# THE NEXUS OF STATE REGULATION AND ECONOMIC DEVELOPMENT IN TRANSITION ECONOMIES
An empirical assessment using Central Asian countries

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Preface

This dissertation is the result of my own work and includes nothing which is the outcome of work done in collaboration except as declared in the Preface and specified in the text.

I further state that no substantial part of my dissertation has already been submitted, or, is being concurrently submitted for any such degree, diploma or other qualification at the University of Cambridge or any other University or similar institution except as declared in the Preface and specified in the text.

It does not exceed the prescribed word limit for the relevant Degree Committee.

Adham Khudaykulov

"The Nexus of State Regulation and Economic Development in Transition Economies (An empirical assessment using Central Asian countries)"

ABSTRACT

The role of the state in the market affairs has been one of the most debated, yet highly controversial topics of discussion throughout recent history. Particularly, the economic impact of the state regulation evokes a spirited debate and splits the scholarship into various contesting groups. However, majority of studies investigating the nexus of state regulation and economic performance seem to have yielded overly ambiguous results due to the conceptual shortcomings. State regulation is often understood as simply an issue of the technical design of the regulatory framework and/or formal institutional arrangements. However, the current research argues that state regulation is a far more complex policy phenomenon, and actual regulatory environments could be considerably different from the formal de jure regulatory framework that the regulator establishes. Hence, success or failure of the regulatory policy depends not only on the capacity of the state to create a good regulatory framework and institutional arrangements, but also to deliver and enforce regulations effectively and efficiently. By examining the regulation and growth nexus in the case of Central Asian economies, this research demonstrates how more broader conceptualization of the notion of state regulation can contribute to a more comprehensive understanding of the issue and yield somewhat different outcomes than the standard literature. In doing so, the research adopts mixed-method analysis: quantitative technique is employed to assess the relationship between variations in the quality of regulatory policy and economic outcomes in regional countries; qualitative research is used to complement and increase the robustness of the quantitative findings. The study concludes that despite having sound regulatory frameworks and appropriate institutional arrangements, regulatory policies' contribution to the economic growth have been insignificant in Central Asian countries due to the ineffective regulatory compliance and enforcement.

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List of Abbreviations and Acronyms

ADB – Asian Development Bank

CA – Central Asia

CAR – Central Asian Region

CIS – Commonwealth of Independence States

CPI – Consumer Price Index

EBRD – European Bank for Reconstruction and Development

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

GDP PPP – Gross Domestic Product, Purchasing Power Parity

GNI – Gross National Product

HDI – Human Development Index

IDLO – International Development Law Organization

IMF – International Monetary Fund

KGZ SOM – Kyrgyz National Currency

OECD – Organisation for Economic Co-operation and Development

RIA – Regulatory Impact Assessment

SMEs – Small and Medium Sized Enterprises

SOMONI – Tajik National Currency

TENGE – Kazakh National Currency

TKM MANAT – Turkmen National Currency

WGI – World Governance Indicators

UCM – Unobserved Components Model

UNICEF – United Nations Children's Fund

USD – United States Dollars

USSR – Union of Soviet Socialist Republics

UZB SO'M – Uzbek National Currency

WTO – World Trade Organisation

EAA (Ex-Ante Assessment) – assessment of regulations before their adoption

EPA (Ex-Post Assessment) – assessment of regulations in force

NOTE ON ORTHOGRAPHY

In the course of the thesis, some Russian, Kazakh, Kyrgyz, Uzbek, Tajik and Turkmen words are used. English translation is provided for each of them in the text, at least on their first appearance. Moreover, given that the word Regulation stands for both the 'legal document' as well as the 'regulatory action', it will be used interchangeably to represent either of those meanings throughout the thesis.

NOTE ON TRANSLITERATION

I have applied the Library of Congress system (see Appendix 11) for transliteration from Cyrillic to English.

CHAPTER I. INTRODUCTION

1.1. Context, Scope and Purpose of the Research

The role of the state in the market affairs has been one of the most discussed, yet highly controversial topics throughout recent history. Particularly, the nexus of state regulation and economic outcomes evoked a spirited debate and split the scholarship into various contesting groups. Conventional wisdom holds that regulation reduces economic efficiency by imposing unnecessary burdens and restrictions on the markets (Mises, 1929 [1977]; Stigler, 1971; Peltzman et al., 1976; Becker, 1983). Some scholars believe that regulation is a vital state instrument to correct inefficient or inequitable market practices (Joskov & Noll, 1981; Levy & Spiller, 1994; Stiglitz, 1998; Laffont & Tirole, 2001; Olson et al., 2000; Kirkpatrick & Parker, 2004). Yet some others contend that regulation is now omnipresent around the world, both in progressive and nonprogressive economies, hence the outcome of the regulation depends on the quality (efficiency and effectiveness) of the regulatory policy (Posner, 1974; Schleifer, 2010; Casey & Niblett, 2013).

There is no generic definition of state regulation. Generally, state regulation refers to the application of laws by the state or affiliated public bodies in an attempt to promote markets, facilitate fair and transparent competition, manage externalities, correct market failures and resolve the conflict of interests, etc. The state bureaucracy often rationalises the regulatory intervention with the promotion of national social welfare goals, ensuring fair and equal allocation of resources (Francis, 1993). It is widely believed that in order for the regulatory intervention to succeed in attaining the stated objectives, the state regulatory policy should meet two essential criteria – well-thought-out, comprehensive, and coherent regulatory framework, on the one hand, and the regulatory institutions with clear and objective responsibilities, sufficient power, resources, and opportunities to properly perform duties and functions, on the other.

State interventions do not always bring about desirable outcomes, and the adverse effects of particular interventions are well documented in the literature. Most often than not, regulations entail certain costs or restrictions on businesses. Some regulatory interventions might be politically motivated and pursue personal or group objectives. Thus, advocates of free market economy believe that the market system is capable of organizing the whole economic relations without any outside interference. The so-called 'natural order of things' (or 'hidden hands' as defined by Adam Smith), which lies at the heart of the free-market principles, is seen as the main driver of the market and capable of handling economic interactions without external assistance. For free marketers, the price is the key regulator of the market interactions, capable of efficiently distributing goods and resources throughout the economy. Price serves as a means of communication between sellers and buyers, as an incentive for producers, as a signal for economic interactions. Regulation is said to bring more harm than good as it discourages private initiatives, which eventually lead to a reduced total economic and social surplus.

On the other hand, global financial-economic crises and other social and environmental drawbacks associated with the economic activities tend to prove that markets are incredibly fragile if left alone. As Cohen (2012, para. 1) pointed out, "an absence of regulations can be quite expensive. Although individual businesses and their customers bear many of the costs of regulation, the rest of us pay the costs of non-regulation. "Monopolistic or oligopolistic practices, imperfect information, negative externalities produced by the consumption and production, and other market maladies signify the importance of state regulatory interventions. Thus, state regulation is vital for preventing the crises, and drawbacks resulted from market failures and bringing about sustainable economic development if developed and implemented effectively and efficiently (Olson et al., 2000; Kirkpatrick & Parker, 2004; Jalilian et al., 2006).

The primary purpose of the current research is to investigate the nexus of state regulation and economic performance in the case of five post-soviet transition economies of Central Asia, namely, Kazakhstan, Kirgizstan, Tajikistan, Turkmenistan,

and Uzbekistan, over the period since they have acquired independence from the Soviet Union in the early 90s. The region's economic landscape has undergone profound structural changes over the period since the disintegration of the USSR. The economic recession of the first half of the 90s, caused by the rapid disintegration of production and economic linkages in the Soviet Union, lead to the fall of regional GDP by almost half of the pre-independence levels. However, starting from the mid-1990s, thanks to some structural reforms, favourable external market conditions, and the rise of natural resource extraction, the regional economy has been experiencing steady economic growth.

The drivers of development and the growth factors are fairly diverse and singling out a particular determinant as an ultimate cause of the economic progress would be overly simplistic. However, more often than not, the region's economic revival is attributed to the rents obtained from natural resource extraction. The region is indeed very rich in natural resources. It supplies the world market with oil, gas, uranium, gold, and other precious metals, as well as high-value agricultural products such as wheat, cotton, vegetables, and others. The region is a world leader in terms of reserves of ferrous, non-ferrous and rare metals. It extracts of more than 30 types of rare metals. In terms of gold production, the region is ranked 9th globally, coal production – 10th, power generation – 19th, and so forth (Yuldashev, 2011: 30).

However, along with the commodity factor, some scholars and international institutional have emphasised the role of policy reforms and institutional improvements in the regional economic progress (Pomfret, 2010b, 2012; Stark & Ahrens, 2012). For instance, in a number of reports World Bank and EBRD have acknowledged the progress made in terms of institutional upgrading, improvements in market infrastructures, restructuring of production and reorganization of enterprises, and promotion of private business and investments and others. However, the link between regulatory changes and economic growth in the regional context has not yet been thoroughly examined. The current research, therefore, endeavours to investigate to what extent the state regulatory policies of the regional states, *ceteris paribus*, have contributed to the economic growth of the regional countries.

1.2. Thesis Contribution and Novelty of the Study

The studies reviewing the nexus between state regulation and economic outcomes are now vast. Numerous studies have demonstrated a positive relationship between good regulation and economic growth (Djankov et al., 2006; Gorgens et al., 2003; Jacobzone et al., 2010; Loayza et al., 2004; etc.). However, the term "good regulation" remains mostly ill-defined. Close scrutiny of the existing literature reveals that good regulation is often understood as merely an issue of the technical design of the appropriate regulatory instruments. Formal aspects of regulatory design and institutional arrangements have occupied much of the scholarly attention, which in turn resulted in a narrow conceptualisation of the notion of 'good regulation'. Crucial elements of the regulatory regime – de facto implementation and enforcement – have generally been overlooked.

The current research, however, will argue that the quality of state regulation should not be simply measured against the yardstick of the technical design of regulatory framework and/or formal institutional arrangements, because actual regulatory environments may be considerably different from the formal *de jure* arrangements that regulator establishes. Instead, any such quality assessment should take into consideration three equally important arrays of the regulatory regime: regulatory framework – reflecting the content quality of adopted regulations; regulatory implementation – reflecting the effectiveness of the regulatory delivery; and, regulatory enforcement and compliance – reflecting the quality of the law-enforcement and judicial bodies to ensure the compliance with and adherence to the established rules of the society.

Secondly, to date, the topic of regulatory policy and its link with the economic progress variables has not yet been fully clarified with regard to many transition economies. In particular, the Central Asian region's regulatory performance has gained very little scholarly attention both within and outside of the region. Therefore, the current thesis endeavours to be one of the initial steps to comparatively examine the economic impact of regulatory policy in the case of transition economies which share a distinctly

common history, culture and the recent past under the communist rule, but are currently developing as independent states with a course towards a market economy.

However, it is by no means to claim that the scholarly works discussing the issues of state regulation and development are entirely underrepresented in the regional context. There are several studies that have investigated this nexus, albeit at a micro-level – focusing on the impact of a particular segment or area of the regulation. For example, Maulenov (2008) discussed the economic implications of regulation in the energy sector in Central Asia's resource-abundant economies. Pomfret (2010a) have conducted a comparative study on trade regulations and development in the region. Wandel et al. (2011) examined the market outcomes of state regulation in the agricultural sector. Several other studies investigated the economic effect of the financial sector regulation in regional economies (Djalilov & Piesse, 2011; Asel, 2010; Larosiere, 2001; Broome, 2010). Some studies elaborated on the outcomes of regulatory reforms on entrepreneurship development (Suhir & Kovach, 2003: Lopez-Garcia, 2006). Mickiewicz (2009) have examined property rights, corporate governance frameworks, and privatisation outcomes in Central–Eastern Europe and Central Asia. Iyer & Masters (2000) focused on the analysis of market systems and the achievement of superlative economic performance in broader Eurasia.

Moreover, there are some other studies that have investigated the development outcomes of some political and governance variables in the case of Central Asia. For instance, Gleason (2003) and Ahrens (2010) examined the impact of political institutions and processes on the development outcomes. Libman (2008) analysed how the organization of public administration in Central Asian countries shaped their economic performances. Grävingholt (2011) studied the impact of elite structures on the economic development of the regional countries. Osipian (2007) and Swartz et al. (2008) discussed the relationship between corrupt practices and regional development. Rustemova (2011) has comparatively examined the relationship between economics and political arrangements in Central Asia. However, the current literature lacks a comprehensive study on the quality of the state regulatory policy and

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its' impact on the economic performances in the regional context. Thus, the current thesis aims at addressing this gap in the literature.

Thirdly, Central Asia represents a unique and exciting empirical case for regulatory studies. The regional countries are not too dissimilar in terms of their political structures, institutional arrangements and economic management styles, which allows us to use the same methodology and assess each country independently and maintain comparability in all cases. Likewise, the regional economies have demonstrated a very similar trajectory of economic performance – a sharp downfall during the first half of the 1990s and steady economic growth from the mid-1990s and onwards – which also makes comparative assessment easier to a certain extent.

Fourthly, the methodological underpinning of this research also adds to its' distinctive stand as it adopts mixed-method analysis to better understand and increase the robustness of the findings obtained from one method by another method. The quantitative method is employed to assess the relationship between variations in the quality of regulatory policy and economic growth, and the qualitative approach is used to contextualise and fathom the historical dynamics, evolutionary processes, policy transformations, and institutional changes with respect to regulatory policymaking. Qualitative studies have provided background stories that revealed nuances and filled the gaps that the quantitative research missed. Methodological aspects of the thesis will be discussed in detail in Chapter III.

Last but not least, the study will have some practical policy implications. Findings and the results of this study may be applied to the way of developing national strategies for better regulation in Central Asia or in other developing economies where lack of economic development may be related to the lack of effective regulatory policy.

1.3. Structure of the Thesis

The rest of the thesis is structured as follows:

Chapter II reviews the literature related to the state regulation of the economy. It starts with the discussion of the classical state vs. market debate, after which proceeds to examine the contemporary regulatory debate with the focus on the nexus of regulatory quality and economic outcomes. It will end by highlighting the shortcomings of the current regulatory literature and offering alternative, more comprehensive conceptualisation of the notion of 'state regulation'.

Chapter III identifies and discusses the methodological underpinnings and the conceptual frameworks of this research. First, the qualitative and quantitative components will be discussed in their strengths and limitations, in view of rationalising the adoption of mixed-method analysis for the research. Second, a detailed account of the policy and economic variables chosen for this research will be given by defining and rationalizing their use in the thesis. Materials of the fieldwork will be provided in the appendix.

Chapter IV represents the statistical methodology, the modelling, the data, and the results of regression analysis.

Chapter V overviews the economic transition in Central Asian countries following the disintegration of the Soviet Union. It highlights the reasons for the soviet disintegration and its implications on the political-economic landscape of the region. Comparative analysis of the post-independence economic course and development strategies adopted by the regional states will be presented.

Chapter VI offers some case studies on the structural reforms, market liberalisation, and economic outcomes in Central Asian countries. In particular, this chapter will examine policy measures towards privatizing state assets and ensuring property rights, creating an environment conducive for business development (e.g., simplifying

license and permit systems, removing the costs and burdens for market entry), liberalizing the trade and improving the investment climate and modernizing financial sector.

Chapter VII explores the regulatory system and governance in Central Asia. It analyses the legal systems and governance structures, regulatory policymaking and institutional arrangements, rule-making processes and tools, regulatory impact assessment techniques and methodologies, regulatory implementation and compliance issues, law enforcement, and justice systems, and, finally, corruption control measures.

Chapter VIII compares and contrasts the results of the quantitative and qualitative analysis of the research and emphasizes the research's main argument.

Chapter IX summarizes the main argument of the thesis.

CHAPTER II. LITERATURE REVIEW

The issue of state intervention in economic affairs has been one of the central questions of discussion throughout recent history. This debate's historical root goes back to the eighteenth and nineteenth centuries but still evokes a spirited discourse among the scholarship. Mariana Mazzucato (2014) described it as a "discursive battle." This chapters start with a discussion on the traditional state vs. market debate, after which will proceed to the discussion of the contemporary regulatory debate focusing on the nexus of regulatory quality and economic outcomes. It will end by highlighting the shortcomings of the current regulatory literature and offering alternative conceptualisation of the notion of 'state regulation'.

2.1. Classic Debate: State vs Market

Although the 'state versus market' debate is an old one, occasional turbulences in the international political economy bring this topic on the 'high table' of academic debate again and again. The central theme of the debate is, as Hans (2014:1) put it, "some pay eulogy to the market pointing out state failure, others hail the government (state) pointing out the market failure." While the virtues of the liberal market economy continue to reign around the world, negatives effects of the unrestricted market forces have become an undeniable reality. Particularly, trends of the past decade have generated renewed debate on the state's role for promoting growth and development by efficiently managing the market.

The famous concept historically known as '*laisses faire*', which implies leaving someone alone to do things, is one of the guiding principles of a free market economy. The early advocate of a free market economy, Adam Smith (1937 [1776]), suggested that institutions created by humans disturb the natural order of things and, so doing, undermine the consequential progress. He said, "Had human institutions, therefore, never disturbed the natural course of things, the progressive wealth and increase of the towns would, in every political society, be consequential, and in proportion to the improvement and cultivation of the territory or country" (Ibid: 359). According to him,

in his local situation and current position, every individual can judge much better than any statesman or regulator may do for him. Innate rational behaviour of an individual is what makes an individual come up with a better judgment for himself. In pursuing such a selfish end, he contributes to the greater public good and wellbeing of society. Any intervention in an individual decision to pursue self-interest reduces overall economic efficiency.

Inspired by Smith, David Ricardo (1821) further developed this argument. For him, the state is the sole responsible entity for the crisis in the economy. Ricardo advocated for free commercial transactions and labour movements and free flow of prices, believing that, if left alone, local entrepreneurs are able to set the best price for them and consumers. Ricardo was the first to recognize the importance of the free and unrestricted foreign trade between nations. To him, free trade increases the amount of value in an economy, which positively impacts domestic consumption and production. Using the example of trade between English and Portugal, he wrote that "it would undoubtedly be advantageous to the capitalists [and consumers] of England... [that] the wine and cloth should both be made in Portugal [and that] the capital and labour of England employed in making cloth should be removed to Portugal for that purpose" (Ibid: 23).

Drawing on the principles of a free market, an Austrian economist Ludwig Von Mises stated that "no wonder that all who have had something new to offer humanity have had nothing good to say of the state or its laws (1985 [1927]: 58). State interference in economic affairs, for him, is a self-defeating policy and, thus, does nothing but destroys economic life. State regulations, prohibition, and any restrictive measures, he argued, "have by their general obstructive tendency fostered the growth of the spirit of wastefulness" (1951 [1922]: 424).

Hayek (2001 [1944]) also argued that all actors of the economy should be free to produce, sell, and buy anything that could be produced, sold, and bought at all. It is also essential that parties are free to sell and buy at any price at which they agree with each other. Entry into the market should be open to all who wish to trade. "Any attempt to

control prices or quantities of particular commodities deprives competition of its power of bringing about effective coordination of individual efforts because price changes then cease to register all the relevant changes in circumstances and no longer provide a reliable guide for the individual's actions," said Hayek (Ibid: 38).

Thus, for the fee-marketers, markets are more efficient without any intervention from the state. Market failures and negative externalities are misguided justifications for state interventions. Although this school of thought has dominated the scholarly debate, especially in the Anglo-American context, the literature in favour of broader government participation in market affairs is also vast. This literature argues that markets are incredibly fragile if left alone and, thus, not capable of fixing drawbacks should they occur. Therefore, government intervention is essential to correct and facilitate markets against potential failures and inefficiencies.

One of the early advocates of a more significant role of the state in the economy, Pigou (1932), emphasized that state interventions aim to serve society's interests as a whole. To him, the existence of negative externalities and failures is a sufficient justification for state intervention in economic affairs. Pigou advocated for a more significant intervention to target market maladies through taxes (known as Pigovian tax). He also encouraged government subsidies for activities that would create positive externalities with spillover effects to a broader society. Private enterprises, Pigou argued, when left alone, are prone to failure, and in case of failure that not only affects certain people or industry but also jeopardizes the general national dividend. For him, industries, particularly, those that make use of the right of eminent domain, such as railway service, gas-lighting, electricity supply, water supply and such like, need to be "brought under state control at once before any vested interests have grown up..." (p.235).

Keynes (2008 [1936]) also emphasized the need for state to curb or guide the private sector by way of influencing the propensity to consume through taxes and interest rates. When it comes to employment matters, he said, it is unavoidable that governments employ even greater influence over markets and sometimes large

extension of the traditional functions of government could be observed. Keynes stressed that "...the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated and in my opinion, inevitably associated with present capitalist individualism" (Ibid: 245). Therefore, he suggested, economic problems should be cured and fixed by the hand of the government.

Undoubtedly, state interventions often entail certain costs and burdens on the private sector. However, these costs are much less than that we could end up with if there were no interventions at all, said Stiglitz (1998). According to him, as markets are not free from imperfections, failure is inevitable. Monopolistic or oligopolistic practices, imperfect information, negative externalities produced by consumption and production could serve as clear justifications for state interventions. Market failures produce more substantial burdens and higher costs for the economy than the regulations (Ibid).

The private sector comprises self-interested individuals with profit-maximizing agendas, who often fail to address public or social issues at the expense of their profits (Rosen & Gayer, 2012). Therefore, the state intervention is fundamental, notably, in the areas that represent vital national interest, security, equity and fairness, and wellbeing of broader society (Cohen, 2012; Majone, 1997). Some interventions could be virtually costless and can positively impact on the growth and development. Kirkpatrick & Parker (2004) argued that government intervention is not only essential to settle market imperfections, but also able to enhance economic incentives, minimize transaction costs, and facilitate optimal production.

For some, market expansion cannot happen without associated expansion of the state. Hence, any market growth requires a greater and more capable government. The introduction of a market economy, contrary to the early neoliberal expectations, far from reducing the state's role, enormously increased its range and scope. As Polanyi stated, "the road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. ...even those who wished most ardently to free the state from all unnecessary duties, and

whose whole philosophy demanded the restrictions of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of laissez-faire" (2001 [1944]:144-147).

A similar account was made by Galbraith (1998 [1958]), arguing that the expansion of markets goes hand in hand with the expansion of the public sector. Every increase in the output of a particular product or the consumption of some private goods creates new demand for public services. For instance, an increase in the production of automobiles created new demand for facilitating and protective public services such as building new roads, highways, ensuring traffic safety, increased police staff, and so forth. Galbraith called this inter-reliance as s "social balance", which refers to a productive relationship between the supply of private goods and services and those of the state. He stressed that "failure to keep public services in minimal relation to the private production and use of goods is a cause of a social disorder or impairs economic performance" (Ibid: 193).

According to Chang (1995; 2003) market fully free from government intervention is still impossible to operate. The third way – a good combination of laissez-faire and interventionist approaches, which is present in East-Asian countries, is more effective and thus more desirable. The author suggests that the state must be a good and ultimate entrepreneur and conflict manager at the same time. Too much intervention on the part of the state may harm the market while on the other, too much leniency on the side of the state may make the state too weak or too corrupt (Ibid).

Some others believe that the thriving economy of the 21st century is almost unthinkable without the enhanced role of the state and its innovative capacity. The most crucial prerequisite of the economic progress of the current century is the innovative capacity of the economy. As a rule, breakthrough innovations often entail high risks, uncertainties, and speculations. Hence, the private sector tends to avoid investing in innovations that require high risks-taking and uncertain payoffs. Therefore, if states take no action to invest in such projects, no innovations will happen, and thus no progress will see the world (Mazzucato, 2014). Auerswald and

Branscomb (2003) have found out that state investment for early-stage technology firms is almost two to eight times the amount invested by the private venture capitalists. Thus, Mazzucato suggests that the state should be considered neither a 'meddler' nor a simple 'facilitator' but as the main driver of the economic growth (2014: 5). In a similar note, Acemoglu and Robinson argued that "though markets and private citizens can provide many of the public services, the degree of coordination necessary to do so on a large scale often eludes all but a central authority. Thus, the state is inexorably intertwined with economic institutions, as the enforcer of law and order, private property and contracts, and often as a key provider of public services. Inclusive economic institutions need and use the state." (2012:76)

Although the role of government has been constantly challenged over time, in fact, the government has become much bigger than ever before (Detlef, 2012; Piketty, 2014). The simplest way to measure the change in the government's role in the economy and society, according to Piketty, is to look at the total amount of taxes relative to national income. Figure 2.1.1. below shows the historical trajectory of four countries (the United States, Britain, France, and Sweden) that are fairly representative of what has happened in the rich countries. Total tax revenues were less than 10% of national income in rich countries until 1900-1910, but they represent between 30% and 55% of national income in 2000-2010.

Figure 2.1. Size of the government (in terms of tax revenues) in rich countries 1870-2010
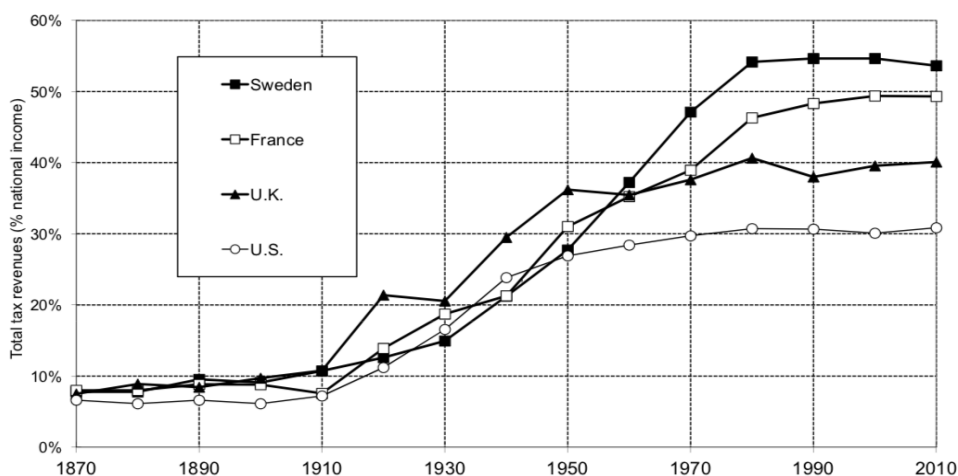
Source: piketty.pse.ens.fr/capital21c.

2.2. Contemporary Regulation Debate

Government intervention in market affairs can take many forms. Generally, the interventions are done through regulation, taxation, and subsidies. The state regulatory intervention is one of the most discussed, yet highly controversial topics of the discussion both in academic literature and political spectrum. Some argue that any form of state regulation produces inefficiency in the economy by imposing unnecessary burdens and restrictions on the markets. In contrast, others believe that regulation is vital to economic growth as it tends to correct inefficient or inequitable market practices. Yet some others contend the regulation's economic cause depends upon the quality (efficiency and effectiveness) of the regulatory interventions.

Advocates of free-market principles tend to oppose any kind of regulatory intervention in markets. For example, Stigler (1971) sees regulation as a biased instrument of the state, which is often exercised in a way that serves the interests of some industries while harming others. According to him, net effects of the regulations upon certain regulated industries could be unquestionably burdensome, while upon others much lighter and more beneficial. Regulation always creates this bias. For Peltzman (1976) and Becker (1981), regulation is economically inefficient because it serves the interests of the specific interest groups. Interest groups tend to shape regulatory initiatives in a way that maximizes their personal or institutional welfare. For instance, politicians and bureaucrats tend to shape regulations based on their personal interests or those who support them.

Although the free-market neoliberal tradition continues to reign, the reality on the ground is that now markets are more regulated than ever before. Regulation of economic activity is now ubiquitous around the world, both in progressive and nonprogressive economies (Schleifer, 2010). Under these circumstances, the matter of concern should not be whether we need or do not need regulation, but what kind of regulation we need. Thus, some scholars see the problem in the quality of the regulations (Posner, 1974; Casey & Niblett, 2013). That is, 'bad' (i.e., ineffective and inefficient) regulation may cause heavy burdens on the economy by increasing costs,

discouraging incentives and hindering competition, whereas 'good' (i.e., efficient and effective) regulation is key to achieving the social welfare goals of the society at minimum costs and promoting sustainable development (Jalilian et al., 2006; Olsen et al., 2000). When organized effectively, the economy does not feel the burden of state intervention. Instead, it can provide the vision and the dynamic push to make things happen that otherwise would not have, and such actions could be highly beneficial to the private business (Mazzucato, 2014).

The need for effective state regulation is also widely advocated by international organizations such as World Bank, IMF, and OECD. For example, according to the World Bank (2001), effective regulation implies letting the free market regulate itself in areas where it functions efficiently and employing regulations in areas where the possibility of market failure is high. Although promoting private dynamism should be the key in any economic development policy, effective regulation is vital for society's economic growth and wellbeing. 'Effectiveness' is measured in terms of regulator's ability to achieve the general social welfare goals put forward, whereas 'efficiency' is assessed against the yardstick of how the social welfare goals are attained at a minimum cost (Guasch and Hahn, 1999).

Various factors could hinder the regulatory course. It could be shaped by bureaucrats' personal motives, such as prestige or power seeking, career promotion, income increase, etc. (Wilson 1989). Alternatively, it may stem from certain interest groups, organized around discrete policies and programs, who, in one way or another, could attempt to affect policy (Thurber, 1991). Sometimes implementation outcomes may not coincide with the primary objective of the regulation, which could be the result of either incompetency or unwillingness of a bureaucracy to implement as desired (Eisner et al., 2000), or when public bureaucracy shifts from the principle of political neutrality to the practice of political allegiance with political elites (Tanwir & Fennell, 2011). Profit maximizing firms occasionally try to 'capture' the regulator by offering certain benefits for cooperation (Carrigan & Coglianese, 2011).

For Levy & Spiller (1994), in order for the regulatory performance to be effective, there are three equally important factors should be taken into account: first, governments should ensure substantive restraints on the discretion of the regulator; second, there should be formal and informal restraints on the changing of regulatory system; and finally, there should be certain institutions that able to enforce those restraints effectively. If a country lacks such institutions, regulatory efforts may end in disappointment, and hence economic performance can be distorted. Similarly, Parker & Kirkpatrick (2005) also considers the institutional capacity as the key in order for regulatory policy to succeed. Authors suggest that state regulatory policy should focus on the following to implement regulations effectively: i) institutional capacity needs to be assessed to ensure that the scale, coverage, and sequencing of regulation are consistent with the available resources in terms of capital provision and management competence to provide the best chance of a regulatory success; ii) administrative competence and probity need to be secured to ensure that the regulatory process is fair, transparent and efficient (Ibid: 535). According to the authors, in developing countries, most of the time privatisation has been promoted by international organizations and/or other external donor institutions without proper consideration of local contexts, factors of legitimacy, and likely outcome in terms of economic development and social welfare. Thus, as they stress, today, it is hardly possible to find a developing country with an effective competition authority with a sufficiently high regulatory capacity that would effectively contribute to the social and economic wellbeing of the society.

Prosser, T. (2010) emphasized that the regulation is part of a complex network of various institutions and thus for the regulatory work to be effective the relations between the different bodies must be clear and transparent. He draws upon the range of tasks which regulators perform. Some regulatory institutions are responsible for economic regulation to increase efficiency and promote consumer choice, while others also have other roles, such as protecting human rights, promoting social solidarity and inclusion, and providing a forum for deliberation and consulting with stakeholders.

Analysing regulatory policy and institutional arrangements in developing countries, Laffont (2005) concluded that several aspects of new standard results in the theory of regulation cannot be simply transplanted in the developing countries. Because, some regulatory frameworks that may be good for one country and time period, could be so bad elsewhere. For him, the issues of enforcement, asset pricing rules, universal service obligations, corruption and several other institutional aspects should be taken into consideration when establishing a regulatory design for developing countries. Buccirossi (2008), by reviewing the antitrust regulations and describing the application of newly developed theoretical models to antitrust laws in developed countries (i.e. United States vs the European Union), suggested that there are numerous differences between even advanced liberal economies in terms of interpretation of antitrust rules, understanding of how markets work and how firms can alter their efficient functioning.

Gómez-Ibáñez (2003) addressed the question of effective and fair regulation in the context of "natural monopolies"— those infrastructure and utility services whose technologies make competition almost impractical. Rather than sticking to economics, the author draws on history, politics, and a wealth of examples to provide a road map for various approaches to regulation. He makes a strong case for favouring market-oriented and contractual approaches (including private contracts between infrastructure providers and customers as well as concession contracts with the government acting as an intermediary) over those that grant government regulators substantial discretion.

Meeting regulatory objectives and improving economic performance is a constant challenge for all countries across the world, and there are critical gaps around why and how some states perform better than the others. For many, capacity of the state to deliver regulatory changes and reforms effectively is key. Centeno et al. (2017) assessed the relationship between state capacity and performance with a focus on the critical role of politics. For them, strong leadership might be good or bad for development. Contrary to expectations, authoritarian regimes or leaders can provide public good such as social equality and capable institutions, if the state is cohesive and

institutionalized. If the state is patrimonial, has institutional deficiencies or an authoritarian leader plunders state resources, it is less likely to advance public goods.

As Andrews et al. (2017) noted, the reason why some regulatory interventions have limited impact is that systems are introduced but not used, plans are written but not implemented effectively. These achievement deficiencies reveal gaps in capabilities, and weaknesses in the process of building state capability. By providing evidence of the capability shortfalls that currently exist in many countries and identifying capability traps that hold many governments back, authors proposed so called PDIA (Problem Driven Iterative Adaptation) model which they believe empowers people working in governments to find and fit solutions to the problems they face.

While it's clear that low-quality government institutions have tremendous negative effects on development, the criteria for good governance remain rather unclear. Rothstein (2011) provides a theoretical foundation for empirical analysis on the connection between the quality of government and important economic, political, and social outcomes. By cross-sectional analyses, experimental studies, and in-depth historical investigations, he argued that unpredictable actions constitute a severe impediment to economic development – and that a basic characteristic of quality government is impartiality in the exercise of power. He also tackled such issues as political legitimacy and corruption.

2.3. Regulatory Quality and Economic Outcomes: Causal Chain

Measuring the economic impact of regulatory policy is an ambiguous task in itself. During the 6th OECD expert meeting on 'Measuring Regulatory Performance' in June 2014, the panel came to a conclusion that "there is no 'holy grail' to simply demonstrate a causal link between the design and implementation of regulatory policy measures on the one hand and the achievement of strategic outcomes in the economy on the other hand" (OECD, 2014). In an ideal case, the economic impact of regulation should be quantifiable using monetary values, which is not always possible (Parker & Kirkpatrick, 2012). However, numerous studies have demonstrated a causal

relationship between regulatory quality and economic outcomes by using self-constructed quality indicators or policy-relevant indices developed by various international organisations.

For example, Gorgens et al. (2003) found out that economies with more cumbersome regulations grow on average 2-3% less than those with moderate, yet effective regulation. Similarly, using quantitative empirical analysis, Loayza et al. (2004) concluded that burdensome regulations negatively affect economic growth and often lead to increased macroeconomic volatility. Drawing on the aggregate index of business regulations based on the seven components of Doing Business Index of World Bank (i.e., starting a business, hiring and firing, registering property, getting credit, protecting investors, enforcing contracts, closing a business) for 135 countries between 1993-2002, Djankov et al. (2006) found out that moving from a 'bad' regulatory regime to a 'good' one implies a 2.3 point increase in average gross domestic production. Estimating the composite regulatory policy variable borrowed from the World Governance Indicators of the World Bank Group, Jalilian et al. (2007) found out that a unit change in the quality of regulation is on average associated with about an 0.6% to 0.9% increase in economic growth.

Using regulatory management system quality indicator, Jacobzone et al. (2010) suggested that improvements in regulatory management system quality may significantly benefit the national economy. According to this study, the findings are consistent with such economic indicators as employment, GDP growth, and labour productivity. In his cross-country study of the development outcomes of the competition regulation, Voigt (2009) estimated that there were direct effects of competition policy on total factor productivity in both developing and developed countries. He also identified competition regulation's indirect effect: countries scoring high with regard to competition policy suffer less from corruption. For this study, the author constructed four 'objective' competition regulation indicators that deal with: (i) the substantive content of competition laws, (ii) the degree to which they incorporate an economic approach, (iii) the formal independence of the competition

agencies that are to implement the competition laws, and (iv) the factual independence of the competition agencies.

2.4. Limitations of the Literature and Need for Further Studies

The studies reviewing the impact of regulation on economic performance are now vast. As is shown above, numerous studies have demonstrated a positive relationship between good regulation and economic growth. However, close scrutiny of the existing literature reveals that good regulation is understood as merely an issue of the technical design of the most appropriate regulatory instruments. Formal aspects of regulatory design and institutional arrangements have occupied much of the scholarly attention, which in turn led to a narrow conceptualisation of the notion of state regulation. As a result, the findings of those studies have produced overly ambiguous outcomes. Studies generally overlooked such essential elements of state regulatory regime as regulatory enforcement and compliance. Hence, an effective regulatory regime depends not only on the design of the regulatory framework but also on the state's ability to implement and enforce regulations effectively.

The current research, therefore, argues that the state regulation should not be limited to the design of the regulatory framework, because actual regulatory environments might considerably differ from formal *de jure* regulatory framework that regulator establishes. Instead, state regulation should be understood as a broader policy public phenomenon with three equally important arrays: the regulatory framework (design), regulatory implementation, regulatory enforcement and justice. All these three arrays deserve particular scrutiny when assessing the quality of the regulatory policy of the state. Hence, the current research endeavours to analyse the nexus of regulatory quality and economic outcomes in the context of Central Asia through the prisms of those three arrays.

CHAPTER III. METHODOLOGICAL UNDERPINNING AND CONCEPTUAL FRAMEWORK

3.1. Research Design

Research methods in social sciences are conventionally divided into quantitative, qualitative, and participatory approaches (Mayoux, 2006). Quantitative research seeks objectivity and causal explanation to deductively test prior hypotheses, whereas qualitative and participatory methods are used to contextualise meaningfulness recognising the contingent nature of social knowledge (Ibid). The quantitative approach uses objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques (Babbie, 2010). Qualitative research uses a set of methods such as in-depth interviews, focus group discussions, observations, content analysis, visual methods, and life histories or biographies, to identify issues from the perspective of the study participants and understand the meanings and interpretations that they give to behaviour, events or objects (Hennink et al., 2020).

3.2. Mixed-Methods

Mixed methods research has emerged as the third methodological movement with a recognized name and distinct identity (Denscombe, 2008). It was in response to the limitations of the sole use of quantitative or qualitative methods and is now considered by many a legitimate alternative to these two traditions (Doyle et al., 2009; Kuhn, 2012). The benefits of the mixed methods analysis are now widely acknowledged. Hodgson (2001) argued that it is necessary to keep a wide, inductive, mixed, and interdisciplinary investigation. Webb (1966) contended that if a hypothesis survives through multiple test methods, it will hold a stronger validity. According to Denzin (1978), combining multiple methods will help overcome their unique deficiency. For Atkinson (1995), mixed-method research reduces possible orientation errors associated with using a single method. Kandiyoti (1999: 521) reckoned that quantitative techniques and sample surveys are valuable only to the extent that they

build upon a solid bedrock of in-depth qualitative information about the processes under investigation.

In order to enrich our understanding of problems and questions at hand, the current study adopts mixed-method analysis by triangulating the results from the quantitative method with the findings from the qualitative method. The quantitative method is employed to assess the relationship between variations in the quality of regulatory policy and economic growth in Central Asian countries, whereas the qualitative approach is used to fathom the historical dynamics, evolutionary processes, policy transformations, and institutional changes with respect to regulatory policymaking. Using mixed-method approach enables us to enhance the robustness of our research findings and to extend the breadth and range of the research inquiry.

3.3. Quantitative Component

Quantitative research undertaken in this research intends to measure the relationship between variations in the quality of regulatory policy and economic performance in the case of five Central Asian countries with the time span of two decades, between 1996 and 2016. For the purpose of the research, 'regulatory policy' serves as an explanatory (independent) variable consisting of three arrays: (i) regulatory framework, (ii) regulatory implementation, and iii) regulatory enforcement and compliance. For the outcome (dependent) variable, the research will employ one of the widely used economic growth indicators – GDP per capita growth. Figure 3.3.1. below presents the schematic illustration of the model adopted by this research to examine the nexus between regulatory policy and economic growth.

Figure 3.3. Linking Regulatory Policy and Economic Growth

35
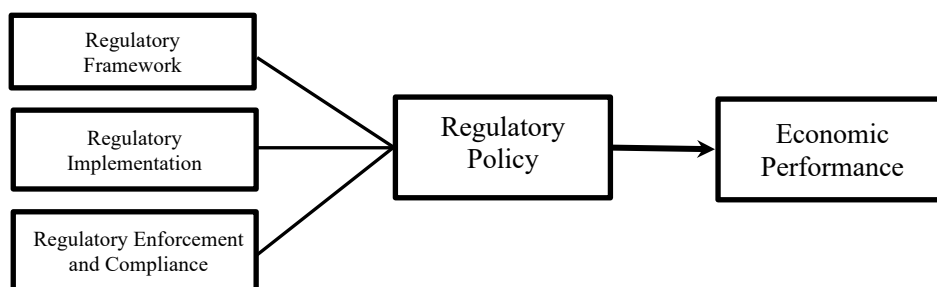
3.3.1. *Explanatory Variables*

Measuring the quality of regulatory policy is indeed a challenging task. It is equally challenging to identify quality indicators of the regulatory policy. Generally, the literature suggests that good regulatory policy is measured against the yardstick of effectiveness and efficiency (Guasch and Hahn, 1999). That is, the capacity of the state to create a sound regulatory framework and establish transparent and accountable institutions to implement regulations effectively to attain economic efficiency. Scholars of the field have operationalised different governance and policy indicators to measure the quality of the regulatory policy. One of such widely used indicators is the World Bank Group's Worldwide Governance Indicators (WGI) which is comprised of six aggregate and individual governance indicators – 'Voice and Accountability', 'Political Stability and Absence of Violence/Terrorism', 'Government Effectiveness', 'Regulatory Quality', 'Rule of Law' and 'Control of Corruption'. The WGI contains information for 215 countries of the world, constructed since 1996. Aggregate indicators are created from various perception-based individual data sources: surveys of households and firms, commercial business information providers, non-governmental organizations, and public-sector organizations (see Table 3.3.1.).

For the purpose of the current research, three out of six aggregate indicators of WGI have been chosen – 'Regulatory Quality', 'Government Effectiveness' and 'Rule of Law'. The 'Regulatory Quality' indicator is selected to measure the quality of the first array of regulatory policy – the regulatory framework of market development. The 'Government Effectiveness' indicator is adopted to evaluate the second array of the regulatory policy – state capacity to implement regulations effectively. Finally, the 'Rule of Law' indicator is chosen to assess the quality of the third array of the regulatory policy – regulatory enforcement and compliance system. A composed 'Regulatory Policy' indicator is thus created by way of merging those three indicators.

