The “Uzbek Growth Puzzle”
and the Washington Consensus

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1. Introduction

After ten years of economic transformation in the fifteen former Soviet republics, the economic growth performance of one former republic has stood out from the rest – the central Asian state of Uzbekistan. In 2001 Uzbekistan became the first former Soviet republic to surpass its 1989 real GDP level, by 3 percent (see Table 1). The second best growth performer was Belarus, which reached 88 percent of its 1989 GDP level by 2001. Uzbekistan also stood out among the former Soviet republics as one of the few that refused to follow the Washington Consensus policies. This combination of relatively good growth performance and departure from the Washington Consensus policies has been discussed in IMF/World Bank circles as the “Uzbek growth puzzle.”

Table 1. Real GDP in 2001 in the Fifteen States Formerly Part of the Soviet Union

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of 1989 level</th>
</tr>
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<tbody>
<tr>
<td>Armenia</td>
<td>69</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>57</td>
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<tr>
<td>Belarus</td>
<td>88</td>
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<tr>
<td>Estonia</td>
<td>87</td>
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<td>Georgia</td>
<td>36</td>
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<tr>
<td>Kazakhstan</td>
<td>78</td>
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<tr>
<td>Kyrgyzstan</td>
<td>69</td>
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<tr>
<td>Latvia</td>
<td>69</td>
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<td>Lithuania</td>
<td>69</td>
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<tr>
<td>Moldova</td>
<td>35</td>
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<tr>
<td>Russia</td>
<td>62</td>
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<tr>
<td>Tajikistan</td>
<td>52</td>
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<tr>
<td>Turkmenistan</td>
<td>84</td>
</tr>
<tr>
<td>Ukraine</td>
<td>44</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>103</td>
</tr>
<tr>
<td><strong>CIS Average</strong></td>
<td><strong>72</strong></td>
</tr>
</tbody>
</table>

* The average for the Commonwealth of Independent States.
This paper analyzes the relation between the economic policies followed by Uzbekistan since 1991 and its economic growth performance. An aggregate demand analysis is used to examine how Uzbekistan’s policies have affected GDP growth. In addition to publicly available data sources, the paper utilizes non-public government data and the results of interviews and site visits conducted in Uzbekistan by the author during a two week period in the late summer of 2002, as part of a United Nations team. The paper finds that many, although not all, of the features of Uzbekistan’s policy approach made contributions to its relatively strong growth performance. Despite the fact that the regime in Uzbekistan has many negative political and economic features, this case study provides evidence that a policy approach of strong state oversight of the economy can have significant economic advantages over the neoliberal approach in a transition economy.

The Washington Consensus\(^1\) urges a similar set of policies for a variety of institutional situations. Whether a country is in transition from state socialism to capitalism or is a less developed country seeking to move up the economic ladder, the advice is basically the same. Governments are advised to liberalize domestic and international economic relations, privatize government assets and responsibilities, and “stabilize,” and to do so quickly. By “stabilize” is meant pursuing tight monetary policy and balancing the state budget, along with minimizing the size and reach of government in the economy.

When Uzbekistan emerged as an independent state from the demise of the Soviet Union in September 1991, the International Monetary Fund offered the usual Washington Consensus advice to the new government. Uzbekistan faced both of the above challenges, that of system

\(^1\) Other names are encountered for the set of economic theories and policies referred to here as the “Washington Consensus,” including shock therapy and neoliberalism. Each term has a somewhat different emphasis, but in this paper Washington Consensus is used to refer to the entire set of related theoretical and policy positions.
change and of economic development, since Uzbekistan had been a relatively less developed republic within the former Soviet Union.

Uzbekistan’s reluctance to follow the conventional policy recommendations became apparent very early. Ignoring warnings from abroad, the government of Uzbekistan followed a policy of gradual transformation of the economy. While housing and small enterprises were privatized quickly and significant price liberalization took place within a few years, the government maintained strong control over the allocation of resources in the economy and over its interface with the international economy. Privatization of large enterprises has been slow and partial, with the government often retaining an active role in large enterprises even after official privatization. Rather than following the Washington Consensus path, Uzbekistan’s government has followed a strategy of state-managed gradual transition to capitalism combined with a developmental state approach to economic development.

