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# AGRARIAN TRANSITION IN FORMER SOVIET CENTRAL ASIA: A COMPARATIVE STUDY OF UZBEKISTAN AND KYRGYZSTAN

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# AGRARIAN TRANSITION IN FORMER SOVIET CENTRAL ASIA: A COMPARATIVE STUDY OF UZBEKISTAN AND KYRGYZSTAN

**Max Spoor***

## INTRODUCTION

This paper analyses the agrarian transition that is taking place in former Soviet Central Asia, since the independence of the five states in that area and the breakup of centralized Soviet power. Economic and institutional reforms since 1991, in particular those affecting the agrarian sector, are the focus of the analysis. While there are substantial differences between the sequencing and the degree of implementation of these reforms, the overall model used (or gradually adopted) in most cases is a blueprint programme of market reforms, in which the crucial elements are the breakup of the state order, procurement and distribution system, the privatization of state and collective farms and the liberalization of input, output and financial markets.

The term 'agrarian transition' is used here to indicate that these reforms are likely to lead (in the medium run) to a profound restructuring of land ownership, rural markets, their institutional context and intersectoral resource flows. Although agrarian systems are always in some form of transition or adjustment (for example under the influence of changing technology or external market environments), the former Soviet Union (FSU) had produced a rather static model in the Central Asian states.

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This was a consequence of rigidly defined regional specializations, with for example Uzbekistan producing cotton [*Rumer*, 1989; *Spoor*, 1993] and Kyrgyzstan meat and wool, and with state and collective farms dominating production, embedded in an omnipotent 'state order system' of centrally planned procurement, marketing and distribution.[1]

The current post-1991 agrarian transition in former Soviet Central Asia, under scrutiny here, takes place within a broader context of social, political and economic change in the FSU. Firstly, there is a generalized transition from a command economy towards a market oriented economy. Secondly, with the breakup of the Soviet Union and the COMECON market, independent states now have to define their own domestic and external trade policies, while trying to find and penetrate new markets. Thirdly, with various degrees of progress and formats, these new states are undertaking democratic reforms, which affect the relation between state and civil society, and the traditional power structures.

In order to study the extent and impact of economic reforms in general and the agrarian transition in former Soviet Central Asia in particular, the paper concentrates on two Central Asian countries, namely Uzbekistan and Kyrgyzstan, both economies largely dependent on agricultural production. The former is mostly identified as a 'slow' and the latter as a 'fast reformer', while the political regimes of the two countries are differentiated as a neo-communist (led by former Party leader Islam Karimov) and non-communist (headed by an academic without a previous political career in 'the system', Askar Akaev). In order to assess the significance of this rather crude division between the two countries and reform processes, the various areas of reforms related to the agrarian sector, with their implementation and impact, are compared in this paper.

The reform areas that will be discussed are those of agrarian privatization, the deregulation of the supportive service sectors, and the restructuring of financial markets. This is done in the second part of the paper. In the third and final part a brief discussion is devoted to the debate between 'gradualist' and 'hasty' approaches, in the context of the existing political environments of both countries, indicating that what is needed is a coherent and comprehensive reform strategy that takes into account the peculiarities of the country, defining the phasing and inter-linkages of reforms, and 'making haste slowly' but definitely.[2] The paper makes a plea for a reform strategy that is first and foremost country specific, taking into account the political processes, institutional context and developments in real markets (*Hewitt de Alcantará*, 1992; *Spoor*, 1994). Secondly, it calls for a new active public role in the process of reform, directed to market development, in particular of rural markets in which a growing class of small producers is operating, and challenging the neo-liberal agenda which claims that after state withdrawal markets will spontaneously (re)appear.

## MACRO-ECONOMIC DEVELOPMENT

### *Economic Reform in Uzbekistan and Kyrgyzstan: a Comparison*

Before comparing the agrarian transition in Uzbekistan and Kyrgyzstan a brief overview of their macro-economic development in the post-1991 reform period is given. Uzbekistan is the largest of the Central Asian republics in terms of population, with nearly 22 million people of whom 60 per cent are rural.[3] It can be categorized as a lower-middle income country, although at this stage it is rather difficult to estimate the income levels in a compatible form. Uzbekistan's economy is dominated by cotton production (see Table 2), using around 40 per cent of the cultivated land and employing possibly more than half of the rural labour force. In the early 1980s Uzbekistan developed itself as the fourth largest cotton exporter in the world, although it lagged behind in terms of quality [*Spoor*, 1993]. Uzbekistan has a reasonably developed infrastructure, and an agro-industrial sector which is particularly geared towards the cotton sector, although also important in the processing of fruit and vegetables. It is also well endowed with mineral resources on which a mining and metallurgic industry has been built. Finally, its population has a high standard of education and training, and the state apparatus is generally seen as reasonably experienced, albeit very bureaucratic.