Table 3.3.1. Underlying data sources of the World Governance Indicators

Code	Source	Type*	Public	Country Coverage	Represe-ntative	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ADB	African Development Bank Country Policy and Institutional Assessments	Expert (GOV)	Partial	54				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
AFR	Afrobarometer	Survey	Yes	22					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
ASD	Asian Development Bank Country Policy and Institutional Assessments	Expert (GOV)	Partial	28					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
BPS	Business Enterprise Environment Survey	Survey	Yes	30					x	x	x	x	x	x	x	x	x	x	x	x	x				
BTI	Bertelsmann Transformation Index	Expert (NGO)	Yes	129						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
CCR	Freedom House Countries at the Crossroads	Expert (NGO)	Yes	69							x	x	x	x	x	x	x	x	x						
EBR	European Bank for Reconstruction and Development Transition Report	Expert (GOV)	Yes	33			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x			
EIU	Economist Intelligence Unit Riskwire & Democracy Index	Expert (CBIP)	Yes	183	Y	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
FRH	Freedom House	Expert (NGO)	Yes	198	Y	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
GCB	Transparency International Global Corruption Barometer Survey	Survey	Yes	115						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
GCS	World Economic Forum Global Competitiveness Report	Survey	Yes	144	Y	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
GI	Global Integrity Index	Expert (NGO)	Yes	62						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
GWP	Gallup World Poll	Survey	Yes	161	Y								x	x	x	x	x	x	x	x	x	x	x	x	x
HER	Heritage Foundation Index of Economic Freedom	Expert (NGO)	Yes	183	Y	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
HUM	Cingranelli Richards Human Rights Database and Political Terror Scale	Expert (GOV)	Yes	194	Y	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
IFD	IFAD Rural Sector Performance Assessments	Expert (GOV)	Yes	98							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
IJT	iJET Country Security Risk Ratings	Expert (CBIP)	Yes	197	Y						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
IPD	Institutional Profiles Database	Expert (GOV)	Yes	143	Y							x	x	x	x	x	x	x	x	x	x	x	x	x	x
IRP	IREEP African Electoral Index	Expert (NGO)	Yes	54				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
LBO	Latinobarometro	Survey	Yes	18		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
MSI	International Research and Exchanges Board Media Sustainability Index	Expert (NGO)	Yes	71						x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
OBI	International Budget Project Open Budget Index	Expert (NGO)	Yes	100									x	x	x	x	x	x	x	x	x	x	x	x	x
PIA	World Bank Country Policy and Institutional Assessments	Expert (GOV)	Partial	136		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
PRC	Political Economic Risk Consultancy Corruption in Asia Survey	Survey	Yes	17			x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
PRS	Political Risk Services International Country Risk Guide	Expert (CBIP)	Yes	140	Y	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
RSF	Reporters Without Borders Press Freedom Index	Expert (NGO)	Yes	177	Y					x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
TPR	US State Department Trafficking in People report	Expert (GOV)	Yes	185	Y				x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
VAB	Vanderbilt University Americas Barometer	Survey	Yes	26							x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
VDM	Varieties of Democracy Project	Expert (NGO)	Yes	171	Y	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
WCY	Institute for Management and Development World Competitiveness Yearbook	Survey	Yes	59		x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
WJP	World Justice Project Rule of Law Index	Expert (NGO)/Survey	Yes	97															x	x	x	x	x	x	x	x
WMO	Global Insight Business Conditions and Risk Indicators	Expert (CBIP)	Yes	203	Y	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

*Types of Expert Assessments: CBIP -- Commercial Business Information Provider, GOV -- Public Sector Data Provider, NGO -- Nongovernmental Organization Data Provider

Source: Kaufmann et. al., 2010

3.3.2. The Outcome Variable

The outcome variable – economic growth will be measured in terms of GDP per capita PPP (purchasing power parity), obtained from the World Bank's National Accounts Database. Although GDP is the most widely used approach for tracking and evaluating the size of the national economy and its growth rates, it is to acknowledge that it is not the most accurate way of determining the country's overall progress and wellbeing. However, majority of attempts to establish alternative metrics to the GDP have so far been largely unsuccessful. Therefore, GDP per capita is deemed to be a relatively more appropriate indicator used as a proxy for our outcome variable.

3.3.3. Other Variables

Needless to stress, there are plenty of factors other than the regulatory policy that can potentially impact the economic performance of a country. Therefore, an obvious question one faces here is how to deal with factors not related to regulation that might have contributed to the economic growth of the countries under scrutiny. In this research, the inferences caused by factors other than regulations will be considered as extraneous (confounding) variables and controlled by appropriate statistical techniques.

Each of the abovementioned explanatory, outcome and control variables will be carefully defined and rationalised in section 3.5., which is devoted to the conceptual framework of the thesis.

3.4. Qualitative Component

As outlined earlier, in order to fill the gap and complement the results that the statistical analysis has provided, this research has employed a qualitative study by way of fieldwork research across the Central Asian region. Before outlining the qualitative component of the research, it is essential to reflect on the data availability in Central Asia and the need for primary data collection.

3.4.1. Data Availability and the Need for Qualitative Study

It was emphasized in chapter 1 that the nexus between regulatory policy and economic performance in the case of Central Asia remains largely under-researched. The reviewed scholarship on this topic developed across different disciplines, methods, focuses and sets of categorizations. It can be mapped by disciplinary groups. Political scientists use qualitative approaches to uncover the development outcomes of some political variables, such as political institutions and processes (Gleason, 2003; Ahrens, 2010; Rustemova, 2011), the organization of public administration (Libman, 2008), elite structures (Grävingholt, 2011), authoritarian rule and corruption (Osipian, 2007; Swartz et al., 2008), etc. Economists tend to use either quantitative or qualitative methods to examine economic implications of regulation of in certain sectors of the economy, such as energy (Maulenov, 2008), trade (Pomfret, 2010a), agriculture (Wandel et al., 2011), finance (Djalilov & Piesse, 2011; Asel, 2010; Larosiere, 2001; Broome, 2010), entrepreneurship (Suhir & Kovach, 2003: Lopez-Garcia, 2006), and, property rights and privatisation (Mickiewicz, 2009), market systems (Iyer & Masters, 2000).

Also, there is a problem with patchy and not always continuous secondary data. The data emanating from the regional countries' national statistical agencies are often incomplete and out-dated given the low administrative capacity of the statistical offices, or not publicly available. Statistical agencies tend to resort to highly refined manipulation. Some countries do this more professionally by correcting, using modified methodological techniques of calculating statistics (Kazakhstan), while others do not seem to care about statistics on national accounts (Turkmenistan) (Zhukov, 2000). Moreover, statistical work is not well integrated. Although there is a single state body responsible for ensuring uniform state policy in statistics, many state agencies tend to engage in their own statistical work. This multiplicity of sources often results in irregularities and inconsistencies due to differing data collection and processing methods used by state agencies.

The problem is especially acute with the policy-relevant national surveys. National surveys related to policy and governance matters are rarely conducted (Kazakhstan,

Kyrgyz Republic, Uzbekistan) or not conducted at all (Tajikistan, Turkmenistan). Most of these surveys are conducted under the strict guidance from the central authority and thus are often biased. While policy surveys produced by various international institutions can serve as a supportive basis, and can be reliable in terms of methodological appropriateness and may be instrumental for specific studies. However, many of the statistical data collected by such organizations tend to be relevant to their own specific needs and often kept private for internal use (Jerven, 2013; UNDP, 2006). These conditions necessitate collecting one's own primary data.

3.4.2. *Qualitative Data Sources*

The qualitative data of this research are based on three principal sources: semi-structured interviews with current and former policymakers, business leaders, experts and scholars in regional countries; unstructured interviews with several people in various informal settings (at cafes, bars, receptions, dinners, etc.); and content analysis of key national legislative acts and policy documents related to the regulatory policymaking and reforms (Table 3.4.).

Table 3.4. Qualitative Data Sources

Respondents/ informants	Methods	Tools	Setting
Current and former government officials, policymakers, business leaders, independent experts and scholars.	40 semi structured interviews	Semi-structured questions	Tashkent, Bishkek, Dushanbe, Nur-Sultan
Fellow researchers, former colleagues, friends, various well informed and qualified people acquainted during the fieldtrip.	Fieldwork notes	Unstructured informal conversations	Tashkent, Bishkek, Dushanbe, Nur-Sultan
n/a	Legislative Acts and State Programs for regulatory policymaking and reforms	Content analysis	Desk research

3.4.3. Semi-structured and Unstructured Interviews.

The interview is probably the most widely used data collection tool in social research. It is instrumental in constructing reality by investigating people's perceptions (Punch, 2005). There are three types of interviews: structured, semi-structured, and unstructured interviews. A structured interview follows a strict set of rules to ensure that each interview is presented with exactly the same questions in the same order. Unstructured interviews are conducted without a specific set of prearranged questions, although the researcher has a general topic in mind to discuss during the interview. A semi-structured interview is a combination of an unstructured interview and a structured interview. The current research has used semi-structured and unstructured types of interviews.

The semi-structured interview method provides reliable, comparable qualitative data (Keller & Conradin, 2010). It gives interviewees more opportunities to express their views in their own terms and bring up new ideas that might be unforeseen by the interviewer. This is two-way communication; interviewees can express their opinions and, at the same time, ask questions to the interviewers, which allows to get more useful information, such as their opinions on sensitive topics (Cohen & Crabtree, 2006). Often the information obtained from semi-structured interviews will provide not just answers, but the reasons for the answers. Another advantage of the semi-structured interview is that it helps build a personal bond with interviewees under a relatively friendly atmosphere.

For this research, overall, 40 semi-structured interviews in four Central Asian countries (excluding Turkmenistan) have been conducted. Interviews took place primarily in the capital cities in the following order: Tashkent (January 2019) – Bishkek (February 2019) – Dushanbe (March 2019) – Nur-Sultan (April 2019). In terms of numbers and accessibility, capital cities are the best places to reach out to important people needed for the interview. Moreover, capital cities are where almost all relevant government institutions, most of the public officials (both current and former), prominent scholars and educational institutions, and leading businesses are located.

The selection of people for interviews is primarily based on their overall understanding of the regulatory policymaking in their respective jurisdictions and regionally. Preference is given to the people who have an extensive experience in regulatory policymaking and advocacy, as well as in academia. Special attention is given to the balanced use of former and current public officials to avoid possible biases and subjectivity in evaluating the situation. Additionally, a number of people from the private sector were interviewed to assess the situation from the perspective of the 'consumers' of the regulations. All interviewees, irrespective of their background and profession, have been asked similar questions. The discussion guide for semi-structured interviews with associated questions is presented in APPENDIX I.

This study used non-probability sampling, particularly, 'snowball method', to establish contacts with potential interviewees. Probability sampling was disregarded from the beginning because there was a high risk that we would not have reached the right people and would not have collected needed information. Also, the decision in favour of purposeful selection was made partly due to restricted access to key people in government. This type of sampling is also called convenience sampling, for the reason that it helps a researcher with the selection of most accessible cases (Esteves, 2010). The purpose of the control over inclusion and exclusion during the selection process was to identify whether a person has any understanding or practical experience in the regulatory policymaking before including in the study. This was how "snowballing" proved to be the most suitable technique.

Additionally, unstructured informal conversations have been conducted with different random, albeit qualified people, on various occasions at bars, cafes, government offices, receptions, dinners, etc. Although these informal respondents have not been cited, nor were given pseudonyms, their viewpoints have been incorporated in the analyses throughout the thesis. Not all interviewees addressed the questions posed directly, nor did it cover the same categories of people included in the semi-structured interviews. However, all of them helped to inform the background story and some

secondary aspects of the research, which are crucial in the regulatory policymaking in their respective countries and in the region.

3.4.4. Ethical Considerations

Ethical consideration is one of the most important parts of the research. This is especially true with regard to qualitative studies. When conducting research, the interests of the participant should always be taken into consideration and respected. According to Bryman and Bell (2007), research participants should not be subjected to harm in any way, and their dignity, anonymity and privacy have to be prioritised and ensured. The researcher should obtain full consent from the participants prior to the study. Any deception or exaggeration about the aims and objectives of the research must be avoided. Any communication in relation to the research should be done with honesty and transparency (Ibid).

To address ethical considerations, I have taken a course of actions including, but not limited to:

- Ensured voluntary participation of all participants and respondents in the research. All participants were informed about their rights to withdraw from the study at any stage if they wished to do so. An introductory letter to respondents containing information about their rights and the researcher's responsibilities is presented in APPENDIX II.

- All participants have been provided with sufficient information and assurances about taking part to allow them to understand the implications of participation and reach a fully informed, considered, and freely given decision about whether or not to do so.

- Privacy, dignity and anonymity of respondents have been given paramount importance. Observed full adherence to the Data Protection Act (1998) of the UK, and other laws of participants' countries. Some respondents required that presented opinions remain anonymous, ensuring that their names were cited. To address this aspect, I referred to the participants using pseudonyms.

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Codification method with subsequent index numbers for the interviewees and the summary of responses are presented in APPENDIX III. A full transcript of the interviews can be further provided on request.

- Maintained a high level of objectivity in discussions and analyses throughout the research.

- Lastly, my interview schedule and the preliminary list of respondents were approved through the relevant ethics committee of the department and university and that is why names and titles of the respondents are not mentioned in the thesis.

3.4.5. The Turkmen Case

With respect to Turkmenistan, the thesis is in a serious shortage of data. Despite several attempts to obtain a visa to Turkmenistan, it was not possible to obtain the visa and conduct a fieldtrip. Policy-relevant international surveys and indices on Turkmenistan also tend to be incomplete or absent. National business data are scarce and rarely publicly available. Government webpages are often underdeveloped and vague. Information is highly restricted. Turkmenistan is not covered by some prominent assessments such as the World Bank's Doing Business Report or the World Economic Forum's Competitiveness Report. Turkmenistan was the only post-soviet country that had virtually no ties whatsoever with IMF or World Bank or other international economic structures until very recently. Lack of data makes any assessment extremely challenging. This is admittedly one of the limitations of this research.

3.5. Conceptual Framework

3.5.1. Conceptualizing Regulatory Policy

Regulatory policy is one of the central elements of the public policy. Thus, before defining the notion 'regulatory policy', it is important to develop an understanding of the public policy. The literature offers a wide range of definitions of 'public policy'. One of the commonly cited and relatively succinct definitions was offered by Thomas R. Dye, who described the public policy as "whatever governments choose to do and not to do" (1992:3). This implies that public policy is not only what governments purposefully choose to respond, but it is also something they choose not to respond at all. Similarly, for Birkland (2001), public policy is generally about government decisions to act, or not to act, to change or maintain some aspect of the status quo. Conversely, some argue that public policy is a set of 'purposeful actions' taken by the governments or its representatives through regulatory measures, laws and funding priorities concerning specifically prioritized sectors or areas (Kilpatrick, 2000). Thei (2014) contended that public policy is the acts of public officials ultimately chosen in response to a specific public issue or problem at hand. However, these definitions share a common standpoint in a sense that the main actor of the public policy is government or affiliated public body and the main target is general public.

Yet some others believe that public policy is rather complex phenomenon and goes well beyond what governments or affiliated public bodies do. As Sharkansky & Hofferbert (1969) accentuated, public policy is an act of a broad set of actors, such as politicians, civil servants, lobbyists, domain experts, and industry or sector representatives, who use a variety of tactics and tools in order to advance their aims, including advocating their positions publicly, attempting to educate supporters and opponents, or mobilizing allies on a particular issue. Therefore, for them, focusing exclusively on what the governments do (or do not do), limits the scope and explanatory power of the concept. Greater emphasis must be given to the outcomes (effects) of such policy actions (Eisner et al., 2000; Thei, 2014). That is, the matter of concern should be whether such policies resolve problems, whether they do so in a

cost-effective way or without giving rise to unintended consequences that entail unnecessary costs and burdens on the economy.

Each of the above definitions has its own merit and equally useful to make a case for understanding the notion of regulatory policy. The main conclusion drawn from the proposed definitions is that the main target of the public policy is public, the main purpose is to address public issues and problems, and one of the key tools of delivering public policy is regulations. Hence, regulation in narrower terms could be defined as an act of public policy aimed at regulating economic transactions in society. In broader terms, regulatory policy is a set of institutions, instruments, and tools used by the government bodies or other affiliated entities to regulate the economic affairs in a country. According to OECD, regulatory policy is the way of achieving the government's objectives through the use of regulations, laws, and other instruments to deliver better economic and social outcomes and thus enhance the lives of citizens and businesses. The purpose of regulatory policy is to enhance private-sector dynamism and promote open market principles by way of encouraging incentives, ensuring fair competition, protecting the property rights, guarantying free flow of capital, and correcting market imperfections.

The notion of 'deregulation' also frequently appears in regulatory literature and often represented as an opposing concept to the latter. Deregulation is generally about reducing or removing some state powers in some areas of the economy. Simply put, it is letting the markets do whatever they can do more efficiently and effectively than the government. However, this research considers deregulation as an integral part of the regulatory policy. Deregulation is also the political will of the regulator who chooses to relinquish authority over specific economic affairs. As Eisner et al. rightly observed, "it is important to recognize that the deregulation does not always mean moving from regulation to no regulation. Often, deregulation simply involves replacing one tool of regulation with another, less intrusive one" (2000: 17). Similarly, Raworth noted that "there is no such thing as deregulation, only reregulation that embeds the market in a different set of political, legal and cultural rules, simply shifting who bears the risks and costs and who reaps the gains of change" (2017:82).

3.5.2. *Indicators of Regulatory Policy Quality*

As it was outlined earlier, identifying quality indicators of regulatory policy is a challenging task in itself. However, there are several international organisations offer various policy and governance-related indicators relevant to the quality assessment of certain policies. World Governance Indicators (WGI) is one of such global indices the current research will make use of. The research has adopted three out of six aggregate WGI indicators – 'Regulatory Quality', 'Government Effectiveness', and 'Rule of Law' – which we believe conceptually most appropriate for our explanatory variables. These indicators are defined by the creators of WGI (Kaufmann, Kraay, & Mastruzzi, 2010:3), as follows:

Regulatory Quality – reflects "the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development". This indicator will be used to represent the first array of the regulatory policy – 'regulatory framework', which measures the quality of established regulations to promote and encourage market development.

Government Effectiveness – portrays "the quality of public services, the quality of civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies". This indicator corresponds with the second array of regulatory policy – 'regulatory delivery', which assesses the ability of the government to effectively implement enacted regulations and the degree of government's impartiality and honesty.

Rule of Law – describes "the extent to which agents have confidence in and abide by the rules of society, and in particular the quality enforcement, the police, and the courts, as well as the likelihood of crime and violence". This indicator will be used to represent the third array of regulatory policy – 'regulatory enforcement and compliance system".

Chosen indicators and their definitions are of course subject to some level of ambiguity. Particularly, the 'rule of law' is the most ambiguous of all. It is widely used and often abused concept both in academic literature and in political discourse. As Tamanaha rightly observed, the rule of law is "an exceedingly elusive notion" (2004:3). But the controversy is not so much on the meaning as the scope of the notion. For some, the rule of law simply represents the degree to which existing rules and laws are enforced in a given society (Hobson, 1996), while for others it does not only confine to the obeyance to the established rules and laws, but also concerns about the the content of the legal frameworks (Donelson, 2019). The latter argument implies that the rules and laws should be lawful as well. That is, laws should be general (applicable to all members of society, irrespective of class of persons and behaviours), public (no secret laws), prospective (no retroactive laws), consistent (no contradictory laws) (Ibid.)

International intergovernmental organisations and NGOs dealing with the rule of law matters tend to define this concept more broadly. For example, the United Nations defined the rule of laws more broadly as following:

> "a principle of governance in which all persons, institutions and entities, public and private, including the State itself, are accountable to laws that are publicly promulgated, equally enforced and independently adjudicated, and which are consistent with international human rights norms and standards. It requires measures to ensure adherence to the principles of supremacy of the law, equality before the law, accountability to the law, fairness in the application of the law, separation of powers, participation in decision-making, legal certainty, avoidance of arbitrariness, and procedural and legal transparency."

For World Justice Project, a non-profit organization working on the rule of law around the world, the rule of law refers to the system in which the agents are accountable under the law; the laws are enacted and enforced fairly and efficiently; justice is accessible and provided by competent, independent and ethical judges and other legal officers (worldjusticeproject.org). For the purpose of this research, however, we adopt more narrower and straightforward definition of the rule of law – the system where

members of society have confidence in and abide by the established laws, and how law-enforcement and judicial bodies effectively ensure the hierarchy of laws.

The chosen indicators are defined rather broadly, which is both a challenge and a panacea. Its usefulness stems from the fact that it enables us to apply them in a way that is more suitable for the needs of our research. Contributors of WGI recognize that the proposed categorization is not clear-cut, and they are not entirely independent of one another (for example, higher accountability minimizes the level of corruption, or a more effective government can provide a better regulatory environment). However, as they claim, the underlying source data used, and the methodological technique applied to construct WGI renders them relatively more accurate indicators than any other similar international datasets. It is said that serious care has been taken in categorizing and defining individual indicators to enable users with different research objectives, or other conceptions of policy and governance, to organize the data in ways that best suit them. Moreover, WGI is widely used by field scholarship and international organizations for research and analytical purposes.

Understanding, Using and Interpreting the WGI

Six aggregate indicators of WGI are constructed from diverse individual sources by way of statistical method called the Unobserved Components Model (UCM). The purpose of the UCM is to decompose observed time series into unobserved trend, seasonal, cycle, and irregular components (for a detailed discussion of UCM see Harvey, 1989). Decomposing observed components into unobserved renders it possible to understand better the dynamics of the series and the way they change over time. UCM takes serious care of the observations that are not closely correlated with each other. Usually, time series models tend to give equal weight to both adjacent observations and those that are far apart, which potentially reduces the forecasting power of those models. However, UCM gives higher value to adjacent observations than the distant ones in order to increase the accuracy of forecasts and predictions (Fomby, 2008). UCM provides a better technique to extract an informative signal about the unobserved governance component common to each individual data source, and to optimally combine many data sources to get the best possible signal of governance

(Kaufmann et al., 2010). As contributors stated, UCM helped (i) standardize the data from various sources into comparable units, (ii) construct an aggregate indicator of governance as a weighted average of the underlying source variables, and (iii) construct margins of error that reflect the unavoidable imprecision in measuring governance (Ibid: 1). The UCM is also considered to be less sensitive to extreme outliers in the data and provides a natural framework for weighting the rescaled indicators by their relative precision.

WGI indicators are measured in two ways: in the standard normal units of the governance indicator, ranging from -2.5 to 2.5; and in percentile rank terms, ranging from 0 (lowest) to 100 (highest). Contributors acknowledge that due to the difference in numbers of sources available for each individual country and the level of their precision, maintaining the same confidence intervals across countries is a bit problematic (Ibid: 12). However, small differences in estimates of governance across countries are not likely to be statistically significant at reasonable confidence levels. Thus, the associated 90 percent confidence intervals are likely to overlap.

All the underlying data are rescaled from the original sources to run from 0 to 1, with 0 indicating the lowest outcome and 1 – the highest. As contributors assure, the use of reasonably comparable methodologies by the original data sources makes it possible to make a cross country comparisons within a given time period, as well as over-time analysis of individual country using the data from the individual indicators. However, they caution that the individual indicator data from one source is not comparable to another source. The reason is that different indicators use a different implicit and explicit choice of units in measuring governance. Six aggregate WGI are constructed in a way that allows for meaningful aggregation across sources. Moreover, unlike many other datasets, WGI provides clear margins of error for the aggregate indicators to enable users to sidestep over-interpreting small differences and make meaningful across the country or over time comparative analysis. As contributors noted, the main reason for the serious emphasis put on the margins of error is to enable users to make more sophisticated use of imperfect information (Ibid).

3.5.3. Conceptualizing Economic Development: Growth Theories

Factors contributing to economic growth are quite diverse. The growth could be caused by various known and unknown exogenous and endogenous factors. Known factors are also not unambiguous, and no consensus has been reached over individual economic determinants and the level of their contribution to economic growth.

The branch of economics that deals with the problems of growth are called Growth Theories. There are several accounting frameworks offered by the growth theorists to measure growth. Although the problem of economic growth in the real world is long-standing, the first growth accounting model originated in the 1940-50s. The most famous is the one known as the Solow-Swan model, which was independently developed by Robert Solow and Trevor Swan. This model is referred to as a neoclassical theory of economic growth. The model attempts to explain long-run economic growth by computing the changes in capital stock, labour, and technological progress. The model formula is presented as follows:

$Y = F (A, K, eL)$

Where, A = Ideas (productivity, knowledge); *K* = Kapital (physical capital); and *e* x *L* = human capital (i.e. educated labour).

According to the theory, every increase in capital or labour leads to diminishing returns. In the long run, economies move towards the steady-state equilibrium. In the early days of development, the returns to capital and labour tend to be very. That is, less developed economies grow faster in the beginning and eventually converge with the developed economies, after which they stop growing (i.e., Y = 0). The key assumption of this neoclassical paradigm is that the growth is exogenous.

However, in the real world, not all emerging economies grow at a similar pace. In fact, many studies show that the divergence has been increasing in the era of globalization. Contrary to the neoclassical prediction, world's advanced economies, although at a

slower pace, keep growing. Solow-Swan model does not specify the time range of the growth period, i.e., what is the steady-state level and at what point the economies reach this level. For instance, the US economy has been in constant growth (with some fluctuations) for about 200 years. Therefore, some literature suggests that it is essential to distinguish two types of growth: "convergence growth" and "cutting edge growth". Convergence growth is faster and more dynamic, whereas cutting edge growth is less dynamic but still progressive. Cutting edge growth is often attributed to the developed progressive economies where thanks to the increased productivity, the economy keeps generating more outputs from the same amount of capital and labour, and so ensure sustainable growth.

Another neoclassical growth model is called the Harrod–Domar model, which is based on a Keynesian theory of economic growth. The model created independently by the Harrod (1939) and Domar (1946). The model explains the economic growth by looking primarily at the two factors: level of savings and productivity of the capital. It implies that a higher level of savings leads to higher investments, higher investments to the technological advancements, and technological advancements to the capital accumulation, which finally generate economic growth. In the simplified formula, this model looks like as follows:

Rate of Income Growth $=$ Rate of Saving $\times$ Capital Efficiency Ratio

$dY/Y = dY/dK \times dK/Y$

As $S = I = dK$, and thus

$= dY/dK \times S/Y$

$=$ marginal Productivity of Capital $\times$ Savings ratio

The literature highlighted several problems associated with this model. One of them is the model's excessive emphasis on the role of savings (i.e., if countries save more, they grow more). However, there are many empirical studies showed that countries with a higher rate of savings and capital formation do not always grow faster than others (Barro & Sala-i-Martin 2004; Jones 2001). Another problem lies in the model's assumption on the constant returns to scale, which underestimates the possibility of

convergence. The world economy is full of evidence of catching up and convergence. Yet another issue related to this model is that it ignores the gradual pace of growth. The model emphasizes the instant dynamics, i.e., following certain frictions and shocks, the economy moves to a new path of steady growth. However, not much empirical evidence out there that would support this idea.

In the 1980s, a new stream of scholars emerged challenging the neoclassical theories for their exclusive reliance on exogenous factors – rates of savings and technological progress. Romer (1986), Lucas (1988), and others proposed an alternative growth model which puts more emphasis on endogenous factors. According to them, investments in human capital, innovation, and knowledge are essential for long-run sustainable growth. One of the key assumptions is that effective policy measures have a positive spillover effect on the long-run economic development. That is, public policies that encourage openness and change, promote competition and innovation will guarantee a long-run economic growth by way of reducing the diminishing returns to capital accumulation. The purest form of endogenous theory is so called 'AK model', which assumes that learning by doing generates technological progress and raises the marginal product of capital, thereby reduces diminishing returns to capital accumulation when technology is unchanged. This is a special case of Cobb-Douglass production function, developed by economists Charles Cobb and Paul Douglas (1928), which looks like as follows:

$Y = AL^a K^{1-a}$

Where, Y = total output; A = total factor productivity; K and L = capital and labour inputs; parameter 'a' = the output elasticity of capital; $a = 1$ means that the production function is linear in capital and thus it does not have the property of decreasing returns to scale with respect to physical input.

The world is indeed complex and, therefore, the economic development of nations could not be explained with few variables and few factors. Much ink has been spilled discussing the sources and drivers of economic growth. Sources and drivers range from geography and climate (Diamond,1997; Gallup, Sachs & Mellinger, 1999), to

biological factors (Spolaore & Wacziarg, 2013), to biogeography (Olsson & Hibbs, 2005), to religion and culture (Alesina & Giuliano, 2015), to state antiquity (Bockstette, Chanda, & Putterman, 2002), and others. Each of these factors have been said to have fairly convincing explanatory power with respect to the economic development. Having favourable geographical conditions and biological features or appropriate cultural-religious features is indeed a potential. But nations need something else to utilize this potential and keep the economy moving ahead sustainably. And, there are numerous examples when economies have demonstrated exceptional progresses without having these characteristics.

So, when it comes to prosperity, we need to understand the role and importance of endogenous factors, e.g. institutions, because the factors of production grow in the soil of good institutions (Engerman, & Sokoloff, 1994, 2002; North, 1990, 2002). Such institutional factors as market-friendly laws and regulations, free and transparent courts, rule of law, political stability, absence of corruption and others are the important preconditions for market development and sustainable growth (Chong & Calderón, 2000). Good institutions are a fundamental cause of long-term economic growth as they create incentives to accumulate and to use the factors of production in an economically and socially beneficial way (Acemoglu & Robinson, 2005, 2012). Good institutions facilitate the realization of good ideas, encourage to acquire education and skills, and to further innovations in technology (Hall & Jones, 1999). On the other hand, bad institutions discourage capital accumulation, human development, and productivity, and waste favourable geographical conditions or biological characteristics.

The central argument of this research is stems from the logic of the endogenous growth model. The purpose is to evaluate the role of the institutional variable, i.e., state regulatory policy, in the economic growth of the post-soviet transition economies. In the growth accounting framework that this research adopts, GDP growth is used as a benchmark of economic performance and the regulatory policy – as an input in the production function.

3.5.4. Indicators of Economic Growth

The economic performance of a state is often measured in terms of the attainment of a set of economic objectives that usually take a form of numbers. The most common indicators used for tracking and evaluating the size of an economy and its growth rates are Gross Domestic Product (GDP), Gross National Product (GNI), price levels and inflation, unemployment levels, savings levels and ratios, level of investments, import-export ratios, and others. The GDP approach has been dominating both the academic as well as political discourse for over 70 years. It was first developed in the early 1930s by an economist Simon Kuznets and became the main measurement tool of economic progress after the Bretton Woods conference in 1944 (Dickinson, 2011).

GDP measures the monetary value of all finished goods and services produced within a country during a specific period. There are three approaches used for GDP calculations: *production approach* – a sum of value-added at each stage of production; *expenditure approach* – a sum of the value of purchases made by final users; and *income approach* – a sum of incomes generated by production (Callen, 2018). GDP includes all private and public consumption, government outlays, investments, additions to private inventories, paid-in construction costs, and the foreign balance of trade (Chappellow, 2019). It can be adjusted for inflation and population growth. GDP is often represented in four ways: nominal, real, per-capita, and growth rate (quarter to quarter). GDP per capita is one of the frequently used indicators of living standards as it measures the distribution of total income by an individual member of society. GDP per capita can be nominal or based on the purchasing power parity (PPP). Since nominal GDP per capita does not take into account differences in the cost of living and the inflation rates in a particular economy, the GDP per capita PPP is arguably a more accurate indicator when comparing living standards of different economies.

Currently, the literature challenging the credibility and reliability of the GDP approach in measuring national progress and wellbeing is abundant. Dreze & Sen (2013) argued that GDP growth does not necessarily lead to social progress in terms of improved education and health. Nussbaum (2013) criticized the GDP growth approach over its

ignorance of the value of households and other unpaid work. Some others argue that GDP ignores the environmental harm produced by the economy (Van den Bergh, 2009). According to Sen (1999), GDP growth cannot and should not sensibly be treated as an end itself. Any development objective has to primarily be concerned with "enhancing the lives we lead and the freedoms we enjoy" (Ibid:14). Famous economist Raworth goes further saying that "in a few decades' time we will look back, no doubt, and consider it bizarre that we once attempted to monitor and manage our complex planetary households with a metric so fickle, partial and superficial as GDP" (2017: 60).

Despite wide-ranging criticisms, there are only few attempts have been made to create alternative growth indicators. The list of such attempts can include Human Development Index, Index of Sustainable Economic Welfare, Gross National Happiness Index, World Happiness Report, OECD Better Life Index, and others. Of all, the United Nation's Human Development Index (HDI) has attracted a significant scholarly attention. HDI approach, created in 1990 by the economist Mahbub Ul Haq and further developed by Amartya Sen, takes into account the levels of life expectancy and education along with conventional per capita gross national income to measure national progress. Advocates of HDI argue that a long and healthy life, as well as education, are essential and inseparable elements of living standards. By combining these three elements into a single indicator, HDI intends to put greater emphasis on expanding the richness of human life, rather than simply the richness of the economy. All other projects are at their early stage of development and haven't gained wider acceptance from the scholarship. Thus, none of the attempts to 'dethrone' GDP has succeeded so far.

It is by no means a fact that GDP growth best reflects the overall national progress. However, many evidence-based studies have demonstrated that GDP per capita is the most accurate of all indicators developed so far. In a comprehensive empirical study, Stevenson & Wolfers (2008) have found that GDP is positively correlated with several progress variables, such as life expectancy, living standards, happiness, life satisfaction, education, and health. Similarly, following an in-depth empirical

assessment, Lepenies (2016) concluded that the GDP per capita is the world's most powerful statistical indicator of national development and progress. Moreover, GDP is widely used by leading international organizations such as IMF, World Bank, OECD, ADB, and others to track and evaluate the progress of nations across the world. Vast majority of national governments worldwide put GDP growth at the core of national development objectives. As Arthur (1955) famously put it, the goal of economic development is all about reducing the gap between the rich and poor countries in terms of per capita income. Drawing on these arguments, the current research will use GDP per capita PPP as a progress variable (dependent variable) in a quest for unpacking the nexus between regulatory policy and economic growth in the context of Central Asia.

In Chapter IV, research will outline the model and the data before proceeding to the regression estimation based on over-time and cross-country analysis of the economic impact of the regulatory policy in Central Asia.

CHAPTER IV. THE MODELLING, THE DATA, AND THE REGRESSION ANALYSIS

4.1. The Modelling

The approach for modelling used in this research is adopted from Jalilian et al. (2006) which assumes that any given country's production possibility set is as described by a Cobb-Douglas production function:

$$Y_{it} = A_{it}K_{it}^{a}L_{it}^{\beta} \tag{1}$$

where, Y = output; A = factor productivity; K = physical capital; L = labour; 'i' = country and 't' = time. As this model assumes constant returns to capital, it can be re-written in per capita terms as:

$$y_{it} = A_{it}k_{it}^{a} \tag{2}$$

where, 'y' = per capita output, 'k' = per-capita physical input. Assume a Keynesian capital accumulation rule according to the following:

$$dk / dt = sy – (n + \delta)k \tag{3}$$

where, dk / dt = the rate of change of per capita capital stock, which is assumed to be equal to the flow of saving (equal to investment) minus capital depreciation and population growth; 's' = the share of gross saving in output per capita; 'δ' = capital depreciation; 'n' = population growth rate. Setting (3) equal to zero gives the steady-state solution for the stock of per capita capital: $k = sy/(n+ \delta)$. Taking the logarithm of both sides of equation (2) and replacing the steady-state solution for 'k' from the above into (2) gives the steady-state solution for output per capita, which is as follows:

$$ln(y_{it}^{*}) = [1/(1 − a)][lnA_{it} + aln(s_{it}/(n_{it} + \delta_{it})] \tag{4}$$

where, (*) above the y signifies the steady-state solution.

In line with most literature, we assume that economies move towards steady-state conditions according to the following approximation:

$$lny_{it} - lny_{i0} = \lambda(lny_{it}^* - lny_{i0}) \tag{5}$$

where, y_0 = initial level of per capita income, and $\lambda = (1 - e^{-\eta t})$ is the adjustment dynamics towards steady-state, where 'η' = speed of convergence. From (5) we can solve for the growth of per capita output, which is as follows:

$$g_{it} = (\lambda/t)(lny_{it}^* - lny_{i0}) \tag{6}$$

Replacing (lny_{it}^*) by its equivalent from (4), gives a relationship for actual growth of per capita output as this:

$$g_{it} = (\lambda/t(1-a)) [lnA_{it} + aln(s_{it}/(n_{it} + \delta_{it}))] - (\lambda/t)lny_{i0} \tag{7}$$

Total factor productivity plays an essential role in growth. We assume that its dynamic takes the following form:

$$A_{it} = A_{io}e^{Yit} \tag{8}$$

where, A_{io} specifies the initial level of productivity and 'y' its rate of efficiency growth per period. Substituting for A from (8) and (7), per capita growth output (g) is represented by the following relationship:

$$g = \phi_1 lnA_{io} + \phi_2 y_a + \phi_3 ln(s_{it}/(n_{it} + \delta_{it})) - \phi_4 lny_{i0} \tag{9}$$

where, $\phi_1 = \lambda/t(1-a)$, $\phi_2 = \lambda/t(1-a)$, $\phi_3 = \lambda a/t(1-a)$, and $\phi_4 = \lambda/t$. Adding some control and other variables to (9) provides the model which we use to assess the role of regulatory policy in economic growth.

As control variables, in line with other studies, this research uses initial levels of GDP per capita and human capital along with several economic determinants that are particularly relevant to the Central Asian region, such as government expenditure, gross capital formation, oil and gas rents, foreign direct investments and personal remittances.

4.2. Control Variables

Most literature studying the nexus of governance and growth uses the initial levels of institutional quality and GDP per capita as control variables. However, this study does not use them for two reasons. First of all, it is the absence of reliable data on the initial level of institutional quality due to the difficulty of measuring it. Secondly, using initial levels of growth indicators (i.e., first lag of the GDP per capita) does not work with short time-series data, and since this research uses a time span of two decades, we refrain from including this in our estimation. As a replacement for the initial level of the institutional quality, this research uses educational attainment as a proxy variable. Particularly, in line with the most literature (i.e., Barro, 1991a; Jalilian et al., 2006; Guilliano & Ruiz-Arranz, 2009), educational attainment is measured in terms of secondary school enrolment as a percentage of the population aged 15 and over.

Moreover, depending on the nature of the dataset constructed and countries compared, many studies also use several economic determinants as control variables. Thus, taking into account the geographic and demographic peculiarities, natural resource capacities, and the nature and the structure of the economy of the Central Asian countries, this research uses followings as control variables:

General government final consumption expenditure (% of GDP). It includes all current government expenditures for purchases of goods and services (including compensation of employees), as well as most expenditures on national defense and security (excluding government military expenditures that are part of government capital formation) (World Bank). As in most countries of Central Asia state plays a

dominant role in the economy, and the economies are largely socially oriented, government expenditure is often remarkably high. Based on the existing literature, we assume that government expenditure has a negative impact on growth (Barro, 1991b).

Gross capital formation (% of GDP). It consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories (World Bank). Fixed assets include land improvements; plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress" (Ibid). The research uses this variable as a proxy for the gross domestic investment, because, in the literature, gross capital formation and investment are often used interchangeably. Investment is usually considered to have a positive impact on economic growth (Cullison, 1993; Canning & Fay, 1993; Easterly & Rebelo, 1993).

Oil and Natural Gas rents (% of GDP). It measures the contribution of oil and natural gas to economic output. In some regional countries (i.e., Kazakhstan, Turkmenistan and, to some extent, Uzbekistan) earnings from fossil fuels and minerals account for a big chunk of GDP, and much of these earnings come in the form of economic rents - revenues above the cost of extracting the resources (World Bank National Accounts data). Typically, oil and natural gas rents positively impact on economic performance. Therefore, we must control these variables in order to have a clear understanding of the contributions of the policy variables to economic growth.

FDI, net inflow (% of GDP). It is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased (OECD). Most literature analysing the relationship between FDI and economic growth argue in favour of a positive relationship between these two variables (Hermes & Lensink, 2003).

Personal remittances (% of GDP). Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households (World Bank). It includes incomes of seasonal and other short-term workers who are employed in an economy where they are not residents and of residents employed by nonresident entities (Ibid). Choosing personal remittances as one of our control variables stems from the fact that some countries of the region (i.e., Tajikistan & Kyrgyz Republic) are amongst the world's top ten countries dependent on the remittances from abroad. The majority of remittances to the region come from the Russian Federation. According to the data from the Central Bank of Russia, since 2005, personal remittances sent from Russia have been, on average, 35% of GDP for Tajikistan, around 26% of GDP for the Kyrgyz Republic and about 4-6% of GDP for Uzbekistan. Although some countries (i.e., Tajikistan) tend to not include personal remittances into GDP calculation, remittances have been a critical source of household incomes. Therefore, remittances one way or another contribute to the overall GDP (see Karagoz, 2009; Catrinescu et al., 2009).

Human capital. It measures the economic and professional potential of the citizens of a country. It has been one of the crucial elements of production that can be used to create goods and services and generate added value by innovation and knowledge. Origins of the literature highlighting the importance of human capital in economic development go back to the XVII-XVIII century. It was first reflected in the works of William Petty (1690) and Adam Smith (1776). Nowadays, theoretical and empirical studies proving the enormous role of human capital in economic progress is vast (see Solow, 1956; Lucas, 1988; Romer, 1990; Rebelo, 1992; etc.). As a recognition of the economic significance of a human factor, World Bank annually produces the Human Capital Index, which measures how much capital each country loses through a lack of education and health. The index is grounded on the three pillars: Survival (% of children surviving the age of 5); Schooling (expected years of schooling by age 18), and Health (adult survival rates and healthy growth among children). This index is reported since 2018, and since our analysis cover years from 1996 to 2016, we do not have enough data available for all three dimensions of the human capital. Therefore, drawing on the existing literature, this research uses the share of the educated

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population aged 15 or above in terms of secondary school enrolment as a proxy for the human capital.

4.3. Proposition

In line with the literature on regulation and economic development, this research makes an assumption that the rate of efficiency growth, which is specified in equation (9) as 'y', varies with the change in the quality of the regulatory policy of a country. That is, sound regulatory policy brings about a high economic growth, whereas inefficient and ineffective regulation hinders the economic performance of the country (Djankov et al., 2006; Gorgens et al., 2003; Jacobzone et al., 2010; Loayza et al., 2004; etc.). It is particularly true in the case of developing countries, where the improved institutional capacity of the government is essential to ensure high growth and to realize its capacity to catch up with the advanced economies. Therefore, we test our null hypothesis $H_o = 0$ against the alternative hypothesis $H_o > 0$.

4.4. The Data and Summary Statistics

This research uses governance indicators data obtained from the World Bank's World Governance Indicators dataset available online. As is stated earlier, three out of six aggregate governance indicators were selected as proxies for regulatory policy regulatory: Regulatory Quality, Government Effectiveness, and Rule of Law. As a proxy for the outcome variable – economic growth, the research uses GDP per capita PPP constant 2011 USD, accessed from World Bank's national accounts dataset, also available online. The research uses the time span of two decades, in the case of five Central Asian countries. Data for our control variables (i.e., possible explanatory variables) are obtained from different datasets, including World Bank national accounts dataset, national statistical committees, central banks, etc.

The following is descriptive statistics of all variables used in this research:

Table 4.4. Summary statistics of variables for the Central Asian region

Variables	Observations	Mean	Std. Dev.	Min	Max
Regulatory Quality	115	20.48	18.20	1.42	61.06
Government Effectiveness	115	20.61	13.53	1.47	54.33
Rule of Law	115	13.06	8.93	1.91	38.94
Overall Regulatory Policy	115	18.05	12.74	2.26	50.8
GDP per capita PPP (log)	115	6925.90 (3.67)	6570.23 (.38)	1046.78 (3.02)	24738.36 (4.39)
Government expenditure (% of GDP)	112	14.01	4.24	5.94	30.83
Gross Capital Formation (% of GDP)	107	26.08	8.69	9.14	51.93
Oil rents (% of GDP)	110	6.64	8.09	.03	29.37
Natural Gas rents (% of GDP)	110	8.21	13.24	0	67.15
FDI, net inflow (% of GDP)	115	5.09	4.19	-1.39	22.52
Personal Remittances (% of GDP)	88	11.27	14.57	0	49.29
Human capital	115	89.54	7.34	72.9	114.2

The table displays all of the core and control variables used for the statistical analysis, including information on the total number of observations for each variable, the mean, the standard deviation, as well as minimum and maximum scores. The total number of observations for each variable is 115. We have all the information available for our core variables. However, some data are missing for a number of our control variables. For example, the total number of observations for Government Expenditure is 112, for Gross Capital Formation is 107, Natural Gas and Oil rents are 110 for each, Personal remittance is 88. Government Expenditure data for 2018 is missing for Kazakhstan, Tajikistan and Turkmenistan. Gross capital formation data for 2018 is not available for Kazakhstan and Tajikistan, while for Turkmenistan it is missing from 2013 to 2018. Natural Gas and Oil rents data for 2018 is missing for all countries. Data shortage is rather high for Personal Remittances variable. This data is not available for Tajikistan for 1996-2001, for Turkmenistan for 1997-2005, for Uzbekistan for 1996-2005 and 2016-2018. Data for some years were also missing for Human Capital in almost all countries. However, the missing years were filled by taking the average of adjacent years. As this variable does not change quite frequently or flatulate sharply over the

years, taking the average of adjacent years for missing periods does not cause any problem to our statistical analysis.