Outside observers expected poor results from Uzbekistan’s unorthodox policies. An example was the following warning offered in 1993:

> In the absence of comprehensive reform, the few scattered and partial reforms that the Government is implementing would have no major impact. This muddle through scenario would imply that none of the sectors is restructured significantly. This failure to adjust would lead to a supply-led contraction of the level of economic activity, reduction in savings and investment, and unnecessary hardship on the population in the medium term represented by a decline in consumption per capita of no less than 30 percent by 1997 (World Bank, 1993: xx).

Contrary to expectations, Uzbekistan’s growth performance during 1992-2001 has been the best of the former Soviet republics. Uzbekistan’s initial contraction was the mildest of the former Soviet republics and it ended relatively early, in 1995. Since 1996 GDP has grown at an average rate of 4 percent per year. Rather than falling by 30% by 1997, consumption per capita had slightly surpassed (by 0.5%) the 1993 level in 1997 (MMS, 2002). As was noted above, by 2001
Uzbekistan’s GDP was 3% above the 1989 level, making that country the first former Soviet republic to surpass its 1989 GDP level. By contrast, in 2001 the fourteen other former Soviet republics had GDP’s ranging from 35% (Moldova) to 88% (Belarus) of their respective 1989 levels.

A country of some 25 million people in Central Asia, Uzbekistan inherited from the Soviet period an economy centered around cotton. Uzbekistan also grew a variety of fruits and vegetables and, in addition to agriculture, had a significant industrial base. In 1991 agriculture represented 37.2 percent of GDP by value added while industry contributed 26.2 percent (MMS, 2002).

There were a number of strengths in Uzbekistan’s economy at the start of independence. It had a readily marketable export in cotton. It had the 14th largest natural gas reserves in the world, substantial gold deposits, and also silver, copper, lead, zinc, tungsten, coal, and uranium (EIU 2002: 16). It had some oil reserves, largely undeveloped. It had a well-educated and healthy population.

However, the obstacles it faced seemed enormous. Uzbekistan had long received a net subsidy from the Soviet Union’s central budget. In the last few years of the Soviet Union, the subsidy rose rapidly from 7-9 percent of Uzbekistan’s GDP during 1987-89 to 21% in 1991 (IMF, 1992: 4). This subsidy was suddenly cut off with independence. Uzbekistan’s industry had been part of the industrial complex of the Soviet Union, and the break-up severed its traditional supplier and customer relations. Its economy had depended on cheap Soviet oil, and, despite its large agricultural sector, it depended on food from elsewhere. Uzbekistan is a double-landlocked country, whose goods must cross two countries to reach a port, and it faced uneasy relations with several of its neighbors.
Table 2 shows four key indicators of Uzbekistan’s macroeconomic performance since 1992. Like all of the former Soviet republics, Uzbekistan underwent a large economic contraction after the demise of the Soviet Union. GDP fell by a cumulative 18.4 percent during 1992-95. Then it rose by 26.2 percent from 1996 through 2001. The very rapid inflation of the early 1990s peaked in 1994, then fell in steps before settling at about 25% per year after 1997. The government fiscal deficit shot up to 18.3 percent of GDP in 1992, then declined to single digits and, after 1996, fell to 3 percent of GDP or less. The current account balance followed a more complex path, first falling rapidly from a very large deficit in 1992 to a small surplus in 1994, then heading back into the red through 1997, after which it has been close to balance.