Since the early 1990s Uzbekistan has suffered possibly the slowest contraction in its economy of all FSU states, with the largest drop in real GDP in 1992 when it decreased by 11.1 per cent (see Table 1). In 1993 further contraction was estimated at 2.4 per cent. However, some preliminary data for 1994 indicate a sharply developing crisis in industrial production, in particular because of the breakdown of traditional FSU markets and the rapid increase in prices of imported raw materials [*Goskomprognostat*, 1994a]. High inflation rates have been a continuous phenomenon in the Uzbekistan economy, the CPI increasing by 105 per cent in 1991 and by 851 per cent in 1993, without clear indications that this trend would be reversed in 1994, in spite of two currency reforms in November 1993 and May 1994 (*World Bank*, 1994b; *Goskomprognostat*, 1994b]. With the state order system largely in force, budgetary and extra-budgetary transfers and subsidies still dominate the economy (see below).

The Kyrgyzstan economy is much smaller. The country is largely covered with mountains and only a small percentage of land is cultivable. With a population of 4.5 million, it is one of the smallest Central Asian states. Compared with Uzbekistan, its population is 63 per cent rural, while rates of literacy and levels of education are equally high. In the Soviet era the regional division of labour implied its role as a meat and wool supplier for the country, plus exploitation of its rich mineral resources such as gold, uranium, iron ores and brown coal. Kyrgyzstan, because of a shortage of cultivable land was highly dependent on food imports.

(Table 1)

Partly because of a reduction in agricultural production (see Table 2), but in particular because of a collapse of industry, real growth of GDP has been highly negative during the post-1991 period, in 1992 and 1993 between 15-20 per cent per annum.[4] With the introduction of the new currency in May 1993, Kyrgyzstan broke away from the Ruble zone and introduced a stabilization programme focusing on the budget deficit and the reduction of implicit credit transfers. In combination with substantial external donor finance, inflation has indeed dropped from a level of 1,300-1,440 per cent in 1993 to more manageable levels of between 40-120 per cent in 1994 [*EEC/TACIS*, 1994, Vol.1:54]. Although a substantial part of the economy is still in state hands, the programme of enterprise privatization has made some progress in Kyrgyzstan, while also the state order system was partly abolished [*Jermakowisz*, 1994]. Overall the economy is in a profound crisis which is likely to prolong, as disarticulation of marketing systems prevents the newly established private sectors to improve performance in the short run (see also *Duncan*, 1994).

*Agrarian Sector Reforms*

Privatization of state and collective farms in the FSU is generally seen as crucial in restructuring the farm sector. However, until now it has proven to be very difficult to execute. Even in the Russian Federation, where most of the attention of foreign donors is focused, the process has been very slow and complex. According to a recent World Bank study, by early 1993 only 8 per cent of the farm sector was really privatized, while most other changes -like the formation of joint-stock companies, farmer's cooperatives and forms of *tovarishchestvo* (limited liability partnership)- represent formal rather than real changes [*Brooks and Lerman*, 1994:42]. This development reveals the existence of political and social forces that represent vested interests, but it also shows the hesitation of the farming population to embark upon private farming in view of often non-existent or malfunctioning rural input and output markets. In the Central Asian states, substantial problems have also arisen with respect to the land question, comparable with Russia but with country specific factors added.

In Uzbekistan, where a large part of the state and collective farm economy is linked to the cotton complex, land reform has been limited. According to most recent data, some land distribution took place in 1992 and 1993, involved 500,000 ha (around 12 per cent of cultivated land), most of which was allotted as very tiny plots to households on state and collectives farms. During 1993 nearly all state farms were transformed into joint-stock companies, and some split into a number of collectives, but the formation of a new private farm sector remains rather incipient. In some cases land issues lead to overt ethnic tensions, in particular in the densely populated Fergana Valley (that borders Kyrgyzstan). Since February 1994, supported by a number of presidential decrees on private property and entrepreneurship, land was to be distributed (actually leased for long periods of time) to peasant farmers, based on a minimum area per head of cattle owned -varying between 0.3 and 2.0 hectares/head- in order to promote the emergence of viable peasant farms [*Republic of Uzbekistan*, 1994:77,90]. For this purpose another 100,000 ha was reserved for distribution in 1994. Interestingly enough in one of these decrees the government, after mentioning a number of areas in which reforms had been implemented, was extremely self-critical:

> ... the economic reforms in rural areas are extremely slow and superficial. Management methods do not meet the requirements of the market, formalism and administrative dictatorship are still a frequent occurrence.. [*Republic of Uzbekistan*, 1994:83].