4.5. The Estimation

This research applies a panel data estimation to the model specified by equation (9) above to estimate the growth contribution of the regulatory policy. Panel data (also known as longitudinal or cross-sectional time-series data) is a dataset in which the behaviour of entities (i.e., countries, companies, individuals, etc.) are observed across time. The reason for using a panel version regression is, first of all, the small number of our observations. Panel data is said to be the most useful method for the statistical analysis with few observations. However, there are several other benefits of panel data regression (for a detailed discussion, see Baltagi, 2008; Greene, 2008;). Panel data enables to examine the data across and within countries over time. It allows controlling for individual heterogeneity, i.e., differences across individual countries, which is very important as regional countries differ from each other in terms of territory, natural resources, population, and the scale of the economy. In contrast, pure cross-sectional and pure time-series methods do not have this property. Panel data is also useful as it allows to control for variables that change over time but not across entities (i.e., national policies, regulations, international agreements, etc.). Panel data is more efficient, because it uses more information to predict and, therefore, gives us more degree of freedom. The degree of freedom in this method is higher compared to, for instance, pure cross-sectional or pure time-series analysis.

Before the regression analysis, it is necessary to make sure that all independent variables, if taken separately, are correlated with the dependent variable, but not correlated with each other (i.e., multicollinear problem). Although collinearity among variables is less severe in the panel data model compared to other methods, it is important to avoid any multicollinearity problem in this research. Multicollinearity problem renders it impossible to see what effect each of the independent variables have on the dependent variable. Therefore, we run a correlation coefficient analysis for variables used in this research. We do so for each individual country separately.

(Appendix V here)

These tables represent correlation coefficients with associated significance intervals (5%) for all variables, including control variables, for all five Central Asian countries. Correlation coefficients between dependent and independent variables show that, In Kazakhstan and Tajikistan, all three independent variables are positively correlated with the dependent variable at statistically significant levels. In Uzbekistan, two independent variables (Government Effectiveness & Regulatory Quality) have a positive correlation, and one independent variable (Rule of Law) has no relationship with the dependent variable. For Kyrgyz Republic, two of the independent variables (Rule of Law & Government Effectiveness) have a strong inverse relationship with the dependent variable, another independent variable (Regulatory Quality) is not correlated at all with the dependent variable. In Turkmenistan's case, one independent variable (Regulatory Quality) has an inverse relationship with the independent variables, the other two independent variables (Government Effectiveness & Rule of Law) have no discernible relationship with the dependent variable. On the other hand, correlation coefficients between independent variables show that, in Kazakhstan and Tajikistan, all independent variables are highly correlated with each other. In Uzbekistan, the Kyrgyz Republic, and Turkmenistan, a strong correlation exists between two out of three independent variables. Likewise, correlation coefficients analysis at a regional level shows that there is a strong linear relationship between all independent variables. Thus, correlations analysis indicates that we have a multicollinearity issue.

However, in order to double-check the presence and the severity of multicollinearity amongst our variables, we have also run Variance Inflation Factor (VIF) analysis both at the country as well as regional levels (see Table 4.5.1.).

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Table 4.5.1. Variation Inflation Factor (VIF) analysis.

Variable	VIF	1/VIF
logRoL	3.55	0.281489
logGE	3.01	0.332156
logRQ	2.85	0.350542
Mean VIF	3.14	

VIF analysis shows that there is no multicollinearity problem detected among the independent variables, neither at the country nor at regional levels. Although two analyses produce two different outcomes in terms of multicollinearity problem, for the purpose of this research, we will combine all three independent variables into a single composite policy variable. The composite policy variable is created by way of generating the first principal component (PCA) of the three independent variables. In our regression analysis, we use this composite variable as a proxy for overall Regulatory Policy. However, both ways will be used interchangeably in different circumstances.

Regression

For the panel data regression, the thesis uses the following equation:

$$Y_{it} = \beta_0 + \beta_1 X_{1,it} + \beta_2 X_{2,it} + \beta_3 X_{3,it} + \alpha_i + u_{it} \tag{1}$$

Where,
- Y_{it} is the dependent variable (DV), where i = country and t = time (years);
- β_0 is the intercept;
- X_1, X_2, X_3 are independent variables;
- $\beta_1, \beta_2, \beta_3$ are coefficients for the independent variables;
- α_i is the unobserved country-specific fixed effects (to avoid misspecification of the model, country-specific fixed effects need to be controlled);
- u_{it} is the error term.

Using our dependent and independent variables, the equation looks like as follows:

$$logGDPpc_{it} = \beta_0 + \beta_1 logRQ_{it} + \beta_2 logGE_{it} + \beta_3 logRoL_{it} + \alpha_i + u_{it} \quad \textbf{(2)}$$

Where, $logGDPpc$ is the logarithm of GDP per capita based on constant 2011 US dollars; RQ is the first independent variable – Regulatory Quality; GE is the second independent variable – Government Effectiveness; RoL is the third independent variable – Rule of Law.

As mentioned above, using the PCA technique, a single composite policy variable is created out of three independent policy variables as a proxy for overall regulatory policy. This composite variable will also be tested against the dependent variable to check if the composite effect of all variables is statistically significant. In this case, the equation looks like the following:

$$logGDPpc_{it} = \beta_0 + \beta_1 RegPol_{it} + \beta_2 X_{it} + \alpha_i + u_{it} \quad \textbf{(3)}$$

In addition to the core variables, we add some potential explanatory variables in the control matrix X_{it} of our equation and obtain the following:

$$logGDPpc_{it} = \beta_0 + \beta_1 RegPol_{it} + \beta_2 logGovExp_{it} + \beta_3 logCapital_{it} + \beta_4 logFDI_{it} + \beta_5 logGas_{it} + \beta_6 logOil_{it} + \beta_7 logRemit_{it} + \beta_8 logHuman_{it} + \alpha_i + u_{it} \quad \textbf{(4)}$$

Where, $logGovExp$ is a logarithm of general government final consumption expenditure (% of GDP); $logCapital$ is a logarithm of gross capital formation (i.e., investment) as % of GDP; $logFDI$ is a logarithm of foreign direct investment, net inflow (as % of GDP); $logGas$ and $logOil$ represent logarithms of natural gas and oil rents (as % of GDP) respectively; $logRemit$ denotes for a logarithm of remittances received from abroad (as % of GDP); and $logHuman$ is a logarithm of human capital as a percentage of educated population aged 15 or above (in terms of secondary school enrolment).

We consider two of the widespread techniques to analyse the panel data: Fixed-effects (FE) and Random-effects (RE) models. In the FE model, the unobserved variables are

allowed to have any associations whatsoever with the observed variables (Allison, 2009). The model controls for, or partial out, the effects of time-invariant variables with time-invariant effects. Each individual country has its own individual characteristics that may impact or bias the dependent or independent variables, and we need to control for this. FE model removes the effect of those time-invariant characteristics so we can assess the net effect of the independent variables on the dependent variable. On the other hand, the RE model assumes that the unobserved variables are not correlated with the observed variables (Ibid). RE lets us estimate effects for time-invariant variables. Both models are widely used in literature. Choosing the appropriate model depends on the characteristics of the available data. To decide between these two models, we run a so-called Houseman test, which allows us to choose an appropriate model for our data analysis.

(Appendix VI here)

Appendix VIII represents two tables: first, the result of the Hausman test without control variables, and second, the result of Hausman test by including control variables. Both tests are run in two ways: i) with separate individual independent variables; ii) with a single composite independent variable. In the Hausman test, the null hypothesis (Ho) is that the preferred model is Random-effects against the alternative (Ha) the Fixed-effects (Greene, 2008). It basically tests whether the unique errors (u_{it}) are correlated with the independent variable(s); the null hypothesis is that they are not. Hausman test without the control variables shows that the Random-effects model is more appropriate than Fixed-effects. However, when we included our control variables in the test, it yielded a different result, this time in favour of a Fixed-effects model. In statistics it is important to include control variables in the Hausman test. This test aims at detecting systematic differences in coefficients obtained from (a) a model with individual effects treated as parameters and (b) a model treating individual effects as error components. This difference is actually very sensible to the control variables. Therefore, we decided to choose the Fixed-effects model for our analysis.

(Appendix VII here)

Appendix IX represents the results of the Fixed-effects panel data regression analysis with and without control variables. The regressions are run in two ways: i) with separate individual independent variables; and ii) with a single composite independent variable. In both cases, the model seems to be highly significant. Regression without control variables show that Regulatory Quality and Government Effectiveness variables play a significant role in the economic development of the region, whereas the Rule of law does not make any contribution to the growth. Rerunning the regression by using a single composite policy variable also indicates that there is a positive impact of the overall regulatory policy on economic development.

However, when we included our control variable in our regression, it yielded a somewhat different outcome. The results again indicate that Regulatory Quality and Government Effectiveness variables have a significant impact on economic growth, whereas Rule of Law has no effect at all. However, the regression based on a composite policy variable shows that overall regulatory policy played no role in the economic development of the region. Drawing on these outcomes, we assume the negative effect of the Rule of Law variable counterbalanced the net positive effect of the two other variables. The finding that Rule of Law negatively impacts on the overall regulatory policy is an exciting finding in itself and one worthy of exploration further through qualitative research.

Regression results also illustrate that some of the economic determinants (control variables) have a significant contribution to economic growth. Particularly, the rents from natural resources, state investments, and human capital have had a significant influence on the economic growth of the region. There seems some rationale behind these findings. As the regional economy is often categorized as an extractive economy reliant on natural resources, the rents from these resources might have played a significant role in economic progress. Simultaneously, channelling the rents obtained from natural resource extraction to the domestic investment projects may have

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boosted the state investments' share in economic growth. The role of human capital can also be justified thanks to a universal mandatory 11 year of state-sponsored schooling and extremely high literacy rate (around 98-99% on average) of populations of the regional countries. A more in-depth examination of the significance of these variables will be provided in subsequent chapters. But the thorough examination of the causal effect of these variables on the economic growths is another interesting area to discover in a separate research.

Overall, the regression analysis has revelated very interesting outcomes. However, it is to acknowledge that the quantitative study can have a number of shortcomings. First of all, there could be a problem with patchy and not always continuous secondary data in Central Asia. The data obtained from the national sources might be incomplete, out-dated, and of low quality given the low administrative capacity of the statistical offices. The problem is especially acute with the policy-relevant national surveys, which are often conducted under strict guidance from the central authority. Moreover, at times international indexes also could experience some irregularities regarding changes to the data on individual countries. For example, some of the underlying data sources of WGI, which we used for our regression analysis, have incurred several irregulates recently.

For the above reasons and in order to fill the gap and complement the findings of the statistical analysis, a qualitative assessment using our findings from the fieldwork across Central Asian countries will be provided in the subsequent chapters.

CHAPTER V. DISINTEGRATION OF THE SOVIET UNION AND ECONOMIC TRANSITION IN CENTRAL ASIA (1990-1995)

5.1. Central Asia at a Glance

Central Asia is a geographical name of the five countries – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – emerged as separate independent nations from the former Soviet Union early 1990s. The region is stretched from the Caspian Sea in the west to China in the east and from Afghanistan in the south to Russia in the north. The overall territory of the region is more than 4 mln. km² with a population of over 70 million (see Map 5.1.). The region is landlocked. Almost all of the countries depend on the transboundary water system formed by the two largest rivers of the region – Amudarya and Syrdarya, both of which originate in the high mountains in the southeast of the region and drain into the west. The rivers cross the whole territory of Uzbekistan, large parts of Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan. Most areas of Central Asia are dry and continental, with hot summers and cool to cold winters, with occasional snowfall. The climate factor is detrimental to the region's overall economic landscape and thus reflects the structure of production in most regional counties. The region is rich in natural resources, which plays a vital role in the regional economy.

Map 5.1. Map of Central Asia

Source: http://www.csis.org

Kazakhstan

Kazakhstan is distinguished by a large extent of the territory, enormous deposits of various minerals, and significant fertile land areas. Kazakhstan is the largest landlocked country in the world. The total territory is 2,7 mln. km² (9th in the world, 2nd in the CIS and 1st in Central Asia). The country's population is about 18,5 mln., the second biggest in Central Asia (after Uzbekistan). Population density is one of the lowest in the world: less than six people per km². The capital city is Nur Sultan (formerly, Astana). Administratively, the country is divided into 14 regions and three cities of republican level: Nur-Sultan, Alma-Ata and Shymkent.

Kazakhstan is the wealthiest country in Central Asia with the GDP (nominal) of $179.3 billion, per capita – $9,686 (IMF, 2020). The country belongs to the category of upper-middle-income. It is very rich in mineral and fossil fuel resources. The natural resource sector (mainly oil, natural gas and minerals) has attracted the vast majority of foreign investment in the economy since the 90s, and it accounts for about 57% of the country's industrial production and about 13% of GDP. It is 11th in the world in terms of explored reserves of oil and natural gas (kioge.kz). Kazakhstan has the second largest reserves of uranium; third largest manganese reserves; fifth largest reserves of copper; and is in the top ten in terms of coal, iron, and gold reserves. The country is also rich in chromium, lead, zinc phosphorites and diamond. Kazakhstan's other major export products include wheat, textiles, and livestock.

Kazakhstan was the last of the union republics to declare independence from the former USSR in December 1991. Kazakhstan is a unitary republic with the president as a head of state. The president is the commander in chief of the Armed Forces. The executive government is headed by the Prime Minister and consists of 3 Deputy Prime Ministers and 16 Ministers. The legislative sector is governed by the bicameral national parliament: the Majilis (lower house) and the Senate (upper house). Majlis consists of 117 members and Senate – 49 members. 34 senators are indirectly elected from each of the country's administrative units (two from each), and the president appoints the remaining 15.

Kyrgyz Republic

The Kyrgyz Republic is another landlocked country of the region, bordered with Kazakhstan to the north, Uzbekistan to the west and southwest, Tajikistan to the southwest and China to the east. The country's territory is 199,951 km², over 80 percent of which is covered by the mountains. Only less than 8% of the country's land is cultivated for agricultural use. As of 2019, the population was about 6.4 million. Administratively, Kyrgyz Republic is divided into seven administrative-territorial units, including two major cities of republican level: Bishkek (capital) and Osh.

The country is considered to be a lower-middle-income country with a GDP (nominal) of $8.3 billion, per capita – $1,293 (IMF, 2019). The main base of the country's economy is hydropower. Kyrgyz Republic has considerable water resources (3rd in the CIS), on which the agriculture of other downstream countries of the region (Uzbekistan, Kazakhstan and Turkmenistan) depends. It is also rich in mineral and energy resources such as gold, mercury, antimony, lead, coal, and others. In 2018, the manufacturing industry produced only 15.2 percent of the country's GDP (stat.kg). About 40 percent of industrial production comes from gold mining - one of the few industries actively developing in the republic. It is currently third largest gold exporting country in the CIS after Russia and Uzbekistan. Almost 50 percent of the country's active labour is engaged in agriculture and livestock.

Kyrgyz Republic declared state independence from the USSR on August 31, 1991. According to the new Constitution adopted in 2010, the Kyrgyz Republic is a sovereign, democratic, unitary and social state. Although the Constitution does not specify a form of government, various official sources point to a parliamentary form of government. According to scholars, the de facto form of government is mixed (Bannikov, 2015). The head of state is the President, who is in charge of armed forces and the security council. The President is elected by popular vote for a term of 6 years, without the right to re-election for a second term. The national parliament – Jogorku Kenesh – is the highest representative body with legislative and oversight powers. It is unicameral and consists of 120 members elected for a five-year term. Executive power is exercised by the government headed by the prime minister. The government is accountable to the

parliament. The judiciary consists of the Supreme Court and local courts. Judicial power is exercised through constitutional, civil, criminal, administrative and other forms of legal proceedings.

Tajikistan

Tajikistan is the smallest country in the region in terms of territory (141,400 km^2). It borders with Uzbekistan in the west and northwest, with Kyrgyzstan in the north, with China in the east, with Afghanistan in the south. Mountains occupy 94.1% of the country's territory. As of 2019, Tajikistan's population was around 9,2 mln. people. Tajikistan's administrative-territorial structure consists of the Gorno-Badakhshan Autonomous Region, two regions and eighteen cities. The capital city is Dushanbe. It is the only Persian-speaking country in the region.

Tajikistan is the only low-income country in the region with an overall GDP (PPP) of $7.4 billion, per capita – $807 (IMF, 2018). Tajikistan belongs to the category of agro-industrial countries. The country's hydropower capacity is significant – 8th in the world in terms of absolute potential. In the northern Sughd region of Tajikistan, one of the largest silver deposits in the world is called "Big Konimansur". Tajikistan is also rich in deposits of precious stones, uranium (according to some sources, 16% of the world's reserves), gold, coal, aluminum and polymetallic ores. Tajikistan's primary export goods include aluminum, gold, zinc ore, lead ore, raw cotton, as well as fruits, vegetables, and textiles. The country mainly imports petroleum products, wheat, natural gas, machinery and equipment, clothing and others.

Tajikistan declared state independence from the USSR on September 9, 1991. According to Tajikistan's Constitution, adopted on November 6, 1994, the president is the head of state, elected for a seven-year term by popular vote. Legislative power is exercised by the parliament - Supreme Assembly of Tajikistan (Majlisi Oli), which has two chambers: Assembly of Representatives (Majlisi Namoyandagon) – the lower house with 63 members, and National Assembly (Majlisi Milli) – the upper house with 33 members. Members of both houses are elected for a five-year term. The bicameral legislature was introduced in September 1999. Prior to that, Tajikistan had a

unicameral parliament. The judicial system consists of the Supreme Court – the highest body in the system, Supreme Economic Court, civil and criminal courts, military courts and regional courts. The Supreme Court itself consists of Plenum, Presidium, Judicial board for civil cases, Judicial board for criminal cases, Judicial board for administrative cases, Judicial board for family cases and Military Collegium.

Turkmenistan

Turkmenistan is the smallest country in the region in terms of population (5.8 mln. people as of 2018). The territory of Turkmenistan is 491,210 km² – one of the most sparsely populated nations in Asia. Country borders with Afghanistan and Iran in the south, with Kazakhstan and Uzbekistan in the north, and with the Caspian Sea in the west. Over 80% of Turkmenistan is covered by the Karakum Desert. The country is divided into six administrative-territorial units, five of which are regions (velayats), one is a city with a regional significance – Ashgabat (the capital city).

Turkmenistan is an upper-middle-income country with the GDP (nominal) of $42.8 billion and the second richest economy in the region in terms of per capita income – $7,411 (IMF, 2018). The country is very rich in natural resources. It is the 4th in the world in terms of natural gas reserves, with 9.8 trillion cubic meters in total (OPEC, 2018). The country owns the second largest gas field in the world – Galkynysh. Turkmenistan also possesses a large reserve of oil, which is estimated at 600 mln. tons (OPEC, 2017). Currently, more than 150 deposits of oil and gas have been discovered, of which only one third is under development. Moreover, more than 160 deposits of solid minerals, including celestine, coal, native sulfur, mineral salts, kaolin, bentonite, ozocerite, mineral paints, carbonate raw materials, have been explored. Turkmenistan is the world's ninth-largest cotton producer. The textile is the second most important industry in Turkmenistan. The industry is highly monopolized, and about 90% of it controlled by the Turkmen-Turkish joint venture (Kamenev, 2002). The country is a net exporter of electrical power to Central Asian republics and southern neighbours.

Turkmenistan proclaimed state independence from USSR on October 27, 1991. It declared permanent neutrality on December 12, 1995. The form of government is the

unitary republic with the president as a head of state and the executive government. The legislative branch is a unicameral parliament – Mejlis, with 125 members elected for 5 year-term in single-member constituencies. Until 2012, only one official political party had been represented in the parliament. The second political party was registered in 2012, and the third appeared in 2014. From 1992 to 2008, Turkmenistan had had another supreme legislative body – People's Council (Halk Maslakhaty), with 2507 members. It consisted of the president, members of the Mejlis, elected people's representatives for five years, representatives of the judiciary, ministers, heads of regional administrations, public organizations, elders, and others. People's Council discussed issues of national policy (amending the constitution, holding elections and referenda, approving development programs of the country, and so on. After ten years, the People's Council was re-created and resumed its work in 2017.

Uzbekistan

Uzbekistan is located in the middle of the region and borders with all regional countries, including Afghanistan. In the north, it borders with Kazakhstan, in the northeast – with Kyrgyzstan, in the southeast – with Tajikistan, in the southwest – with Turkmenistan and in the south - with Afghanistan. Uzbekistan is one of the two double landlocked countries in the world (along with Liechtenstein). The total territory of the country is 448,978 km² and it the most densely populated country in the region with a population of 33,7 mln. people (as of 2019). Uzbekistan consists of one autonomous republic (Republic of Karakalpakstan), twelve provinces (viloyats), one independent city (Tashkent – capital city).

Uzbekistan is a lower-middle-income country with a total GDP (nominal) of $49.1 billion, per capita – $1,238 (IMF, 2018). Sectoral structure of GDP: agriculture – 19.3%, industry – 33.4%, services - 47.3% (Uzstatcomittee, 2018). Economic production is concentrated in commodities. The country is ranked fourth in the world in terms of gold reserves (7th in terms of gold production), eighth – in uranium production, eleventh – in natural gas production and copper reserves. Agriculture is also an important part of the economy. In 2011, Uzbekistan was the world's seventh largest

producer and fifth largest exporter of cotton. Important agricultural products also include fruits, vegetables and grains (wheat, rice, and corn).

Uzbekistan declared its independence from the Soviet Union on August 31, 1991. According to the Constitution, it is a unitary democratic republic. The head of state is a president elected for a five-year term, renewable once. The highest state representative body is parliament (Oliy Majlis), which consists of two chambers – the Legislative Chamber (lower house) and the Senate (upper house). Legislative Chamber has 150 members elected from territorial constituencies for a five-year term, and the Senate has 100 members, 84 elected from the regions and 16 nominated by the President. The executive branch is run by the Cabinet of Ministers headed by the prime minister. The judicial branch is composed of the Supreme Court, Constitutional Court, Higher Economic Courts, regional and Tashkent city courts on civil and criminal cases, interdistrict, district and city courts on civil and criminal cases, martial and economic courts.

5.2. Soviet Legacy and State of the Economy in the late 80s and early 90s

5.2.1. Production Structure of the Regional Economy during the USSR

Central Asian republics had been integrated into the centralized communist economic system for over seventy years of membership in the USSR between 1918-1991. Due to the Soviet policy of economic concentration, the regional economy obtained primarily agrarian-industrial form. The excessive concentration made the regional countries highly susceptible to economic disruptions after the disintegration of the USSR (Pomfret, 1995). Similarly, centrally regulated soviet economic system with its inefficient management systems, high transaction costs, lack of industrial upgrading and innovations exacerbated regional countries' ability to timely and effectively integrate into the world liberal economy after their independence from the Soviet Union in the early 1990s.

Agriculture was a dominant sector of the economy in most of the regional countries. The region was known as a cotton hub of the Soviet Union. Cotton was the leading branch of agriculture in Uzbekistan, Tajikistan and Turkmenistan. In the 1980s, the share of the region in the Union's overall cotton production was accounted for 87%, of which 60% - for Uzbekistan, 16% - for Turkmenistan and 11% - for Tajikistan (Barkovski, 2003: 174, 199). Uzbekistan was the biggest supplier of vegetables and fruits in the region. Tajikistan also supplied vegetables and fruits and was famous for animal husbandry. Turkmenistan and Kazakhstan produced and supplied grain.

Industrial development in the region began during the World War II, when enterprises from the european part of the USSR had been evacuated to eastern republics, including Central Asia (Vardomsky et al., 2012). Planned industrialization accompanied by the influx of skilled labour from the western republics of the Union. Although soviet industrial policy targeted all regional republics, Kazakhstan and Kyrgyz Republic had relatively more inflow of industrial enterprises and skilled labour than other neighbouring republics. Nonetheless, overall regional industrial development lagged far behind the rest of the Soviet Union.

The level of industrialisation in regional republics determined by their natural economic landscapes. Given Kyrgyz Republic's hydropower potential (3rd in the USSR after Russia and Tajikistan), electricity had become the main sector of the national economy. The country became a net exporter of electricity. Moreover, Kyrgyz Republic produced and supplied 70 different types of engineering products, of which 60 types had been exported outside of the USSR (Barkovski, 2003: 154). With the discovery of uranium ores and other rare metals in the 1950s, mining industries and metallurgical enterprises emerged in the country. In the 1960s and 1980s, several high-tech industries, including electric lamps, semiconductor and electronic computing plants, had been established. Textile and spinning plants, primary wool processing factories had also been put into operation.

Around 400 large enterprises in more than 100 industries were created in Tajikistan during the USSR (Vardomsky et al., 2012). Machinery, textile, electrical and chemical enterprises accounted for the majority of the industrial enterprises. The country was ranked second in the former USSR after Russia in terms of hydropower potential. One of the economy's main contributors was aluminum production, which accounted for about 15% of all aluminum produced in the USSR and about 80% of the country's overall export output (Chudakova, 2000: 173). Yavan Electrochemical Plant, the largest chemical factory in the republic, was an industrial facility of union-level importance.

The vast natural resources of Kazakhstan and Turkmenistan determined the industrial orientation of these economies. This was the production of ferrous and non-ferrous metallurgy, chemical and fuel industries. Kazakhstan had become the most industrialised republic of the region and fourth in the Soviet Union after Russia, Ukraine and Belarus. The country's industrial products had been exported to more than 80 countries around the world (Barkovski, 2003). Similarly, the main industrial products of the Turkmen economy were oil, gas and chemical industries. The country produced more than 10% of natural gas, 1% of oil and 1% of other chemicals of the Soviet Union (Barkovski, 2003: 199).

Uzbekistan's industrial development was rather slow, given the country's excessive concentration on cotton and other agricultural production. Overall, Uzbekistan supplied over 200 types of industrial products to the union economy. However, the share of finished products in overall production was less than 10% (Barkovski: 124). The country mainly supplied raw materials.

Despite its enormous economic potential, the Central Asian region became "a raw-material appendage" of the Soviet Union (Trushin & Trushin, 2000). Production was confined to the basic extraction and preliminary processing of raw materials, or to the production of semi-finished products. If any, very little attention paid to the development of knowledge-intensive, sophisticated engineering and electronics industries. The reliance of the region on importing food and consumer durables from the other parts of the Union was very high. Trade statistics between union republics shows that the proportion of Turkmenistan's total trade with other Soviet republics was about 84%, Uzbekistan's - 85%, Kazakhstan's – 89%, Kyrgyz Republic's – 91% and Tajikistan's – 96% (Kaser, 1998).

Some of the regional countries were even hanging on subsidies from the Union budget. The reliance on the central budget considerably increased during the 80s. For instance, in the late 80s and early 90s, financial aid from the central budget accounted for 23.3% of GDP in Tajikistan, 19.5% in Uzbekistan, and 12% in the Kyrgyz Republic (Zhukov & Reznikova, 2001: 55). Subsidies for Turkmenistan and Kazakhstan were minimal, 7.4% and 9.6%, respectively (Ibid). In fact, these two countries helped subsidize other republics through their contributions to the all-union budget. For instances, from the mid-70s until the collapse of the Soviet Union, Turkmenistan had put on the Union and world market about 1.35 trillion cubic meters of natural gas with an estimated value of more than $100 billion, whereas the transfers from the Union budget to the Turkmen economy accounted for only $2 billion (Ekonomika i Zhizn, 1998). At the same time, however, it is impossible to unequivocally assess the regional countries' contributions to the Union budget, because many of the important resources went to the Union budge bypassing the republican budgets. For instance, Uzbek gold and

uranium, Tajik aluminum and Kyrgyz Republic's gold and other raw materials went to the central union budget bypassing the republican budget.

Moreover, the Soviet policy of economic concentration based on one-sided commodity structure led to increased inequality in living standards across the Union. Central Asian republics had consistently been ranked last among other union republics in terms of living standards. The difference in the wage levels between the central republics of the Union (e.g., Russia, Ukraine, Belarus and the Baltic republics) and the peripheral ones, including Central Asia, was extremely high. For instance, about half of the population lived below the poverty line in Tajikistan, more than 1/3 – in Uzbekistan, around 1/4 – in the Kyrgyz Republic and Turkmenistan. However, the Union average was 7.7%, and in the Baltics, it was even less than 1% (Table 5.2.1.1).

Table 5.2.1.1. Income levels in former USSR (1989)

Republics	% of population below poverty line*	Medium monthly wages of workers across the Union (in Ruble).
Tajikistan	45,1	206,9
Uzbekistan	34,1	215,4
Turkmenistan	26,9	243,7
Kyrgyz Republic	24,8	219,2
Kazakhstan	10,0	265,4
USSR average	**7,7**	**274,6**

Source: Vardomskiy et. al. (2012)
* Monthly personal income of less than 75 Ruble was considered as below the poverty line.

Extreme economic concentration also resulted in a significant lag in Central Asia's social development compared to the european part of the union. For example, it slowed down urbanization processes in the region, which continued even after acquiring state independence (see Table 5.2.1.2.). The trajectory of urbanization in

regional countries shows that the trend has been negative for Tajikistan, Kyrgyz Republic, and Kazakhstan. Uzbekistan and Turkmenistan have experienced only a marginal shift towards urbanization.

Soviet agricultural mismanagement has left the region with a long-lasting ecological disbalance. Particularly, massive and irrational use of regional water resources resulted in one of the world's major environmental disasters – desiccation of the Aral Sea, which was formerly fourth largest lake in the world and vital source for agricultural use in the landlocked region. The Aral Sea has been shrinking since the 1960s when the two main rivers – Amudarya and Sirdarya, that fed it were diverted to the soviet irrigation projects. By 1997, it had declined to 10% of its original size (Micklin & Aladin, 2008). Currently, the eastern lobe of the Aral Sea completely disappeared. As a consequence, the region's agriculture and fishing industry has been devastated, resulting in unemployment and economic hardship. The region is heavily polluted, with consequential serious public health problems. The Aral Sea drought has been called "one of the planet's worst environmental disasters" (Daily Telegraph, 2010).

Table 5.2.1.2. Population in CA countries / % of urban population

Country	Population, mln.				% of urban population			
	1991	2001	2011	2018	1991	2001	2011	2018
Tajikistan	5,4	6,3	7,6	9,1	31	27	26	27,1
Kyrgyz Republic	4,4	4,9	5,5	6,4	38	35	34	36,4
Turkmenistan	3,7	4,8	5,5	5,8	45	44	51	51.6
Uzbekistan	20,7	24,8	28,2	33,0	40	37	42	50,5*
Kazakhstan	16,8	14,9	16,4	18,5	58	56	54	57,4

Source: Vardomskiy et. al. (2012). CIA World Factbook. State Statistical Agencies of Tajikistan, Kyrgyz Republic, Kazakhstan, Uzbekistan and Turkmenistan.
* According to Saliev & Kurbanov (2015), a sharp increase in the number of urban populations occurred as a result of transformation of 966 rural settlements with 4 million inhabitants into the category of urban settlements in 2009.

5.2.2. *Disintegration of the USSR and State of Regional Economy in 1990-1995*

After about seventy years of rule, the Soviet Union was disintegrated in 1991. Viewpoints on the cause of the disintegration are diverse. Most orthodox economists argue that the Soviet Union was bound to collapse due to the inherent inefficiency of its economic system based on Marxist and Leninist false assumptions. Foundations of the breakdown evolved throughout the decades before it actually happened. The economic crisis which hit the entire Union originated in the late 1970s when the world was on the edge of the global transition towards a post-industrial society. The soviet economy was already lagging far behind the market economies. Economic policies aimed at accelerating economic development put forward by the late communist leadership did not produce desired outcomes. Instead, poor design and ineffective implementation of reform policies further exacerbated the economic situation. The decline of agricultural production, budget deficits, worldwide decline of oil prices and other related factors severely affected the union economy. The economic hardship in turn led to the escalation of strikes and uprisings across the Union by various liberal-democratic movements advocating for independence.

Others believe that the breakdown was the result of certain subjective reasons. This argument refers to the factor of the personality of the latest leaders of the communist party and their strive for a better economy through increased openness and transparency. Communist leaders intended to recover from the economic recession by broadening the cooperation with the west and China, maintaining international peace and security through reducing nuclear arsenal, ending regional conflicts and the Afghanistan war. All these intentions required immediate political reforms and liberalization of the economy. The policy of "glasnost" (openness) and "perestroika" (restructuring) put forward by the late party leader Gorbachev caused political instability around the Union by triggering nationalist and separatist movements which eventually led the collapse of the Union.

Yet another argument contends that the main trigger of the breakdown was the aggravation of ethnonationalism across the Union and the strive of the republics for

self-determination in the second half of the 1980s. Particularly, the Baltic states and Georgia firmly set on a separatist path. Similar violence and uprisings quickly spread to the other parts of the Union. By the late 1980s, ethnonationalist tensions and riots took a new deadly turn, claiming hundreds of lives in fighting. The Soviet authority not only failed to assess the destructive potential of the national issues promptly, but it proved incapable of developing a set of practical measures to resolve them.

It is rather difficult to single out one factor as the main cause of the breakdown. All the factors mentioned above seem to have their merit and, therefore, it is plausible to say that the combined effect of various social, political and economic developments elicited the collapse of the Soviet Union. Finally, in 1991, with the signing of the Agreement on the Establishment of the Commonwealth of Independent States (CIS) and the Alma-Ata Declaration, the USSR's disintegration was officially declared and eleven republics, including five Central Asian nations, emerged as newly independent nations.

However, the Union's breakdown was clearly unexpected and, even, undesired development for some republics, especially for Central Asian countries (Shubin, 2016). The national independence was not something Central Asian republics deliberately pursued for and, therefore, they were the last to declare independence (Olcott, 1992). The disintegration left Central Asian republics in desperate conditions. The region was clearly not ready for immediate political and socio-economic transformations. Even in the late 1980s, when economists around the world and within the Union were discussing the model of economic development in the case of Union's disintegration, such concerns didn't bother Central Asian elites (Trushin & Trushin 2000). But when disintegration had finally happened, regional countries found themselves in an intellectual and psychological vacuum. Until they were excluded from the ruble zone in 1993, regional elites could not recognize that they had been left alone and ought to think about their future development scenarios as independent states (Ibid).

The collapse of the Union hit hard on the regional economy. Between 1990-1995, gross domestic product decline was by 58% in Tajikistan, 49% in the Kyrgyz Republic, 39%

in Turkmenistan and Kazakhstan, and 19% in Uzbekistan (Zhukov & Reznikova, 2001:47-48). The recession affected almost all sectors of the economy without exception. For example, agricultural output fell by 45% in Kazakhstan, 40% in Tajikistan, 38% in the Kyrgyz Republic, 32% in Turkmenistan and 12% in Uzbekistan. The industrial decline was around 68% in the Kyrgyz Republic, 57% in Tajikistan, 38% in Turkmenistan and around 1-7% in Uzbekistan (Ibid).

Tajikistan was indeed the one who suffered most. The majority of its population was already living below the poverty line by the time of disintegration. Sharp declines in agricultural and industrial outputs and the disruption of subsidies from the union budget severely damaged the economy. Besides that, shortly after declaring the state independence, a civil war broke out in Tajikistan. Started in 1992 and continued until 1997, the civil war claimed more than 100,000 lives and caused economic damage worth over $10 billion (United Nations, 2012). It led to the emigration of many qualified specialists and displaced around 1.2 million people (Ibid). As TJK8 stressed, "the union disintegration brought more harm to Tajikistan than to any other country of the region. The most devastating and immediate consequence was the outbreak of the civil war. The civil war ruined the entire economy and destabilized social life. We lost an essential driver of the economy – skilled human capital. Leading intellectuals, professionals and highly skilled workers had left the country." Tajikistan was totally excluded from the rest of the world during the conflict. Even neighbouring countries closed their borders with a fear that the Tajik conflict might trigger similar civic movements in their respective countries. Particularly, the closure of the Uzbek border entirely disconnected Tajikistan from the rest of the world as it was the only available transit route for the country's export outputs and was essential for the economy. Even some parts of Tajikistan linked with each other through the transportation links that pass through the territory of Uzbekistan. Only after some years with the help of foreign donors and credits form international institutions, Tajikistan could manage to build alternative transport routes.

The scale of distortions in the industrial sector of the Kyrgyz economy was more severe than neighbouring economies. Once integrated into the union economy, most

of the manufacturing enterprises were collapsed due to the loss of their resource base, assets, and export destinations. The outflow of qualified labour (mainly the Russian-speaking population) further exacerbated the country's economic situation. Extreme economic disproportions between the northern and southern parts of the country left the southerners in even more desperate conditions.

Although the relative decline of the agricultural sector was higher than the industrial decline, the Kazakh economy suffered more from the latter as the industry's share in the gross national product was much more significant. More than 50% of the country's industrial enterprises became unprofitable, 30% of which were producing so-called "negative added value" (Tokbergen et al., 1998: 46-47). In the electric power industry, the share of enterprises with negative profit was 40% of their total number, in the food industry - 37%, in mechanical engineering - 35%, in metallurgy - 30%, in the fuel industry - 22% (Ibid).

Unlike many other post-soviet republics, the economic loss associated with the collapse of the Union was minimal in Uzbekistan. The country managed to avoid significant disturbances and losses in both agricultural and industrial production, mainly due to the strict protectionism and precautionary economic policy. Uzbekistan's GDP declined was the lowest in the region and one of the lowest in the post-soviet space. The fall in agricultural production was around 12%, while industrial production was almost at the same level as it was in 1990, as compared to the CIS average of 38.5% (Chepel, 2003). The state supported large and medium-sized enterprises, ensured gradualness of their reorganization, re-profiling and privatization. As a result, Uzbekistan was one of the first in the CIS to overcome the industrial recession.

5.3. Market Transformation and Economic Development in Central Asia

5.3.1. Towards Market Economy: Choice of Development Models

The deep economic recession caused by the collapse of the Soviet Union required immediate actions to adopt national strategies to reform political and economic systems and accelerate integration into the global economy. The major challenge was transforming the entire economic relations and management from a centrally planned command system into an open market economy. All regional countries generally adopted *de jure* courses towards an open-market economy, though *de facto* economic transformations took different shapes. More radical steps were taken by the Kyrgyz Republic and, to some extent, by Kazakhstan, to liberalise the economy and reduce the state's role. Uzbekistan, Tajikistan and Turkmenistan, however, took a more cautious and gradual approach to economic reforms.

The Kyrgyz Republic deliberately pursued an open market economy emulating the East Asian model of economic development. The country was the first in the regions to create a national currency, to deregulate most prices, to reform tax and customs systems, to ease trade barriers, to create an independent banking regulator – Central Bank and set of new commercial banks, to privatize a majority of state-owned enterprises and others. It was first in the post-soviet space to join World Trade Organisation (WTO) in 1998. Over a short period of time, the Kyrgyz Republic became a transit corridor between former Soviet republics and East Asia countries, particularly China. Almost all regional trade with China went through the country. As a result, the Kyrgyz economy's growth rate was one of the highest in CIS in the second half of the 90s. On the political front, the Kyrgyz Republic pursued a robust participatory democracy with a strong legislative branch. Some even described the Kyrgyz Republic as a "Democratic Island" of the post-soviet space (Knyazev, 2012).

Although some success in terms of modernizing the political and economic system has been made, many observers still believe that early Kyrgyz leaders were somewhat delirious or reckless in pursuing wide-scale reforms (Lukyanov, 2017). Liberal economic order was established without a sound institutional framework to ensure

adequate compliance with the rule of law. Due to the extensive deregulation, the state has lost too many vital functions. Uncontrolled political freedoms and weak central state, in turn, increased lawlessness and disorder in the society. For a nation that had lived under the strict state control for almost a century, adjusting to an entirely new socio-political environment was not an easy undertaking. Political freedoms have reached unprecedented levels and many people started abusing this right. As KGZ2 described it, "the nation has become the most politicized nation in the post-soviet space, but not in a positive sense of the word." Weak law-enforcement and corrupt justice increased tax evasions and proliferation of a shadow economy. Many criminal business structures and mafia groups have emerged. Some of them even legitimized their criminal structures by assuming political roles and bureaucratic positions. Consequently, the country has experienced multiple civil conflicts and splits with far-reaching consequences on all spheres of public life, including economic performance. The events of 2005 and 2010, which have gone down in history as the Tulip and April revolutions, respectively, signified the peak of the crisis in Kyrgyz democracy (Syroezhkin, 2013).

However, people who have been at the forefront of the political and economic reforms in the Kyrgyz Republic still think radical reforms were far from being reckless and, in fact, paid off. For instance, according to KGZ2, "radical transformations were the matter of survival given the scale of economic distortions produced by the USSR collapse. The country did not have an alternative other than expositing to the international market to find new markets and attract foreign investments. Unlike neighbouring countries, Kyrgyz Republic could not afford gradualism, since it was not rich in natural resources that would help ensure smooth transformation by offsetting agricultural and industrial losses associated with the collapse of the Union". According to the KGZ1, "the course of political and economic modernization that the country has taken should not be regarded as failed. We had a clear idea – to create an open market economy. There was no reason to delay it. After all, it was not about creating a new bicycle and testing it out properly before mass production. We had to adopt a system that has been in practice for centuries and went through a credibility test. The task at hand was to implement it in our realities with some minor modifications. If there were

multiple political systems that are fundamentally different from each other, we would have thought twice before choosing one of them. The option was crystal clear – transforming the state and society from the communist system to a democratic one. I am still confident that we did everything right. Let the time decide as we still have time to check the robustness of our foundations".

Describing the economic development model of Kazakhstan in the 90s, Rumer (2000: 23) said that "it is difficult, indeed virtually impossible, to fathom the economic strategy and foreign policy of Kazakhstan." Although a single person ruled the country for almost three decades, state economic policy has been subject to frequent gyrations in basic conceptions and strategic priorities and constant cadre rotations in the government. But one thing has been true for all periods - the state played softball in areas that are not of vital national interest and hardball when it comes to the economy's important and strategic sectors. To a certain extent, this strategy gave the state more flexibility in adjusting to various economic realities dictated by external and internal factors at different times.

Yet some people argued that given Kazakhstan's geographical, economic and ethnonationalist characteristics, the country could have benefited more from radical transformations than gradualism or semi-gradualism. As Trushin & Trushin (2000: 94) suggested, although gradualism was preferable for most of the countries of the region, for Kazakhstan, bolder steps to transform the economy would have been more beneficial. Because, as they argue, the country was relatively stable in terms of the possibilities of political chaos and domestic ethnonationalist conflicts.

However, it did not take too long for Kazakhstan to be recognized as a market economy by the international community. In March 2002, the US Department of Commerce granted Kazakhstan the status of a 'market economy' in accordance with US trade laws. It was a recognition of the reforms in the country, the stability of the economy, openness and reliability for investments. Kazakhstan was also the first country in the CIS to receive an investment grade credit rating from a major international rating agency in 2002. As a result, the inflow of foreign direct investments in the economy

has considerably increased. As of May 2014, since the beginning of the 90s, Kazakhstan has attracted $190 billion of foreign investment to become a leader in the CIS countries in terms of the volume of attracted FDI (Makhmutov, 2014). Kazakhstan also became one of the world's top 50 most competitive economies in 2013 and maintained its position in 2014 and 2015 (Weforum). Kazakhstan is also the most stable economy in the region. It was the first post-soviet country to pay off all its debt to the IMF seven years ahead of schedule. But the reliance on the minerals and fossil fuel has not reduced over time.

Uzbekistan's economic model is widely described, both in literature and official sources, as the one based on gradualism. The basic principle of this model is to keep the strong presence of the state in economic affairs during the transition period and implement open market principles step by step by incremental contraction of the role of the state (Karimov, 1995: 10-11). Gradualism was believed to be essential for an equitable and sustainable long-term economic and social development of the country. On the other hand, the fragile ethnoreligious pattern of Uzbekistan necessitated refraining from radical transformations. Having the largest population in the region with many nationalities and ethnic groups and the shared borders with war-torn Afghanistan and Tajikistan, Uzbekistan feared the possible outbreak of civil conflict. As distinguished Uzbek statesman and lawyer, UZB3 said, "Uzbekistan was very serious with its intentions to liberalize the economy and democratize the society at the outset. But these reforms must have happened gradually. We wanted to preserve the economy's agricultural and industrial base inherited from the Soviet Union and improve their productive capacity by shaping the structure, changing the ownership type and inviting foreign investments".

The strategy of gradualism had paid off at the outset. The country managed to avoid significant economic losses after the collapse of the Soviet Union. Several joint companies had been built and started functioning in the second half of the 90s. Uzbek wholesale and retail markets were in better condition than those in neighbouring countries and were very popular in the region with the availability of all necessary consumer goods. Uzbek local bazaars (markets) were commonplace for visitors from

neighbouring countries. Throughout the 90s, Uzbekistan was the fastest growing economy in Central Asia.

