>GDP</b>	Gross Domestic Product	<b>PR</b>	Public Relations
<b>HRSU</b>	Human Rights Society of Uzbekistan	<b>SME</b>	Small and Medium Enterprise
<b>HRW</b>	Human Rights Watch	<b>SMP</b>	Staff Monitored Program
<b>ICRC</b>	International Committee of the Red Cross	<b>SNB</b>	National Security Service (Sluzhba Natsionalnoi Bezopasnosti)
<b>IFI</b>	International Financial Institutions	<b>UK</b>	United Kingdom
<b>IHROU</b>	Independent Human Rights Organization of Uzbekistan	<b>UN</b>	United Nations
<b>IHRSU</b>	Independent Human Rights Society of Uzbekistan	<b>UNDP</b>	United Nations Development Program
<b>IMF</b>	International Monetary Fund	<b>U.S.</b>	United States
<b>IMU</b>	Islamic Movement of Uzbekistan	<b>UzBAT</b>	Uzbek British-American Tobacco
<b>NATO</b>	North Atlantic Treaty Organisation		
<b>NGO</b>	Non-Governmental Organisation		