In November 1994, a field visit to an area north of Tashkent, confirmed that these decrees had indeed started to be put into practice, with farmers obtaining between 10-20 hectares of land. However, with the system of allotting land through the powerful *khokims* or mayors, vested private interests in the public sector promote privatization of land to the benefit of the rural *nomenklatura*. Even with the most recent government decisions on land distribution, land ownership is still a monopoly of the state, while peasant farmers can obtain leasing (or usufruct) rights.[5] Peasant farms partly exempted from taxes but are obliged to sell a substantial part of their output (cotton, grain, meat and milk) to the state at "negotiated" (below market) prices. Apart from the process of land reform, Uzbekistan's agricultural economy has shown changes in terms of diversification from cotton towards food crops (see Table 2).

In Kyrgyzstan too land reform -although having progressed somewhat further- is full of contradictions. With a recent history of violent conflicts between Kyrgyz and Uzbek people in the *oblast* of Osh[6], land privatization contributed to further inter-ethnic tension in 1992. At that moment around 11,000 small private farms had been established. However, with an increasingly depressed economy and a collapse of marketing, the privatization programme was suspended until the beginning of the 1993 agricultural season. In that year land reform again showed modest progress, in particular the (mostly formal) transformation of state farms into joint-stock companies. Nevertheless, during this period, the government gave special support to state and collective farms with an Emergency Programme [*World Bank*, 1993:126], a move that provided a strong disincentive to start private farming. In early 1994, at the same moment as in Uzbekistan, the Kyrgyz government gave a new impulse to the reform process, reducing the quota that private farms needed to sell to the state. The number of private farms increased to around 21,000 small and medium farms, on 11.3 per cent of total farm area (including pastures), but only 7.8 per cent of arable land. While land is still state owned, private farms got usufruct rights for 49 years, although there are plans to change the constitution after the parliamentary elections of February 1995, in order to make private land titling possible. The land distribution and privatization programme is now exclusively in the hands of the Ministry of Agriculture, including the National Land Fund that aims to reserve at least 25 per cent of arable land for ethnic Kyrgyz farmers.[7]

The land reform programme has developed with great inconsistencies. The reforms were implemented rather hastily, with little consensus in the regime itself, and even less agreement or even knowledge on the part of the population. The main justification was that many *kolchozi* and *sovchozi* were collapsing and that therefore the introduction of new forms of production was necessary. However, while implementing the reforms, no knowledge was available about the reaction of the farming population.[8] At the moment, most peasant farms are in a very poor state, producing for self-consumption or barter trade. Finally, the reform process has unintended effects such as the intensified use of pastures near to villages, with implicit negative environmental consequences, as there is no affordable transport for output produced in mountainous areas.[9] In Kyrgyzstan another phenomenon that can be observed in the agrarian transition is the move away from silage crops (that served particularly cattle and sheep on collective farms) towards the production of food crops such as wheat (still protected by tariffs).

In conclusion, land reform has gone somewhat further in Kyrgyzstan than in Uzbekistan, but a viable private farming sector is still far from being formed. Where peasant farmers started to produce, problems arose because of the near total collapse of support services in the case of Kyrgyzstan, and because existing services are still geared exclusively to state and collective farms in Uzbekistan. From this observation it follows that a push to rapid privatization and parcelization, within an environment of inefficient and sometimes non-existing markets, will jeopardize the viability of these peasant farms. In both cases, the outcome of land and service sector privatization depends on rural power relations, in which the vested interests of the former party elite play a decisive role. Furthermore, in both countries control over water, as well as over land, will be an important issue. Water resources and their management are crucial for Uzbekistan's whole agricultural sector, and for Kyrgyzstan particularly in the populated Chui and Osh *oblasts*. The complexity of privatization of water rights and the introduction of water charges (on a cost recovery basis) - that both governments are currently promoting- are nevertheless being underestimated in the economic reforms.