However, at the end of the 90s, everything had changed instantly. Ruling elites started redistributing national properties and wealth between each other. The economy was split into several spheres of influence. A cornerstone event was the terror attack in Tashkent in February 1999, following which law-enforcement and security structures have taken control over the majority of important economic structures under the pretext of national security. Uzbekistan imposed severe restrictions on the amount of cash flow, credit allocation to the private sector and the hard currency exchange. Although many large and medium-sized enterprises were transformed into joint-stock companies, the state remained the main stakeholder or actual owner. Ruling elites had purposefully bankrupted several well-functioning large state-owned enterprises with the aim of take-over. The economic policy concentrated solely on the import-substitution.

As a result, many investors have left the country, and potential investors reconsidered their investment decisions. Survived only those who did not mind getting involved in corrupt practices. As UZB9 described it, "there were two so-called 'corridors' for doing business had emerged: green and red. If you follow the established rules of the game, you have a green corridor. Otherwise, all roads are red – closed". According to UZB6, "In the late 90s and early 2000s, the state simply re-established soviet-style command economic management system". In sum, although the interventionist policy rendered it possible to reduce the economic shocks associated with the collapse of the USSR, it hampered the implementation of full-scale market liberalization and the efficient use of the available resource.

At the beginning of independence, Turkmenistan put forward grandiose goals of liberalizing the economy and transforming the country into a "New Kuwait" by effectively utilising its natural resource potential with increased participation of foreign investments. Political and economic reforms in Turkmenistan began with the adoption of several development strategies. The state program "Ten Years of Stability",

approved in 1992, envisaged initial steps of the country's economic transformation based on a 'state-guided gradual liberalization'. However, it did not take too long until the government resumed full control over the economy and entirely closed it to the outside markets. With its largely unreformed economic systems, Turkmenistan still follows autarkic development strategies and protectionist policies (Batsaikhan & Dabrowski, 2017). Although officially labelled as gradualism, the country's economic policy took the form of a "lethargic pace."

Most important and profitable areas of the economy have been controlled by the state or by the entities affiliated to the ruling elites. Foreign investors are allowed only in specific sectors of the economy and under very specific terms and conditions. The economy's reliance on a single commodity – natural gas, has considerably increased over time. Turkmenistan's export destinations are very limited, Russia being the sole exporter of the country's gas to European markets. Turkmenistan's financial sector lags far behind the neighbouring republics. The main problem is the dominance of state-owned banks, which severely limits private sector access to finance and, at the same time, hinders the solution of a more general task of economic diversification (EBRD, 2010: 150-151). Overall, it is rather arduous to describe the direction of the economic development of the country. Given the country's overreliance on the hydrocarbon monoculture and lack of political will to change the status quo, Turkmenistan's economic future seems rather gloomy.

In Tajikistan, full-fledged economic reforms kicked off with delay in 1997, after the end of the five-year civil war, and progressed very slowly since. The post-conflict coalition government of Tajikistan put forward a reform policy intending to rebuild the economy, which was entirely deteriorated, first, by the collapse of the Soviet Union and, second, by the civil war. The economic reforms started with the strategy paper called Conceptual Framework of Economic Development of Tajikistan, which, taking into account the negative legacy of a "shock therapy" in Baltic republics, bet on gradual transformation emulating, to some extent, the experience of neighbouring Uzbekistan.

The reform of the economy was supposed to be carried out in close coordination with the anti-crisis measures, to which, perhaps, the strategy paper paid more attention than to the reform of the sectors of economy and liberalization. Hence, the paper prioritized macroeconomic stabilization measures as an immediate policy objective. It also set out structural reform measures, diversification of the economy, improvement of the investment climate and others. Tajikistan worked very closely with the World Bank and the IMF in developing economic reforms strategies. However, contrary to the Kyrgyz Republic, the Tajik government was rather cautious in accepting and incorporating the policy recommendations of those organisations in the national strategies development.

Tajikistan has since adopted several reforms programs and strategies. However, the government has not been able to accomplish the plans outlined in those papers fully. Despite the taken measures, the country's economic development level still lags far behind the neighbouring economies. The country still retains the status of a low-income country. The flow of foreign direct investments remains very low as foreign investors continued to face several problems on the ground. The major issues have been corruption, protracted administrative procedures, unstable electricity and gas provisions, and a burdensome tax system. Unfortunately, foreign donor aid provided to recover and boost the economy did not bring about expected outcomes, since most of it was spent inappropriately, or disappeared in the pockets of official officials (Crisis Group)

Overall, the Central Asian economic landscape has undergone significant structural changes throughout the years since independence. In principle, all republics have become *de jure* democratic countries with an open market economy. Economic reforms have focused on institutional upgrading, improvement of market infrastructure, restructuration of production and reorganization of enterprises, expansion of export potential and investment sources, etc. At the same time, most of them, except the Kyrgyz Republic, maintained a strong role of the state in economic affairs.

5.3.2. Regional Economic Growth in 1996-2016: The Main Macroeconomic Indicators

Over the past thirty years, Central Asian countries have demonstrated a very similar trajectory of economic performance: a sharp downfall during the first half of the 90s and steady economic growth from the mid-90s and onwards (Figure 5.3.2.1). The early post-independence recession was caused by the financial crisis triggered by the collapse of the soviet monetary and credit systems. The deficit of money and very high inflation hit hard on domestic demand, which further escalated declines in other sectors of the economy. However, from the mid-90s, the regional economy started recovering from the deep recession by suppressing inflation and expanding the industrial and agricultural outputs.

Figure 5.3.2.1. Real GDP growth in Central Asia (annual regional average %), 1991-2016.
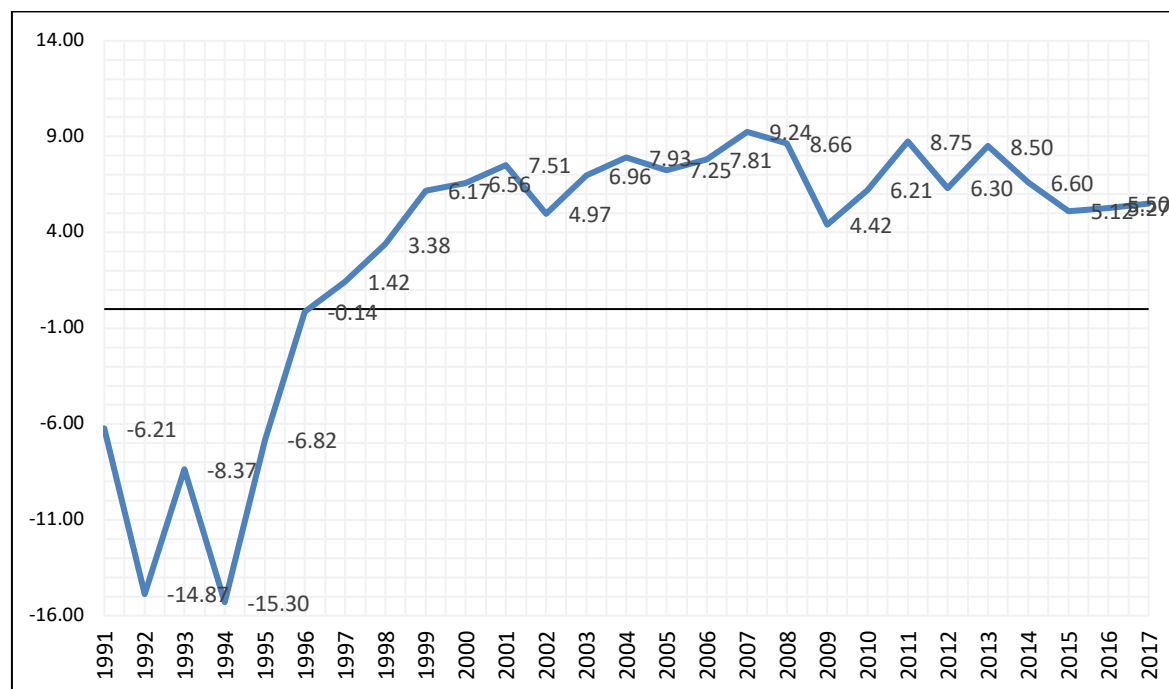
Source: World bank National Accounts Database

Countries fought with initial recessions in several ways. Along with immediate stabilisation measures, serious emphases were given to the structural reforms, institutional upgrading, privatization, trade liberalization and other market reforms. Increasing the production capacity of existing industries and the aggregate productivity of the factors of production were also part of the initial measures.

Improved conditions in the global economy, particularly, world commodity price hikes, had serious implications in the regional recovery. As a result, in 1996, all regional countries, excluding Tajikistan, had a positive sign in their GDP (Figure 5.3.2.2.). The Kyrgyz Republic and Turkmenistan showed an impressive growth rate of 7.1% and 6.7%, respectively. Tajik economy recovered only in 1997 by attaining 2% GDP growth. Although the regional average was around 1.4% in 1997, some countries showed a very high growth rate, for instance, Kyrgyz Republic – 9.9% and Uzbekistan – 5.2%.

Figure 5.3.2.2. Real GDP growth in Central Asia (country annual %), 1996-2017
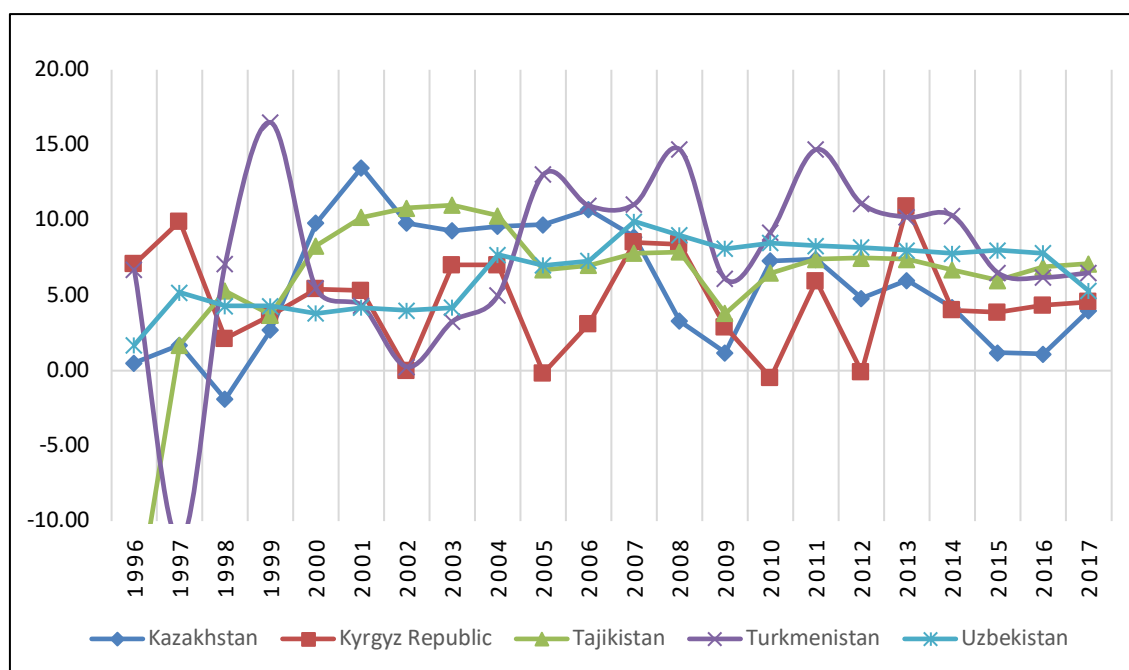
Source: World bank National Accounts Database

Some economies of the region were blown up again in 1998 by the Asian financial crisis, accompanied by a downfall of the securities market, banking system and exchange rates. Most affected were those countries that carried out economic liberalization more intensively, namely, Kazakhstan and the Kyrgyz Republic. However, only Kazakhstan showed a negative growth rate of -1.9% in 1998. Although the Kyrgyz Republic did not show a negative growth rate, the GDP dropped about seven points from the previous year. Kyrgyz economy was mainly hit by foreign transactions of commercial banks. Kyrgyz banks began to withdraw their money from

the accounts in Russia and suspended their operations with the Russian currency – Ruble. Foreign assets of commercial banks decreased by half in just one year (Chudakova, 2000: 108). The crisis also reduced the volume of outputs and exports in both countries, which led to a reduction in tax revenues. However, countries managed to overcome the crisis reasonably quickly, and the economies were back on a growth track again in 1999. By the end of the 90s, inflation rates fell significantly (Figure 5.3.2.3.).

The period between 2000 to 2007 was probably the most dynamic and sustained economic growth period for the region. During this period, the regional economy grew on average by 7.3%, with Kazakhstan – 10.2%, Tajikistan – 9.1%, Turkmenistan – 6.7%, Uzbekistan – 6.02% and Kyrgyzstan – 4.5 %. The regional countries intensified economic integration with the global economy and carried out trade and economic relationships with more than 190 countries worldwide (Sultanov 2009: 108). Several observers stressed that the regional economic boom of this period could be explained as the outcome of the market reforms and institutional upgrading that had been carried out throughout the 90s (OECD, 2018).

Table 5.3.2.3. CPI Inflation rate in Central Asia, in % (logarithmic scale), 1995-2017.
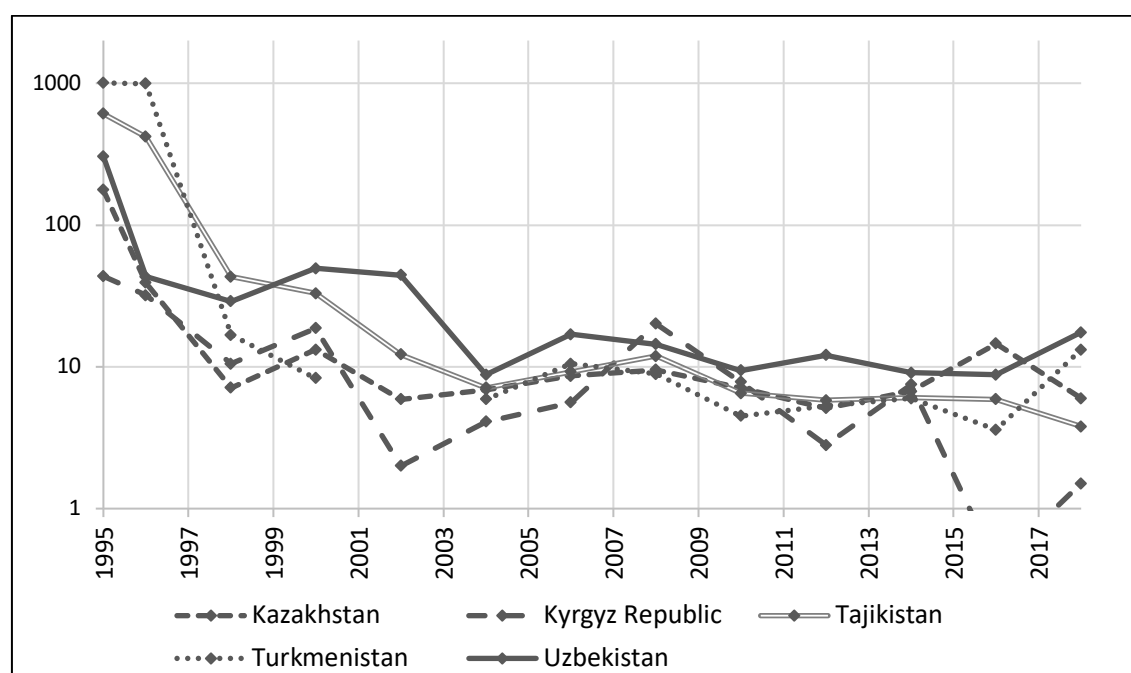
Source: EBRD Transition Reports

Even during the global financial crisis of 2007-2009, the regional economy demonstrated a stable economic growth of around 5-7%. According to the World Bank, the average GDP growth rate during this period exceeded 10% in Turkmenistan, around 9% in Uzbekistan, about 5-6% in Kazakhstan, Kyrgyz Republic and Tajikistan. Nevertheless, it is not to say that the regional economy was not affected by the crisis at all. The economies were affected mainly through the fall of the global commodity markets such as hydrocarbons, aluminum, cotton fiber, and other raw materials. The Kyrgyz Republic, Tajikistan and Uzbekistan also felt certain drawbacks due to the reduction in remittances from labour migrants abroad. Some declines were also observed in investments and trade. All these problems led to liquidity shortages in the banking sector, which problematised budget financing. Even though the financial crisis did not hurt the regional economy very seriously, some countries increased protectionist policy following the crises.

Between 2010 and 2016, the regional economy grew by 6.7%. The highest rates of growth were observed in Turkmenistan (9.7%) and Uzbekistan (8.1%), the lowest growth was in the Kyrgyz Republic (4%). The Kyrgyz economy was declined in 2010-2012 due to the outbreak of internal conflicts, which led to the political regime change. But it recovered very quickly after and back on the growth track in 2013. With the fall in oil prices, the Kazakh economy slowed down since 2014. Real GDP decreased by 1.2% in 2015. The country continued to experience the effects of the protracted decline in world oil prices and weak domestic demand in 2016 when GDP growth reduced to 1%.

Overall, between 1996 and 2016, the regional economy has shown an impressive growth rate of on average 6%. This progress has contributed to improving people's living standards by increasing per capita incomes, reducing poverty, and improving social well-being across the region. Although there is a significant gap between countries in terms of gross incomes and the size of the economy, they have increased per capita incomes by multiple times during the period. For instance, GDP per capita has increased nearly four times in Turkmenistan, almost tripled in Kazakhstan,

Uzbekistan and Tajikistan, and nearly doubled in the Kyrgyz Republic (Figure 5.3.2.4.). The economic status of the regional countries has also changed over the period. Kazakhstan and Turkmenistan have joined upper-middle-income group, Uzbekistan and the Kyrgyz Republic have turned from the low-income into the lower-middle-income, while Tajikistan remains in the low-income category.

Figure 5.3.2.4. GDP per capita, PPP (constant 2011 international $), 1996-2017
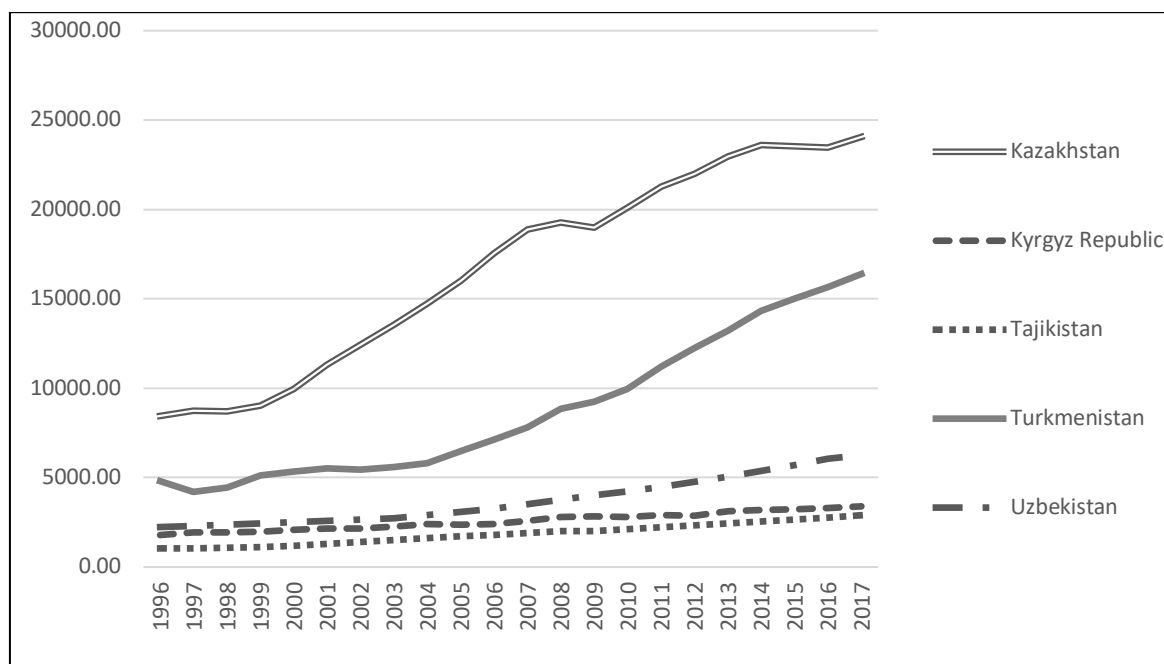
Source: World bank National Accounts Database

A similar trajectory of improvements was observed in poverty reduction. Regional countries have consistently been reducing the level of poverty since the early 2000s (figure 5.3.2.5.). Kazakhstan was the first country in the region to virtually eradicate poverty in 2007. Kyrgyz Republic's poverty rate was reduced from 42% in 1998 to 2.5% in 2015. Although there are no data for some calendar years for Tajikistan, Turkmenistan and Uzbekistan, available data from two different sources indicate that these countries have considerably reduced the poverty levels. The poverty level in Turkmenistan was reduced from 51% in 1998 to as low las 0.2% in 2012, in Tajikistan – from 55% in 1999 to 5% in 2015, Uzbekistan's – from over 40% in 1998 to 14% in 2016.

Figure 5.3.2.5. Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)

Kazakhstan	Kyrgyz Republic

Uzbekistan	Tajikistan

Turkmenistan	
	Source: World Bank Poverty Equity Databank and PovcalNet *Data for Turkmenistan for 2001, 2004 and 2012, and for Uzbekistan for 2004, 2008, 2011 and 2016 retrieved from the CIA World Factbook.*
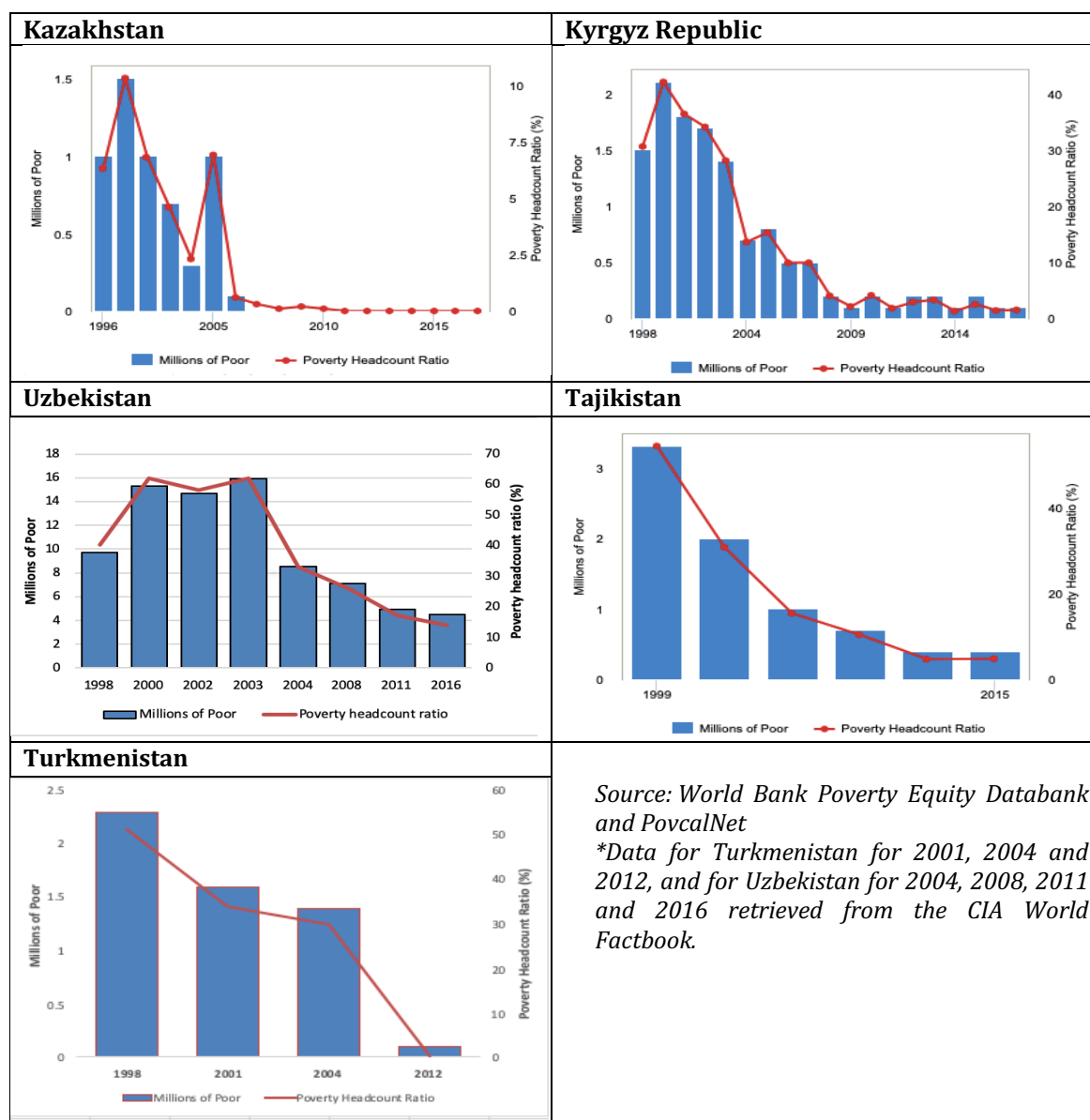
Since the beginning of the 2000s, social wellbeing of the regional countries' population has improved (see Table. 5.3.2.1.) Male and female life expectancy has increased, child mortality has dropped on average by half. Fertility rates have increased in Kazakhstan and the Kyrgyz Republic, while they slightly decreased in other countries. Overall, the fertility rate in Tajikistan and Kyrgyz Republic still remains higher than the average of lower-middle-income countries, which can be partly explained by the large share of the rural population. Government expenditure for healthcare has not changed significantly but is still relatively higher than in similar developing economies. The regional unemployment rate, except Kazakhstan, has not improved either.

Table. 5.3.2.1. Other development and wellbeing indicators

Economies	Unemployment Rate (% of active labour)		Fertility Rate (berth per women)		Under 5 Mortality Rate (per 1000 live births)		Life expectancy (Male/Female)		Health Expenditure (% of gov. expenditure)	
	2000	2015	2000	2015	2000	2015	2000	2015	2000	2015
Kazakhstan	10.4	4.1.	1.9	2.7	41.2	14.1	61/71	67/76	8.4	10.9
Kyrgyz Republic	7.8	8.1	2.4	3.2	46.4	21.3	65/73	67/75	11.9	11.9
Tajikistan	12.0	10.9	3.9	3.5	86.6	44.8	60/68	66/73	6.4	6.8
Turkmenistan	11.3	10.5	2.8	2.3	79.2	51.4	60/68	62/70	13.7	8.7
Uzbekistan	10.9	10.6	2.5	2.2	61.4	39.1	64/70	65/72	9.6	10.7
Lower-middle income countries		5.3		2.8		56.2		66/69		6.7
Upper-middle income countries		5.9		1.8		18.5		72/77		n/a

Source: World Bank

Generous social protection schemes and universal education are indeed positive legacies of the Soviet Union. There are several important social legacies that regional republics inherited from the USSR: high literacy rate, relatively good social infrastructure, low inequality, low infant mortality, relatively higher life expectancy, and others (Trushin & Trushin, 2000: 86). To some extent, these positive elements played a crucial role in preventing economic default and social disaster, which were highly possible in the immediate aftermath of the union breakdown.

According to the United Nation's Human Development Index (HDI), a composite index of life expectancy, education, and per capita income indicators, all Central Asian countries have progressed since 1995 (Figure 5.3.2.6). The highest level of human development was observed in Kazakhstan. Although data for Uzbekistan and Turkmenistan are missing for earlier years, available data for later years indicate that the countries have made significant progress and achieved the 70th percentile score. Tajikistan and the Kyrgyz Republic have also shown equally consistent human development, albeit lower than others. HMI ranks countries on the basis of four broad categories: Very High Human Development, High Human Development, Medium

Human Development and Low Human Development. Based on this, Kazakhstan is among the very high human development countries. Uzbekistan and Turkmenistan are in a high human development category, Kyrgyzstan and Tajikistan are in a medium human development category.

Figure 5.3.2.6. Human development in Central Asia (% rank), 1995-2015
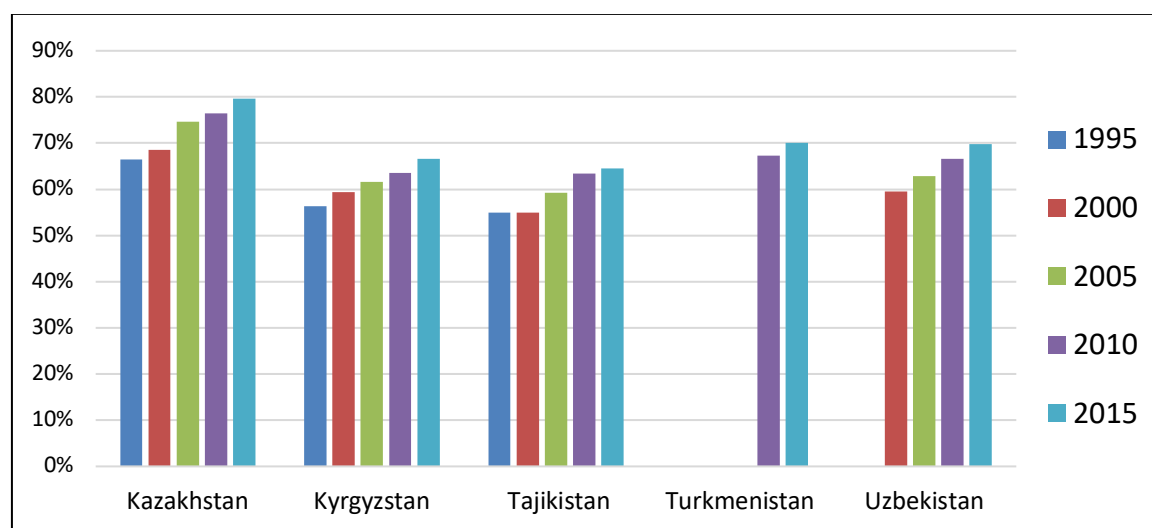
Source: *United Nations. *Data for Uzbekistan is missing for 1995, for Turkmenistan only – 1995, 2000 and 2005.*

However, not many changes occurred in the sectoral composition of the GDP of regional economies (Figure 5.3.2.7.). Agriculture continued to play an essential role in the economy of Tajikistan and Uzbekistan, whereas its' share reduced by half in Kazakhstan and by third in the Kyrgyz Republic. The GDP share of the industry largely remained unchanged in Kazakhstan, while some increases were observed in the Kyrgyz Republic, Turkmenistan and Uzbekistan. The service sector remains relatively underdeveloped, except in Kazakhstan and Kyrgyzstan. However, agriculture's share in total employment is higher than in total value added, indicating that a substantial part of the labour force remains in this low-productivity sector (Figure 5.3.2.8). For instance, in Kazakhstan, the share of agriculture in total value added was just 5% in 2015, while its share in total employment is three times more (18%). The situation is similar in all other countries of the region. The industry is capital-intensive, not labour-intensive, sector of the economy and, thus, it does not have the capacity to create

significant employment. The underdeveloped service sector can be explained by the fact that the majority of the population in Central Asian countries lives in rural areas.

Figure 5.3.2.7. GDP composition by sector in Central Asia (%), 1997-2015
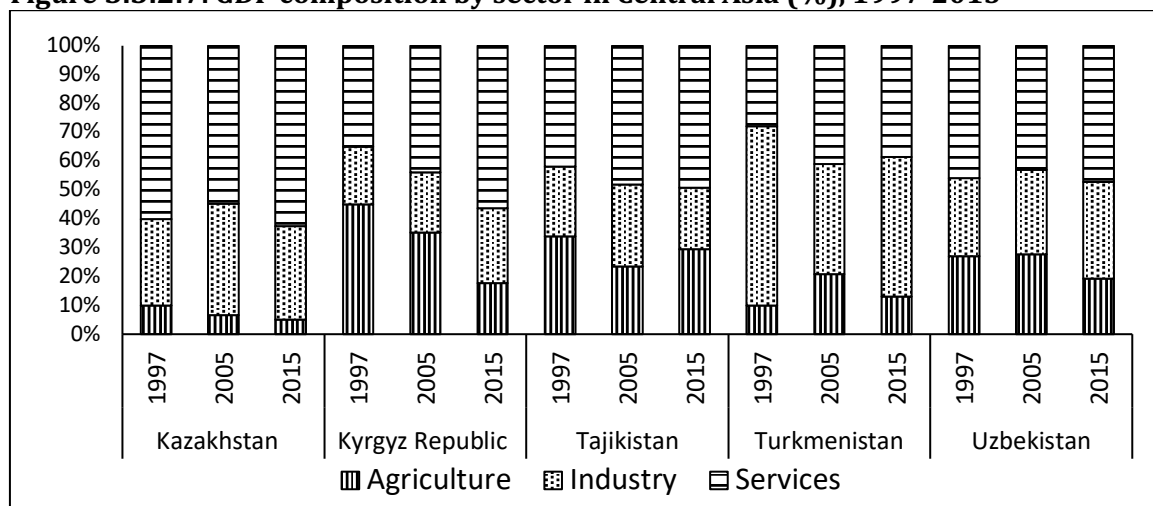
Source: CIA World Factbook (date of access 27/11/2019)

Figure 5.3.2.8. Employment by sector in Central Asia (%), 1995-2015
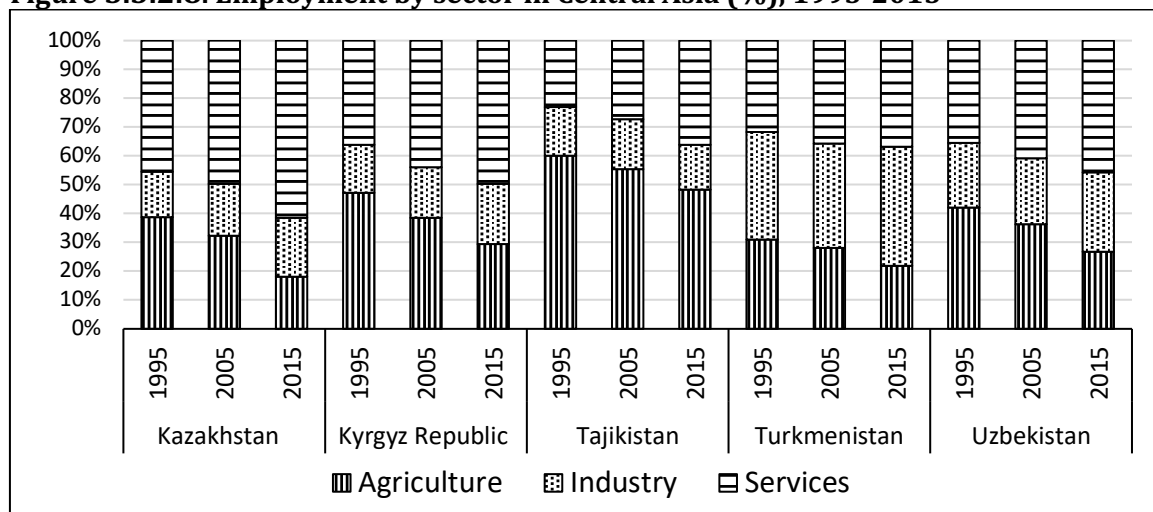
Source: World Bank National Accounts Database

Regarding the future economic trajectories of the regional countries, some international organizations and observers put very high expectations. For example, HSBC "World in 2050" report from 2012 predict that three out of five countries of the region will be in the list of top 26 world economies who will deliver the fastest growth en route to 2050. In this list, Uzbekistan is ranked 11th, Kazakhstan – 13th, and Turkmenistan – 24th.

As this chapter has demonstrated, Central Asian countries have undergone profound structural changes over the period since acquiring the state independence from the Soviet Union. All countries have adopted, although *de jure*, the development course towards free market economy. Institutional upgrading, improvement of market infrastructure, restructuration of production and reorganization of enterprises, expansion of investment have been key priorities of economic reform agendas. At the same time, however, majority of regional republics maintained a strong presence of the state in the economy. Despite various political obstacles and socio-economic challenges and interruptions, as well as criticisms from the international development organisations, the region has demonstrated a steady economic growth over the observed period. Some international observers have even expressed very high expectations with regard to the future economic trajectory of the region.

The following chapter will discuss the main causes and sources of region's steady economic growth with the focus on the role of institutional changes – regulatory reform – in the economic development of the region.

CHAPTER VI. REGULATORY REFORMS AND MARKET OUTCOMES: SECTORAL REVIEW

Contrary to the expectations of the mainstream economics and widely ignoring recommendations from international economic and financial institutions, Central Asian countries have achieved remarkable economic growth rates since the second half of the 90s. These achievements have been possible under stable, though non-democratic political settings and the strong political control of the autocratic leaders (except Kyrgyz Republic). Experts and scholars split in regard with the main causes and sources of the sustained economic growth. Majority of them, clearly, give ample credit to the natural resource capacity of the region. While the regional economies have greatly benefitted from natural resource exports, some governments have pursued distinct country-specific reform policies and built up necessary institutional structures which may have contributed to bring about not only political stability, but also economic and social progress (Stark & Ahrens, 2012; Pomfret, 2010b, 2012). Unique feature of the regional political economy could be described as "market-developing autocracies" (term by Stark & Ahrens, 2012), where, strong hand of the government supplemented with structural reforms and institutional upgrading.

Economic liberalization in Central Asia began in the early 1990s by implementing long-term structural adjustments in the economy. Wide-scale structural reforms were needed to change the fabric of an economy and create institutional and regulatory frameworks in which new market actors function effectively and efficiently. Although all post-soviet republics had taken a course towards the open market economy right aftermath of union breakdown, the degree of economic liberalization and its outcomes vary country to country. Coming out of a century-long communist rule based on command economy, transition towards the free market economy has been quite challenging for Central Asian republics. For instances, Kazakhstan and Kyrgyzstan have made relatively more progress than others in implementing open market reforms. In Uzbekistan, Tajikistan and Turkmenistan, however, the market transformation has been less dynamic giving higher priority to the incremental

implementation of the market principles under the strict guidance of the state. Hence, market outcomes of the structural reforms also vary across the region.

Structural reform outcomes are often measured against the level of deregulation, privatization, trade liberalization, marketisation of national economy (Rodrik, 2017). The current chapter intends to examine policy measures towards privatizing state assets and ensuring property rights, creating an environment conducive for business development (e.g., simplifying license and permit systems, removing the costs and burdens for market entry), liberalizing the trade and improving investment climate, and modernizing financial sector.

6.1. Privatization and Private Property Regulation

A large body of literature sees privatization as one of the key elements of economic liberalisation and promoting private ownership is an essential prerequisite for enhanced economic efficiency. Privatisation assumes transferring ownership of state assets to private hands or transferring management without transferring ownership through management contracts and leases (Shirley, 1991). Any form of privatization has the potential to boost economic performance by improving cost effectiveness of production, stimulating inflow of new investments and innovation.

Changing the ownership type was the foremost priority for all post-soviet transition economies where private property was almost non-existent during the soviet rule. Therefore, creating regulatory and institutional foundations of private ownership was the initial step of the structural reforms. In fact, discussions about reducing state monopoly and creating private ownership began several years before the collapse of the USSR. With the announcement of policies of "perestroika" (restructuration) and "glasnost" (transparency) by former soviet leader Gorbachev, soviet government started introducing some form of corporate ownership with the aim of improving efficiency of industries and firms. However, the new, more intensive wave of privatisation and corporatisation started after the soviet disintegration and continue up to the present days. All regional countries adopted laws on property in 1990 and

on denationalization and privatization in 1991 (except Turkmenistan, which enacted in 1993), even prior to the adoption of national constitutions.

The pace of privatization has been quite different in Central Asian countries. As Table 6.1. demonstrates, private sector development in Kyrgyz Republic and Kazakhstan has been more dynamic than other countries of the Region. Uzbekistan and Tajikistan maintained state control over many sectors of the economy deemed to be strategically important. Turkmenistan seems almost completely rejected privatization, except for some areas of retail and services. Regional trend shows that majority of the privatisation, with the exception of Tajikistan, occurred until 2000. Almost 100 percent of the Turkmenistan's current level of privatisation occurred before 2000s.

Table 6.1. The share of private sector in the economy (in %)

	1994	**1995**	**1996**	**1997**	**2000**	**2005**	**2010**	**2015***
Kyrgyz Republic	30	40	50	60	60	75	75	97
Kazakhstan	20	25	40	55	60	65	65	40
Tajikistan	15	15	20	20	40	50	55	40
Uzbekistan	20	30	40	45	45	45	45	n/a
Turkmenistan	15	15	20	25	25	25	25	20

Source: EBRD transition reports 1994-2010. As there were no official data for 2015, the data was obtained from the interviews of the state officials. Turkmenistan data for 2015 from US State Department's Country Overview.

The Kyrgyz Republic is one of the few CIS countries that has consistently pursued a privatisation course recommended by the IMF since the early days of its' independence. Privatization in Kyrgyzstan began in 1991 and have gone through a number of stages. The first half of the 90s is characterized by the creation of regulatory framework of private ownership and adoption of national programmes for privatisation of state-owned enterprises in mainly trade and service sectors. In the second half of 90s, some of the large monopolized sectors of the economy were privatized through implementing specific and individual privatization schemes.

Reforms in the agrarian sector helped to create private farms and the state ownership of land was removed in 2000. Between 2000-2010, some of the strategic sectors of the economy, such as telecommunication, power industry, mining and air transportation were under the target of privatisation policy. In February 2010, country's leading energy distribution company, Severelectro, was privatized. By 2011, almost completely privatized consumer services (99.9%), trade and public catering (97.7%), and 60% of construction, 63.1% of transport and 45% of agricultural sectors transferred to private ownership (Niyazaliev, 2014). As of 2016, the share of the private sector is estimated at 97% of the economy (Namatov, 2016).

Privatization processes in Kazakhstan show two distinct trends: dynamic privatisation until 2010 and inverse trend since then. The basic regulatory and institutional frameworks of privatisation were laid down in 1991-1992. During this period, about 30% of retail, 40% construction, and 25% public catering enterprises were privatized (Maslov, 1999). The second, more extensive phase of privatisation started in 1993 and lasted until 1995. During this period, majority of large state-owned industrial enterprises were corporatised and 2748 joint-stock companies were created (Muzaparov & Kelimbaev, 1998: 11). Over 93% of state properties in agricultural sector were transferred to private hands. In the third stage, 1996–1998, the privatisation process of small and medium enterprises was completed. The state privatization program now focused on very important sectors of the economy, such as electricity and oil and gas industries. The government invited foreign investors to buy state properties in the respective sectors, to whom 54 enterprises were sold. Throughout the fourth stage, 1998-2010, the pace of privatization had been relatively mild, focusing mainly on selling shares of some of the biggest national joint stock companies, such as "Samruk-Kazyna". In 2011, however, the government of Kazakhstan, started re-nationalising some enterprises by revising deals signed with foreign companies when strapped for cash in the post-Soviet years. For this purpose, Kazakh parliament had to enact a law on nationalisation of private property. Most recent stage of the privatization started in 2016, with the adoption of State Comprehensive Privatisation Plan for 2016-2020 which aims at increasing the share of the private sector up to 85% of GDP by selling more than 700 companies by 2020.

But preliminary results show that the privatisation programme has largely missed targets.

It is rather difficult to accurately estimate the share of private sectors in Kazakh economy as there is no official data. According to the former Minister of Finance, Bakhyt Sultanov, in 2014 the share of public sector in the economy was estimated at about 40% and private sector – 60%. However, according to independent researchers, Murat Temirkhanov, director of the Halyk Finance, based on the assets of the National Welfare Fund "Samruk-Kazyna", National Management Holdings "Baiterek", KazAgro and State Accumulative Pension Fund, the state occupies about 60% of the economy in terms of assets, and 50% in terms of capital. According to the World Bank senior economist Julio Revilla (2018), due to decline in private sector development and low level of entry of new companies into the market in 2008-2017, compared to 2000-2007, the average GDP growth in Kazakhstan decreased by 60%. He argued, due to the continued state protection of large and inefficient companies, they still occupy a dominant position in the economy. Competitive and productive economy requires great deal of private sector participation.