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</thead>
<tbody>
<tr>
<td><strong>GDP growth rate</strong></td>
<td>-11.1</td>
<td>-2.3</td>
<td>-5.2</td>
<td>-0.9</td>
<td>1.7</td>
<td>5.2</td>
<td>4.3</td>
<td>4.3</td>
<td>3.8</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Consumer price inflation rate</strong></td>
<td>718.8</td>
<td>1042</td>
<td>1457</td>
<td>249.5</td>
<td>54.0</td>
<td>58.8</td>
<td>17.9</td>
<td>29.1</td>
<td>24.9</td>
<td>27.4</td>
</tr>
<tr>
<td><strong>Fiscal balance</strong></td>
<td>-18.3</td>
<td>-10.4</td>
<td>-6.1</td>
<td>-4.1</td>
<td>-7.3</td>
<td>-2.4</td>
<td>-3.0</td>
<td>-2.7</td>
<td>-1.2</td>
<td>-1.05</td>
</tr>
<tr>
<td><strong>Current account balance</strong></td>
<td>-12.0</td>
<td>-8.4</td>
<td>2.1</td>
<td>-0.2</td>
<td>-7.8</td>
<td>-5.4</td>
<td>-0.4</td>
<td>-2.0</td>
<td>2.8</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

1. Percentage change in real GDP from the previous year.
2. Percentage change in the consumer price index from the previous year.
3. Surplus (+) or deficit (-) of the general government budget as a percentage of GDP.
4. Surplus (+) or deficit (-) on current account as a percentage of GDP.
5. Estimate.

Source: GDP and CPI data are from MMS (2002); fiscal balance and current account data are from EBRD (2002: 19-20).
2. The Uzbek Model

Uzbekistan’s policy approach can be thought of as having six main features, which are listed in Figure 1. This list does not capture the entirety of Uzbekistan’s policy model (hereafter UPM). The list omits some aspects of Uzbekistan’s policies, such as reluctance to enforce a very tight monetary policy to stop inflation as quickly as possible. It also omits some of the specific policy goals, such as reducing dependence on cotton exports and building a more diversified economy. However, the six features in Figure 1 represent the core of UPM.

Figure 1. Features of Uzbekistan’s Policy Model

- **Currency Regime:** A currency regime with multiple exchange rates and controlled access to foreign exchange.
- **Trade Regime:** A trade regime with high tariff and non-tariff barriers for many products.
- **Financial System:** A financial system based on state run banks with credit allocation based on policy considerations.
- **Enterprise Intervention:** An active state role in enterprise decisions in both industry and agriculture.
- **Industrial Policy:** An industrial policy aimed at shaping the development of the economy by aiding particular sectors.
- **Import Substitution:** A strategy of import substitution aimed at supporting the development of domestic industries to replace imported sources of supply.
The “Uzbek Growth Puzzle” and the Washington Consensus, by David M. Kotz, January, 2004

The policies in the list evolved over time partly in response to particular circumstances affecting the economy. Starting in 1992 the government utilized tight central controls to seek both energy and grain independence, by rapidly developing domestic oil sources and by shifting land from other crops into grain production. These aims were largely achieved by 1995 (IMF, 2000: 51; MMS, 2002; NCR, 2002, ch. 5: 50).

In 1994-95, as rapid progress was made toward those two goals, the government began to make significant moves toward both domestic and international liberalization. At that time, Uzbekistan appeared to contemplate a shift toward the Washington Consensus approach. An IMF stabilization program was accepted in 1994 which provided a stand-by arrangement loan. In 1995 some trade liberalization began, and current account convertibility was promised by the end of 1996 (EIU, 2002: 22, and 2000: 21). The process of domestic price liberalization was essentially completed by early 1995. Large loans were obtained from the World Bank, the EBRD, and the Asian Development Bank. If Uzbekistan had continued along this path, no “Uzbek growth puzzle” would have arisen. However, the 1994-95 turn toward the Washington Consensus approach was short-lived.

In 1996 both internal and external conditions in cotton put a severe squeeze on the economy. Cotton production, which had varied only moderately between a high of 4.23 million tons and a low of 3.94 million tons during 1992-95, suddenly fell to 3.35 million tons in 1996, a decline of 15 percent from the previous year (MMS, 2002). At the same time, the world market price of cotton fell by 15% (IMF, 2000: 43). Cotton exports had represented about half of Uzbekistan’s foreign exchange earnings in 1994-95, and this caused an economic crisis. The government responded by making a large loan to the cotton sector and reversing course on economic policy.