*Reform of the State Order System*

In the Soviet era all support services for agricultural production such as input distribution, agro-processing and trade, were integrated into the state order system. In Uzbekistan this is still largely intact, although in recent years its scope diminished to a small number of agricultural products (albeit dominant in the agricultural sector) such as cotton, grain, meat and milk. The procurement quota, or shares of the harvest that have to be sold by collective or other farmers to the state has also gradually diminished since 1991. In 1993 this share was still 75 per cent for cotton. During the 1993 harvest (in October) it was reduced to 66 per cent, and further reductions are planned. The state order system provides the farming sector with subsidies, including negative interest rates for bank credit due to high inflation. However, a breakdown of trade relations and higher international prices for fertilizers and pesticides have reduced their availability and use substantially. On the other hand, the prices paid by state companies for agricultural products are only a fraction of border prices.[10] Even 'free market' prices for non-quota production are lower than international prices, mainly because export of cotton is still a quasi-state monopoly. With overvalued exchange rates lower than purchasing power parity this is not surprising, but even with low input prices for agricultural producers there is a substantial net outflow of resources from agriculture, estimated in 1993 for Uzbekistan to be 0.9 billion dollar.[11] With the economic reforms some changes have been introduced in the state order system, and more are planned in the near future. Cotton still remains largely under state control, but the grain trade is to be deregulated. Although such reforms were announced early 1994, and the complicated licensing system (which is open to corruption) is under attack, in practice it is still extremely difficult to enter into export activities. Vested interests are likely to feel threatened by any form of trade liberalization.

Uzbekistan is still struggling to (re)establish trade relations with FSU countries as well as elsewhere in the world market. From an initial reaction of heavy protectionism common to all Central Asian republics, licensing and import quotas are gradually being changed into a more rational tariff system, while export tariffs were recently somewhat reduced [*Republic of Uzbekistan*, 1994]. Some progress has been made in FDI legislation, although in practice horrendous bureaucratic hurdles have to be taken, put up by a whole range of monolithic state structures. Nevertheless, it is interesting to note that multinationals (MNCs) are undertaking large-scale investments, for example, in the tobacco sector.[12] This development seems to be contrary to the expectations of the World Bank that 'fast reformers' will attract foreign investment. It seems that the size of the market and political stability are more important to foreign investors.

The main problem of reforming the state order system is the privatization and rearticulation of different market structures that were totally dominated by state agencies (and furthermore operated through Moscow). While there is reluctance to break-up the collective farms, reiterating traditional economies of scale arguments, there is hardly any private market for inputs or services. Most agricultural products have been freed from state procurement, but sometimes no private marketing channels exists. Nevertheless, in the reforms very little attention is given to the aspect of market development. Most reforms are exclusively directed to the production and processing sectors, with the expectation that the private trading will just emerge, in response to the incipient private farming sector. This is questionable.

In Kyrgyzstan, during 1992 and 1993, output marketing was still heavily state controlled. For commodities such as cotton, wool, wheat and tobacco, the state order system remained in force, paying prices far below international market levels to domestic producers. In early 1994, after the Emergency Programme was abandoned and a new wave of market reforms initiated, obligatory state procurement was abandoned and replaced by 'domestic supply agreements'. Prices were not freed, as several monopolies, such as the Bread Products Enterprise and the huge Tamak-Ash agro-processing company, still remained and prices were being negotiated. Most minimum shares to be sold to the state were established at a level between 20-30 per cent of producer's output (except for tobacco for which this share was substantially higher). Similarly to Uzbekistan, there is a great lack of real understanding by the leadership of how markets should work, particularly when a private farming sector has been formed. As Duncan [1994:86] recently observed:

> The government, both national and local, has an ambiguous attitude to private trade. Overall policy statements permit it, but a raft of regulations covering prices, taxes, entry to trade, and movements and exports severely restricts it. Aside from doubts about the private sector, there is clearly a pro-production, anti-trade bias in the minds of most policy-makers which has its roots in socialist economic management.

The state order system was geared to serve the state and collective farm system, and is unable to adjust to the needs of the emerging private small farm sector. On the other hand, privatization of the huge parastatals is a complex matter, as most of them are formally bankrupt. The absence of outlets with competitive prices, both for domestically traded food crops or for exportables, still leads to net transfers out of agriculture. Obviously this has negative consequences for agricultural production, particularly in the dairy sector. An example was the drastic reduction in milk production in 1993-94. As farmers saw the price of silage rising, they slaughtered their milk cows to concentrate on meat production. The disarticulation of the marketing system and reduced production was subsequently felt by the agro-processing sector. A milk factory 30 km from Bishkek (visited in early December 1994) with a daily capacity of 50 tons of raw milk, received only 5 tons. Lacking credit and transport facilities, it could not compete with the emerging street market in fresh milk in the outskirts of the capital.[13] In terms of external trade Kyrgyzstan has liberalized much more than its neighbour, in 1994 clinging on only to a sizeable export tax on grain, and a complicated system of licensing of imports and exports. Trade with Kazakhstan is lively, and many consumer products enter the country, although the cheap Kazakh and Chinese imports choke to death the local Kyrgyz industries that produce with outdated technology at high costs.