The government of Uzbekistan abandoned forced and massive privatization from the very beginning of the reforms. Although, the first private enterprises appeared in Uzbekistan back in 1990, earlier than in any other former soviet republics. The initial privatisation policy targeted trade, consumer services, small-sized enterprises. A large-scale privatization was carried out in 1994-1995, when 18,281 enterprises were either sold to private investors (79.2%) or transformed into joint-stock companies (21.8%) (UZSTAT). Overall, 96% of small enterprises, 20% of medium-sized enterprises and 19% of large enterprises were privatized or corporatized by the end of the 1995 (Islamov, 1997). The following phase of privatization occurred between 2001 and 2004, when 5718 state-owned enterprises were sold to private investors. The privatisation processes slowed down between 2005-2015. Corporatisation was virtually stopped, and small number of state assists were sold only through direct sales. It gained renewed attention in 2015, when Uzbek government enacted a State Program on Modernization and Diversification of Production for 2015-2019, which set

the target of decreasing the number of state-owned enterprises by three-fold. In total, 534 companies that have state shares in nominal capital must have been reduced to 147, and 660 non-working enterprises should have been sold to private individuals (Hashimova, 2015). However, the program has not been fully implemented due to the change of political leadership in Uzbekistan in 2016.

The privatization has always been quite controversial in Uzbekistan (Chernomorova, 2003). Due to persistent political, legal and economic issues, private sector investment has been very low. The US State Department's Investment Climate report for 2014 stressed that "access to currency conversion, debilitating red tape, an onerous system of taxation, overregulated banking, and punitive customs laws and procedures" are major impediments to the private sector development. As UZB7 pointed out, "contrary to initial expectations, Uzbekistan's privatization efforts didn't contribute to the improved competitiveness and productivity of the national economy. It is mainly because state-owned enterprises had been sold to the wrong hands. Many people used it as an opportunity to grab as much state property as possible without thinking about increasing productivity and profitability". On the other hand, as another local expert UZB6 said, "state's strict hard-currency control policy, import licensing issues, bureaucratic burdens, difficulties in obtaining credits and very high level of taxes (roughly 70% of the earnings) limited the development of private sector, and as a result, many privatized companies in the 1990s were de-privatized again in 2009".

Privatisation in Tajikistan began much later than in the neighbouring countries due to the civil war of 90s. Until 2003, more than 7,100 state-owned enterprises were privatised, which was 88.4% of the enterprises scheduled for privatisation (OECD, 2004: 11). To accelerate the pace of the privatisation and develop a competitive business environment, Tajik government adopted a State Programme for Privatisation for 2002–2004. As a result of the program, the share of the private sector in the total number of enterprises in the country reached to 59.4%, in the total number of industrial enterprises – 47.8%, construction – 48.1%, transport and communications – 44.5%, consumer services – 99.1%, and agriculture – 95.2% (Statistical Yearbook, 2005: 165-166). In 2005, the share of the private sector amounted for half of the

national GDP. During the next phase of privatisation, between 2005-2010, the number of state-owned enterprises was reduced from 6.500 to 2.600 (Kayumov, 2013). However, from 2011 the tendency to support and develop private sector was suspended. The government decided to improve the productivity of state-owned enterprises instead of privatizing them. Thus, the process of strengthening the role of the state in economic affairs had intensified (Ibid). As a result, public sector's share of GDP increased by 63% in 2012 (Statistical Yearbook, 2013: 198, 255). The government adopted another state program of privatization for 2014-2016, which mainly focused on selling the shares of 31 large joint-stock companies.

Some observers have noted that many enterprises privatised in 90s and early 2000s for a penny completely went bankrupt after a short while later. There are number of mistakes could be pointed out as how the Tajik government has carried out the privatisation policy. Berdiev (2006), for instance, mentioned five major problems: inability of the regulatory bodies to ensure effective and smooth transition of state property; high level of corruption associated with selling of enterprises; impact of civil war on the development of private sector and private property; weakness of regulatory framework to attract foreign investors; absence of advance planning and appropriate preparation for privatisation of state properties. Most of the relatively profitable and strategic enterprises remain under the state control. Vast majority of the private sector is small businesses engaged in trade and services, are act on a semi-formal basis. Their tax contribution is very marginal. The existing private medium and large enterprises have been insufficient to form supply chains, which led to high costs and low competitiveness of products.

Turkmenistan's private sectors is the most underdeveloped in the region, the GDP share of which does not exceed 20% nowadays. Some serious attempts for privatisation were made in the first half of the 90s, when Turkmen government transferred state properties of service sector to the labour collectives, and then gradually increased the number of private business entities by allowing them to buy state-owned trade and public catering facilities. In the next phase of the privatisation, the government state gradually sold state-owned enterprises in the sectors of services,

light industry, construction and agribusiness. Over the first decade the independent development, the share of the private sector increased by 25% of national economy. However, nothing has changed ever since. Inaugurated in 2007, new president of the country – G. Berdymukhamedov announced a wide scale privatisation measures, emphasising to boost the share of small and medium-sized private enterprises in the economy (Kamenev, 2002). As a result, by 2008, 2130 state-owned enterprises were privatized, about 90% of cattle and poultry was transferred to private ownership, 70% of the arable land were given to the tenants for full use (Aronski, 2009: 7). With the adoption of another State Program on Denationalization and Privatization in 2013, some 400 non-strategic state-owned enterprises were privatised. Despite these measures, however, private sector's contribution to the national economy has not changed. Although official statistics claim that the private sector share of GDP (excluding the dominant fuel and energy sector) was 63.1 percent as of 2018, independent analysis indicate that private sector's share of the economy is not more than 20% (state.gov). Overall, 91.1% of private sector belong to micro or small businesses, 7.8% - medium-sized enterprises and only 1% large enterprises (EBRD, 2016).

Privatization has never been a policy priority for Turkmenistan, according Aronski (2019). As he pointed out, the main object behind selling the state-owned enterprises has never been to promote private sector, because not much attention has been given to the creation of a conducive environment for private sector development. Most of the privatised medium and large size enterprises were low-profit, inefficient or almost bankrupted state enterprises. Privatization of land on a large scale has not yet been carried out. National land legislation guarantees the right of private ownership of land, but only for citizens of Turkmenistan. However, given the rather stringent bioclimatic conditions of the country and the limited land resources, such rights do not allow the possibility of resale, gift, exchange and collateral. The government's most recent intentions to increase the share of the non-state sector in GDP to 70 % by 2020 hasn't been fully realised. Due to the high prices set for properties and a very poor rate of property protection in the country, there have very few investors willing to invest.

Overall, the process of redistribution of state property has allowed to form the basis of the market system in the Kyrgyz Republic and, to some extent in Kazakhstan, whereas in other countries, it failed to contribute to market development. It is largely due to the lack of coherent economic policies to create conducive environment for private sector development. Privatisation measures will not bring expected outcomes without creating conducive environment for entrepreneurial growth (Dibrell, Englis, & Kedia, 2008). Studies show that specific economic reform measures often fail due to missing key factors critical to successful transition (Gaddy & Ickes 1999; Moss, 2005). The countries that have successfully completed the transition process are the ones who have given a special attention to the intermediary factors that form an environment conducive for market development (Spicer, McDermott & Kogut, 2000). There are several intermediary factors that hindered the private sector development in Central Asia. One of them is the frequent alterations in policy priorities and changes in regulatory framework. As Trushin & Trushin (2000: 127) noted, because the policy priorities and regulatory frameworks are subject to quite frequent alterations, private sector has no confidence that the general thrust of these changes will serve to protect and guarantee the profits from their investment in the real sectors of the economy. The situation is also acute with the observance of the law by the very bureaucratic apparatus and the protection of property rights by the justice systems. Moreover, corruption has been another major impediment for private sector development in the region (Maslov, 1999).

6.2. Business Regulation

Creating a favourable domestic environment for entrepreneurial growth is essential for economic development. Entrepreneurship creates new industries, increases productivity, improves best practices, and enhances competitiveness of the economy (Mueller and Goic 2002; Wennekers and Thurik 1999). There are several regulatory measures that are known to help improve the business environment in the economy. These measures include simplifying the market entry conditions by reducing the time, the cost and the number of procedures for business registration, as well as improving the doing business environment by reducing administrative, tax and other burdens

and restrictions. This section will look at how regional countries have progressed overtime in terms of establishing regulatory framework conducive for business development and how these measures contributed to the improvement of business environment on the ground.

Although market reforms in Central Asia began in the early 90s, noticeable improvements in business environment have been observed since the early 2000s. Most countries of the region have progressed at a remarkable pace and some of them even caught up with world's advanced economies in terms of creating favourable regulatory frameworks for business development. National regulatory frameworks for easy and burdenless market entry have been improved considerably over the period. For instance, since 2003, the number of calendar days required to complete the procedures to legally operate a business have been reduced nine times in Uzbekistan, eight times in Tajikistan, six times in Kazakhstan, and two times in Kyrgyz Republic (Figure 6.2.1.). Regional average time for registering a business have been reduced from 40 days in 2003 to 6 days in 2019, which is currently almost twice as low as the average of Europe and Central Asia (including high income countries). Initially, it took almost three months to register a business in Tajikistan until it was reduced to 13 days in 2011 and to 7 days in 2019. Uzbekistan and Kyrgyz Republic have always been doing better than the average of Europe and Central Asian since 2003.

Another crucial element of market entry is the number of procedures required to start a business, such as obtaining necessary permits and licenses and going through various inspections, verifications and notifications. Simplifying and reducing these procedures greatly helps promote private sector development. Regional countries have made significant achievements in terms of simplifying the procedures of business registration. For example, over the period since 2003, the number of start-up procedures to register a business in Tajikistan was reduced from 14 to 3, in Kazakhstan – from 11 to 4, in Uzbekistan – from 10 to 3, in Kyrgyz Republic – from 9 to 4 (Figure 6.2.2). The regional average is now 2/3 of the average of Europe and Central Asia (including high income countries).

Figure 6.2.1. Time required to start a business (in days) in Central Asia, 2003-2019
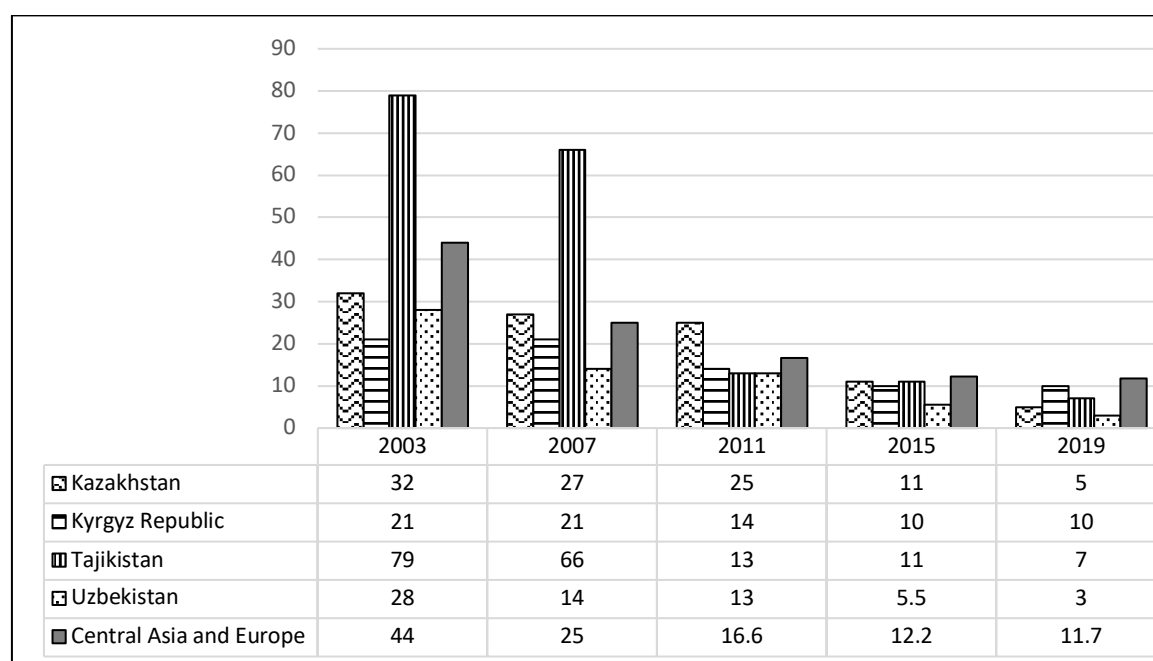
	2003	2007	2011	2015	2019
Kazakhstan	32	27	25	11	5
Kyrgyz Republic	21	21	14	10	10
Tajikistan	79	66	13	11	7
Uzbekistan	28	14	13	5.5	3
Central Asia and Europe	44	25	16.6	12.2	11.7

Source: World Bank Doing Business dataset. Data are for businesses with specific characteristics of ownership, size, and type of production. No information available for Turkmenistan.

Figure 6.2.2. Start-up procedures to register a business (number) in Central Asia, 2003-2019
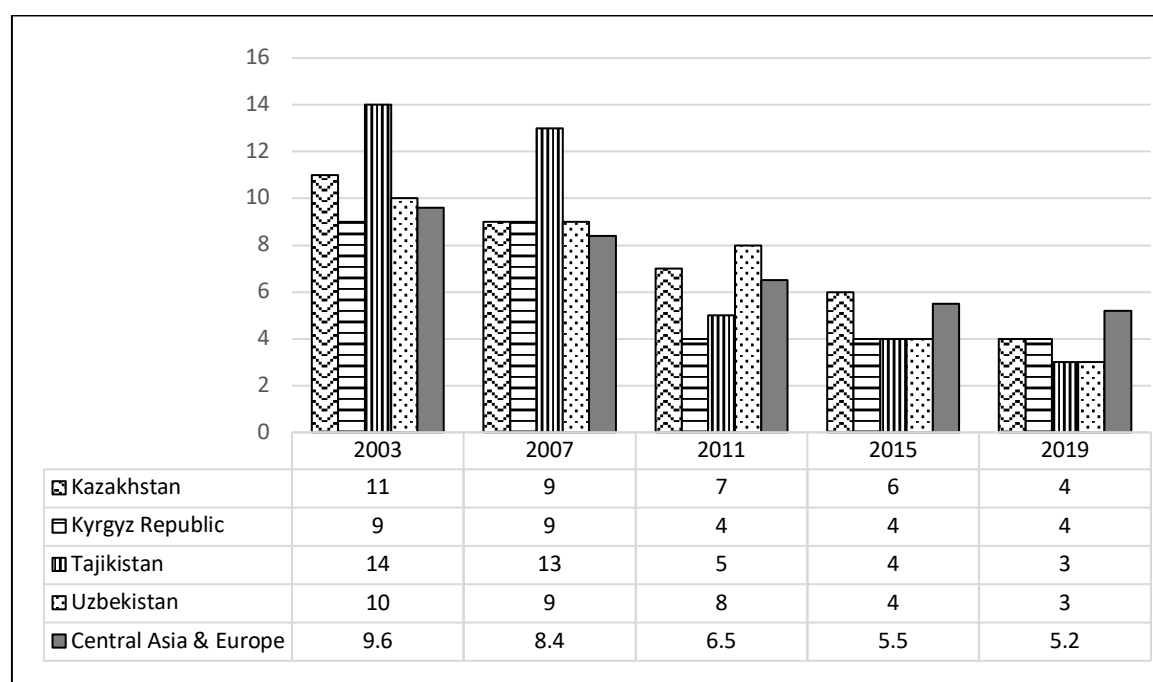
	2003	2007	2011	2015	2019
Kazakhstan	11	9	7	6	4
Kyrgyz Republic	9	9	4	4	4
Tajikistan	14	13	5	4	3
Uzbekistan	10	9	8	4	3
Central Asia & Europe	9.6	8.4	6.5	5.5	5.2

Source: World Bank Doing Business dataset. Data are for businesses with specific characteristics of ownership, size, and type of production. No information available for Turkmenistan.

The cost of starting a business is also an important factor that have an impact on the decisions of people to do business. The regional countries have undergone profound improvements in reducing the costs associated with business start-up procedures. The cost of opening a business in Kyrgyz Republic, for example, has been lowest in the region and one of the lowest in Europe and Central Asia throughout the period, accounting for less than 1% of GNI per capita (see Figure 6.2.3). Kyrgyz government removed all charges related to business registration in 2009. In Kazakhstan, the cost of business registration was reduced from 37.7% of GNI per capita in 2003 to zero in 2012, in Uzbekistan – from 28.2% of GNI per capita in 2003 to zero in 2013. In Tajikistan, however, the business registration had been extremely costly throughout the first decade of 2000s, accounting on average for 300-350% of GNI per capita. After the business reforms of 2008, the costs were sharply reduced to 9.9% of GNP per capita, before it was totally eliminated in 2011. Currently, none of the regional governments charge any fee for business registration, whereas it costs on average over 6% of GNP per capita for Europe and Central Asia (including high income countries).

Figure 6.2.3. Cost of business start-up procedures (% of GNI per capita) in Central Asia, 2003-2019
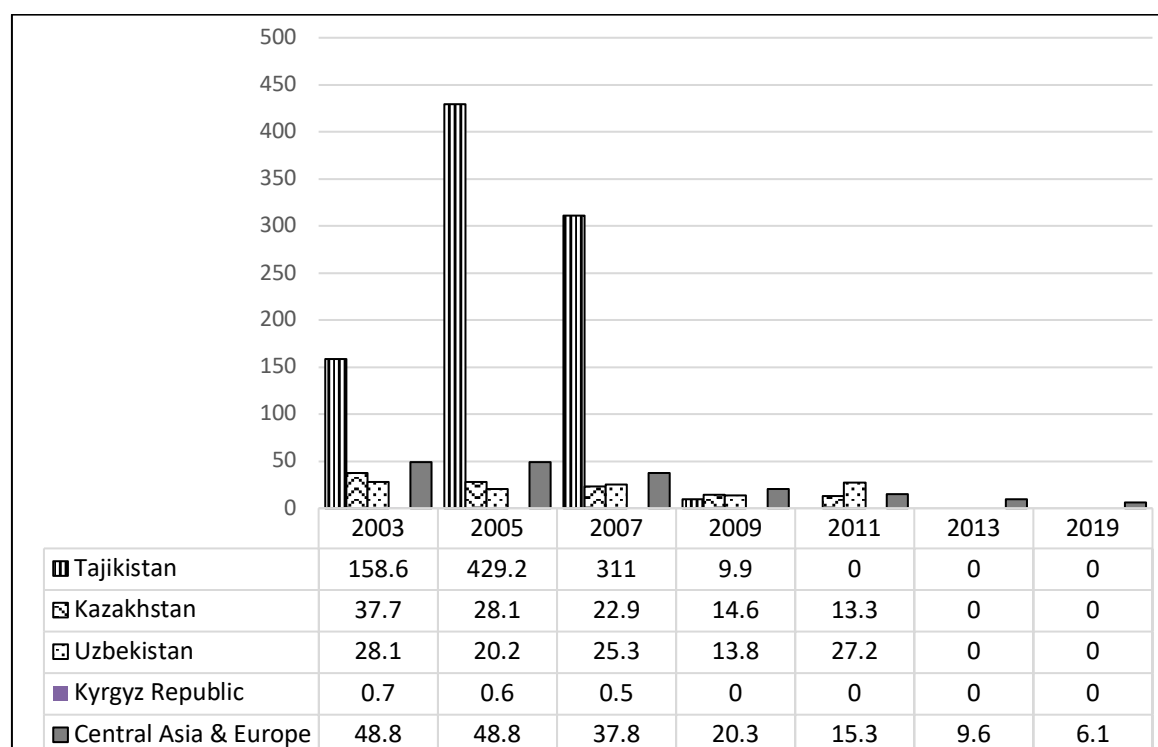
	2003	2005	2007	2009	2011	2013	2019
Tajikistan	158.6	429.2	311	9.9	0	0	0
Kazakhstan	37.7	28.1	22.9	14.6	13.3	0	0
Uzbekistan	28.1	20.2	25.3	13.8	27.2	0	0
Kyrgyz Republic	0.7	0.6	0.5	0	0	0	0
Central Asia & Europe	48.8	48.8	37.8	20.3	15.3	9.6	6.1

Source: World Bank Doing Business dataset. Data are for businesses with specific characteristics of ownership, size, and type of production. No information available for Turkmenistan.

Private business's one of the foremost concerns is what part of its' profit it ceases to retain. That is, how much tax is levied on the business. Tax regime has a serious impact on the decisions of the investors to invest in an economy. Tax regimes vary country to country and the reforms have been uneven across the region. The amount of taxes and mandatory contributions payable by businesses (after accounting for allowable deductions and exemptions as a share of commercial profits) have been very high in Tajikistan and Uzbekistan during the observed period (Figure 6.2.4). For example, from 2005 to 2013, total tax and contributions rate in Uzbekistan had been on average 96.7 percent of the business profits. The rate was reduced by 42% in 2014 and further 32% in 2018. In Tajikistan, total tax rate had been above 80% of the profits until it was dropped to 66% in 2016, but still remains highest in the region. Kyrgyz Republic gradually reduced the tax rate from 68% in 2005 to 29% in 2013. Since 2013, Kyrgyz Republic, together with Kazakhstan, maintain the lowest total tax rate in the region. Kazakhstan's business tax regime has been lowest in the region and below the average of Europe and Central Asia throughout the observed period. Currently, total tax rates in Kazakhstan, Kyrgyz Republic and Uzbekistan is lower than the average of Europe and Central Asia.

Figure 6.2.4. Total tax and contribution rate (% of profit) in Central Asia, 2005-2018

	2005	2007	2009	2011	2013	2015	2017	2019
▫ Uzbekistan	97	90	95	98	94	41	38	32
�III Tajikistan	80	80	84	85	81	82	66	67
⊟ Kyrgyz Republic	68	62	59	33	29	29	29	29
⊠ Kazakhstan	45	42	36	29	29	29	29	28
▪ Europe & Central Asia	50	47	43	40	40	39	37	36
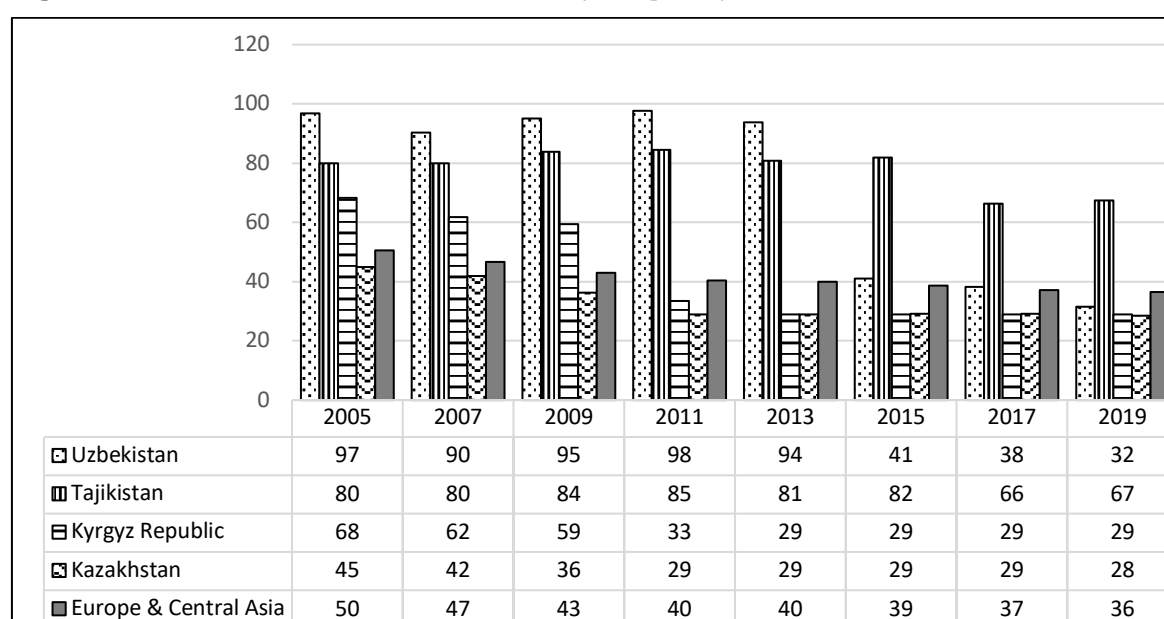
Source: World Bank Doing Business dataset. Taxes withheld (such as personal income tax) or collected and remitted to tax authorities (such as value added taxes, sales taxes or goods and service taxes) are excluded. No information available for Turkmenistan.

Frequency of tax payments and mandatory contributions is also a matter of concern for businesses. Paradoxically, the business sector of Kyrgyz Republic deals with tax related issues more frequently than in other countries of the region. The Kyrgyz government has made very little improvements in this area. Country's tax regime remains heavily bureaucratic and local businesses deal with these activities on average five times as frequently as the average of Europe and Central Asia (Figure 6.2.5). In Uzbekistan and Tajikistan, the frequency of tax payments and mandatory contributions have been very high until the recent tax reforms. In Tajikistan, the frequency was dropped from 73 to 28 in 2014 and further down to 7 in 2017. Similarly, following the 2017 tax reforms in Uzbekistan, it was reduced by more than five times. Now, both Tajikistan and Uzbekistan have lower frequency rate per year compared to the average of Europe and Central Asia. The frequency rate in Kazakhstan has been lowest in the region and lower than the average of Europe and Central Asian throughout the period.

Figure 6.2.5. Number of tax payments by businesses per year in Central Asia, 2005-2019

	2005	2007	2009	2011	2013	2015	2017	2019
▯ Kyrgyz Republic	76	76	76	64	64	63	63	26
▥ Tajikistan	69	69	69	69	73	28	7	7
▯ Uzbekistan	66	58	58	58	70	58	10	9
◪ Kazakhstan	7	7	7	7	8	9	9	10
▦ Europe & Central Asia	35	34	32	27	20	16	13	13
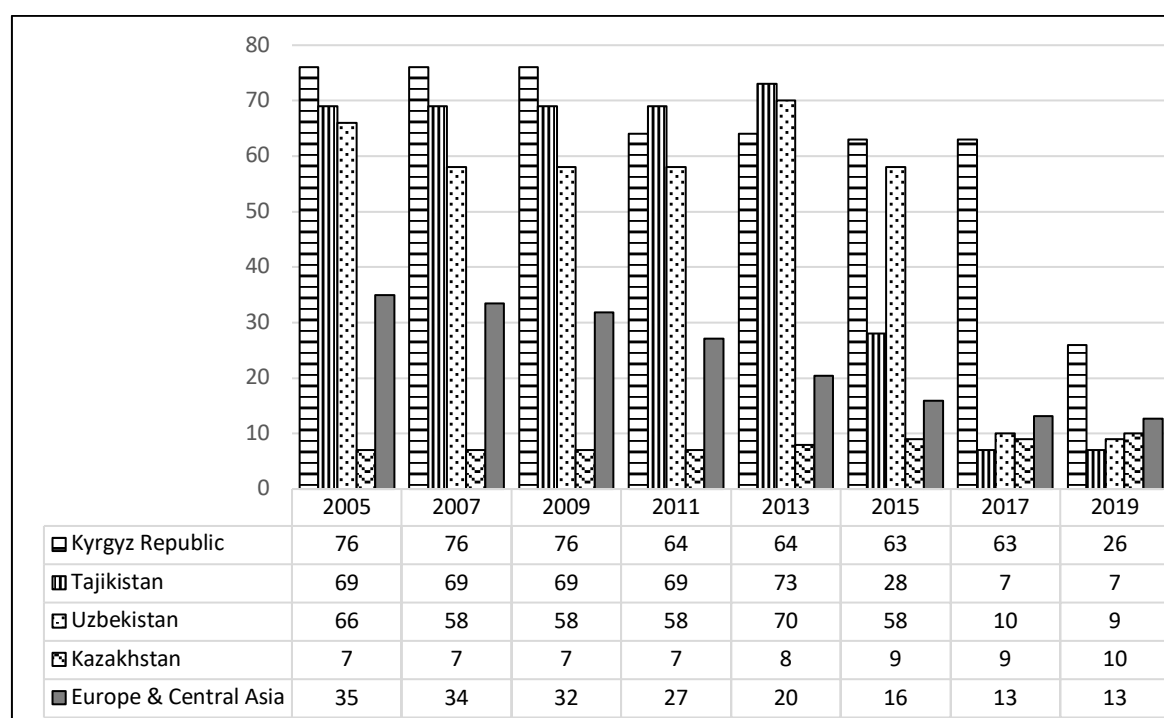
Source: World Bank Doing Business dataset. The tax is counted as paid once a year even if payments are more frequent. No information available for Turkmenistan.

In terms of the time that the businesses spend to prepare, file and pay taxes, the region has not achieved any much improvements over the period (Figure 6.2.6). Tax related workload of the businesses in Kyrgyz Republic, although mildly, but has been increasing over the period. Currently, businesses spend on average 225 hours annually for tax related procedures. In Tajikistan, although the workload has been reduced by 1/4 over the past fourteen years, the local businesses still spend more time for tax related issues than that of in neighbouring countries. Despite the lower frequency of tax payments, the businesses in Kazakhstan have been spending on average around 200 hours per year for preparing, filing and paying taxes. Although not much improvements were observed in Uzbekistan over the time, businesses in the country spend less time for tax related issues than other regional countries. Businesses in the region on average spend more time for the tax procedures than the average of Europe and Central Asia.

Figure 6.2.6. Time to prepare and pay taxes (hours) per year in Central Asia, 2005-2019

	2005	2007	2009	2011	2013	2015	2017	2019
Tajikistan	296	296	296	296	296	276	224	224
Kyrgyz Republic	222	222	222	230	226	225	225	220
Kazakhstan	261	261	261	178	178	178	178	186
Uzbekistan	196	196	205	205	214	202	181	181
Europe & Central Asia	335	326	264	237	204	196	186	179
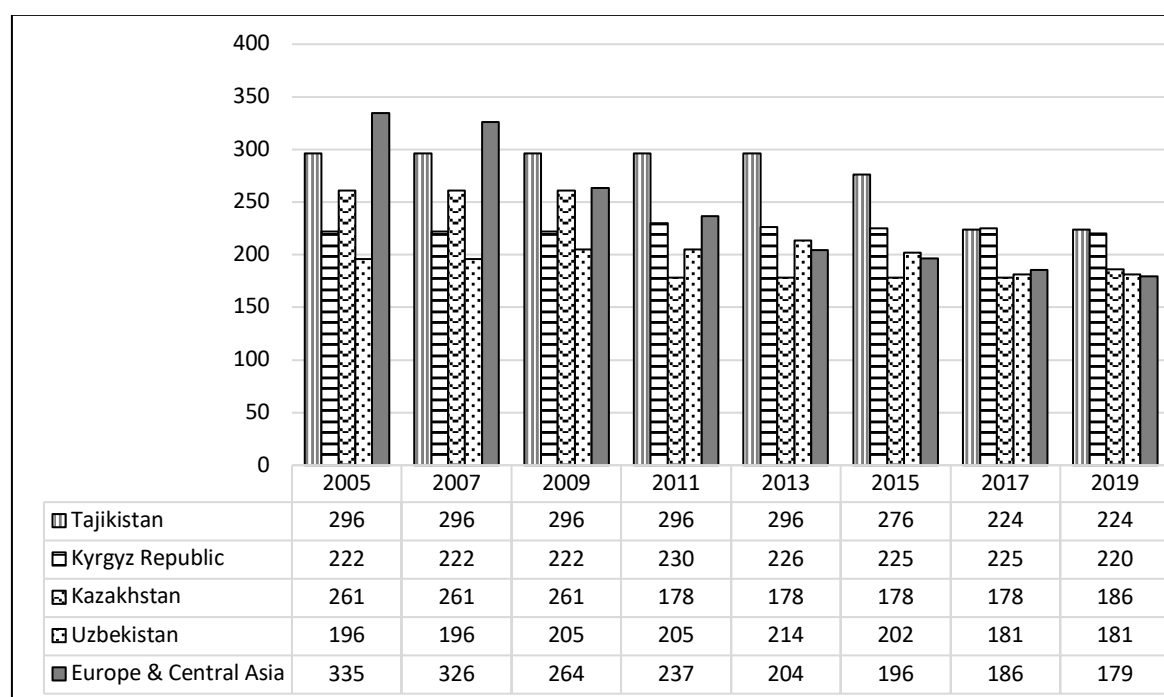
Source: World Bank Doing Business dataset. The data based on the payment of three major types of taxes: the corporate income tax, the value added or sales tax, and labour taxes, including payroll taxes and social security contributions. No information available for Turkmenistan.

Moreover, decentralization and automatization of licensing and permit procedures also play an important role in reducing administrative burdens on the business. Started in 2004, business registration is now fully automated in Kazakhstan. Civil Service Centres of Kazakhstan serve as "one-stop-shop" which enables citizens deal with the issues with different state agencies though the unified platform. A "one-stop-shop" concept was introduced in Kyrgyz Republic in 2008 and became fully operational in 2015. Uzbekistan started creating such kind of unified platform in 2011 and now the system offers all necessary services related to the business licencing and permits. In all three countries, one-stop-shops are administered by the ministries of justice. In Tajikistan the process of introducing electronic system of business registration started in 2012. However, the system has not been fully operationalized by now. Unlike neighbouring countries, this system is being developed and administered by the Tax Office in Tajikistan.

One of the commonly used state instruments to promote private sector development is so called 'business moratoriums' – temporary suspension of all or some of the inspections of businesses by the state bodies. Businesses moratoriums have been in frequent use in regional countries lately. For example, Kazakhstan announced business moratoriums three times, in 2008, 2009 and 2014. Moreover, the law prohibits any inspections that may one way or another hinder the economic efficiency of businesses, except cases when the business activity threatens the life and health of the population, the environment or security of the state. Tajik government announced two such moratoriums between 2009-2014. However, these moratoriums covered only the businesses that dealt with production. Other businesses, including services, retail and etc., were out of the scope of the moratorium. Moratorium rules did not apply for the inspections by Agency for State Financial Control and Combating Corruption, the National Bank (Central Bank), Tax Office and Customs Authorities and Prosecutor's Office. According to the businesspeople, these are the main bodies that create harder and heavier burdens on the business activities. Uzbekistan and Kyrgyz Republic have announced business moratoriums quite recently, in 2018 and 2019 respectively.

Now it is important to see how regulatory measures towards simplifying business entry procedures and reducing costs and burdens of doing business have contributed to the overall development of the private sector in the region. As a benchmark we consider the annual increase of the number of businesses registered per 1,000 people in a respective regional economy. According to the World Bank data for 2006-2019, the dynamics of market entry has not been as intense as the regulatory changes in none of the regional economies. Given steady increase in the population size in all countries of the region, the number of business registered per 1,000 people has been rather marginal (Figure 6.2.7.). For example, with some fluctuations during the crisis periods, private businesses have increased very slightly in Kazakhstan – from 1.2 businesses to 2.0 businesses per 1,000 people over the course of thirteen years. Gradual, but multiple times increase in the number of businesses have been observed in Uzbekistan and Kyrgyz Republic, though still it is still very low compared other developing nations of former USSR. Tajikistan's business sector, despite the improvements in 2010-2014, has in fact contracted over the period. Overall, the current regional overage number of businesses per thousand people is three time less than the average of Europe and Central Asian.

Figure 6.2.7. New business registrations per 1,000 people (ages 15-64) in Central Asia, 2006-2018
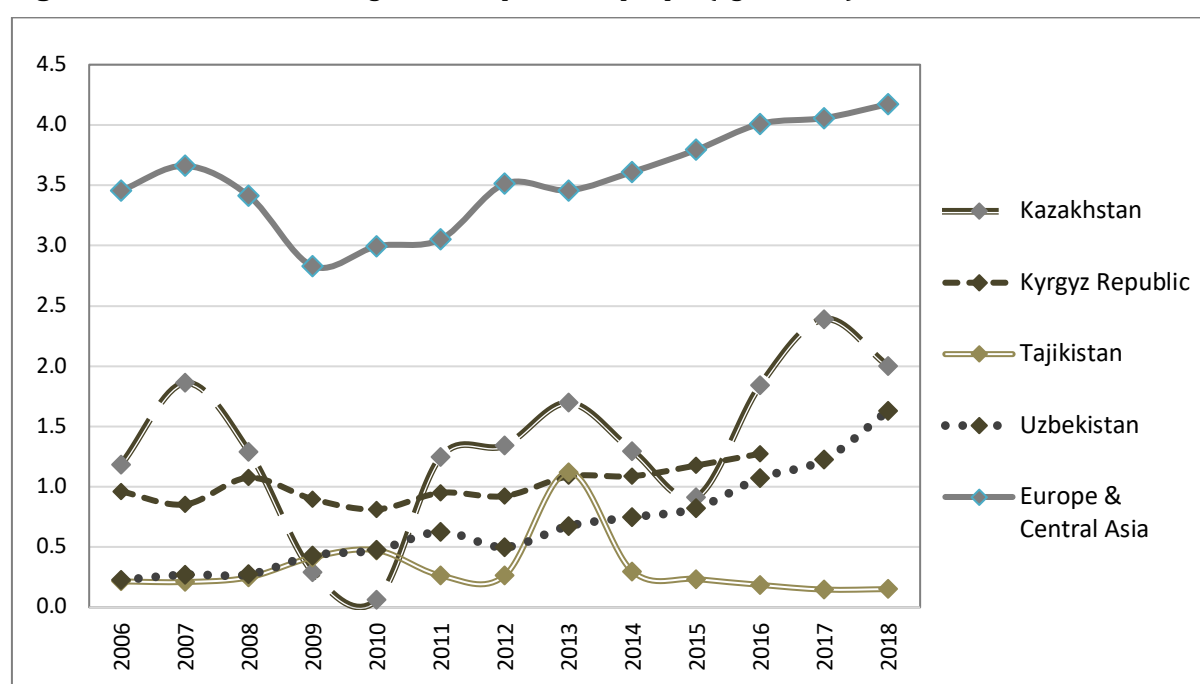
Source: World Bank Doing Business dataset. No information available for Turkmenistan

Regulatory framework of business affairs is currently well established in the region. Countries have been able to seemingly minimise the administrative burdens and barriers to the business. De jure, the markets are open, competition is encouraged, rights and freedoms are protected, costs are reduced, and excessive barriers are removed. All countries have enacted laws guaranteeing the freedoms of entrepreneurial activity and protection of business rights. Established regulatory standards are compatible with the international best practices.

However, de facto business environment is somewhat different in the regional countries and businesses are not entirely free from problems, obstacles and interventions. Issues that businesses face vary across the region. In Kazakhstan, for example, although there is no problem with market entry (e.g. obtaining permits or licences) or doing business, getting access to the key sectors of the economy is highly problematic. As KAZ1 contended, "all important and profitable sectors of the economy have already been monopolized or belong to the certain people in the elite echelon of the country and, thus, competition in those sectors is artificially constrained and any attempt of entry will face heavy obstacles." OECD report of 2014 also mentioned about 'red tapes' in specific areas of the economy that prevent those areas to be competitive and productive.

Businesses in Uzbekistan and Tajikistan have been facing even more serious problems on the ground. Until the second half of 2000s, business registration, licensing and access to the credit in Uzbekistan had been entirely corrupt. It was almost impossible to start business without engaging in some form of a corruption. As UZB5 stated, "likelihood of registering the business and obtaining license without a bribe was extremely small, even non-existent, during the first two decades of independence". Only with the introduction of online registration system in 2013, it was possible to fully eliminate corruption in business registration, contended UZB4. However, according to him, businesses continued to face with two major problems until quite recently. "The first is related to obtaining bank credits which had been extremely problematic due to a tight monetary control by the banking regulator. Credits were

only possible to obtain through discrete corrupt schemes. Another issue is related to the foreign currency exchange due to the shortage of hard currency and strict state regulations over exchange markets."

Many local businesses and international institutions claim about the excessive 'red tape', nepotism and corruption in Tajikistan that prevent the business sector from sustainable development. Most of the profitable business holdings are controlled by the people connected to the ruling elites. Many of the small and medium sized enterprises function on a semi-formal basis. According to the World Bank report of 2017, only 13% of jobs in Tajikistan were in the formal private sector. In addition, due to the corrupt business environment potential entrepreneurs face high barriers to entry and high operating risks. Tajik business entities also complain about the various planned and unplanned inspections initiated and conducted by different state agencies that are conducted quite arbitrarily.

In Kyrgyz Republic, however, entrepreneurial freedoms have reached such unprecedented levels that the tax evasions have become routine practices and informal sector of the economy have augmented. Business non-intervention is of course important from the business development perspectives. However, there is another side of the coin. In many instances, the government fails to protect the rights of consumers when it is violated by the businesses. Vast majority of the public complains about the business wrongdoings largely remain unresolved due to the restrictions to inspections and non-intervention policies. The central government is often unable to protect consumer rights (Panamarev).

6.3. Trade Regulation

It is widely recognized that there is a strong correlation between trade performance and economic progress (Alcala & Ciccone, 2004; Frankel & Romer, 1999). The literature emphasises the importance of both initial conditions, such as geography, natural resources, transport infrastructure (Grigoriou, 2007; Levy, 2007; Sinitsina, 2012), as well as policy reforms in terms of creating a conducive regulatory

environment for trade performance (Buck et al., 2000, Dow and Karunaratna, 2006, Wu et al., 2012). Favourable global and regional trade environments have also a considerable impact on the development of trade in an economy (Levy, 2007). Central Asian economies have significantly benefited from the trade due to the increased integration into global economy since the collapse of the Soviet Union. Geographical disposition of the region as a main crossroad between east and west has been a vital factor for the development of trade. The region has also achieved considerable trade growth thanks to the policy reforms as well as favourable conditions in external markets (Mazhikeyev et. al., 2015).

Overall regional trade has increased almost thirty times over the period since the middle of 90s (see Figure 6.3.1.). With some fluctuations during the financial crises of 1997-1999 and 2008-2009, the regional economies have demonstrated almost similar trajectory of trade growth over the period. The shape of the regional trade in terms of volume is largely dictated by Kazakhstan who has achieved a paramount trade growth of from just $2B in 1995 to as high as $127B in 2012. Other regional countries have also increased their cross-border trade by multiple times throughout the period since acquiring the state independence. For instance, between 1995-2014, Uzbekistan's trade have increased about eight times (from $2.6B to $18.8B), Turkmenistan's – more than twenty times (from $0.67B to $18.07B), Kyrgyz Republic's – more than ten times (from $0.89B to $10.3B) and Tajikistan's – about fifteen times (from $0.37B to $5.5B).

Moreover, the trade accounted for a considerable portion of the gross domestic products over the period. For example, between 1995 and 2017, the GDP ratio of the trade for Kazakhstan has been 80%, for Kyrgyz Republic – 108%, for Tajikistan – 112%, for Turkmenistan 89% and for Uzbekistan – 54% (see Figure 6.3.2.). Overall regional average of this ratio has been 89%, which is almost twenty percent higher than the average of Europe and Central Asia during the same period (70%). However, trade contribution to the domestic income has been shrinking almost all regional countries over the course of this period. Between 2000-2017, for instance, trade's share of GDP in Kazakhstan declined from 106% to 59%, in Tajikistan – from 175% to 57%, in Turkmenistan – from 104% to 54%. The increase was observed only in Kyrgyz

Republic, where trade-to-GDP ratio increased from 72% in 1995 to 101% in 2017. However, it has been in decline since 2008, when the ratio was at its historic peak of 146%. The trade-to-GDP ratio decline in Uzbekistan has been relatively mild. With some fluctuations, it had increased until 2009, but since then it dropped from almost 80% down to 29.7% in 2016, before it recovered by 45.7% in 2017. Overall trade contribution of GDP in the region has declined by almost two-fold – from 115% in 1995 to 63% in 2017. The regional average has been lower than the average of Europe and Central Asian since 2014.