In January 1997 the government formally introduced a multiple exchange rate system along with tighter controls on trade (IMF 2000: 7). The newly tightened trade and currency
regimes were intended to support a strategy of import substitution, aimed at diversifying the economy and reducing its dependence on cotton exports over time. Under this industrial policy, certain sectors were given access to foreign exchange at a favorable rate to purchase imported inputs, while sectors not targeted for assistance had to compete for limited supplies of foreign exchange at less favorable rates. Favored sectors were protected from foreign competition, using both tariff and non-tariff barriers, and were subsidized by resource transfers from other sectors of the economy, particularly from the cotton sector. The government also directed cheap credit through the Central Bank of Uzbekistan to certain sectors via the state-controlled commercial banks.

The IMF responded to the shift away from liberalization by suspending its stand-by loan facility. Large-scale lending by the EBRD and World Bank were also suspended (EIU, 2002: 22). A joint IMF-Uzbekistan working group to discuss economic policy failed to reach agreement. Relations with the IMF were basically put on hold, a situation that lasted until late 2001.

There were some moves toward liberalization and privatization after 1995. In late 1996 a privatization program aimed at medium and large enterprises was begun, with investment funds as the new shareholders. In 1998 a third stage of privatization began with World Bank support, calling for case by case privatization of large state enterprises, with foreign participation encouraged (IMF, 2000: 14). In the agricultural sector, state orders in cotton declined from 75 percent of output in 1994 to 30 percent in 1997, while state orders were ended in all other crops except grain after 1994. The government began to encourage foreign direct investment in certain sectors, which led to investments in autos, electronics, textiles, chemicals, mining, and agro-

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2 Several estimates have been made of the size of the resource transfers from cotton and other exports to other sectors of the economy. For 1999 these estimates range from 4.7 percent of GDP transferred from agriculture to 16.2 percent of GDP transferred from all exports to other sectors (EIU, 2000: 23, and Rosenberg and deZeeuw, 2000, respectively). In 2002 a World Bank official in Tashkent estimated transfers out of agriculture at about 10 percent of GDP.
processing. Large foreign investors included Daewoo, BAT, Newmont Mining, Mercedes, and Lonrho.

Official statistics show that by 2000 the nonstate sector of the economy accounted for 72.6 percent of GDP and of 76 percent of employment (MMS, 2002, and NCR, 2002, ch. 4: 37). However, the government has retained significant control over large enterprises, whether still public or officially privatized, and also over cotton and grain production. A 1998 decree allowed the government to block corporate strategic decisions even by majority foreign shareholders in certain cases (EIU, 2002: 22).

In light of the significant shift toward a market economy, with more than 70 percent of output now coming from the private sector, it would be mistake to regard Uzbekistan as having retained a Soviet-type economy. Its economy shares many features in common with other post-Soviet transition economies, including a rapid increase in inequality. According to official statistics, the Gini coefficient for income rose sharply, from 0.26 in 1991 to 0.42 in 2000, an increase of 62 percent (NCR, 2002, ch. 2: Table 7, 17-18). However, at the end of the 2001 Uzbekistan was still following in the main a state-guided transition and development strategy, one which contrasts sharply with the recommendations of the Washington Consensus.4

3 The government provides “indicative plans” to many large state enterprises, which reportedly serve as output targets in many cases.