In short, the state order system is still largely in force in Uzbekistan, and has been partly broken down in Kyrgyzstan. In neither cases are newly emerging small private farmers being stimulated to develop. They operate in monopolistic, sometimes segmented, and often non-existing, markets. While transfers through the pricing system provide disincentives to producers (whether private or collective), the absence of proper marketing channels and manufactured products that can be bought with income is felt even more. With an over-emphasis on privatization, the importance of support services for farmers is under-estimated. In this sense the 'anti-trade bias' of the national governments is reinforced by a donor driven bias towards pure macro reforms, rather than a strategy of market development.

*The Restructuring of Financial Markets*

Although it is of crucial importance for the emerging small farmer sector, reform of the banking and rural credit system has lagged behind. In both countries severe problems of enterprise arrears and implicit credit subsidies posed enormous problems to policy makers. Obviously, as both countries remained in the Ruble zone until 1993, national governments and central banks had insufficient control over the money supply and could not develop independent monetary and credit policies. Large hidden money flows across borders influenced domestic money supply and inflation. Only when Kyrgyzstan (May 1993 with the Som) and later Uzbekistan (November 1993 with the Som-coupon as transitional currency; followed in July 1994 with the Som) introduced their national currencies, was it possible to begin to transform fiscal, monetary and credit policies.

In Uzbekistan, with most of the state order system still in place, rural finance is provided to collective farms according to the centrally planned system. However, with an annual inflation of 700 per cent and an interest rate of 45 per cent, the bank incurs an 82 per cent loss on the initial loan in real terms.[14] On one hand, this implicit subsidy that was so endemic in the socialist economies, benefits enterprises and agricultural producers. On the other hand, it causes a continuous decapitalization of the banking system, which survives only by being replenished through the budget. In the case of Uzbekistan, the cost of subsidized credit to enterprises in all sectors was estimated at between 9-13 per cent of GDP in 1993.[15] Although major reforms are currently on the policy agenda of the government, the banking and credit sector reforms will be not easy to execute. Firstly, the current centralized system does not serve the private sector, and the few private or joint-stock banks that exist are not lending their money to agricultural producers. Secondly, credit has always been used as a transfer mechanism and not as a financial instrument to promote the efficient use of resources. Therefore, there is little psychology in the banking sector or amongst enterprises and agricultural producers to adopt a market oriented attitude towards credit and finance. Thirdly, a rigid change in credit policy (through indexed interest rates and auctions), severely reducing the credit supply and especially to non-solvent state enterprises, will have strong contractionary effects. Fourthly, the transformation of the banking system is prone to corruption, political pressures and the dominance of private interests, and it is therefore a sensitive area. Nevertheless, the reform of the financial sector is necessary to develop the private economy, in particular in the agricultural sector.[16] While major agricultural products are still (at least partly) controlled by the state, which taxes producers, credit subsidies are reduced and the purchasing power of the farming population decreases because of increased prices for consumer goods and agricultural implements.

In Kyrgyzstan a greater variety of institutions has developed in banking, although in the agricultural sector it is still highly concentrated. To give an example, the Agroprom bank by the end of 1993 accounted for 89 per cent of all outstanding short-term bank credit to farming. With the reduction of inflation decapitalization decreased, although negative real interest rates remained. The emerging private farms are virtually excluded from bank credit (as the structure is not geared to serve them), and almost all credit still goes to former state farms and the collectives [*World Bank*, 1994b:19-21]. Finally, a strong 'agrarian lobby' (comparable with Uzbekistan's 'cotton complex') pushes the central government to providing substantial preferential credits, such as during the 1992-93 Emergency Programme.

In 1992 a special bank was created that would serve the emerging private farm sector, the Dyikan Bank. However, this small bank has most of its portfolio in commerce, while (more risky) production is excluded [*World Bank*, 1994b]. The new governor of the National Bank of Kyrgyzstan, who took charge in mid-1994, analyzed the failure of this bank in a different manner. Those who opted for credit were mostly not farmers, but 'criminals' who benefitted from cheap credit (still allotted in a period of galloping inflation), for non-productive activities. An investigation into this corruption has started, but in the meantime no alternative is offered to small farmers. Although he mentioned that new institutions like credit groups or associations should fill the gap, there is little experience with them.[17] While macro-economic reforms are being implemented, what is lacking are the 'sectoral and micro-economic conditions' needed for a positive supply response from farmers [*Duncan*, 1994:87].

(Table 2)

While in Kyrgyzstan the wider liberalization of prices and the removal of most consumer subsidies were likely to contribute to the improvement of the terms of trade for the rural producers, in 1993 the net effect of indirect taxation and implicit subsidy was still negative for the agricultural sector. Furthermore, the newly created private farms have to survive in an environment where marketing channels are still archaic and where credit is hardly available (in particular because of transaction costs and lack of collateral as property rights remain undefined).