Figure 6.3.1. Trade growth in Central Asia in 1995-2017 (in current USD)
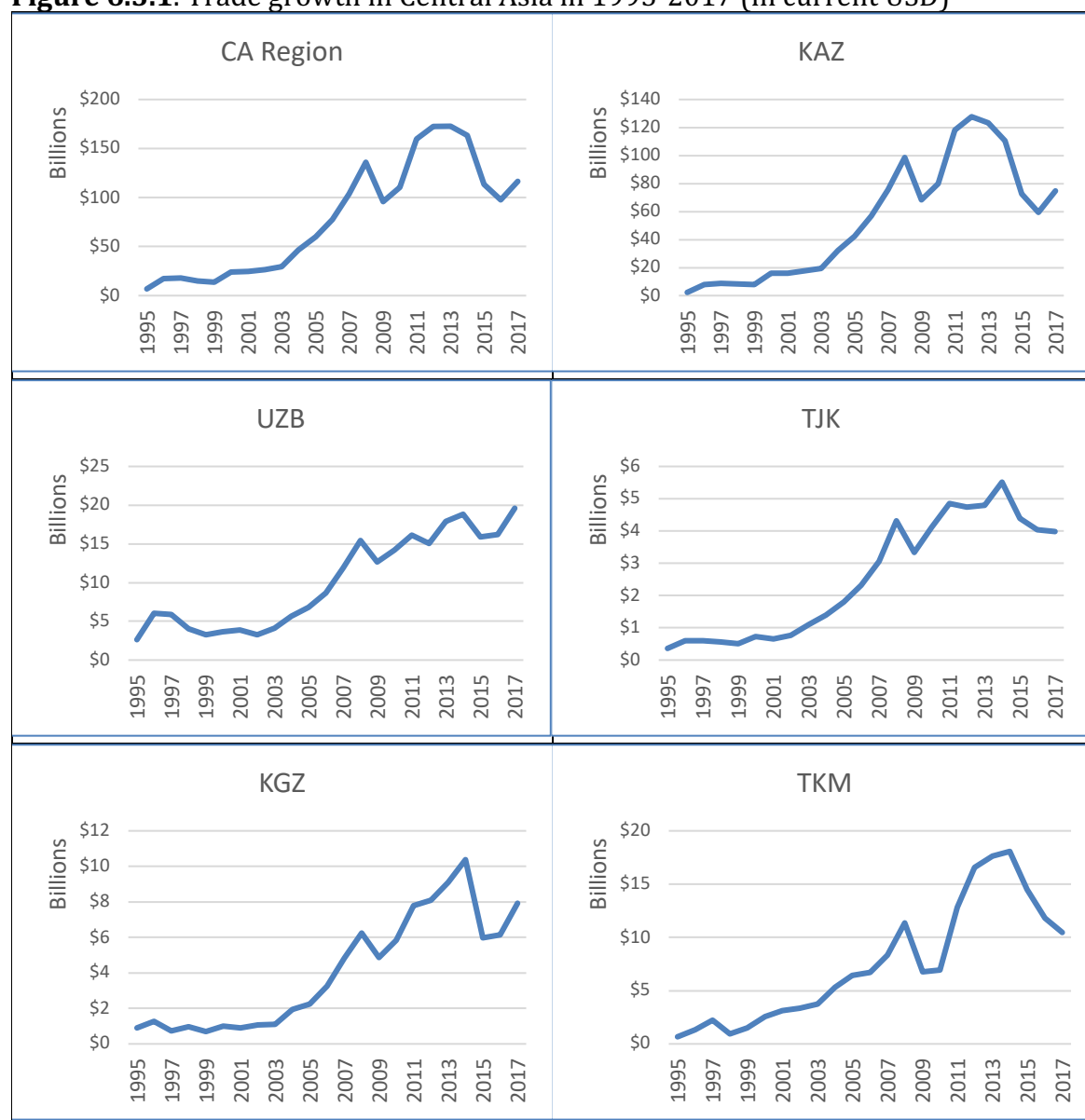
Source: World Bank national accounts data.

Figure 6.3.2. Trade/GDP ratio in Central Asia, 1995-2017
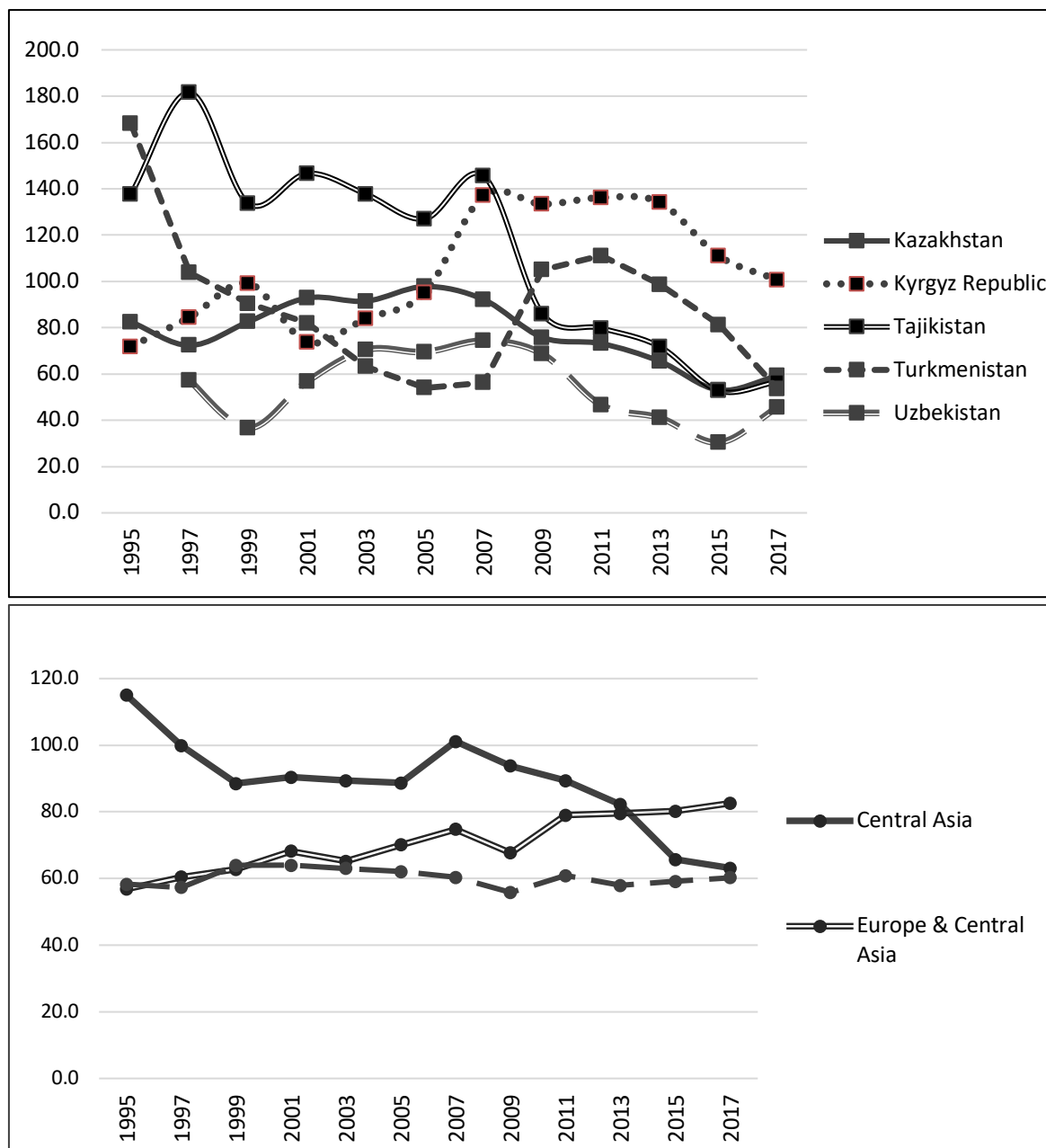
Source: *World Bank national accounts data.*

As a measure of the strength of a country's trade performance, economists tend to use the balance of trade (or, net exports) which measures the difference between the value of a country's imports and exports for a given period of time. The trade balance is known to represent the largest component of a country's balance of payments. If a country imports more goods and services than it exports, it incurs a trade deficit and,

conversely, if exports exceed imports, country has a trade surplus which has a positive impact on the overall gross domestic income.

Analysis of the regional trade balance over the period demonstrates that only two countries, Kazakhstan and Turkmenistan, have had a positive trade balance (see Figure 6.3.3). Turkmenistan had a trade deficit only during the global financial crises of 1998 and 2009-2010, due to the price drops for natural resources, but quickly recovered soon after the end of the crises. As of 2017, Kazakhstan and Turkmenistan had a positive trade balance of $13.6B and $3.8B, respectively. Trade deficit has been quite acute in Kyrgyz Republic and Tajikistan since the early 2000s. The trade deficit in these economies have been in constant rise and reached the highest levels in 2014 when the imports were about 8-9 times higher than the exports. Uzbekistan's trade deficit had been relatively mild until 2008. Country even had trade surpluses in 2000, 2005 and 2006. However, since 2008, the country has imported on average twice as much goods and services as it exported. As of 2017 Uzbekistan had a negative trade balance of $2.8B in net imports.

Despite the policies of trade liberalisation and economic diversification, the reliance of region on hydrocarbon and mineral commodity exports has been increasing over the period. Especially, countries with abundant non-renewable natural resources have been trapped by the 'resource curse'. Although 'resource curse' didn't lead to the economic stagnation or contraction as conventional literature would expect, these countries certainly failed to benefit fully from their natural resource wealth to diversify the economy by investing other areas of the economy.

Figure 6.3.3. Trade balance in Central Asia (in current USD), 1995-2017
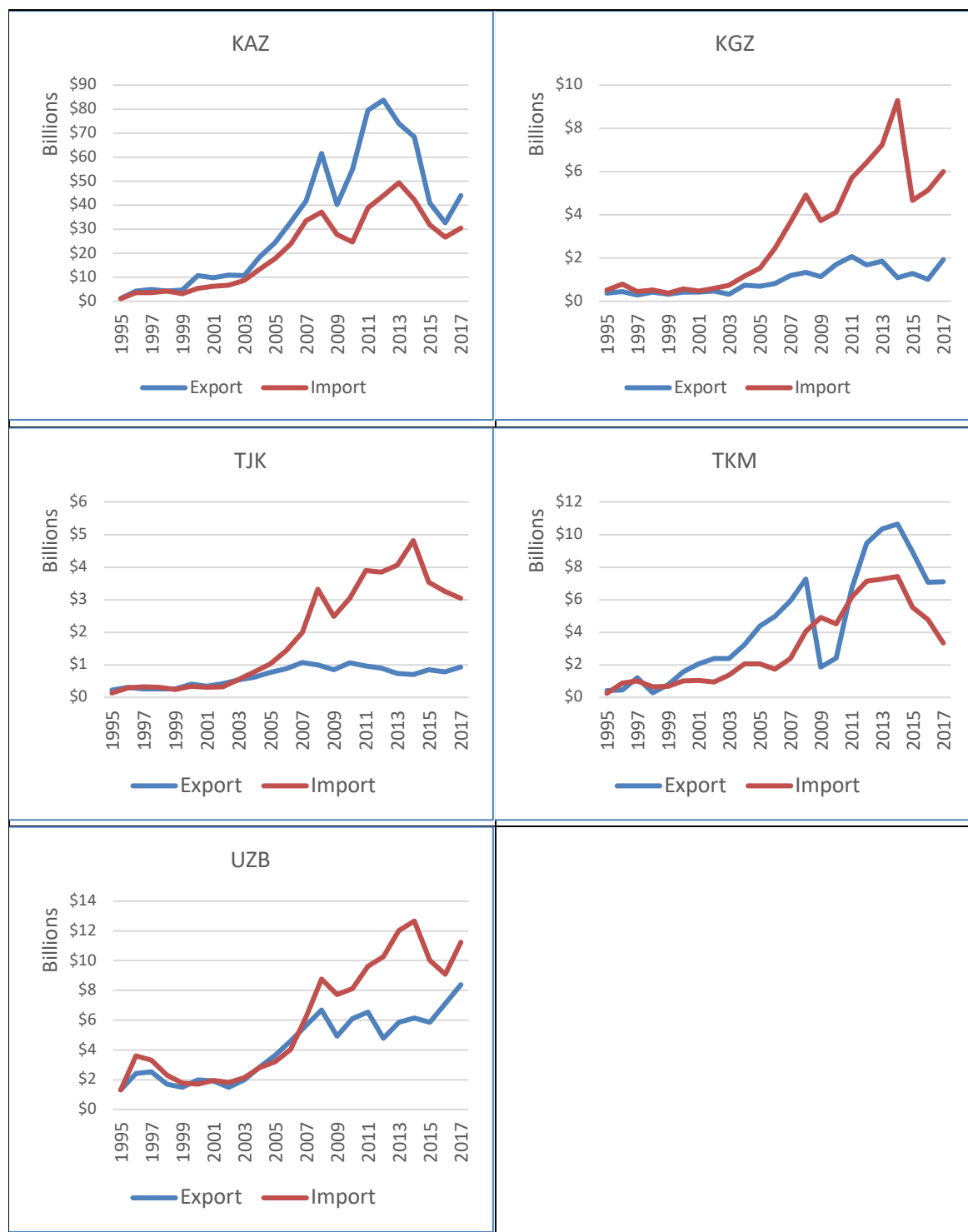
Source: The Observatory of Economic Complexity, MIT.

The Figure 6.3.4 below represents the export goods baskets of regional economies and the changes in these baskets since 1995. Turkmenistan's export basket is the most homogenous in the region, limited to a couple of commodities, and remained unchanged over the time. Two commodities – mineral resources and textiles on average accounted for more than 90% of country's export goods basket throughout the period. Mineral resources (primarily, natural gas) have been the dominant sector of the economy. As of 2015, mineral resources accounted for 92% and textiles for 6% of the export good basket, compared to 77% mineral resources and 17% textile industry in 1995. Only slight drop in the share of mineral resources was observed in 2010 (70%), but it was temporary and due to the commodity price drop as a result of global financial crisis.

Similarly, natural resources account for a great chunk of Kazakhstan's exports and their share has been in constant rise during the observed period. For example, the share of mineral resources, metals and chemicals in overall export basket of the country has increased from 80% in 1995 to around 90% in 2015. However, economy's reliance on a particular commodity – oil, has increased by multiple times: from just 14% in 1995 to as high as 72% in 2010 before it slightly dropped to 64% in 2015.

Tajikistan's export goods basket has also been dominated by two commodities, aluminum and cotton, for most of this period. Together these commodities accounted for 88-90% of all export goods during the first two decades of independent development. From 2010, however, the share of these commodities started decreasing and reduced down to 44% in 2015. Nowadays, apart from the aluminum and cotton, the country's export good basket includes mineral products (20%), precious metals (17%), vegetable products (6.8%), instruments (5.1%), animal products (3%) and others.

Uzbekistan, which had been a cotton hub of the Soviet Union, continued to heavily rely on its textiles industry until the late 90s. However, textile's share of the export goods basket of the country shrunk considerably – from 77% in 1995 to just 19% in 2015. But the share of metals and precious metals have increased from 18% to 45% during

this period. Country's economic diversification policy has been working relatively well compared to the neighbouring countries. Particularly, development of transport, chemical industries and agricultural sectors in the late 90s and the beginning of 2000s, have increased range of the export goods. Country's export goods basket since 2005 do not single out one particular commodity to have a dominant position.

In Kyrgyzstan, metals, textile and foodstuffs had been major contributors of the economy throughout the 1990s, accounting for about 70% of country's export goods basket. However, since the start of commercial production of gold in Kumtor Gold Mine in 1997, precious metals' share of has increased considerably and become the highest contributor of the export basket. For examples, gold production accounted on average 40% of the export goods basket from 2000 to 2015. Currently, country's export good basket is fairly diverse. Along with the traditional goods (gold, metals, textiles and foodstuffs), country's export basket includes transportation (8.8%), mineral products (8.1%), vegetable products (6.2%), machines (6.2%), chemical products (3.5%) and others.

Figure 6.3.4. Export goods basket of Central Asian counties (1995-2015)

KAZ

Legend:
- Mineral products
- Metals
- Chemical products
- Vegetable products
- Precious metals
- Animal hides
- Textiles
- Others:

KGZ

Legend:
- Precious metals
- Metals
- Textiles
- Foodstaffs
- Vegetable products
- Machines
- Mineral products
- Transportation
- Chemical products
- Others:

TKM

Legend:
- Mineral products
- Textiles
- Plastics and Rubbers
- Others:

TJK

Legend:
- Metals
- Textiles
- Mineral products
- Precious metals
- Vegetable products
- Instruments
- Animal products
- Others:

UZB

Legend:
- Textiles
- Precious metals
- Metals
- Chemical products
- Vegetable products
- Mineral products
- Transportation
- Others:

Source: The Observatory of Economic Complexity, MIT.

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Although the level of trade openness and liberalisation cannot clearly illustrate the difference in trade performance between regional countries, some of them (Kazakhstan and Kyrgyzstan) have created relatively more favourable climate for cross-border trade than others (Tajikistan, Uzbekistan and Turkmenistan). This is reflected in regulatory frameworks of the trade in the respective countries. The quality of regulatory framework of trade in an economy is often measured in terms of simplifying procedures and reducing barriers for importing and exporting of goods and services across borders. The procedural simplifications tend to be associated with the reduction of documentary requirements, whereas reducing barriers is associated with the reduction of the costs and the time associated with exporting and importing goods and services. To assess the national regulatory framework of trade, the research focuses on the ease of going through three sets of trade procedures – documentary compliance, border compliance and domestic transport.

The number of documents required for cross-border trade by law or common practice by relevant state authorities and agencies is an important representation of how market-friendly the trade regime of an economy is. The Table 6.3.1. displays information about the number of documents required per import/export shipment in Central Asian countries in 2006-2015. According to the data, regional countries are not very different from each other in terms of documents required for importing and exporting, and not much changes have been undertaken over time. Only Kyrgyz Republic have made some improvements over the period by reducing the number of documents needed to export from 15 to 9, and to import from 17 to 11. Overall, the amount of paperwork required for cross border trade in Central Asian countries has been higher compared to the average of Europe and Central Asia, excluding high income countries.

Another important factor reflecting the environment conducive for trade development is the time spent for the documentary and border compliances when exporting and importing goods and services. The time for documentary compliance includes the time for obtaining, preparing, processing, presenting and submitting documents (either online or in paper). The time for border compliance includes the time associated with

compliance with the customs regulations and with regulations relating to other mandatory inspections.

Table 6.3.1. Documents to trade in Central Asia (in numbers), 2006-2015

Economy	Documents to Export			Documents to Import		
	2006	2010	2015	2006	2010	2015
Kazakhstan	11	10	10	13	12	12
Kyrgyz Republic	15	9	9	17	11	11
Tajikistan	11	11	11	13	13	12
Uzbekistan	13	13	11	15	15	13
Europe & Central Asian (*excluding high income*)	8.5	7.6	7	10.8	8.8	8

Source: World Bank, Doing Business Index's "Trading Across Borders" segment
- *Documents that are often given or valid for a year or longer or do not require renewal per shipment are excluded. Since the region is landlocked, the data also includes documents required by authorities in the transit economy. No data available for Turkmenistan.*

Overall trade regime of the region has been extremely time-consuming over the period. The average time required to cross-border trade procedures in the region has been twice as much as the average of Europe and Central Asia, excluding high income countries (see Table 6.3.2.). The export has been most time consuming in Kazakhstan, where businesses have to spent around 80 days to comply with documentary and border requirements. Export procedures in regional countries have changed very marginally over the period. Only Uzbekistan has reduced the export time from 79 days to 54 days, which is the lowest in the region. On the other hand, the procedures for importing goods and services have been rather burdensome in Uzbekistan, where it took on average 110 days to comply with all import related procedures between 2006 and 2015.

The reduction of costs related to the cross-border trade is vital for the trade development. The cost to trade represents the expenses associated with compliance with the documentary and border requirements for imports and exports. The cost of

documentary compliance includes all expenses related to obtaining, preparing, processing, presenting and submitting documents to the state authorities of the origin economy, the destination economy and any transit economies. The cost of border compliance includes all expenses related to the customs regulations and with regulations relating to other border inspections.

Table 6.3.2. Time to trade in Central Asia (in days), 2006-2015

Year	Time to export (days)					Time to import (days)				
	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan	Europe & Central Asian (excluding high income)	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan	Europe & Central Asian (excluding high income)
2006	89	64	71	79	38	76	75	65	117	41
2008	89	64	71	79	32	76	75	65	117	34
2010	89	64	71	79	28	76	75	65	117	29
2012	76	63	71	70	27	62	72	65	105	29
2014	81	63	71	72	26	69	75	72	108	28
2015	79	63	71	54	25	67	73	70	104	27

Source: World Bank, Doing Business Index's "Trading Across Borders" segment
  - *No data available for Turkmenistan.*

The table 6.3.3. below represents the cost to trade in Central Asian countries since 2006. According to the data, all regional countries have been reducing the cost of trade over the period. Overall, the trade has been less costly in Kyrgyz Republic than in neighbouring countries. In terms of the improvements, the cost of trade in Uzbekistan was reduced by three-fold between 2006 to 2015, whereas in Kazakhstan and Tajikistan, export and import expenses were reduced by one and half times. Currently, the trade seems to be more costly in Tajikistan than in other countries. However, overall cross-border trade regime in the region is around three times more costly than the average of Europe and Central Asia, excluding high income economies.

Table 6.3.3. Cost to trade in Central Asia (US$ per container deflated), 2006-2015

Year	Cost to Export (US$ per container deflated)					Cost to Import (US$ per container deflated)				
	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan	Europe & Central Asian (*excluding high income*)	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan	Europe & Central Asian (*excluding high income*)
2006	8946	6392	11552	17581	5077	9110	6264	16245	19881	5722
2008	6244	5454	8713	11922	3666	6358	5345	12253	13481	4144
2010	4699	4496	4984	7720	2915	4777	4899	6769	8589	3230
2012	4094	4357	5093	6458	2676	4303	4683	6019	7184	2961
2014	5185	4500	9027	5458	2387	5163	5315	10696	6105	2650
2015	5285	4760	9050	5090	2327	5265	6000	10650	6452	2625

Source: *World Bank, Doing Business Index. Insurance cost and informal payments for which no receipt is issued are excluded from the costs recorded.*

Trade Integration and the 'WTO effect'

Accession of some regional countries to the World Trade Organisation (WTO) was one of the important steps towards trade liberalisation and integration into the global economy. WTO is an international organization working to resolve trade problems between nations – reducing export and import barriers. WTO membership entails substantial changes in regulatory framework of the trade in a member country and serves as a commitment to abide by the commonly agreed rules and principles of fair and open trade. Three countries of the region have become members of the WTO so far. Kyrgyz Republic is the first country in post-soviet space to become a member of the organisation in 1998, followed by Tajikistan in 2013 and Kazakhstan in 2015. Only Uzbekistan and Turkmenistan remain non-party to the WTO. Uzbekistan's first contact with WTO was established in 1994 when it acquired an observer status. Uzbekistan resumed the official negotiation process to join the WTO in 2019 by submitting an updated memorandum on the foreign trade regime of the country. Turkmenistan

officially set up a new state commission on joining the WTO in 2013. In 2019, Turkmen officials had a meeting with the representatives of the WTO with the aim to enhance cooperation between Turkmenistan and the WTO and get prepared for the accession to the organization.

WTO accession was a major breakthrough for Kyrgyz Republic's bid for open market economy. It took as short as three years for the Kyrgyz government to accept all the main rules and procedures of WTO without any amendment, whereas the international average period for WTO accession has been around ten years. Kyrgyz Republic was the first in the region to abolish quota system and export licensing (with the exception of some important commodities). The country soon became a trade-bridge between Chine and grated Eurasia. During first decade of independence, country's foreign trade destinations diversified and the share of CIS countries in the total volume of foreign trade declined from 77.5% in 1992 to 45.1% in 2001, while the share of other foreign countries increased from 22.5% to 54.9% (Barkovski, 2003: 156).

However, local politicians and experts split as per country's fast-tracked accession to the WTO. For instance, KGZ2 believes that "country's WTO accession was irrationally rush idea and its' contribution to the economy is highly exaggerated. The government blindly accepted all the requirements of WTO, believing that it would be a good starting point to open the economy to the external markets, gain investor trust and attract foreign investments. We have lost way too many manufacturing and industrial units which needed some sort of state protection for initial recovery and survival. Country's producing capacity was entirely collapsed, and we created a mere retail economy". However, some others believe that WTO accession was vital for the economy to recover from the deep recession caused by the collapse of the USSR. As KGZ1 pointed out, "accession to the WTO was the most practical initial step to revitalise the national economy following the breakdown of the Soviet Union. Given country's landlocked geography, scarcity of natural resources and distorted manufacturing capacity, the only, rational and immediate cure for the economy was

the development of trade though greater integration into the global economy. WTO was the cornerstone for that purpose."

Officials in Tajikistan also claim that one of the most important achievements of the country in term of trade liberalisation is WTO accession in 2013. As TJK6 argued, "WTO membership undoubtedly contributed to the improvement of the regulatory framework of trade in the country. Following the accession to the organisation, we had to amend over 100 existing regulations and adopt 50 new regulations related to the private sector in general and the trade in particular. In order to simplify customs procedures and bring them in line with WTO principles and standards, country's Customs Code was entirely revised and amended. All regulatory changes have been carried out with a close consultation with WTO experts. As of 2019, Tajikistan has completed 67% percent of its' membership commitments".

Unlike Kyrgyz Republic, the negotiation process with WTO had been rather challenging for Tajikistan as the country wanted some of its' conditions to be accepted by the WTO. The government wanted to protect certain industries and sectors of the economy in order to safeguard domestic producers and save jobs. WTO has made significant concessions given the economic conditions and vulnerability of the socio-political condition of Tajikistan. Tajikistan accepted only 6 out of 13 main rules and procedures of WTO without amendments. The rest were negotiated and amended based on country's terms and conditions. According to TJK6, "following WTO accession, the diapason of trade relations of Tajikistan has considerably expanded. Country's trade partners have increased from 69 to 110. Trade balance has improved, export potential has increased". However, closer look at the trade performance of the country reveals that WTO effect is somewhat overstated. In fact, country's trade has been in decline since 2014. The trade deficit of the post-WTO period has been higher than the pre-WTO period. The growth of exports in some sectors (primarily, cement and coal) is due to the import substitution programme of the government, rather than WTO effect.

It took almost twenty years for Kazakhstan to become WTO member since country's first application for accession and establishment of a working group in 1996. Kazakhstan's negotiation processes with WTO not only been long, but also unique processes in the history of the organisation. Before joining the WTO, Kazakhstan became a member of the Customs Union in 2010 and the Eurasian Economic Union in 2015. In world practice, there are certain rules for creating such integration schemes. As a rule, WTO member countries unite and create customs unions, whereas in the case of Kazakhstan, the situation was the opposite: the country first became a member of the customs union and then joined the WTO. Therefore, over the past 3 years before joining the WTO, Kazakh government had been working on the harmonization of rules and procedures under the Customs Union and WTO. Particularly, more than 50 regulatory documents have been amended and changes have been made in 10 agreements adopted in the framework of the Customs Union. The country was *de jure* already created regulatory framework conducive with the WTO standards. At the same time, there are certain areas of the economy that were given transition periods before fully meeting WTO standards.

Overall, it is not easy to disentangle the effects of geography and natural resources on one hand, and policy reforms and trade integration on the other. The level of trade openness and overall economic reforms cannot clearly illustrate the difference in trade performance between regional economies. The countries with open trade and liberalised economy (Kazakhstan and Kyrgyzstan) are not significantly different from the countries where the trade regimes are believed to be less market-friendly (Tajikistan, Uzbekistan and Turkmenistan). The progress in trade has been made primarily due to the increased demand for and the hike in the prices of the natural and labour resources of the region.

Despite being at the centre of Eurasian continent, Central Asian economic structure is one of low density and long distances with few people in a large territory consisting mostly of deserts and high mountainous provide limited and costly trade connectivity. Therefore, the improvements in trade policy and regulations are very critical in the region given these inherent challenges. Prospects for further expansion of trade seem

to be limited unless regulatory issues and shortcomings in trade policy are resolved. Getting out of resource curse is one of the primary economic policy tasks for most of the countries of the region. The viable way to do so is the improvement of the regulatory framework of the trade and overcoming procedural and political obstacles.

6.4. Financial Regulation

Studies emphasising the strong relationship between financial development and economic growth are plenty. Sound financial system is said to help channel savings and direct funds into investment projects which consequently promote economic growth (King & Levine, 1993; Levine & Zervos, 1998). Economic growth always requires allocation of additional financial resources, and effective financial system is the only way to accommodate this demand (Robinson, 1952). The critical role of the financial reforms for the transition economies to ensure sustainable economic growth has also been stressed by the field scholars (Koivu 2002; Koivu and Sutela 2005).

During the Soviet era, Central Asian financial system was integrated into the soviet state-controlled financial system where banks were the only financial institutions responsible for the allocation of funds and the management of financial transactions. The soviet financial system consisted of five major state banks and their regional departments in all member republics. Two other major sources of capital for the state were the current accounts of ministries, local governments and enterprises as well as the savings accounts of the general population (Djalilov & Piesse, 2011: 7). Banks were funded only from the central state budget. There was only one state-run insurance company and one pension fund. Capital and foreign exchange markets were non-existent (Akimov, 2002).

Disintegration of Soviet Union left the former member republics with a legacy of high inflation and interest rates, low levels of reserves and lack of liquidity in banks (EBRD, 2006). Immediate reform actions were required for an economic recovery and sustainable future. In some post-soviet republics, financial liberalization took place fairly rapidly in the beginning of the 90s in the context of the reaction to the economic downturn caused by the collapse of the union, while others lagged far behind due to the political, social and economic issues (Bokros, Fleming & Votava, 2001; Sherif, Borish & Gross 2003). Accelerated financial reform actions helped many republics quickly recover from the financial downturn and stabilize the economy.

Early post-independence financial sector reforms in Central Asia started with cutting the local departments of the five soviet banks from the central offices in Moscow and turning them into the independent national banks. Along with this, regional countries created commercial banks by separating the existing banks from the central bank and promoted the private banking. Another important breakthrough was the withdrawal of the region from the Ruble zone and introduction of national currencies. All countries, except Tajikistan, replaced ruble with new national currency by the end of 1993, which created a handful of opportunities to conduct independent financial and monetary policy, to exercise a sufficient control over the domestic economic affairs and macroeconomic management. Partly due to the initial financial reforms, economies of the region had recovered from a deep financial recession with the inflation rates dropped significantly by the end of 90s.

Despite similarities in initial conditions and a number of general problems, the pace of reforms in financial sector varied across Central Asia. As is the case in other areas, financial reforms had been more dynamic in Kazakhstan and Kyrgyz Republic than in Uzbekistan, Tajikistan and Turkmenistan. At the outset of reforms, all regional countries introduced international accounting and reporting standards, created supervisory systems, restructured several nearly collapsed banks and adopted flexible exchange rate policies. These measures in turn had contributed to the financial and macroeconomic stabilization in the second half of the 90s. However, overall regional financial system restructuration has been slower than in other post-soviet transition economies of Eastern Europe and Caucasus (Honma, 2019). Regulatory and institutional frameworks of financial sector management have been inadequate for greater integration into the global finance and tackling the effects of external distortions (Uyanik and Segni 2001). Failures in creating competitive environment in the banking sector, excessive control from the banking regulator, underdeveloped non-banking financial system, strict foreign exchange regulations, susceptibility of the national currencies to the commodity price volatilities and others have been the main obstacles to the financial sector development in Central Asia.

Banking Sector

Financial sector of Central Asia is dominated by the banks, though total assets in the banking sector is considered to be low by international standards. State banks continued to play a major role for much of the post-independence period, their privatization has been gradual and often proved costly (EBRD, 2006). Table 6.4.1. represents changes in the size of the banking sector in regional countries between 1994 and 2018. According to the data, despite the increase in the number of banks in the first half of the 90s, the banking sectors of Kazakhstan, Tajikistan and Turkmenistan have contracted over the period due to the state-led consolidation and rationalization policies. Only in Kyrgyz Republic the banking sector has gradually increased, while it remained largely unchanged in Uzbekistan. Consolidation and rationalization of banks were carried out through: a) forcing weaker banks to quit or merge with other banks by applying higher minimum capital requirements; (b) reconciliation of accounts, liquidation of bad assets, collection of bad loans, and providing the means to facilitate mergers and forced bankruptcies; (c) prudential regulations in line with international standards, including capital adequacy, loan classifications, and liquidity requirements (Uyanik and Segni 2001).

Development of private banking and inflow of foreign banks have been rather slow. For example, out of 29 commercial banks of Uzbekistan, only 6 private and 5 foreign-owned. Currently, the state banks control 90% of the banking sector assets (Saidov, 2020). Turkmenistan's banking sector is comprised of 11 banks, all of which only one private and 2 representatives of foreign banks. The only private banks in the country is owned by members of the Union of Industrialists and Entrepreneurs. In Tajikistan, out of total 17 commercial banks, 6 majority foreign-owned banks. The six largest banks of the country account for 81% of total bank assets, and majority foreign-owned banks account for only 10.5% (IMF). There are 13 foreign-owned banks currently in operation in Kazakhstan. The share of the five largest banks of Kazakhstan in total assets of banks amounted to 57.5%, in the total loan portfolio of banks – 56.6%, in total customer deposits – 60.5% (National Bank of Kazakhstan, 2018). Foreign representation in the banking sector of Kyrgyz Republic is the highest in the region,

where more than half (14 out of 26) of country's commercial banks are controlled by foreign groups. State owns only three banks.

Table 6.4.1. Number of banks (of which foreign-owned)

	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
1994	184(8)	15(1)	17(n/a)	67(3)	29(1)
1996	101(9)	18(3)	23(n/a)	68(4)	29(2)
1998	71(20)	23(6)	20(5)	13(4)	33(4)
2000	48(16)	22(6)	16(3)	13(4)	34(6)
2002	38(17)	20(6)	14(3)	13(4)	35(6)
2004	35(15)	19(9)	12(3)	11(4)	31(5)
2006	33(14)	20(10)	10(2)	11(4)	29(5)
2018	32(13)	26(14)	17(6)	11(2)	29(5)

Source: EBRD transition reports.

Despite liberalization and modernisation efforts, the state banks continued to lend their traditional clients and the lending was based on "instructions or patronage" of the ruling elites (Sherif, Borish & Gross 2003: 21). This, in turn, increased the volatility of the banking sector by mounting the nonperforming loans and liquidity shortages. Continued insolvencies constrained deposit withdrawals which led to the public mistrust in banking sector. The situation has been especially severe in Uzbekistan, Tajikistan and Turkmenistan where public have very little confidence and trust in banks. Although data protection regulations are in place in all countries, in reality, the law-enforcement agencies have unrestricted access to the private accounts. This is one of the reasons why neither business not general public are keen on keeping their moneys in banks. The main instrument of the regulator to encourage public to put their saving in banks has been the interest rates. However, interest rates policy hasn't been productive enough to gain public trust.

Despite the official claims that Kazakhstan banking sector is dominated by a private sector, the state, through fully- and quasi-state entities, continues to be the largest

depositor and borrower (World Bank and IFC, 2017). Moreover, majority of the largest banks are said to be closely related to the country's ruling elites. Banking sector of Kyrgyz Republic is relatively less constrained by direct state interventions than in neighbouring countries. However, banks face different kind of problems here. They are primarily constrained by limited funding sources and lending opportunities. To attract more deposits from the public, banks tend to increase the interest rates, which has highest in the region. On the other hand, collateral requirements imposed by Central Bank are said to be rather high in Kyrgyz Republic. As of 2018, for example, country's banking regulation required that loans be covered by collateral of at least 120% of the loan. However, this is the minimum amount and in reality, collateral requirements demanded by commercial banks can be even higher (EBRD, 2019).

Overall, as UZB7 argued, "regional economies failed to create and promote competitive atmosphere in the banking sector. Private banking still remains underdeveloped. Banks tend to face various difficulties related to the state interventions. Many of them had been closed or merged with bigger banks or nationalized by the state. Most of the remaining private banks are those that linked to the ruling elites."

Interest Rates

Interest rates is an important component of the financial system and a key for private sector development. There are various types of interest rates, but the one that has a direct impact on the private sector is a *lending interest rate*, which is charged on loans by commercial banks to private individuals and companies. The lending rate is an important indicator to assess the efficiency of banking sector and affordability of loans for private sector. However, in transition economies it is sometimes used as an economic policy instrument to resolve budget deficits and curb capital flight. In many instances, the governments of Central Asia tend to raise interest rates for stabilization purposes rather than promotion of the private sector. It is more of a mobilization of the resources to finance budget deficits.

Although lending interest rate policy varies across the region, the regional average lending rate has been much higher than the world standards. Lending rates in

Tajikistan and Kyrgyz Republic have been prohibitively high over the last two decades. For instance, from 2000 until 2019, the lending interest rates of Kyrgyz Republic and Tajikistan averaged 26.1% and 21.0%, respectively (IMF). The rate has been milder in Kazakhstan which averaged 13.8% during the same period (Ibid). The Figure 6.4.1. represents the lending rates since 2010. It shows that on average the rate has been 25% for Tajikistan, 22% for Kyrgyz Republic, 14% for Kazakhstan and 17% for Uzbekistan. The situation has been most stringent in Tajikistan where the rate rose as high as 30% in 2017. Uzbekistan's rate has also plummeted in recent years reaching 24% in 2019. The regional average (excluding Turkmenistan) was 19.5%, which is six times as high as in Euro Area, where lending rate averaged 3.95% between 2000-2019.

Figure 6.4.1. Lending interest rate (%) in CA, 2010-2019
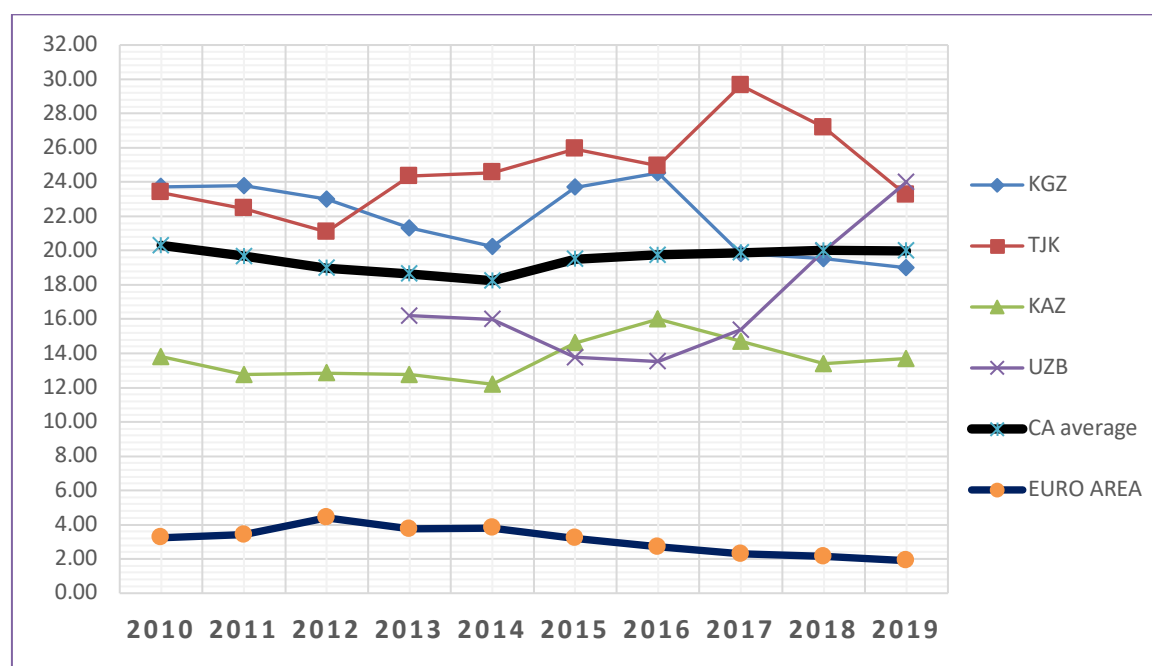
Source: IMF and tradingeconomics.com. No data for Turkmenistan.

As a rule, higher lending rates make bank loans more expensive and, thus, fewer private individual and businesses would be keen on borrowing. This has negative repercussions on the demand side due to the lower amount of credit available to fund purchases and on the supply side due to the reduced capital available to expand businesses. In the short run, high interest rates may encourage more people to save because they receive more on their savings rate. However, as it hinders the ability of

businesses to borrow, it can lower the deposit penetration and slow the economic development. Because of a very high lending rates in Central Asian countries, the resources tend to be directed to higher yielding yet very risky projects. Overall, mobilization and allocation of financial resources in majority of the regional economies have been improper for decades.

Domestic Credit to Private Sector

Credit allocation is key to encourage entrepreneurial activity in an economy (Levine & Zervos, 1998; Levine, Loayza, & Beck, 2000). Commercial banks can effectively intermediate funds if private credit is not crowded out by the government debt. However, in due to the ineffective financial regulations and excessive government interferences in the banking sector of Central Asian countries, the growth of domestic credit to the private sector has been rather slow. The increase in loanable funds has largely been absorbed by the public sector.

From 2000 until 2018, GDP ratio of domestic credit to private sector in the region averaged around 18-19%, which is almost twice as low as the average of Europe and Central Asia, excluding high-income countries (38.4%), and nearly four times as low as the average of Europe and Central Asia, including high-income countries (96.4%) (see Figure 6.4.2.). Within the region, Kazakhstan's private sector credit-to-GDP ratio has been the highest (32%), followed by Uzbekistan (24%). The ratio for Kyrgyz Republic and Tajikistan has been twice as low as in Kazakhstan (13.1% and 15.5% respectively). However, recent trends indicate that the domestic credit allocation has been improving in Uzbekistan and Kyrgyz Republic, while falling in Kazakhstan and Tajikistan. For instance, Uzbekistan's private sector credit reached 42.2% of the GDP in 2018, which was higher than the average of CIS (30% in 2017). Turkmenistan's domestic credit to private sector has been and still remains the lowest in Central Asia and even in CIS.

Extremely high rates of lending interests as well as the allocation of credits by way of governmental instructions or patronage purposes led to the rise of non-performing loans (NPLs). Most of the banking credits tend to be allocated to uncompetitive and

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inefficient government-backed production projects. This is particularly applicable to the case of Tajikistan and Uzbekistan. NPLs in Tajikistan's banking sector reached extreme levels in 2002 (84.2%) and 2003 (73.2%) as well as following the global financial crisis in 2009 (46.4%) and 2010 (44%) (see Figure 6.4.3.). NPLs has been in rise also since 2014. Relatively moderate levels of NPLs in some years might be due to the statistical overrating or misleading classifications. Actual rates could be much higher, according to the local experts. The figure is believed to be even higher in distressed banks. Reported NPLs data for Uzbekistan, according to the World Bank, are likely understated due to "misleading classification (for example, only the scheduled repayment portion is counted as overdue vs. the equivalent outstanding amount of the loan), in some cases special treatment of overdue repayments by state-owned enterprises under state guarantee, and transfer of problem loans to off-balance sheet" (2017:13). In reality, however, NPLs has been very high.

Table 6.4.2. Domestic credit to private sector/GDP in CA, 2000-2018
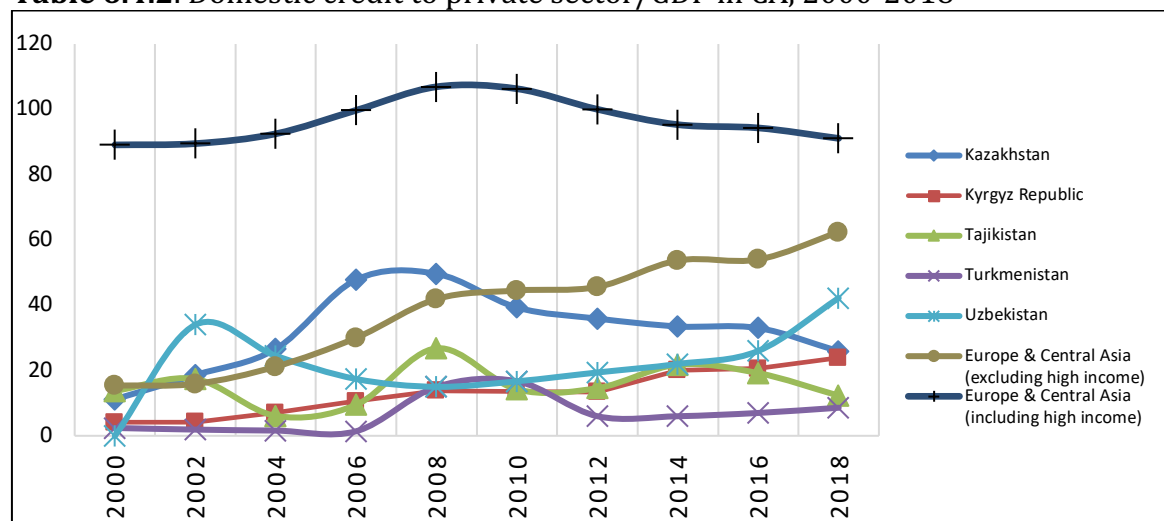
Source: Data for Turkmenistan and Uzbekistan are from EBRD transition reports; for Kazakhstan, Kyrgyz Republic, Tajikistan and Europe & Central Asia are from IMF, World Bank and OECD. Uzbekistan's data for 2012, 2016 and 2018 are from Central Bank of Uzbekistan (cited in Ahunov, 2018). Turkmenistan's data for 2018 from the Central Bank of Turkmenistan.