4 It may be that one of the reasons why Uzbekistan rejected the Washington Consensus approach is that its president, Islam Karimov, had been head of the Uzbek SSR branch of Gosplan in the Soviet period, and he has strong views about economic policy. See Karimov (1995).
performed better than would be expected based on standard predictive models for transition economies and, if it did so, what might explain superior growth performance. Using a regression model of output growth in 26 transition countries (Berg et. al., 1999), the paper found that the model “systematically underpredicts transition Uzbek growth,” including a mistaken prediction of a large output collapse in 1994 (Zettelmeyer, 1999: 278, italics in original). The author concludes that three factors explained part (although not all) of Uzbekistan’s better-than-predicted growth: a low level initial industrialization (since industrial output tended to collapse in transition countries), the presence of cotton production (a readily exportable product), and the achievement of energy balance. The author found no significant effect from public investment but noted that measurement problems for that variable may have made any effect undetectable (p. 284). He concludes that the final lesson is ambiguous, in that the favorable impact of cotton production and energy balance could be regarded either as reflecting favorable natural endowments or the regime’s policies of “state control and cross-subsidization” (p. 289).

A paper by Alam and Banerji (2001) compared transition in Uzbekistan and Kazakhstan, both central Asian former Soviet republics, through 1999. The authors found that, “while Kazakhstan’s policy performance is definitely superior, economic performance is not so” (p. 23). By superior policy performance they meant that Kazakhstan liberalized and privatized more quickly and more fully. They found Uzbekistan’s economic performance by 1999 to be superior in GDP growth, government revenues as a share of GDP (31.5 percent versus 17.4 percent), and fiscal deficit and current account deficit as a share of GDP, while Kazakhstan did better on inflation and foreign exchange reserves (p. 2). They noted that Uzbekistan had spent much more relative to GDP on infrastructure investment and social investment. They considered a range of possible explanations for Uzbekistan’s overall superior economic performance but offered no conclusions.

One obstacle to drawing any definitive empirical conclusion about the relation between
rapid liberalization and growth performance for a sample of countries is that the construction of a liberalization index is inherently a subjective process, which requires determining which policy dimensions should go into the index, how each should be measured, and how they should be weighted. recent World Bank study *Transition: the First Ten Years* (2002) published an index of “progress in policy reforms” (p. 14). When the twelve CIS countries are ranked according to that measure (for 1998) and also ranked by 2001 GDP as a percentage of 1989 GDP, there is a negative correlation coefficient between the two rankings of −.350, although it is not statistically significant. The top three CIS countries ranked by growth over that period – Uzbekistan, Belarus, and Turkmenistan – ranked 9th, 11th, and 12th out of 12 on the World Bank’s policy progress index. While a simple correlation analysis ignores the effects of all other relevant factors (such as initial conditions), it does suggest that the possibility is not entirely far-fetched that departure from Washington Consensus policies might have advantages for growth performance.5

In this paper aggregate demand analysis is used to examine the two phases of GDP growth performance during 1992-2001, the contraction phase lasting through 1995 and the following expansion phase. Through an analysis of the main components of aggregate demand, some inferences can be made concerning the role that the various features of UPM played in Uzbekistan’s relatively good GDP growth performance.

In 1992 Uzbekistan had a large GDP contraction of 11.1 percent. While this was better than the CIS average of 17.3 percent that year, it was still a very rapid decline. Uzbekistan was not able to escape the powerful downward forces unleashed by the Soviet demise in the first year. However, after 1992 Uzbekistan’s contraction was mild, averaging only a 2.8 percent decrease per year during 1993-95, the remaining three years of contraction. Table 3 shows the

5 In a multi-country regression study of the effect of liberalization on output growth cited by the World Bank transition report (2002: 20), the effect of liberalization on growth varies between strongly positive and strongly negative, depending on the lag structure and other features of the regression equation. The simplest lag structure for liberalization – the value of the liberalization index in the current year – produces a negative and significant effect on growth that is as large as the dummy variable for war in the country.
estimated annual rates of change of the components of aggregate demand during 1993-95. The government was not able to prevent rapid inflation and a continuing decline in household income, and Table 3 shows that consumption fell at the rate of 14.8 percent per year during 1993-95. However, investment rebounded sharply from its large decline in 1992, growing at 24.6 percent per year (after falling somewhere in the neighborhood of 55-60 percent in 1992). Government purchases, which appeared to fall by roughly 10 percent in 1992, fell only at the annual rate of 1.2 percent per year in 1993-95. A boost came from the external sector, since exports of goods and services grew about 3 percentage points per year faster than imports. Thus, on the demand side, Uzbekistan’s contraction after 1992 was cushioned by rising investment, small declines in government purchases, and an improving external balance on goods and services.