To summarize, in both countries the process of restructuring financial markets still has a long way to go. In the previous centralized system credit was an instrument of financial transfer, not an instrument of efficient resource allocation (establishing the price of capital). Therefore, in the transition to a market economy, financial markets have to be fundamentally reformed, and in particular new financial institutions have to be built and developed at micro- and meso-levels to promote the integration of private producers in financial, input and output markets. At this moment these are still 'missing', or at least highly segmented and inefficient.

## CONCLUSION: GRADUALISM VERSUS HASTE

Economic reforms should be seen in their political and institutional context. These concluding observations start by focusing on the political changes in both countries over the last few years. Rather superficial categorizations are widespread in which Uzbekistan has continued the 'old system' under a neo-communist regime, while 'democratic reforms' are implemented in Kyrgyzstan. Although a detailed analysis of political and institutional developments is outside the scope of this paper, it can be shown briefly that real political transformations cannot be captured by such stereotypes.

In both countries elections were held in 1991 to choose heads of state, but the outcomes were different. In Uzbekistan the secretary general of the former communist party, Islam Karimov, became the first president of the newly independent republic through elections which were hardly democratic according to western standards. The party apparatus dominated all aspects, including propaganda and promoting candidates, while blocking opposition groups like Birlik or Erk from participation. The Islamic opposition was declared illegal from the start, and no opposition movement was able to participate in the most recent elections of December 1994. Political life is still dominated by the former party structures, now absorbed in the president's party that took power. In the agricultural sector this is translated in near indiscriminate powers of local mayors or regional governors. Only very recently, in the already mentioned presidential decrees of February 1994, the central government launched an attack on these *khokims*, by prohibiting all interference by them '... in economic and financial activity of collective and peasant farms' [*Republic of Uzbekistan*, 1994:78]. Nevertheless, rural life is still dominated by the *nomenklatura*, often intimately related to the vested interests in the 'cotton complex' [*Spoor*, 1993:150-51]. The economic reforms have changed some of these power relations, in particular between the traditional party elite, the newly emerging class of those who benefitted from the *nomenklatura* privatization, and those who are actively involved in commercial activities. This process of differentiation will certainly become more intense when the central government widens the process of market reforms. In conclusion, Uzbekistan's government has given priority to political stability at the cost of democratic reforms. Nevertheless, it seems to be dedicated to market reforms, and with the new push towards a coherent reform programme has also started to limit the influence of powerful party structures at the regional and district levels.

In Kyrgyzstan the elections were won by a non-communist candidate, although much of political life is still dominated by representatives of the former communist party, in particular at regional and local levels. While democratic reforms have had some impact on political life, strong political strife between factions of the former party are sometimes paralysing decisions on economic policy. It is symptomatic that (just like in Uzbekistan) the Minister of Agriculture was replaced every three to four months during the past two years. In October 1994, the country passed through a severe political stalemate, when the parliament was actually closed down by the president, calling for new elections in February 1995. What can be observed Kyrgyzstan is a renewed dedication by the leadership to search for a coherent and socially acceptable package of market reforms, in particular for the agricultural sector.[18] Nevertheless, at local levels previous party leaders have now firmly taken over the new institutional structures, as the *khokims*, the leaders of the new rural committees (who have to guide the land and water reform process) and the stock-holders of the 'privatized' companies.[19]

In both countries there are processes that create a greater openness, politically as well as economically. In Kyrgyzstan these have a greater momentum than in Uzbekistan, in particular at a government level, but also with the emergence of some active NGOs. In both cases, however, at local and regional levels the power struggle is similar, in terms of the previous party *nomenklatura* trying to strengthen their position in the process of market reforms. Taking at face value the vision of an 'democratic transition' in Kyrgyzstan versus the 'totalitarian system' in Uzbekistan, foreign assistance has been more substantial to the former than the latter, although the new Aral Sea plan, coordinated by the World Bank might soon change that balance [*Beentjes & Stemerdink*, 1994]. Interestingly enough foreign direct investment is much larger in Uzbekistan than in Kyrgyzstan.

Categorizing Uzbekistan as a 'slow' and Kyrgyzstan as a 'fast' reformer does not reveal much of the underlying dynamics of the economic reforms since 1991. Instead of using such a simple categorization one should first analyze essential differences between the two economies, which can be observed in terms of state formation (public administration and state-civil society relations), and the structure and importance of the agrarian sectors. Second, using the analysis presented here, one can acknowledge the relative stability -albeit with little democracy- in which the transition in Uzbekistan takes place, and that the context of the more advanced economic and political reforms of Kyrgyzstan is one of deep economic crisis and institutional disarticulation.