Figure 6.4.3. Nonperforming loans (in % of total loans) in CA, 1996-2018

NPL ratios in Kazakhstan had been stable until the financial crisis of 2009. It was due primarily to two reasons, according to Zhukov & Reznikov (2001). On one hand, a deep devaluation of the national currency, while maintaining administrative control over energy prices, contributed to a reduction in production costs. Domestic prices for primary energy and electricity ceased to be tightened to world prices. On the other hand, the growth in revenues from energy exports led to an increase in revenues to the state budget, which in turn allowed a slight increase in spending on industries serving the domestic market. However, as a result of financial crises of 2008-09 and associated commodity price drops and weakened paying ability of the population, non-performing loans were skyrocketed. Between 2009-2014, NPLs exceeded 30% in several banks across the country. The NPLs have stabilised since 2016 due to the improvement in external economic environment.

In Kyrgyz Republic, non-performing loans has been around 8% over the period since 1998. The data reached an all-time high of 17.6% in 2002 and recorded another hike following the financial crisis in 2010 (14.8%). Relatively low level of NPLs in Kyrgyz Republic can be explained by the fact that the domestic credit to the private sector has been low due to the prohibitively high interest rates.

It is rather difficult to draw any reasonable conclusion about the NPLs in Turkmenistan as there are no data available for most of the observed period, and available ones are unlikely represent the reality on the ground. Existing data for 1996-2006 indicates very low levels of NPLs which could be due to the extremely low levels of domestic credit to private sector. Credit growth over recent years driven mainly by subsidised state programmes aimed at stimulating local production (EBRD, 2019).

Foreign currency exchange

In the beginning of the 90s, along with other market reforms, currency exchange markets were de jure liberalized in Central Asia. However, all regional governments *de facto* retained some form of control over the exchange rates. As central banks have price stability as their main policy objective, most of them have relied on exchange rate stability to achieve this objective (IMF, 2016). Therefore, the first policy response involved intervention in local foreign exchange markets. The level and forms of interference varied across countries and over time. With differing commitments to the market economy, the regional governments adopted different exchange regimes with limited capital controls (Broome 2010). State intervention in exchange rates have been much heavier in Turkmenistan and Uzbekistan than in Kazakhstan, Kyrgyz Republic and Tajikistan.

The Table 6.4.2. represents *de facto* exchange rate arrangements in Central Asian countries since 2000. In the early 2000s, Kazakhstan's exchange rate was market-determined – independent floating, and monetary authority pursued an independent monetary policy. In the second half of the 2000s, the government limited the flexibility of monetary policy by pegging its currency at a fixed rate to foreign currencies without committing to keep the parity irrevocably. The central bank maintained the fixed parity through direct or indirect interventions. In August 2015, however, the government of Kazakhstan decided to adopt floating exchange regime with the inflation targeting framework which involved setting numerical targets for inflation.

In the beginning of 2000s, Kyrgyz Republic and Tajikistan had *managed floating exchange* arrangements with no pre-determined path for the exchange rate. The central banks intervened in exchange rates without having a specific exchange rate path or target. Kyrgyz Republic kept this policy until recently, before shifting to a rather unclear exchange arrangement rationalised by the volatile foreign exchange market conditions. In the second half of 2000s, Tajikistan adopted an exchange policy similar to Kazakhstan, e.g., it pegged its currency at a fixed rate without committing to keep the parity irrevocably. Currently, the Tajik monetary authority is using a stabilized arrangement approach which entails a spot market exchange rate that remains within a margin of 2% for six months or more. This policy usually aims at achieving a target growth rate for a monetary aggregate, and the targeted aggregate becomes the nominal anchor or intermediate target of monetary policy (IMF classification).

Table 6.4.2. *De facto* exchange rate arrangements in Central Asia, 2000-2017

Economies	2000	2008	2017
Kazakhstan	Independently floating	Other conventional fixed peg arrangement	Floating arrangement (*Inflation targeting framework*)
Kyrgyz Republic	Managed floating with no pre-determined path for the exchange rate	Managed floating with no pre-determined path for the exchange rate	Other managed arrangement
Tajikistan	Managed floating with no pre-determined path for the exchange rate	Other conventional fixed peg arrangement	Stabilized arrangement (*monetary aggregate target*)
Turkmenistan	Other conventional fixed peg arrangement / Dual market	Other conventional fixed peg arrangement /Dual market	Conventional peg /Dual market
Uzbekistan	Managed floating with no pre-determined path for the exchange rate / Dual market	Crawling peg /Dual market	Crawl-like arrangement (*Monetary aggregate target*)

Source: IMF Annual Reports on Exchange Arrangements and Exchange Restrictions, 2000, 2008, 2017.

Foreign currency exchange regimes of Turkmenistan and Uzbekistan are unique cases given that these countries have had dual exchange markets – official and unofficial (i.e. parallel or black markets), with differing rates and arrangements for most of the post-independence period. Market dualism emerged as an inevitable consequence of the heavy regulations of official exchange markets. The black-market rate is largely determined by the demand that cannot be satisfied on the official markets. High inflation rates, strict liquidity controls, widespread corruption and other maladies of state regulations have reduced the public trust in banks and local currencies. Therefore, many tend to store their wealth and valuable assets in their homes or abroad. To counter the outflow of funds from the country (known as 'capital flight') the governments set restrictions on the convertibility of local currencies to other hard currencies (Djalilov & Piesse, 2011). Market dualism ceased to exist in Uzbekistan only in 2017, when the government decided to end the black-market by removing restriction from converse and allowing free convertibility of the foreign currencies. Whereas in Turkmenistan, the government still strictly controls exchange flows, and the black-market remains the most common source of foreign currency exchange for general public and businesses.

Officially, however, there were no restrictions on the exchange in neither of the countries. Unofficially, restrictive measures tend to be justified as the way of protecting domestic production, controlling the inflation and unemployment. According to IMF, Turkmenistan's de facto exchange regime has been known as the one in which the monetary authority pegs national currency at a fixed rate to the currencies of country's major trading or financial partners without a commitment to keep the parity irrevocably. Uzbekistan's exchange regime in the early 2000 was classified as a managed floating with no pre-determined path for the exchange rate. From the second half of the 2000s, Uzbekistan adopted 'crawling peg' arrangement which assumes that the currency is adjusted periodically in small amounts at a fixed rate or in response to changes in selective quantitative indicators, such as past inflation differentials vis-à-vis major trading partners, differentials between the inflation target and expected inflation in major trading partners (IMF classification).

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Current exchange regime of Uzbekistan is classified as a 'crawl-like arrangement' which refers to the flexibility of adjustments of the exchange rate in response to external events, including differences in inflation across countries, capital flow pressure, and new trends in world trade.

All regional currencies have largely been tied to the US dollars. Dollarization had become a way to hedge against the risk of inflation and depreciation of the local currency (Isakova, 2010). Although, the degrees of dollarization and inflation rates has been different in regional countries, all national currencies have depreciated against the US dollar for multiple time over the period. In general, the currency depreciation has been more severe in Turkmenistan and Uzbekistan than other countries. As Figure 6.4.4. indicates, between 1994 and 2018, Kazakhstan's national currency – Tenge depreciated against the US dollar by 10 times (from 35 tenge to 344 tenge per USD), Tajikistan's Somoni – 9 times (from 0 to 9.2 somoni per USD), and Kyrgyz Som – 6 times (from 10.8 som to 68.8 som per USD). Only, Tajikistan could manage to maintain one-digit number exchange rate against the US dollar over the observed period.

Although official exchange rates in Turkmenistan and Uzbekistan have been strictly controlled by the state, in reality, the black markets represented the actual market rate of currency exchange which tended to be significantly higher than the official rates. The discrepancy between official and unofficial rates had been minimal until the second half of the 90s. However, after suspension of free convertibility of hard currencies in Uzbekistan in 1997 and in Turkmenistan in 1998, the discrepancy started increasing at unprecedented levels. Figure 6.4.5. displays the data on a weighted average of the official and parallel market rates (e.g. black-market rate) against US dollars for the countries between 1994-2007. As the data indicates, over this period, Turkmenistan's manat depreciated by around 250 times (or 25,000%) against US dollars (from 42 manat per USD up to 10.700 manat per USD), Uzbekistan's som – by around 110 times (or 1,100%) (from 11.4 soms per USD up to 1,263 soms per USD).

Figure 6.4.4. Official exchange rates (LCU per US dollar, period average)
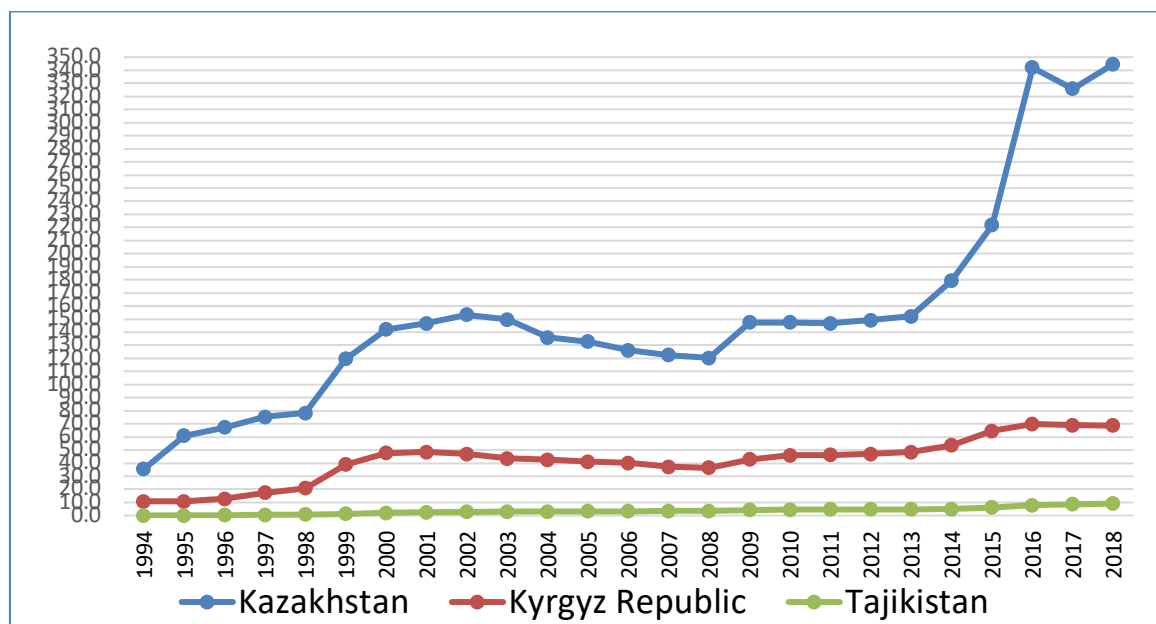
Source: World Bank

Figure 6.4.5. Exchange Rates for Turkmenistan and Uzbekistan (weighted average of official and parallel market rates per USD, period average)
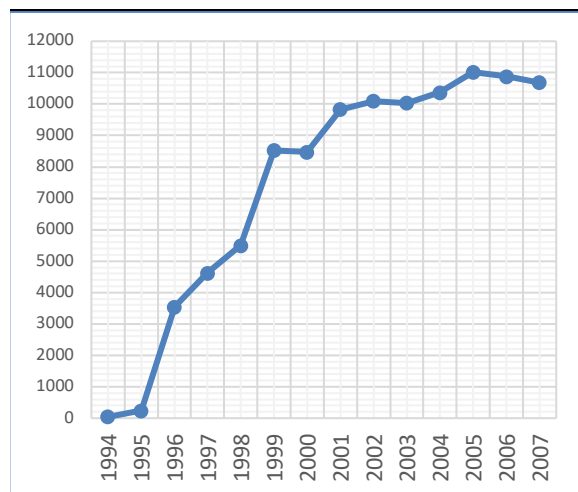
Turkmenistan   *Uzbekistan*
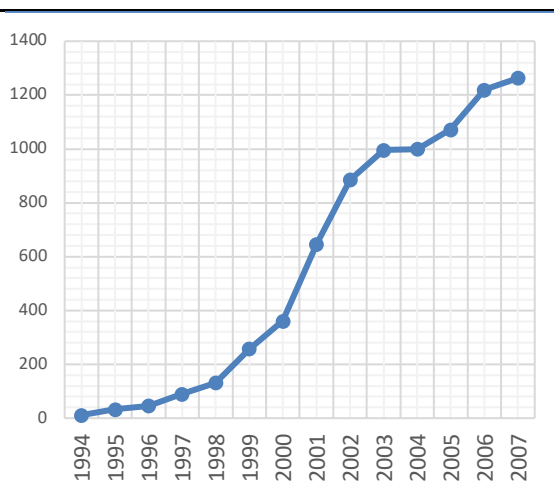
Source: EBRD transition reports.

With the financial sector reforms followed by the change of leadership in Turkmenistan in 2009, the national currency was denominated at 2.85 manat per USD against 14.200 manat per USD as of December 2008 (US Department of Commerce, 2019). The state had kept this rate until the next round of national currency devaluation in 2015 by 19%, to the rate of 3.5 manat per USD. However, none of these

measures could eliminate the black market as hard currency exchange remained extremely difficult due to the heavy government restrictions. The discrepancy between official and parallel markets has so far been at around 600-900% (see Figure 6.4.6.). Turkmen national currency has been subject to outside pressures due to the country's overreliance on the global energy prices. Frequent commodity price fluctuations put serious pressure on Turkmen currency. In January 2016, the government restricted access to hard currency and placed limitations on currency conversion. Only privileged companies received unofficial state guarantees for currency conversion. However, it is usually limited to 2% of the value of the company's bank account.

Some noticeable changes in financial sector of Uzbekistan had occurred between 2004 and 2008, when the government lifted some restrictions on the currency exchange. However, with the fear of domestic market deterioration as a result of global financial crises of 2008-2009, the government soon resumed all previous restrictions. In its turn, black market also continued to rise. The discrepancy between official and black markets is averaged at 50-200% between 2013 and 2017 (Ahunov, 2018). With the economic reforms of 2018 under the leadership of the newly elected Uzbek president, all restriction on converse were removed. The national currency was devalued to the black-market rate of 8,100 soms per USD against official rate of 4,210 soms per USD.

Overall, regional national currencies have been quite susceptible to external pressures and volatilities dictated by the decline of world commodity prices, the weakened growth in neighbouring economies, and the appreciation of US dollars against major currencies (including Russian ruble and Chinese Yuan) (Horton et. al., 2016). Moreover, slow growth in the Euro area, which is an important destination for regional exports, and the reduction of remittances from Russia, negatively affected the regional exchange markets and weakened the current account and fiscal balances (Ibid).

Figure 6.4.6. Official vs parallel market rates in Turkmenistan and Uzbekistan (LCU per US dollar, period average)

Turkmenistan (2008-2018)   *Uzbekistan (2013-2018)*
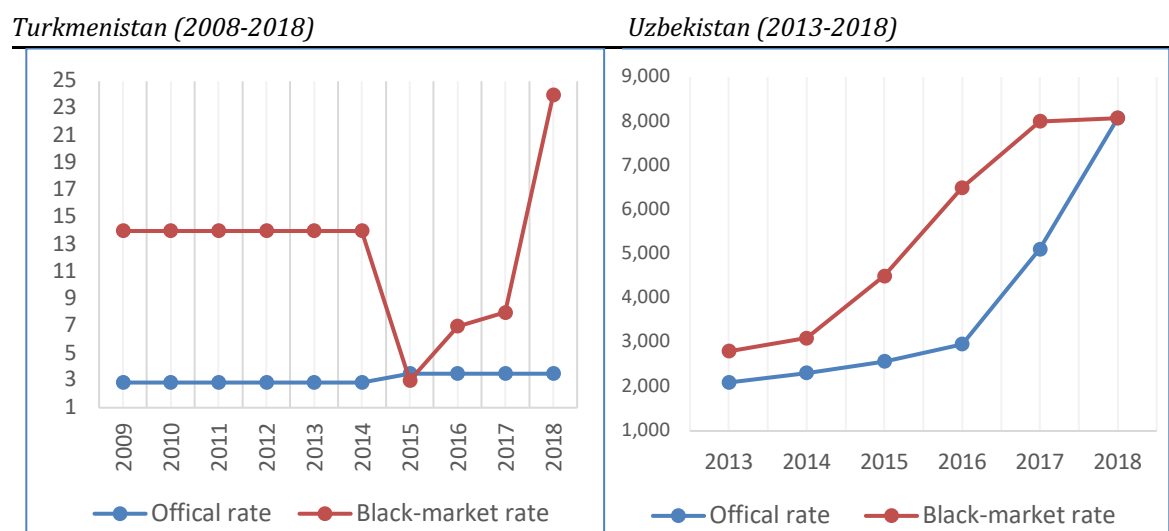
Source: Data on official exchange from World Bank. Black-market data for Uzbekistan from Ahunov (2018), for Turkmenistan – from US Agency for Global Media – RadioFreeEurope: https://www.rferl.org

Non-banking financial sector

Non-banking financial system of the region largely remains underdeveloped. The actors of the insurance markets, leasing markets and the stock markets are often directly or indirectly connected with banks (they are subsidiaries of banks). Stock market capitalization in the regional has been way too low compared to other transition economies of Eastern Europe (Djalilov & Piesse, 2011). Capital markets are small and weak, with only a couple of Kazakh companies actively trading on the stock exchange. Trading, clearing and settlement infrastructure is weak, local institutional and retail investor base is rather small. Hence, without developing non-banking financial institutions and greater convergence with global financial markets, gains from the world of finance will not be possible.

Overall, financial sector remains to be the particular challenge in the context of the region's economic resilience. This is true for all regional countries as richer countries continue to depend heavily on natural resource exports and others on the combination of resources, remittances and foreign aid. Heavy reliance on the external factors may negatively impact on the regional economy during the volatilities in commodity markets and instabilities in surrounding economies. This vulnerability can only be

mitigated by the enhanced private sector development and the diversification of the economy. Effective financial institutions with improved transparency and communications are essential prerequisites for the long-run sustainable economic growth of the region.

CHAPTER VII. REGULATORY SYSTEM AND GOVERNANCE IN CENTRAL ASIA

A sound regulatory system is an important precondition for enhancing the competitiveness of the economy, meeting the social goals of the society, protecting the environment, and ensuring a sustainable future. The well-being of the people to a significant degree depends on the quality of the regulatory system put in place in the country. The quality of the regulatory system is determined by the state's commitment to and promotion of reforms towards developing and implementing high quality regulations. Regulatory reforms are particularly vital for resource-rich economies, which have the potential to channel revenues received from natural resource rents towards productive investments and pave the way for a sustainable future. Since acquiring independence from the Soviet Union, Central Asian countries have been carrying out wide-scale reforms to enhance the quality of regulatory design and practices. Although formal legal frameworks and institutional arrangements of regulatory policymaking are relatively well-established now across the region, due to the problems with regulatory implementation and enforcement, regulatory changes have not produced desirable outcomes on the ground.

Quality of regulatory regime is often measured in terms of the state's ability to deliver regulatory reforms effectively and efficiently. In literature, 'effectiveness' refers to the extent to which regulation attains stated objectives underlying its use, whereas 'efficiency' means that the benefits to be obtained from the regulatory action are higher than its costs. However, there is hardly any consensus in the literature on the quality indicators of the good regulatory regime. It is rather arduous to assess the costs and benefits of regulations precisely. However, some international organisations promoting good governance principles, such as World Bank and OECD, have developed a set of indicators of good regulation that are widely used to measure the quality of regulatory policy in many countries worldwide. The current chapter will investigate the strengths and weaknesses of regulatory regimes of Central Asian countries by using the quality indicators proposed by the abovementioned organisations and, while

those indicators do not fully reflect the regulatory quality due to their prime focus on the *de jure* dimensions of the regulatory design and practices, it will be supplemented with the findings and observations on the *de facto* conditions of regulatory performances obtained during the field research.

In doing so, the first section (7.1.) will develop an understanding of the overall legal systems of regional countries to set the stage for further discussions as the legal system has a significant bearing on the key provisions of market regulation and overall regulatory governance in the country. The next section (7.2.) will examine the governmentwide regulatory policymaking and institutional arrangements put in place in regional countries. Section 7.3. will discuss the processes and tools of making regulations, including drafting, developing and enacting stages. This section will also elaborate on the practices of quality assurance in regulations in terms of ex-ante/ex-post regulatory reviews and impact assessments. Section 7.4. will critically examine the capacity of governments to effectively implement regulatory reforms and changes as well as the challenges they face in this direction. The last section (7.5.) will investigate the quality of regulatory enforcement and justice systems, as well as the corruption control measures, to ensure the hierarchy of law in the society.

7.1. Overview of the Legal System of Central Asia

In order to regulate human behaviour and maintain justice and peace in the society, the state creates laws. The system which interprets these laws is known 'legal system'. There are various legal systems in use around the world. The major legal systems include *continental, common*, *customary*, *religious* and *mixed* systems (for detailed discussion see David et al, 2016). In turn, these legal systems split into a number of subsystems, but for the purpose of this research developing an understanding of the major legal systems would suffice.

The oldest and most widespread of all legal systems is *Continental Legal System* (also known as a *Civil Law System*) which derives from Roman law, Canon law and Commercial law. The main distinction of this system is that its legal authority is organized into written codes. The main source of law is a Normative Act. It is characterized by a clear division of the law into sectors, and all sectors are split into two main categories: public law and private law. The public law includes administrative, criminal, constitutional, international public laws, whereas the private law comprises of civil, family, labour, international private laws. In continental legal tradition, a clear distinction is made between the legislative and law enforcement state bodies. Legislative branch is responsible for adoption of laws and law enforcement – for their implementation. Most countries of this legal tradition have a written basic law – Constitution. The continental legal system is found in much of continental Europe, Scandinavian countries, Central America, South America, Russia and many former Soviet Union republics, and several other regions.

Common Legal System (also known as *Anglo-American Legal System*) – the second largest legal system in the world – originated in England and constitutes the national legal systems of Great Britain (except Scotland), USA, Australia, Canada, Ireland, New Zealand, Jamaica and etc. The basis of this legal system is the principle of *stare decisis* (from lat. – 'to stand by things decided'), which means that court's decisions are predominantly based on precedents. The main source of law in the system is custom, legislation is considered as a kind of contract. In contrast to the codified laws of the

continental system, the doctrines and rules in this common legal system developed over time by judges. Thus, laws are in a large part formed by the court decisions.

Customary Legal System (also known as a '*Traditional Legal System*') is practiced within the tribal community or ethnic group in some countries of Central and South Africa, Southeast Asia, Australia and Oceania, where social relations are regulated through unique customs and traditions. These are often unwritten norms of behaviour that have evolved over a long period of time and became a habit as a result of repeated use. Obedience to customary law is voluntary and based on respect for the spirits of ancestors or the spirits of nature. Rule of law and justice observed by elders, priests or leaders. *Religious Legal System* is a system that is based on religious beliefs or scripts. Islamic law (or Sharia law) is the most widespread religious law system, and it regulates all aspects of public and private life. Islamic law systems are found throughout Africa, the Middle East and South Asia. *Mixed Legal System* is a combination of elements of the various legal systems.

The legal systems of the Central Asian states belong to the continental legal system. Although there are many varieties of continental system currently in use around the world, Central Asian legal systems are almost identical. The system is based on a single hierarchically structured system of written legal acts, where the Constitution takes the leading place. Each of the legal act of a lower level may not contradict the legal acts of a higher level. If there are contradictions in the norms of legal acts of similar hierarchy, the norms of the legal act which adopted later shall apply. All official legal documents are either adopted at a referendum or enacted by the authorized state body. Official documents that establish rules of law are called *Normative-legal Acts.* Rules of law implies an obligatory rule of conduct of a permanent or temporary nature designed for multiple use and extended to an unspecified group of people within regulated public relations.

Normative-legal acts in a hierarchical order are comprised of: Constitution, Constitutional laws, Codes, Laws, and normative-legal acts of the parliament, president, government and other central and local executive and representative

bodies. Normative-legal acts split into *primary* and *subordinate* normative-legal acts. Primary normative-legal acts (also known as *Legislative Act*) include the Constitution, Constitutional laws, Codes, Laws, and Acts of the Parliament. They are usually adopted by the representative bodies (parliaments) or through referendums. Normative-legal acts of the president, government and other central and local executive and representative bodies are called subordinate normative-legal acts (also known as *By-laws*). Legal documents issued by the authorized body that do not establish a common compulsory code of conduct and designed for a specific entity or for a single (limited) use are known as *Non-normative legal acts*. These acts include technical regulations, internal procedures, statutes, etc.

The authorized body is a state body or a state official who is legally entitled to adopt normative-legal acts. Authorized bodies with the right to adopt normative-legal acts somewhat vary across the regional countries (see Table 7.1.1.). All countries of the region have a form of government with the president as a head of state. Thus, president is constitutionally a very important figure in terms of rule-making. Although the Kyrgyz constitution does not specify a form of government and official sources point to a parliamentary form of government, many scholars and constitutional lawyers believe that it is a mixed system where president is a head of state as well as a chairperson of the armed forces and the security council (Bannikov, 2015). The presidents of Tajikistan and Turkmenistan simultaneously act as a head of state and chair the executive government and, therefore, are entitled to adopt normative-legal acts in both of their capacities.

The parliament and executive government are central constitutional bodies authorized to adopt and enact normative-legal acts. This right also applies to all central and local bodies of the executive branch (except Kyrgyz Republic) and local representative bodies (except Uzbekistan). Judicial branch, with the exception of Kazakhstan, is not entitled to adopt normative-legal documents. The core responsibility of the judiciary is to ensure strict and equal observance with normative-legal acts and maintenance of the rule of laws. But Kazakh judiciary is entitled to enact normative-legal documents only in their respective areas.

Table 7.1.1. State bodies entitled to adopt normative-legal acts.

State bodies	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
Head of State (President)	X	X	X	X	X
Representative branch (Parliament)	X	X	X	X	X
local representative bodies	X	X	X	X	-
Executive Branch (Government)	X	X	X	X	X
central executive bodies (ministries, state committees and agencies)	X	-	X	X	X
local executive bodies	X	-	X	X	X
Supreme Court	X	-	-	-	-
Constitutional Council (Court)	X	-	-	-	-
Central Election Commission	X	X	-	-	-
Central Bank	X	X	X	-	-
Accounts Committee	X	-	-	-	-
other state bodies and officials	X	-	X	-	-

Source: Author's own findings.

When it comes to primary normative-legal documents – *legislative acts*, only certain central state bodies have the right to initiate them and they are approved exclusively by the highest representative body (national parliament) or though general referendums. The right of legislative initiative generally belongs to the parliament, head of state and the executive government (see Table 7.1.2.). Only in Kyrgyz Republic, with the adoption of new Constitution in 2010, the president was deprived of the

legislative power. Instead, a group of 10,000 civilians was constitutionally empowered to initiative laws. Some jurisdictions have also granted this right to the judicial branch. For instance, Uzbek and Tajik constitutions authorise all high-level courts (supreme, constitutional and higher economic courts) to initiate laws, whereas in Turkmenistan only Supreme Court enjoys this power. Prosecutor's office of Uzbekistan is the only law-enforcement agency in the post-soviet space which is granted a power of legislative initiative.

Table 7.1.2. State bodies with the right of legislative initiative

State bodies	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
Parliament	X	X	X	X	X
Government	X	X	X	X	X
President	X	-	X	X	X
Supreme Court	-	-	X	X	X
Constitutional Court	-	-	X	-	X
Higher Economic Court	-	-	X	-	X
Prosecutor General	-	-	-	-	X
Autonomous territorial units	-	-	X	-	X
Group of people	-	X	-	-	-

Source: Author's own findings.

Moreover, Uzbekistan and Tajikistan have special autonomous territorial units which possess with the right of initiative through their respective representative bodies. In the case of Tajikistan, it is Gorno-Badakhshan Autonomous Region, and in Uzbekistan – Autonomous Republic of Karakalpakstan. However, many experts argue that granting the right of initiative to these territorial units was more of political and

symbolic in nature. Given their constitutional status as an autonomous territory with some degree of self-determination, they need to have a high-level legislative voice in national policymaking to represent the interests of their people. But in reality, their legislative right has never been materialised. Local experts and public officials of neither sides could recall any single instance when the representative bodies of these autonomous regions have initiated any national-level legislative act.

It is widely believed that the power of legislative initiative is crucial for the balance of power in the state system which in one way or another shapes the political landscape in a state. However, this has not been the case in Central Asia. As almost all local experts and public officials have stressed, the power of initiative *de facto* has been extremely concentrated in the hands of presidents (except Kyrgyz Republic) who played a pervasive role in initiating vital political and economic laws. Majority of the important regulations are either directly initiated by presidents or mentioned in various presidential addresses or derive from presidential instructions given to the executive government or the parliament. The ratio of presidential initiatives is said to exceed 90 percent of all laws adopted in a fiscal year.

The power distribution, both de jure and de facto, is relatively well balanced in the state system of Kyrgyz Republic compared to neighbouring countries. The national parliament has a sufficient constitutional authority to oppose any decisions of the president or the government. However, the executive government is way more active in initiating laws than parliamentarians. According to the KGZ3, "the executive government adopts on average 200-250 laws annually, which accounts for 80-85 percent of all laws adopted per year. The parliamentary initiatives often confine to the political issues. On the other hand, the quality of laws initiated by the parliament has been very poor. Majority of the draft laws rejected or vetoed by the President had been initiated by the parliament. Poor quality of drafts often arises from insufficient analysis of the areas to be regulated, inadequate regulatory impact assessments, high politicization of matters, or advancing specific business or political interests".

Although judiciary's de facto involvement in legislative work has been marginal across the region, the very idea of judicial initiative has induced controversies among experts and politicians. Legislative work is a political process and judiciary's active involvement in these processed contradicts with its' principle of neutrality and apolitical nature. According to the TJK4, "laws should be initiated and adopted by the people's representative bodies (parliament) and elected officials (president) who are elected to represent the interests of the general public though legislative acts." Similarly, KGZ5 also believes that "only people's representatives should have the right of legislative initiative. It is them who should decide what sphere of life to regulate and what laws to adopt on behalf of the people."

Uzbekistan is a very unique case where eight state bodies have the right of legislative initiative. However, the decision to empower Prosecutor General with this right, which has no analogy in post-soviet space, has evoked a lot of disagreements. There are historical and political reasons behind this decision, contended UZB2. As he explained, "this decision was made by inertia. Given the historical role of the prosecutor's office as a very powerful oppressive instrument of communist party during the soviet rule, which it continued to retain in the early days of independence, nobody even dared to exclude this agency from the list of state bodies which should enjoy the right of initiative in the modern state system of Uzbekistan." Although it does not belong to any branch of the power triangle, prosecutor's office exerts a colossal influence on the executive and judicial branches and plays detrimental role in regulatory policy of the country. This topic will be thoroughly examined in subsequent sections.

7.2. Regulatory Policymaking and Institutional Arrangements

The current section will examine the governmentwide regulatory policymaking and institutional setups in Central Asian countries and compares them against the international best practices. As a quality benchmark, the research will use Good Regulation Framework (GRF) of the Organization for Economic Cooperation and Development (OECD) which is largely based on the successful experiences of some of the most advanced economies of the world.

OECD studies (2009) of international best practices of good regulation suggest that in order for the regulatory reforms to be successful, regulatory policy should be adopted at the highest political level and accompanied by the establishment of a dedicated central state institution responsible for nation-wide coordination of regulatory activities. Nowadays, almost all highly developed OECD countries with sound regulatory regimes have two most pervasive elements of a good regulatory regime: i) explicit published regulatory policy document promoting nation-wide regulatory reform; ii) dedicated state body responsible for promoting regulatory policy and monitoring on regulatory reforms (see Figure 7.2.).

Figure 7.2.1. Regulatory policymaking and institutional arrangements in OECD countries
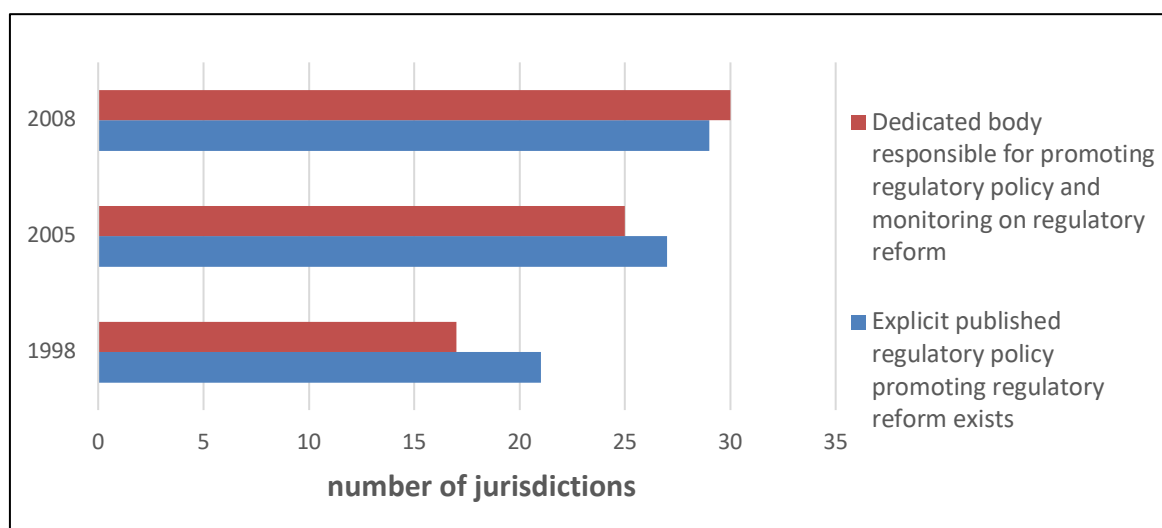
Source: *OECD (2009)*
Note: The sample includes 31 jurisdictions for 2008 and 2005. For 1998, 27 jurisdictions are included as no data were available for the EU, Luxembourg, Poland and Slovak Republic

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7.2.1. National Regulatory Reform Policy

According to the GRF OECD (2009), successful regulatory regime starts with the adoption of a clear political commitment to the established principles of regulatory reform. Political commitment is essential for the legitimacy of processes to improve overall welfare and the rule of law. This commitment comes in form of a published government-wide regulatory policy promoting regulatory reform. This policy document should establish explicit objectives of the regulatory reform, set out clear principles of good regulation, and establish specific responsibilities for reform at all levels of state governance.

Amongst Central Asian countries, only Kazakhstan has a long-standing experience of adopting specific policy documents and programmes for regulatory reform. The first such doctrinal document – State Programme for Legal Reforms – was adopted in 1994. The document underlined preliminary steps of developing legal foundations of market economy and democratic governance in a newly independent Kazakhstan. As part of this policy program, a number of important laws had been adopted, including the Constitution of the Republic of Kazakhstan. Since 2000, the government of Kazakhstan started adopting more longer-term policy programs underlying new directions of regulatory reforms. The Concept of Legal Policy for 2002-2010 focused on the reforms of the legislative work and law enforcement practices to make them better serve the interests of people and markets. One of the key reforms was the optimisation and consolidation of the legislative acts by way of codifying related acts and deregulating the ones that impeded market development.

Kazakhstan's new Concept of Legal Policy for 2010-2020 set the new stage of the national regulatory reforms. The concept aimed at bringing the whole regulatory policymaking process to a new quality level by introducing innovative solutions to the regulatory work, introducing new regulatory impact evaluation methods, creating mechanism and platforms for closer engagement with the private sector and general public in rule-making processes. The Concept also defined further developments in law enforcement and judicial practices to improve the rule of law. Reducing

administrative burdens, building more transparent and accountable public service, simplification of procedures of entry and exit for businesses (licensing, permits, inspection protection) have been set as priority areas of the economic regulation.

Despite Kazakhstan's long-established experience of adopting regulatory reform programs, local experts say that, in reality, these long-term papers have had very marginal practical value as they have been subject to constant alterations due to the frequent changes in political priorities of the central government. In fact, most of the important regulatory changes adopted by the government were not mentioned in the concept papers. They were either mentioned in presidential annual addresses or highlighted in informal instructions given to the executive or legislative bodies. The 'top-down' approach has been the main procedure and criteria for the regulatory work in the country.

In other countries of the region, however, regulatory policymaking has been even more sporadic. Absence of long-term regulatory policies and strategies, as well as the patchy nature of the regulatory changes, ultimately prevented the quality improvements in the regulatory work of the reginal governments. Some countries only recently started adopting doctrinal papers on regulatory reforms. For instance, in 2018, Tajik government adopted the Concept of Legal Policy for 2018-2028. The Ministry of Justice of Kyrgyz Republic has also recently prepared the draft Concept of Legal Policy for 2020-2024 and put it on a public consultation. Uzbekistan and Turkmenistan, however, have never had any such policy papers for regulatory reforms.

7.2.2. Dedicated Regulatory Oversight Body

Another key component of the good regulatory regime is the presence of a dedicated government body with a broad remit to advocate for regulatory quality, promote and coordinate regulatory activities on a national level, oversee government-wide progress on regulatory reforms and serve as a source of reference to consult when developing new regulations by different regulatory agencies. In majority of advanced

OECD economies, regulatory oversight bodies were located at the central government – under the auspices of prime-ministers or presidents. Almost all of them had a function and responsibility of interdepartmental coordination (OECD, 2009).

Analysis of the Central Asian case shows that in none of the regional countries existed such a centralised dedicated government institution responsible for promoting regulatory policy and monitoring on regulatory reforms. Regulatory policies and reforms in the regional countries are largely uncoordinated. There are wide range of governmental and quasi-governmental institutions with diverse responsibilities and commitments are involved in regulatory processes. This has been one of the key reasons, according to the local experts, why the regulatory policies of the regional governments have not been adequately effective.

However, it is by no means to argue that there were no attempts to establish such institutions in the region. For example, Uzbekistan had establish a state body called Institute for Monitoring of Current Legislation under the President of Uzbekistan (IMCL), in 2005, which was meant to be a central watchdog to coordinate regulatory reforms and monitoring on the regulatory processes at all stages – from the early stage of drafting regulations to the final implementation and enforcement of enacted laws. In the early years of its creation, IMCL actively promoted regulatory reforms and quality improvements in the regulatory work throughout the government. It had a legal authority and political power to function as a central watchdog and possessed with all necessary resources (human, financial and technical) to effectively carry out its duties. The Institute had developed methodological guidelines and provided advisory and technical assistances to the relevant state bodies involved in regulatory processes. However, eventually due to the lack of political support and commitment from the central authority, IMCL stopped being respected by other regulatory agencies. It practically stopped conducting comprehensive regulatory oversight, engaging merely in legal review of draft laws submitted by the parliament. In 2016, the government finally decided to dissolve IMCL pointing to the duplication of its' work with the ministry of justice.

There is a special authority in Kazakhstan – Council of Legal Policy – an advisory council under the President of Kazakhstan, founded in 2002, which is known to be the highest government body to decide the main directions of state regulatory policy in the country. The Council is composed of state bureaucrats, parliamentarians, members of academia, professional lawyers, representatives of civil society institutes, NGOs and others. It meets at least once a quarter and is chaired by the chairman appointed by the President. Another state body that is responsible for the coordination of law-making activities across the executive government is Inter-ministerial Law Commission, established in 2000. It is a consultative body of the government made up of deputy ministers and executive secretaries of the state agencies. Commission meets at least once a month for reviewing annual plans for legislative work in the government. However, according to the local experts, neither Council nor Commission have a legal authority or permanently functioning management structures to effectively oversee and coordinate governmentwide regulatory policies and reforms.

As a rule, ministries of justice act as a core state institution responsible for monitoring on the rule-making processes and legal quality control in all regional countries. The ministry coordinates the legal work of all line ministries and state departments and ensures the compliance of regulatory documents of the state bodies with the Constitution, the primary legislative acts and the international treaties of the government. It is also responsible for the implementation of the annual state programmes on legislative drafting. All primary legislative acts go through the legal quality and compliance review at the ministry of justice before parliamentary readings. However, ministry of justice's responsibility confines to the legal quality control of draft regulations, which is only one array of the regulatory policy. There is no oversight over the regulatory enforcement and compliance, which remain the most problematic arrays of the regulatory regimes of the reginal countries.

7.3. Making of Regulations: Processes and Tools

This section will discuss the processes and tools of making regulation in Central Asian countries. In particular, it will investigate the stages and procedures of creating and amending regulations; transparency of rule-making environment; consultations with stakeholders, general public, experts and academic communities; regulatory reviews and impact assessments; and promulgation and publication of regulations.

7.3.1. Regulatory Drafting

Regulatory drafting is the first stage of the rule making process and very essential in terms of its impact on the quality of the regulatory acts. According to the OECD Indicator of Good Regulatory Management Systems, there are certain basic standards existence of which contribute to the quality of rulemaking at the stage of drafting. These standards include: standard administrative procedures by which the state regulatory bodies develop draft primary and subordinate laws; a formal normative document adopted by the government or parliament which establishes comprehensive quality requirements for drafting primary and subordinate laws; a specific body within Government (other than the department which is responsible for the regulations) with the core responsibility of scrutinizing all draft regulations throughout government.

Studies showed that all Central Asian countries had some form of established administrative standard procedures for drafting both primary and subordinate regulations (see table 7.3.1). Although, not all countries have formalised these standard procedures by a normative legal document. For example, despite having established procedures by which regulatory bodies develop draft regulations, Kyrgyz Republic, Tajikistan and Turkmenistan didn't have written guidelines or manuals on drafting legislative documents. Although national laws on normative-legal acts prescribe certain standards and requirements on the legislative drafting, drafting procedures are not sufficiency detailised. Kyrgyz Republic had a methodological guideline only for drafting subordinate laws.

As a rule, the drafting process begins with the adoption of Annual Plan of Legislative Work approved by the government (in Kazakhstan it is Inter-ministerial Law Commission) in the beginning of each legislative year. Parliaments tend to adopt their own annual plans of legislative work. Based on the Annual Plan, every line ministry or state agency, depending on their respective areas of specialisation, prepares draft regulations. If the proposed law is cross-sectoral in nature or of high political and economic importance, the government may establish working groups representing multiple ministries and state agencies. The Ministry of Justice acts as the main state body responsible for monitoring on the realization of the Annual Plan and providing expert assistance to the other state bodies where necessary.

Preparation of draft regulations starts with the summoning of a working group within the ministry or state agency led by the legal department of the responsible state body. A working group may include the representatives of the other concerned state bodies, private sector representatives, civil society institutions and other stakeholders. Having prepared the draft regulation, responsible state body circulates the draft together with necessary supplementary documents to other line-ministries and state agencies for consideration and feedback. The draft should also be consulted with the local (provincial) authorities if it one way or other relates to the local matters and affairs. In some countries (Kyrgyz Republic and Uzbekistan) it is mandatory that the draft regulations are put on the public discussions through designated online platforms.

In majority of jurisdictions, the responsible state bodies are legally entitled to outsource the preparation of the draft regulations to the external legal or private entities. External entities could be independent experts, research and academic institutions, non-governmental non-profit organisations and others. However, the outsourcing is widely used only in Kazakhstan where each state body has a designated budget to delegate the draft preparation to the external sources. Although this possibility also legally exists in Uzbekistan and Kyrgyz Republic, according to the local

experts, this has never been materialised due to the lack for financial resources for these particular purposes.