Table 3. Growth Rates of GDP and Its Components during 1993-1995
(Average Annual Percentage Rate of Change)

<table>
<thead>
<tr>
<th>GDP</th>
<th>Consumption</th>
<th>Investment</th>
<th>Government Purchases</th>
<th>Exports of Goods and Services</th>
<th>Imports of Goods and Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.8</td>
<td>-14.8</td>
<td>24.6</td>
<td>-1.2</td>
<td>16.8</td>
<td>13.9</td>
</tr>
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</table>

Source: Calculated from data from WDI (2001), MMS (2002), and NCR (2002).

Some of the elements of UPM can explain the demand forces that tended to slow the contraction. The government continued to provide funds for investment, using the state-controlled financial system to provide subsidized credit to the economy. UPM avoided the asset-stripping behavior and explosion of organized crime that occurred elsewhere. The slow privatization and continuing government control of enterprise decision-making tended to maintain order and reduce the sense of chaos that was eliminating the incentive to invest in many

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6 Estimates of the changes in the components of aggregate demand in 1992 are highly unreliable. It proved impossible to derive any plausible estimates for that year from the available data.

7 Available data for the change in exports and imports of goods and services in 1992 are the least plausible of all and are not worth reporting here. The fact that Uzbekistan was not an independent country for most of 1991 makes such estimates very difficult to make.
other former Soviet republics. Also, Uzbekistan’s monetary policy, which was only moderately tight during this period, allowed high inflation to persist longer in Uzbekistan than elsewhere but also had a less depressing effect on investment. While following a less-tight monetary policy than was pursued in most of the other former Soviet republics does not appear of the list of UPM, it is another of Uzbekistan’s departures from the Washington Consensus.

The very slow decline in government purchases after 1992 reflects the state’s ability to collect sufficient taxes to maintain public spending (which also made it possible for the state to continue to promote investment). Uzbekistan quickly adopted a new tax system after independence that included a value-added tax and a tax on enterprise profits. In 1993 the combination of value added taxes, profits taxes, and excise taxes brought in 62.2 percent of tax revenues (IMF, 2000: 68). The government developed a very effective method for collecting taxes from enterprises, without even having a tax collection agency. Each enterprise is required to have an account at a state-controlled bank, into which its sales revenues must be deposited. The government withdraws taxes due directly from the enterprise’s account. The frequent complaints from enterprise managers about this system suggest that it has been effective at collecting tax revenue.

One cannot attribute Uzbekistan’s rapid export growth during 1993-95 to its policy model. Rising cotton and gold prices played the major role. However, the policy model can claim credit for the fact that imports grew more slowly than exports during this stage, given the successful energy and grain import substitution programs pursued during those years.

The turn from contraction to expansion took place in 1996. As was noted above, that year a severe cotton crisis caused the government to tighten up its state-guided model and formally introduce a multiple exchange rate system, which led to the breakdown in relations with the IMF.

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8 In Russia investment fell 40 percent in 1992, then fell by another 39 percent over the next three years (Goskomstat of Russia, 1999: 341).
In that same year the government shifted both its monetary and fiscal policies sharply in an expansionary direction.

The government actions of that year were a response to an unexpected crisis. They were not intended to turn four years of decline into growth. Yet it appears with hindsight that the state’s monetary and fiscal policies may have contributed to that outcome. In 1996 government purchases, which is the government share of GDP, rose by only 0.8 percent, but total government spending (including transfer payments and other government expenditures not included in the government component of GDP) grew by 9.0 percent while government revenues grew that year by only 0.6 percent. Hence, the government pumped a large volume of transfer income into other sectors in 1996, which is likely a major reason for a very large jump in household consumption that year of 10.9 percent. Investment grew only slightly that year, by 0.6 percent, despite the eased monetary policy. While a sharply worsening trade balance limited the positive impact of consumption on GDP, 1996 was the first year of expansion, at a 1.7 percent rate.