It is exactly this point that this paper wants to make. The simple categorization of 'fast' and 'slow' reform countries should be revisited. In the case of Uzbekistan, slow reforms are identified with a 'muddle through scenario'. However, a gradual but coherent reform, with a clear economic scenario and embedded in the institutional, political and social realities of a particular country, is likely to lead to better results, taking into account the often unexpected or unintended (and disarticulating) consequences of hasty reforms. In both Uzbekistan and Kyrgyzstan, coherence has been lacking from the very start. In Uzbekistan reforms were only partially implemented, with the state keeping a strong hand in the economy and the political power system, eager as the leadership is to remain in power and provide social and political stability. In Kyrgyzstan more reforms saw the light of day, but without sufficient interlinkages and sequencing. At the same time the political power structure was only affected at a national level, with its disagreements on the scope and limitations of the market reforms.

Taking into account the complex socio-economic and political processes of transition, I would argue firstly that 'gradualism' cannot be discarded, and that reform packages and their implementation should be developed, implemented and evaluated depending on the specific (geographic, economic, political and social) conditions of a particular country. It makes little sense to stick to the crude classification of 'slow' (bad performance) and 'fast' (good performance), in defining donor assistance. Although some main elements of economic reforms will be common to all countries, particular differences can be healthy and useful. Coherence could be defined for specific circumstances, and should not be derived from a blueprint package, a tendency which is still present in Central Asia.

Secondly, there is an important and necessary role for the public sector (jointly with private capital) to promote the emergence of efficient markets, in particular rural marketing systems. Investments in these systems, such as in infrastructure, information, transport and processing are crucial, as are policy measures to articulate newly emerging private farms with marketing channels. An active public role is needed to transform existing institutions to operate efficiently in this new market environment [*Fitchett & Adams*, 1992:13], which is likely to be less costly than the elimination of state intervention in support services in the expectation that the private sector will fill the gap.

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1. I am using 'state order system' following a generally accepted terminology used for the FSU. The state order system regulates economic relations between collectives and state farms and the Government. The Government determines the output (*planned* output) of farms and the proportion of output (*quota* output) that they must sell to Government enterprises (see *World Bank*, 1993:118).

2. The expression is taken from Saith [1991], who used it in relation to the current transition in Vietnam.

3. Kazakhstan is the second in population, but by far the largest country in size.

4. A high official from the State Committee of Economics estimated the drop in GDP in 1994 at even 25 per cent. Interview with author, December 1994, Bishkek. However, EEC/TACIS [1994:54] estimates a contraction of -5 per cent for 1994, hence much less.

5. Interview with the Chairman of the Agricultural Economics Institute, October 1993 (currently changed to the Institute of Market Reforms), Tashkent.

6. In June 1990 ethnic tensions erupted in the city of Osh, with hundreds of people killed in only a couple of weeks. Only the sending of a Russian regiment somewhat defused the tension (Field notes, Osh, October 1993). The Osh *oblast* in the south-west of Kyrgyzstan forms part of the Fergana Valley and is inhabited by a majority of ethnic Uzbeks.

7. Until mid-1994 the land privatization was jointly governed by the State Property Fund and the Ministry of Agriculture.

8. Interview by the author with the acting Minister of Agriculture, December 1994, Bishkek.

9. Interview by the author with the Director of the Institute of Biology, Kyrgyz Academy of Sciences and Chairman of the Environmental Movement 'Aleyne'(NGO), November 1994, Bishkek.

10. It is somewhat difficult in this case to equalize 'border prices' with world market prices. Firstly, the quality of Uzbekistan cotton is relatively low. Secondly, most is still sold in the captive markets of the FSU, often in barter agreements.

11. The subsidies for agriculture are estimated at 0.7 billion dollars, the implicit taxation of agriculture at 1.6 billion dollar [*World Bank*, 1994b:50]. This calculation was done by valuing input and output at border prices (see note 9).

12. The British American Tobacco Company was concluding a deal of several hundreds of millions of dollars in a buy-out of the tobacco sector in Uzbekistan, November 1994. The South Korean company Daewoo is furthermore planning a 650 million USD investment to construct a large car factory in Andijan, Fergana Valley (see *Financial Times*, 17 February 1995).

13. Field Notes from a visit to a milk factory, Chui valley, December 1994. It was striking that the factory was well equipped, with experienced staff and producing a good quality type of cheese. As it was still part of the collective farm structure, no independent decisions could be made and no working capital nor means of transport were available. The grim prospect for this factory seemed to be closure, with serious capital destruction. Strikingly enough cheese is now being imported from some EEC countries (partly because of the export restitution payments under the Common Agricultural Policy), although the population prefers local cheeses.