Despite the shift to expansionary monetary and fiscal policy, the year 1996 saw a large reduction in inflation, from 250 percent in 1995 to 54 percent in 1996 (see Table 2). The following year inflation was roughly unchanged, at 58.8 percent, and thereafter fell to the 18-29 percent range. This tends to confirm the claim that some economists have made that, if easing monetary and fiscal policy could jump-start growth in a transition economy undergoing rapid inflation and economic contraction, this might be consistent with a slowing of inflation.9

During 1996-2001 Uzbekistan maintained an average growth rate of 4.0 percent per year based on official statistics. After the first year of that period, growth was at least 3.8 percent each year. Table 4 shows the changes in the components of aggregate demand during the expansion stage. During this stage, GDP growth was led by consumption, which grew at 7.5 percent per

9 A similar phenomenon occurred in Russia in 1999 when, following the financial crisis of August 1998, a new Prime Minister took office and monetary and fiscal policies were eased. The combination of devaluation of the ruble plus the easier monetary and fiscal policies were followed by Russia’s first year of significant economic growth since 1989, while inflation slowed down (Goskomstat of Russia 2001: 32, 332).
year over the period. Investment grew more slowly than GDP, at 2.4 percent per year. Government purchases shifted from slow decline to slow growth of 0.7 percent per year. The external sector had a negative demand impact on growth in this period, since exports declined by 2.2 percent per year while imports rose by 1.4 percent per year.

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<tr>
<th>GDP</th>
<th>Consumption</th>
<th>Investment</th>
<th>Government Purchases</th>
<th>Exports of Goods and Services</th>
<th>Imports of Goods and Services</th>
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<td>0.7</td>
<td>-2.2</td>
<td>1.4</td>
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Source: Calculated from data from MMS (2002) and NCR (2002).

It is unusual to have six years of economic expansion in which only household consumption, from among the components of aggregate demand, grows faster than GDP as a whole. During 1996-2000 the real income of the population grew at the rate of 17.8 percent per year (NCR, 2002, ch. 1 p. 1 and ch. 2 p. 26), which suggests that the above cited annual growth rate of consumer spending is plausible.

Income distribution became much more unequal in Uzbekistan during this period. During 1996-2000 the shares of household income accruing to the bottom nine deciles of the population decreased, while the share of the top ten percent rose (NCR, 2002, ch. 2: 23, Drawing 14). The rapid growth in consumer spending during 1996-2001 shown in Table 4 must have been largely concentrated among the wealthiest part of the population.

All across the former Soviet Union the new rich have tended to spend lavishly on consumption. However, elsewhere elite consumption has been directed almost entirely at imported goods. The new rich, and also the new middle class, fell in love with Western products even when they were far more expensive than domestic goods. However, in Uzbekistan the trade regime has allowed few opportunities to purchase expensive imported luxury goods. Throughout this period, more than three-fourths of Uzbekistan’s imports have been composed of machinery and equipment, foodstuffs, chemical products and plastics, metals, and energy (MMS, 2002). It
would appear that the new rich in Uzbekistan have been constrained to do their shopping largely for domestically produced goods, thereby propelling the economy along a growth path of about 4 percent per year. Consumer goods imports carry tariffs that average 90 percent. On the streets of Tashkent, one sees very few imported luxury automobiles. The prosperous-looking are at the wheel of upper-end Daewoos made in Uzbekistan. This contrasts sharply with Moscow, where the rich drive Mercedes Benz’s while the middle class owns volvos.

UPM also contributed to economic expansion during this stage by maintaining growth in investment, albeit at a sluggish rate. The system of state support for investment, through provision of special credits at favorable interest rates and through direct intervention in enterprise decision-making, elicited growing investment over the period. Government purchases contributed marginally to economic growth during this period. Still, it was an accomplishment to successfully bring the budget deficit down to about one percent of GDP by the last years of the period, while still gradually increasing the real level of government purchases.

Uzbekistan’s full regime of currency and trade controls was not introduced until late 1996. It would appear that during 1996-2001 this regime was not favorable for the performance of the external sector, which in itself detracted from economic growth on the demand side. However, as noted above, it contributed indirectly to growth by compelling consumers to spend on domestic goods, and imports as a whole grew much more slowly than GDP over the period (Table 4).

While government purchases did not loom large in aggregate demand growth, a significant amount of infrastructure investment was undertaken by the state, in transportation and communication systems, which, if spent effectively, should contribute to economic growth over time. One-fourth of total investment was in transportation and communication in the last three years of the period (NCR, 2002, ch. 4, p. 42). During 2000 and 2001 about twenty percent of the

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10 The currency regime discouraged exports.
The state budget was devoted to centralized investments, which amounted to slightly over 6 percent of GDP (Economic Trends: Uzbekistan, 2001: 61).

Thus, the moderate economic expansion of 1996-2001 can be traced to four of the specific features of UPM: the currency regime, the trade regime, the financial system (which supported investment), and the active state role in enterprise decision-making. The early end to the transition depression may have been partly due to the regime’s willingness to pursue a more expansionary monetary policy than that recommended by the Washington Consensus. No obvious benefit for growth in this period has been uncovered from the other two features of the model, industrial policy and import substitution. Growth of four percent per year over six years is a decent accomplishment. However, the form of the expansion – an elite-consumption led growth – has serious deficiencies as a means to improve human welfare and may not be sustainable over the long run.

4. Concluding Comments

Transition from Soviet-style state socialism to capitalism is a complex social process, in which almost everything about the economy and its institutional context is changing at the same time. As a result, no methodology can be expected to definitively pinpoint the explanation for the differing economic performance among the transition countries. While the aggregate demand analysis in this paper cannot produce definitive results, it provides one piece of evidence about the relation between policies and performance for the case of Uzbekistan.11

The analysis in this paper suggests that parts of the non-Washington Consensus UPM – particularly Uzbekistan’s highly regulated currency regime, its strictly controlled trade regime, its state-run banking system, and its active state intervention in enterprise decision-making – along with its relatively easy monetary policy, help to explain Uzbekistan’s relatively good GDP

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11 The results would be strengthened by comparative aggregate demand analysis of several of the transition countries. However, this author’s participation in a United Nations project on Uzbekistan provided access to official data sources for that country which were not available to this author for other transition countries.
growth performance. There is reason to believe that these policies enabled a small, landlocked former Soviet republic, which initially faced seemingly overwhelming economic obstacles, to be the first to climb back to its pre-transition level of GDP. The so-called “Uzbek growth puzzle” may not be a puzzle after all. The conjuncture of policies that depart from the Washington Consensus and relatively good GDP growth performance appears to be, not a puzzle, but an understandable combination.

However, at the same time we have found that UPM does not appear to have placed the country on a sustainable long-term path of rapid growth. Uzbekistan’s recession years of 1993-95 looked relatively better than its expansion years. In the former period, we found growing investment and a healthy export surplus leading economic growth. However, growth in the expansion period of 1996-2001 was led by elite consumption. A sustainable long-term growth path would have to involve investment growing at least in step with GDP, and preferably more rapidly than GDP, while also maintaining at least a balance between export and import growth. Investment has been only around 20 percent of GDP in Uzbekistan, which is too low for a less developed country with an outmoded capital stock and a population that has been growing at about 1.5 percent per year. Uzbekistan’s industrial policy has failed to effectively promote industries that can compete on world markets, which is necessary for development in a medium-size country. It is not clear how the country can maintain adequate growth in output per capita without finding a way to both boost investment as a share of GDP and also improve the capacity to earn foreign exchange. Despite its past successes, UPM would seem to require significant renovation if Uzbekistan is to make economic progress in the future.12

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12 This paper has not considered problems of the political aspect of Uzbekistan’s regime, which is an authoritarian, repressive state.
References


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