14. The example is taken from World Bank [1994b:41].

15. World Bank [1994b:42]. This depends on the average rate of Central Bank refinance to the banking system. The government of Uzbekistan took measures during 1993 to increase the refinance rate (through auctioning).

16. Some of the concern about to the necessary reform of the banking and credit sector is expressed in a decree of March 1994 of the Cabinet of Ministers (*Republic of Uzbekistan*, 1994:114). However, no systematic position was yet taken, and 'personalized' measures appeared such as making the *khokims* responsible 'for the state of money circulation and reduction of money emission in their respective territories', which would severely weaken the capacity of the Central Bank to implement a coherent set of monetary and credit policies.

17. Interview by the author with the Governor of the National Bank of Kyrgyzstan, December 1994, Bishkek.

18. The EEC/TACIS programme financed a consultancy team in Bishkek to strengthen the institutional capacity of the Ministry of Agriculture. This produced a document, EEC/TACIS [1994], 3 Vols., which was discussed at a three-day conference with all possible government agencies involved. After modifications this is to revised as a *Master Plan* for future action.

19. In an interview by the author with the Minister of Water Resources, he insisted that the Rural Committees should 'not be dictated by the *khokims*', although in practice this seems to be the case.

TABLE 1

MAIN ECONOMIC INDICATORS:
UZBEKISTAN AND KYRGYZSTAN (1989-1993)

| | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| GDP (Current Prices) | | | | | |
| Uzbekistan | 30,698 | 32,430 | 61,549 | 447,197 | 4,428,087 |
| Real Growth | 3.7 | 1.6 | (0.5) | (11.1) | (2.4) |
| Kyrgyzstan | 7,620 | 8,320 | 15,839 | -- | -- |
| Real Growth | 3.8 | 3.2 | (4.2) | (16.4) | (16.4) |
| Growth NMP Agriculture (Constant 1983 Rbl) | | | | | |
| Uzbekistan | (3.0) | 7.0 | (0.4) | (7.3) | 1.0 |
| Kyrgyzstan | 5.1 | 6.0 | (8.8) | (6.0) | (8.0) |
| Share Agriculture in NMP | | | | | |
| Uzbekistan | 42.3 | 44.3 | 45.0 | 38.9 | 34.9 |
| Kyrgyzstan | 32.9 | 33.7 | 28.4 | -- | -- |
| Population (x1,000) | | | | | |
| Uzbekistan | 19,785 | 20,227 | 20,613 | 21,112 | 21,608 |
| Kyrgyzstan | 4,296 | 4,367 | 4,422 | 4,485 | 4,502 |

*Sources*:
World Bank [1993a, 1993b, 1994a, 1994b]; Goskomprognostat [1994a]; EEC/TACIS [1993]. *Strany-chleny SNG..* [1994].

*Note*: Although the World Bank is citing official statistics, there are some disparities with other publications such as the CIS Statistical Yearbook (*Strany-Chleny SNG..* ,1994).

TABLE 2

MAIN AGRICULTURAL SECTOR INDICATORS:
UZBEKISTAN AND KYRGYZSTAN (1989-1993)

| | | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|
| Crop Output (x1,000 T) | | | | | | |
| Cotton | Uzbekistan | 5,292 | 5,058 | 4,646 | 4,128 | 4,234 |
| | Kyrgyzstan | 74 | 81 | 63 | 52 | 50 |
| Grain | Uzbekistan | 1,555 | 1,899 | 1,908 | 2,257 | 2,098 |
| | Kyrgyzstan | 1,601 | 1,503 | 1,374 | 1,516 | 1,300 |
| Potatoes | Uzbekistan | 325 | 336 | 351 | 365 | 463 |
| | Kyrgyzstan | 324 | 365 | 325 | 362 | 291 |
| Rice | Uzbekistan | 484 | 503 | 520 | -- | 515 |
| | Kyrgyzstan | -- | -- | -- | -- | -- |
| Animal Husbandry (x 1,000 H) | | | | | | |
| Cattle | Uzbekistan | 4,180 | 4,581 | 5,113 | 5,275 | 5,117 |
| | Kyrgyzstan | 1,190 | 1,214 | 1,205 | 1,190 | 1,122 |
| Pigs | Uzbekistan | 743 | 716 | 654 | 529 | -- |
| | Kyrgyzstan | 416 | 445 | 393 | 358 | 247 |
| Sheep | Uzbekistan | 8,038 | 8,406 | 9,192 | 10,329 | -- |
| | Kyrgyzstan | 10,013 | 10,060 | 9,545 | 9,107 | 8,362 |

*Sources*:
World Bank [1993a, 1993b, 1994a, 1994b]; Goskomprognostat [1994a]; State Committee of Economics, Bishkek; *Strany-chleny SNG.*. [1994].