Table 7.3.1. Standard administrative procedures for rule-making in Central Asia

	Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
Standard procedures by which regulatory bodies develop draft primary laws	Yes	Yes	Yes	Yes	Yes
Standard procedures by which regulatory bodies develop draft subordinate laws	Yes	Yes	Yes	Yes	Yes
A formal normative document that establish standard procedures and requirements for drafting primary law	Yes	No	No	No	Yes
A formal normative document that establish standard procedures and requirements for drafting subordinate laws	Yes	Yes	No	N/A	Yes
Draft regulations are scrutinized by a specific body within Government other than the department which is responsible for the regulations	Yes	Yes	Yes	Yes	Yes

Source: *Author's own findings. N/A – no information available.*

There are certain state bodies within governments (other than the state body responsible for the regulation) that all drafts, irrespective of their nature and areas of regulation, must be sent to for consideration and approval. These are usually ministries of justice, finance, and national economy. Ministry of Justice is responsible for the legal quality of all laws (primary and subordinate) and their compliance with the national constitution and other current legislative acts. Ministries of finance and national economy looks at the financial and economic plausibility of the proposed regulations. Apart from these standard ministries, in Tajikistan, drafts ought to be sent to the State Committee for Investment to review the draft in terms of its' impact on the

investment climate, to the Anti-corruption Agency to review in terms of the corruption control, and the Center for Legislation under the President of Tajikistan for alternative impact assessment review. Following all these reviews and approvals, the final draft then forwarded to the government for further consideration and approval, before submitting it to the parliamentary readings.

Any draft submitted to the relevant state agencies for review or to the government and the parliament for approval should include standard package of supporting documents. These are usually Explanatory Note and a Comparative Table (visual representation of old and new/amanded versions of the regulatory act) if the act intends to amend or replace the existing regulation. The Explanatory Note specifies the main goals and objectives of the regulatory intervention, potential benefits and/or burdens for the economy, society, environment and people, etc. If the draft is related to the business affairs, governments (except in Turkmenistan) require the submission of Regulatory Impact Assessment (RIA), which assesses the possible negative impacts of the proposed regulation on business and entrepreneurial activities. If the proposed law one way or another imposes burdens or restrictions on the business, the developer should justify the potential consequences deriving from the non-adoption of the proposed regulation.

In Kazakhstan, unlike other regional countries, regulatory drafting follows somewhat different procedures. It starts with the preparation of so-called Concept Paper, which is considered to be the 'passport' of the proposed regulation. The Concept Paper is an extended and more detailed version of the Explanatory Note, which, along with the main goals and objectives of the regulation, includes the results of statistical, economic, environmental and sociological and other reviews and assessments conducted by the responsible state body or external experts. The Concept Paper is the framework for the draft regulation and, thus, the draft cannot go beyond the scope and framework of the Concept Paper. As a rule, the draft cannot contain any provision that is not stipulated in the Concept Paper. It is the Concept Paper, not the draft regulation, circulated to the relevant ministries and state agencies for review and feedback, and put on the public discussion. Following reviews by the relevant state bodies and public

discussions, the Concept Paper is discussed in the meeting of the Inter-ministerial Law Commission. The Commission meetings are open for public and broadcasted on media. The Commission may approve the Concept Paper or send it back for further revision if it deems necessary to do so. The approval is done by the Protocol of the Commission which means the Concept Paper cannot be changed any further. Following the approval, the responsible state body starts preparing the actual draft law. The final draft law is then sent to the Government for approval and submission to the parliament.

Parliamentary readings and adoption of the laws take place as follows. In jurisdictions with bicameral parliaments (Kazakhstan, Tajikistan and Uzbekistan) drafts are submitted to the lower house – Legislative Chamber. Relevant committee of the house reviews the draft and introduces changes and amendments where necessary. Once the draft is approved by the committee, it is put on a plenary hearing. Normally, there are three plenary hearings held to discuss drafts. After the third hearing, legislative chamber adopts the draft and it becomes the law. The law then sent to the upper house for approval. Upper House may approve the text without amendments or send back to the lower house for re-examination. If there is a dispute between the two houses over the content of the law, final consensus is reached through conciliatory procedures. Following the approval of the law by the Senate, it is submitted to the President for signature and promulgation.

In the case of countries with unicameral parliament (Kyrgyz Republic and Turkmenistan), the procedure is somewhat faster – the law is adopted by a single house and sent to the President for signature. Although the president of the Kyrgyz Republic does not have a right to initiate laws, it enjoys the power of veto against the laws proposed by the parliament. Thus, the president may or may not accept the laws adopted by the parliament.

The draft laws prepared by the parliamentarians are normally sent to the executive government for consideration (with the exception of Kyrgyz Republic). The government in turn disseminates the draft to line-ministries and state agencies for

further assessment and feedback. Following these feedbacks and assessments, the government issues an official resolution on the approval of the draft and submits it back to the parliament. In Kyrgyz Republic, however, the parliament may adopt laws without the governmental approval and submit to the President for signature and promulgation.

7.3.2. Public Consultations

An important instrument to improve the quality of regulations is the opportunity created for the public consultation of the draft regulations. Public consultations are done in order to seek for public's input on matters affecting their lives and to enhance the efficiency and transparency of rulemaking processes. It enables rule-makers to tap the widest source of information possible and helps identify issues that are not picked up through existing evidence or studies. Public consultations usually involve the participation of general public, stakeholders, private sector entities and other interest groups. Consultations could be conducted by way of public meetings, targeted outreach to stakeholders, through designated online platforms, social media and others.

Central Asian countries have taken important steps to promote public engagement in the government affairs in general and rule-making processes in particular. Constitutions of all regional countries guarantee participatory decision making and active civic engagement in government affairs. Majority of the regional countries have specialised laws rendering the public consultation as a mandatory part of the rulemaking processes. However, a lot of progress remains to be seen in this area. Despite legal requirements, public engagement in regulatory work is very limited on the ground. The current state of public consultation in the region can be characterised as "cosmetic consultations" that are usually done due to legal obligation or show, not true participatory decision making.

Regional countries vary in terms of legal and procedural opportunities created for the public consultation of draft regulations (see Table 7.3.2.1.). Uzbekistan was the first country in the region to establish formal requirements for public consultations in drafting legislative acts by adopting the Law on National Consultation of Draft Laws in 2000. According to the law, regulatory proposals that have a national importance, may be put on a national consultation. In national consultation can participate ordinary citizens, civil society institutions, private sector entities, political parties and other public associations and groups. Consultations can only be initiated by the state body which have the right of legislative initiative and must be approved by the Parliament. However, the law does not specify the forms, mechanisms and platforms through which these consultations should be conducted. According to majority of the local experts and officials, despite the legal basis, public participation in law-making processes was almost non-existent in Uzbekistan until recently. Only in 2018, the government created a unified online platform for the public discussions of draft laws (regulation.uz) and now actively encouraging people to take active part in these discussions. But public participation is still very limited given that the society hasn't developed a sense of active engagement in government affairs.

In Kazakhstan, public consultation of draft regulations is mandatory and conducted in two ways: through the Advisory Councils established at each government agency, and online through the websites of the responsible state bodies. Advisory Councils are consultative and supervisory bodies established at each state body to ensure direct participation of citizens in public policy, communicating to the Government the expectations and suggestions of citizens. Councils are formed on the basis of voluntary participation of citizens. According to the Law on Private Entrepreneurship of 2009, every state body is obliged to establish the Advisory Council. Although Council's participation in rulemaking process is mandatory, the law does not require that public comments must be incorporated in the draft regulations. The government bodies may refuse to incorporate public comments in the draft, but this refusal should be justified in a written form and attached to the draft as an annex. Moreover, the draft regulations affecting the interests of private enterprises, along with the Advisory Councils, must be sent to the National Chamber of Entrepreneurs of Kazakhstan "Atameken" for

review. Although the proposals of the National Chamber are not mandatory, they are mandatory annexes to the draft regulations. The also requires that draft regulations that might have a potential impact on the private sector must be publicised on the media (including on Internet) prior to their consideration by the Advisory Councils and the National Chamber.

According to the Law on Normative-Legal Acts of Kyrgyz Republic, public consultation of draft regulations is mandatory. It is a responsibility of every state body that prepares the draft regulation to organize public discussions and incorporate its' results in the Explanatory Note of the draft. The law also requires that the responsible state body responds all individual comments and proposals in a written form. There is no governmentwide unified online platform for public consultations and every individual ministry or regulatory agency have to organize these consultations on their institutional websites. Similar to Kazakhstan, most of the government institutions of Kyrgyz Republic have established Advisory Councils to discuss regulatory proposal by way of public meetings and targeted outreach to stakeholders. However, local experts contend that in practice public discussions are hold symbolically. It is often the case that public is kept uninformed about the start of the open discussion on the proposed draft due to the lack of communications and advertisements about it. More often than not, Explanatory Notes of the drafts contain information about the lack of sufficient response and interest from the public.

On the other hand, although formal platforms for public discussions and feedback mechanisms are not well-established in Kyrgyz Republic, independent media, civil society institutions and powerful business associations play an important role in enhancing public awareness and ensuring their active participation in government affairs. Active civil society in the country creates an alternative platform for public discussion of proposed regulations and are very critical in forming public opinion and mobilizing them to a certain cause. Particularly, business associations tend to actively advance their interests when it comes to the regulations related to the business and entrepreneurial activities.

In Tajikistan, public participation in regulatory processes is extremely limited. There is no standard procedure for the public discussion of the proposed regulations. Although some government bodies claimed that they engage with the public through public meetings and targeted outreach to stakeholders, local experts and stakeholders denied this claim. The law requires that if the regulatory proposal is related to the business affairs or investment, it must be consulted by the private sector enterprises though their respective associations. The results of such consultations are mandatory annexes to the draft laws. Indeed, business associations, expert communities, members of academia and others are sometimes invited to the working groups organized by the state bodies to discuss regulatory proposals. However, these meetings are said to be rather symbolic and, according to some members of Association of the Entrepreneurs of Tajikistan, viewpoints of the private sector are rarely accepted by the officials. Majority of the attempts of business communities to influence the legislative work have so far been hopeless. As TJK10 put it, "the reason for inviting businesses to the consultations is not to reach consensus with the private sector, but to get consent from us for their predetermined decisions".

Table 7.3.2. Public consultations of draft regulations (as of 2019)

	Do regulatory bodies solicit comments on proposed regulations from the public?	Are regulatory bodies required by law to solicit comments from the public?	How are the public consultations conducted?	Is there any dedicated government body tasked with soliciting and receiving public comments?	Do regulatory bodies report on the results of the consultation?	Are reports the mandatory annexes to the draft regulations?
Kazakhstan	Yes, throughout the government	Yes	On the website of the relevant regulator; through public meetings; targeted outreach to stakeholders.	No	Yes, throughout the government	Yes
Kyrgyz Republic	Yes, throughout the government	Yes	On the websites of the relevant regulator; through public meetings; targeted outreach to stakeholders.	No	Yes, throughout the government	Yes
Tajikistan	Yes, some state bodies only	No	Through public meetings; targeted outreach to stakeholders.	No	Yes, some state bodies only	Yes, only for certain draft regulations
Uzbekistan	Yes, throughout the government	Yes	On a unified website for all proposed regulations; through public meetings; targeted outreach to stakeholders.	No	Yes, throughout the government	Yes

Source: *Author's own findings. No information available for Turkmenistan.*

7.3.3. Ex-Ante Regulatory Evaluation

One of the important tools available to the government to ensure the quality of regulations before their adoption is ex-ante regulatory evaluation. The main purpose of this evaluation is to prevent the promulgation of superfluous, ineffective, burdensome and accretional regulations. Verschuuren & Van Gestel (2009: 3) described ex-ante evaluation as "future oriented research into the expected effects and side-effects of potential new legislation following a structured and formalised procedure, leading to a written report. Such research includes a study of the possible effects and side-effects of alternatives, including the alternative of not regulating at all." There is a wide variety of ex-ante evaluations around the world and their forms and methods vary from country to country. Ex-ante evaluations are often carried out according to a specific methodology prescribed in formal guidelines adopted by the highest government authority.

Ex-ante evaluation of draft regulations is a long-standing legal practice in Central Asian countries. There are various types of this evaluation currently in use in the region, such as legal quality review, economic/financial review, scientific review, anticorruption review, environmental review and others. The Table 7.4.2.2. portrays the types and standard procedures of ex-ante evaluation of draft regulations required by the laws of the regional countries. Each ex-ante review type deserves a separate insight and analysis.

Table 7.3.3. Procedures for ex-ante evaluation of draft regulations.

Country	Standard procedures by which regulatory bodies carry out ex-ante evaluations?	A formal normative document that establish standard procedures and requirements for ex-ante evaluations?	Types of ex-ante evaluations?
Kazakhstan	Yes	Yes, Law on Legal Acts, Methodological guidance and manuals	Scientific Review Legal Quality Review Anticorruption Review Economic/ Financial Review Environmental Review
Kyrgyz Republic	Yes	Yes, Law on Normative Legal Acts, Methodological guidance and manuals	Legal Quality Review Economic/ Financial Review Human Rights Review Gender Review Environmental Review Anticorruption Review
Tajikistan	Yes	Yes, Law on Normative Legal Acts, Methodological guidance and manuals	Legal Quality Review Anticorruption Review Linguistic Review Economic/ Financial Review Environmental Review Scientific Review
Uzbekistan	Yes	Yes, Law on Normative Legal Acts, Methodological guidance and manuals	Legal Quality Review Scientific Review Economic/ Financial Review Environmental Review Anticorruption Review
Turkmenistan	Yes	Yes, Law on Legal Acts	Legal Quality Review Economic/ Financial Review Anticorruption Review Environmental Review

Source: Author's own findings.

Legal Quality Review

Legal quality review is very common and most widely used ex-ante assessment method in the rulemaking system of the regional countries. It is the foremost legal requirement in drafting regulations. Legal quality review aims at ensuring the legal coherence of the proposed regulation and it starts with the assessment of compliance of the proposed regulation with the norms and principles of the Basic Law – Constitution, other national laws in force, and international treaties and obligations of the respective government. Next stage of this review includes evaluation of the possible conflicts and inconsistencies between the provisions of the proposed

regulation and existing regulations of the same or higher levels, checking for gaps in the legal regulation of certain social relations.

Despite many similarities in terms of overall methodological aspects of the legal quality review in regional countries, each legal system has its own formal legal technique used for the correct formulation of the texts of the proposed regulations. Legal technique ensures clear and concise text, structure and style, and linguistic coherence of the regulation. In order to ensure the application of identical standards of legal technique across the government, the legal quality control is assigned to a single state body – ministry of justice. All line-ministries and regulatory agencies have their own legal departments responsible for the preliminary legal quality review of the draft proposals before submitting them to the ministry of justice for further reviews.

The international law has a special role in the national legal systems of Kazakhstan, Tajikistan and Uzbekistan, where norms and principles of international treaties ratified by the state takes precedence over the national legislation and apply directly, unless it follows from an international treaty that its application requires the adoption of a separate law. Therefore, while reviewing the draft regulations important emphasis is given to their compliance with the accepted international treaties. Failing to provide the adequate study of the requirements of recognised international legal instruments, the draft regulations may be refused from consideration by the parliament. In Kyrgyz Republic, however, as a result of constitutional reforms of 2010, international law has become equal in status with the national laws. Hence, the issue of compliance with the international law has lesser significance for the rule-makers of Kyrgyz Republic than that of the abovementioned countries. Given Turkmenistan's official status of political neutrality, the role of the international law in the national legal system is rather unclear. It is even more unclear to what extent the principles of international law are taken into account while developing national regulations.

Scientific Review

Scientific review is an ex-ante evaluation method which is widely used in Kazakhstan and, to some extent, in Uzbekistan. However, the terms 'scientific' connotes

substantially different meaning in the two legislative systems. For Kazakhstan's legislative system, scientific review is a broad category of ex-ante regulatory assessment which encompasses all types of reviews including legal, anti-corruption, linguistic, environmental and economic/financial reviews. Scientific review aims at assessing scientific relevance, timeliness and appropriateness of the proposed regulation. It also examines the potential positive and negative effects of the proposed regulation to the human rights, environment, security, social and economic wellbeing of the population. Linguistic review is also an important component of the scientific review which is conducted to ensure the linguistic coherence of the drafts. Anti-corruption review is also categorised as part of the scientific review which focuses on identifying potential norms in draft regulations susceptible to the corruption.

However, in Uzbekistan, scientific review is just one of the ex-ante evaluation methods which examines scientific plausibility of the proposed regulations and is conducted in close collaboration with the academic and research communities. The Uzbek law does not specify what the notion of 'scientific' stands for in a legislative context, nor does it clarify the procedures of conducting this review. Instead, it gives full flexibility to the responsible state bodies to conduct scientific reviews according to their own discretion by way of inviting academic and scientific communities. In reality, however, this method is rarely used.

Economic/Financial review

Economic/Financial review of draft regulations is an important element of the ex-ante regulatory assessment and is a strict legal requirement in all regional countries. It assesses the financial and economic feasibility of the proposed regulations and their potential impact on the state budget, state revenues, public expenditure and overall gross national incomes. This review is required for all proposed regulations and carried out by the ministries of finance and national economy. If the proposed regulation in one way or another may reduce the state revenues or increase government spending or introduce changes to the state budget, it should be examined by the central executive government.

Environmental Review

Environmental review is also a very common ex-anti assessment method used to identify the potential environmental repercussions of the proposed regulations. Any proposed regulation as a consequence of the adoption of which may cause any threat to the environment is subject to mandatory environmental review. Environmental review is mainly conducted by the authorized state bodies in the field of environmental protection (state ecological agencies). It is the responsibility of the state bodies preparing draft regulations to organize environmental reviews and seek for approval from the state ecological agency. State bodies may also delegate this task to the independent experts and scientific researchers for an alternative environmental impact evaluation. Majority of the regional governments require that the environmental assessments include both qualitative and quantitative impact analysis.

Anticorruption Review

Anticorruption review aspires to identify and eliminate corruption in the early stage of regulatory processes, thereby countering the penetration of corrupt norms into the regulatory documents. Anticorruption review is a new phenomenon in the legal systems of Central Asia. It has been developing over the last ten years. Currently, anticorruption review is a legal requirement in all countries of the region.

Procedures of conducting anticorruption review are specified in different documents across the region. For example, the Tajik government adopted a special law for this purpose – The Law "On the Anticorruption Review of Draft Normative-legal Acts" of 2012. In Kazakhstan and Uzbekistan, the review is carried out on the basis of the Methodological Guidelines issued by the ministry of justice (in 2010 and 2015, perceptively). Kyrgyz Republic does it on the basis of Instruction approved by the Government in 2015. A special dedicated state body responsible for anticorruption review was created only in Tajikistan – The State Anticorruption Agency. In Uzbekistan and Kazakhstan this review is done by the ministry of justice, in Kyrgyz Republic and Turkmenistan – by the prosecutor's office.

Anticorruption review applies to all primary legal acts in Kyrgyz Republic, Uzbekistan and Tajikistan. In Kazakhstan, however, only the legal documents of the executive government are subject to the anticorruption review. Legal acts of the President, the Parliament, the Constitutional Council and the Supreme Court are legally exempted from this review. In practice, legal acts of the presidents of Uzbekistan and Tajikistan never undergo anticorruption assessments.

Other reviews

The Law of Kyrgyz Republic requires some additional ex-ante evaluation of draft regulations which are not represented in the neighbouring legislative systems. These are Human Right Review and Gender Review. Human Right Review assesses the extent to which the proposed regulation complies with the universal principles of human rights and freedoms. Although human rights impact of regulations is assessed in other regional countries too (often conducted as part of the legal quality review), this issue is not given a particular emphasis as it is in Kyrgyz Republic. Moreover, the Kyrgyz law provides special consideration to the gender issues in the legislative drafting. Gender Review assesses whether the proposed regulation takes good care of gender balance in the society. But according to the local experts, this review has never gained sufficient popularity among lawmakers as there is not clear methodology and precise benchmarks against which this issue can be evaluated.

Problems and challenges

According to the local experts, despite well-established formal structures and procedures, the quality of ex-ante evaluation of regulatory proposals needs serious improvements on the ground. Amongst major problems mentioned by almost all local experts was the fact that not all laws undergo thorough and critical ex-ante evaluations before their enaction. This is especially true with respect to the laws that are political in nature. As KAZ1 stated, "political laws are often initiated and adopted under the direct guidance of highest authorities in a very short period of time and thus barely undergo a comprehensive ex-ante assessment before the adoption."

Experts also criticised the ambiguity and unclarity of the legal texts which is also said to be the cause of a poor ex-ante evaluation of the drafts. Although the laws on normative-legal acts have a clear requirement that all legal texts should be understandable and written in a plain language, majority of enacted laws are often difficult to understand and comprehend for the ordinary people. Moreover, the need for producing legal documents simultaneously in two languages (one in national language and another in Russian) in almost all regional countries further aggravates the problems. Experts were particularly worried about the quality of the legal texts in the national languages as well as discrepancies between the texts of the same laws in two languages. Although regional governments have adopted various policy and legal measures in order to distance from the domination of Russian language and boost the status of the national languages, these measures have not been produced desirable outcomes so far. Due to the fact that vast majority of the current ruling elites were formerly educated and trained in Moscow, they feel more comfortable working in Russian language than their other tongues. Even local lawyers find Russian version of laws relatively easier to understand and comprehend than the ones in national language.

In-depth scientific and environmental research is a major issue in all regional countries. Regulatory proposals which require deep research-oriented ex-ante evaluations (such as environmental and health related drafts) most often than not undergo inadequate impact research due to the lack of financial, technical and human resource capacities. "This kind of reviews are indeed very time-consuming, resource-intensive and expensive undertakings, because they require a pool of scientific experts, research groups, laboratories and other resources to produce reliable outcomes which are not always available in regional countries", contended KAZ2. According to him, majority of such regulatory proposals have so far been adopted with the 'verdict' that they "do not entail any harm to the environment or human health", which are clearly baseless statements as they are not grounded on the actual research.

Likewise, anticorruption review is yet to be developed in the region. First of all, the governments lack trained specialists who could conduct a comprehensive

anticorruption review of draft regulations. Neither were there any specialised training programmes for the rule-makers to acquire needed skills and expertise. Another issue stems from the unclarity and ambiguity of the standards and requirements for the anticorruption review. According to TJK2, "the whole idea of doing anticorruption review is flawed, because this task is assigned to the state law enforcement agencies that are widely known as most corrupt. Ideally, anticorruption review should be conducted by an impartial independent institution in order for it to be effective".

7.3.4. Regulatory Impact Assessment (RIA)

Regulatory Impact Assessment (RIA) is relatively new, but exceedingly popular ex-ante regulatory assessment tool around the world. RIA is widely recognized as a vital policy instrument to improve the quality of regulatory work. Although, there is no generic definition of the RIA in the literature, it is generally understood as one of the rule-making tools aimed at identifying the costs, benefits and effects of state regulations before their adoption (Fischer, Miller & Sidney, 2007; De Francesco, Radaelli & Troeger, 2012). Its main focus is to reduce the regulatory burden on the economy, thereby improving the productivity, efficiency and competitiveness (Kirkpatrick and Parker, 2007). According to some studies, countries which put in place a sound RIA system have considerably improved their regulatory policymaking which contributed to the sustainable growth, investments, innovation and market openness (World Bank, 2018; OECD, 2009d).

The first elements of the RIA had emerged in the late 70s in the USA, but it gained greater popularity in the world only around 90s. RIA has actively been promoted by many international bodies like EU, World Bank, OECD and others as a way of ensuring high quality regulatory framework through evidence-based studies. Today, according to the World Bank (2018), 92 out of 185 countries conduct some form of RIA, and 46 out of 58 high-income economies included RIA in their regulatory policymaking frameworks. Although RIA is also gaining recognition in the developing world, the process of diffusion has been fairly slow (Ibid). One of the key reasons for this,

according to OECD studies, is that RIA requires fairly high level of expertise complimented with sufficient technical and financial resources for it to be fully operational and effective. Thus, lack of resources in emerging economies renders it difficult to fully implemented RIA principles in regulatory processes.

Over the recent years, the scope and content of the RIAs have broadened considerably. OECD (2009:63) analysis of international best practices shows that the effective RIA regime, along with economic impact analysis, now include the analysis of the impact of regulation on the market openness, competitive environment, development of SMEs (small and medium sized enterprises), specific regional areas, special social groups, the public sector (i.e. administrative costs), gender equality, environment and poverty. Additionally, World Bank experts have advised to include RIA of international obligations and treaties of the states (World Bank, 2018).

RIA is relatively new phenomenon in Central Asian legal systems. Although formal recognition of RIA does exist in all regional countries (except Turkmenistan), their scope, content and influence on policy making vary. To date, regional governments have established both legal and institutional bases of RIA (see Table 7.3.4). RIA is now mandatory for both primary and subordinate draft regulations related to the business and entrepreneurial activities in the region. However, none of the governments have been able to fully implement it in the rulemaking processes. RIA is generally understood in its traditional sense – assessment of regulatory impact on the economy in terms of identifying and reducing burdens and obstacles to doing business and investment climate. Hence, the focus of RIA in the region is limited to the draft regulations related to the entrepreneurial activities.

Kyrgyz Republic was the first in the region to start introducing RIA in 2004 with the technical and advisory assistance from the international donor organizations. From 2004 to 2007 the Kyrgyz government approbated the RIA by applying it only for legal documents of the executive government. With the Presidential Decree of July 23, 2007 (No. 344), the RIA was officially recognised as an integral part the national legislative system and started covering other legislative documents as well. In Uzbekistan, the

RIA was introduced in 2008 following the Memorandum of Cooperation on the Implementation of RIA signed between the Cabinet of Ministers of Uzbekistan and the International Finance Corporation. The same year, the Government of Uzbekistan issued a Resolution No.281 which set the RIA as a mandatory regulatory assessment tool applied exclusively for the draft regulations related to the business affairs. In December 2, 2014 the Uzbek government issues another resolution (No. 328) to broaden the scope of RIA conduct.

Table 7.3.4. Rules and procedure of RIA in Central Asia

Country	Is RIA a formal requirement for draft primary and subordinate laws?	Which areas of regulation are subjected to RIA?	Is there a specialized body tasked with doing RIA and/or reviewing and monitoring RIAs conducted by other state bodies?	Do other ministries or regulatory agencies conduct RIA of proposed regulations?	Is there any specific RIA Methodological Guideline?
Kazakhstan	Yes, both primary and subordinate laws	Only those related to business and entrepreneurial activity	Yes, Institute for Economic Research under the Ministry of National Economy	Yes, throughout government	Yes
Kyrgyz Republic	Yes, both primary and subordinate laws	Only those related to business and entrepreneurial activity	Yes, Ministry of Economy	Yes, throughout government	Yes
Tajikistan	Yes, both primary and subordinate laws	Only those related to business and entrepreneurial activity	Yes, Center for Legislation under the President of Tajikistan	No	Yes
Uzbekistan	Yes, both primary and subordinate laws	Only those related to business and entrepreneurial activity	Yes, Chamber of Commerce of Uzbekistan	No	Yes

Source: *Author's own findings. No information available for Turkmenistan.*

Kazakhstan and Tajikistan have started implementing the RIA quite recently. The first step to introduce RIA in Kazakhstan was taken in 2014 with the adoption of the Concept of Government Regulation of Business Activities and further incorporated

into the Entrepreneurial Code of 2015. In developing national framework of RIA, Kazakh government actively used analogies from the leading European countries and had trained a number of its public officials in abroad for this purpose. In Tajik legal system, the RIA emerged in 2015 with the financial and technical assistance of the Asian Development Bank. The Concept of Development of the Regulatory Impact Assessment in Tajikistan, adopted by the Government Resolution on November 18, 2015 (№673), set the legal foundation of RIA in Tajikistan. But actual use of RIA in rulemaking process began in January 2017.

A dedicated body tasked with producing RIAs and monitoring RIAs conducted by other state bodies is very crucial for country's RIA regime to be successful (World Bank 2018). It is particularly important for developing methodological guidelines, instructions and manuals on RIAs, as well as providing technical and advisory support for the state bodies across the government. A more centralised approach in conducting RIA is taken by the governments of Tajikistan and Uzbekistan. In Tajikistan, this responsibility is assigned to the Centre for Legislation under the President of the Republic of Tajikistan. The Center is actively supported by the Ministry of Economy and Trade in term of statistical data and information. In Uzbekistan, the RIA is carried out by the non-governmental institution – Chamber of Commerce and Industry of Uzbekistan. At the same time, the Ministry of Justice produces alternative assessments of draft regulations in term of their potential impact on the business affairs. However, despite the fact that the assessments produced by these two entities sometimes overlap, there is no coordination between them.

Kyrgyz Republic and Kazakhstan have taken a decentralized approach, where all line-ministries and regulatory agencies at the republican level are obliged to conduct their own RIAs. However, both countries have central state authorities responsible for coordinating RIA activities across the government (the ministry of economy in both cases). Although majority of line-ministries and regulatory agencies do not have specific units which focus exclusively on producing RIAs, all of them have at least couple of trained staff members to carry out this task.

Existence of methodological guidelines, which include robust and consistent RIA methods and approaches, is also a quintessential part of the effective RIA system. Globally, 70% of the countries conducting RIA and almost all high-income OECD countries had clear methodological guidelines for RIA (World Bank, 2018). Currently, all regional countries have adopted some form of methodological guidelines. They are relatively more comprehensive and detailed in Kazakhstan and Kyrgyz Republic than others. Kyrgyz government's RIA Guidelines (adopted in 2007 and updated in 2014) offer methodological recommendations on the RIA and specifies the procedures of conducting it. RIA guidelines of Kazakhstan (approved by the Ministry of National Economy in 2015) sets five key principles of doing RIA: it should clearly state the problem that needs to be addressed and regulated; it should provide at least three alternative solutions to the problem (alternative to the adoption of the regulatory document); it should carefully assess the benefits and costs associated with all alternatives proposals; it should suggest the optimal regulatory alternative and explain why it is the best alternative; it should provide assessment indicators which will be used to assess their outcomes after the implementation.

RIA guidelines adopted in Tajikistan and Uzbekistan are narrower in scope. The guidelines determine the procedure of assessing the impact of regulation on business and entrepreneurial activity through public consultations organised online or through targeted outreach to the business communities. Common understanding is that direct involvement of the business in the development of regulatory acts is most efficient and economical way of making laws more business-friendly.

Problems and challenges

Regional countries haven't yet developed a comprehensive RIA system. Techniques of evaluation are not sophisticated enough to reveal important shortcomings related to the policy content or to its implementation process. The regional governments are also short of essential technical tools to produce high-quality RIAs. According to KAZ3, "in most of the cases, the methodology used for impact evaluation is almost identical for all regulatory proposals irrespective of their specifications and area of regulation.

Applying a single methodology for all draft regulations is actually inappropriate. Every individual case deserves a unique approach."

Shortage of trained specialist and the absence of regular training programmes are also major issues. For examples, the department of the Ministry of Economy of Kyrgyz Republic responsible for the coordination of RIA activities across the government is represented by only 4 trained specialists. The RIA division of the Center for Legislation of Tajikistan consists of 3 staff members. There are only 2 specialists allocated for RIA work at the Chamber of Commerce and Industry of Uzbekistan. Only in Kazakhstan, this task is entrusted to the entire Institute for Economic Research under the Ministry of National Economy. The state-sponsored training programmes on RIA existed only in Kyrgyz Republic which is organized by the Ministry of Economy on a regular basis. As of February 2019, over 3500 public servicemen had undergone training courses, according to KGZ7.

Moreover, the draft regulations initiated by the presidents are often exempted from the RIA. Given that the vast majority of important regulations are initiated or proposed by the presidents, RIA only applies for a limited number of less important regulatory proposals. On the other hand, although RIA is a legal requirement, the national laws do not stipulate any sanctions or penalties for failing to submit RIA. It is a sole discretion of the responsible state body to reject or accept draft proposals without RIAs.

Yet some others contend that the difficulty of incorporating RIA in the regional context is something to do with the legal system and rulemaking tradition of the region. As UZB1 argued, "RIA is a by-product of Anglo-Saxon legal tradition where governance is more results-based, whereas in the post-soviet space it is procedure-oriented. Cost-benefit analysis, which is based on the statistical modelling, is the most common method in identifying optimal policy options in Anglo-Saxon legal tradition. However, this method is not well represented in the post-soviet policy-making system. On the other hand, cost-benefit analysis based on specific quantitative indicators tends to

produce very approximate outcomes and, in many instances, fail to reflect the actual reality given the complex nature of legal relations."

7.3.5. Ex-Post Regulatory Review

Another essential stage of the regulatory cycle is the Ex-post regulatory review process which aims at assessing the regulations in force in terms of their achievements of underlying policy objectives. It particularly analysis the effects and impacts of regulations, including direct, indirect and unintended consequences, after their implementation (OECD, 2017). Regulations may become outdated and require modifications as the result of the political, social and technological changes. Without an effective ex-post review system, regulatory gaps, red tape, regulatory costs and burdens tend to organically grow over time, which could complicate the livelihood of citizens and impede the efficient functioning of businesses (Ibid).

Ex-post regulatory review is a fairly new practice in the rulemaking systems of the Central Asian countries. It is generally known as a 'legal monitoring' which implies the act of monitoring on the application of existing regulations with the purpose of assessing their effectiveness, identifying overlaps/duplications/inconsistencies, and taking steps to address the problems by way of preparing recommendations on the modification and amendment of regulations where necessary. However, although the need for an effective ex-post review is generally recognized, the regional countries haven't yet developed a comprehensive understanding of the forms, methods and techniques of conduct effective review (Tlembaeva & Tyrlybek, 2018).

The Table 7.3.5. represents the key features of the ex-post evaluation system in the region. Ex-post review of regulations has been made a legal requirement in all countries, though it is not applied to all regulations in some countries. The state bodies assigned to conduct ex-post review also vary across countries. Despite legal requirements of periodic reviews, none of the countries had regular reviews of existing regulations. Governments also lack standardised evaluation techniques or decision criteria to be used when regulation is reviewed. The government officials reported

about having such practices as 'rolling reviews' (an annual quality assessment of regulatory acts), 'sunsetting' (a provision in a draft regulation that gives it an expiry date once it is passed into law) and automatic reviews of specific regulations, but these practices were rather irregular or non-existent in reality.

Table 7.3.5. Ex-post evaluation of regulations in Central Asia

Country	Is ex-post review mandatory by law?	Does ex-post review apply to both primary and subordinate laws?	Which state body(ies) conduct ex-post reviews?	Are there any criteria for which regulations are subject to ex-post reviews?	Any specific approaches used by the government for ex-post review?
Kazakhstan	Yes	Both primary and subordinate laws	All state bodies throughout government	No	Rolling evaluations
Kyrgyz Republic	Yes	Only subordinate laws of the government	All state bodies throughout government	No	Rolling evaluations (irregular)
Tajikistan	Yes	Both primary and subordinate laws	Some state bodies only	No	Rolling evaluations (irregular), ad-hoc evaluations
Turkmenistan	Yes	Only primary laws	All state bodies throughout government	No	No
Uzbekistan	Yes*	Only primary laws	A dedicated state body	No	Rolling evaluations (irregular)

 Source: World Bank Global Indicators of Regulatory Governance dataset. Modified, updated and improved by the author.
* Uzbekistan conducted ex-post review of laws between 2005 and 2011 (approximately).

The concept 'legal monitoring' came into existence in the rule-making system of Kazakhstan in 2006 by the amendments made to the Law "On Normative Legal Acts" (replaced by the Law on Legal Act of 2016). The law identified the main objectives and

principles of legal monitoring and stipulated the responsibilities of the relevant state bodies to conduct periodic monitoring of existing regulations in their respective areas. Overall coordination and methodological support of the monitoring activities throughout government is assigned to the Ministry of Justice. However, methodological guidelines of conducting legal monitoring and standardised evaluation techniques hadn't been well-established until 2016, when the government adopted a Resolution "On the Rules of Conducting Legal Monitoring". According to the new rules, relevant ministries and regulatory agencies obliged to conduct legal monitoring on a biannual basis and submit their results to the Ministry of Justice, which in turn combines all monitoring results and proposals and submits them to the Inter-ministerial Law Commission for consideration and further inclusion to the Annual Plan of Legislative Work of the government. Moreover, the Institute of Legislation, created in 2010 under the auspices of the Ministry of Justice, also conducts legal monitoring on a regular basis as a supplement to the ones conducted by other state bodies. The Institute annually carries out around 50 legal monitorings in various spheres of regulation. Monitoring activities across the government are observed and coordinated automatically through the e-system administered by the Ministry of Justice. According to the Ministry of Justice Report, in 2017, overall 25 central government agencies and 32 local government bodies conducted legal monitoring in relation to 265 primary laws and 14,841 subordinate laws.

The Kyrgyz government introduced the principles of legal monitoring to the legislative system in 2014 with the amendments to the Law "On Normative Legal Acts". According to the law, legal monitoring is mandatory only for the subordinate laws of the executive government. All state regulatory bodies participate in the monitoring activities and they are required to conduct two-year and five-year reviews. Procedures of conducting legal monitoring are stipulated in the Guidelines for Monitoring and Evaluation of Existing Normative legal Acts approved by the Decree of the Government of Kyrgyz Republic from March 23, 2015.

According to local experts and officials, however, legal monitorings are not conducted on a regular basis. It is often done on the basis of direct instructions from the president

or the government. The parliament may also request government to reviews certain regulations if the parliamentarians cast doubt on the effectiveness of those regulations. Sometimes this request may come from the private sector – business associations, if they believe that some regulations are hampering the efficient functioning of businesses. Yet, as many admitted, the quality of reviews is still poor due to the obscure methodological underpinnings.

In Tajikistan's legal system, the legal monitoring was appeared only in 2017 in line with changes to the Law on Normative Legal Acts which made period legal monitoring as a mandatory part of the legislative work in the country. The rule applies for both primacy and subordinate laws. Monitorings are carried out by relevant state agencies in close collaboration with the bodies dealing with the application of laws – law-enforcement agencies and judiciary. The result of the legal monitoring must be taken into account when developing annual plans of legislative work.

Although the law requires that all state agencies should conduct legal monitoring on a regular basis, they are in fact conducted every two to three years and these activities often cover only certain key industries and sectors of the economy. The law does not specify the time and procedures of the legal monitoring and there is no dedicated state body to oversee the monitoring activities across the government. Ministry of the Economy and Trade occasionally oversees the implementation of various policies and state programs, but this is not a systematic and routine practice and often lacks critical assessments.

Uzbekistan was actually first in the region to implement the rules of legal monitoring in 2005, but this practice was abolished in 2011. Unlike neighbouring countries, Uzbekistan government had created a single dedicated state institution – Center for Monitoring the Implementation of Legal Acts under the Ministry of Justice – responsible for conducting monitoring on the implementation of laws by the ministries and state departments, law enforcement agencies, as well as the local government bodies. However, the Center couldn't perform as effective as anticipated due primarily to the shortage of financial, technical and human resources. After five

years of poor performance, in 2011 the government decided to transform the Centre into a General Directorate with the power of supervision over the legislative implementation and compliance across the government. The resource capacity of the General Directorate had been enhanced by established its' local and territorial liaison offices. But, again, the changes did bring about expected outcomes and the government finally decided to liquidate this institution and put an end to legal monitoring practices.

7.4. Regulatory Implementation: Government Effectiveness

Formal regulatory framework and institutional arrangements alone cannot bring about desirable policy outcomes unless an effective system of regulatory implementation is in place. Bridging the gap between making good regulations and their effective realization is a major challenge for any regulatory system. This is especially challenging task for transition economies with weak and immature public sector institutions. This section will elaborate on the extent to which Central Asian governments have been able to create an ecosystem for effective regulatory implementation and the underlying factors that have been obstacle to this endeavour.

In public policy, implementation means carrying out, accomplishing, fulfilling, producing or completing a mission prescribed in a policy document (Paudel, 2009). For O'Toole (1995), implementation refers to the connection between the expression of governmental intention and actual result. It encompasses those policy actions that are directed at the achievement of objectives set forth in government's policy decisions. Pressman and Wildavsky (1973) defined it in terms of a relationship to policy as laid down in official documents. Policy implementation may be viewed as a process of interaction between the setting of goals and actions geared to achieve them. This includes both one-time efforts to transform decisions into operational terms and continuing efforts to achieve the large and small changes mandated by policy decisions (Van Meter and Van Horn, 1975: 447).

The success of the implementation depends on the ability of the government to deliver policies effectively to attain the stated policy objectives. Given socio-cultural, political and economic variations in the country's context, policy implementation can take different shapes and forms in different countries (Paudel, 2009). Likewise, challenges and obstacles that countries face in terms of policy implementation also vary significantly. In the case of Central Asia, while recognising certain variations in individual countries, this research will focus on some general features of the regulatory implementation and common challenges that the regional countries face in this direction.

There are already many regulatory management initiatives, institutions and tools have been put in place in the regional countries. The governments have taken important steps to improve the public access to regulations and legal information, which are known as essential first-step elements of regulatory implementation. Introduction of digital solutions to regulatory governance – e-government platforms – has also been actively promoted. Moreover, region's very high literacy rate and educated population serves as an important human resource base to form able bureaucracy to deliver sound regulations. However, there are number of factors which prevent governments from implementing regulations effectively. Particularly, the absence of appropriate pattern of implementation and feedback mechanisms, the lack of formal procedures or requirements for monitoring and evaluating the regulatory compliance, excessive power concentration and "top-down" decision making approach, poor interagency communications and coordination of regulatory implementation, shortage of financial resources allocated for implementation purposes, weak and incapable executive government (Kyrgyz Republic), and diluted legal authority of primary regulations and *de factor* dominance of subordinate regulations (Uzbekistan).

7.4.1. Access to Regulations and Legal Information

Regulatory implementation starts with making newly adopted regulations publicly available through official print media and/or online platforms. Whether the public access to regulations in force is granted for free, in a timely manner and without any restrictions, presented in a plain language, and made accessible in more than one language is a good starting point of regulatory implementation and an important determinant of the quality of the overall regulatory policy. The governments of the Central Asian countries have created both online and print media platforms to ensure an easy, unlimited and free public access to regulations (see Table 7.4.1.1.). All laws, both primary and subordinate, after their adoption and promulgation, are first posted on the print media – an official gazette/journal or other publications of the government or parliament. Additionally, there are centralised websites, managed by the governments, where laws in force are stored and updated regularly. Online data

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banks of legislative documents are also offered by the private companies in Kazakhstan and Uzbekistan.

In almost all regional countries legislative documents are presented in two languages: national language of the respective country and Russian. However, the two versions not always have the same legal authority. Usually the versions in local national language shall have a legal authority. In case if both languages are set to have the equal legal weight and if there is a discrepancy between the texts of the same law in two languages, the one in local national language shall have the priority. Governments also offer translation of the legislative documents in other foreign languages upon request. In Kazakhstan this request is offered for a charge.

Despite the abovementioned opportunities, legal information provision in the region is in need of further improvements. Although all countries have a solid legal basis of ensuring people's right to information and government data, the regional governments are not open enough to fulfil the people's needs for information and data. Public requests for information and data held by the government agencies are not always granted. Even if granted, often with inexplicable delays. The information provided sometimes impertinent and incomplete. On the other hand, citizens are not always aware of their rights and these rights are not adequately protected by the law-enforcement and judicial bodies.

According to the Global Right to Information Rating (RTI Rating), created jointly by Access Info Europe & Center for Democracy and Law, which offers a comprehensive assessment of the strength of the legal framework for the right to information in a country, the legal framework created in the regional countries do not comply with international standards and basic principles in the field of access to information (see Table 7.4.1.2). Only Kyrgyz Republic's laws on the access to information is said to comply with the international standards and best practices. The country ranked 39th in the overall ranking of 123 countries. RTI ratings ranked the quality of the legal framework of Kazakhstan as 109th, Uzbekistan – 111th, Tajikistan – 119th. Hence, these

three countries were in the top 15 countries with the worst legal regimes on access to information. The rating does not cover Turkmenistan due to absence of information.

Indeed, measuring the quality of the regulatory framework of right to information and how this right is actually ensured on the ground is a difficult task. Sometimes, countries with relatively weak regulatory framework to ensure right to information may however be very open, due to positive implementation efforts, while even relatively strong legal regimes cannot ensure openness if they are not implemented properly. Although the RTI Rating does not measure quality of actual implementation of laws, their studies clearly demonstrate that a strong right to information law is key to advancing openness and to helping those using it to defend and promote the right to information.

Moreover, majority of the local experts agreed with RTI's assessments and believe that they reflect real gaps in the regulatory frameworks of access to information. Experts emphasized that the poor performance of the regional countries in this rating could be prompted by weak guarantees for the implementation and protection of the right to information. The lack of mechanisms to ensure and protect these rights is another major issue. Absence of independent administrative bodies to consider complaints of unlawful actions by officials in the field of access to information adds up to the problem. Complaints of violation or restriction of the right to information are not adequately considered by law-enforcement agencies and courts. Penalties for violations of these rights are said to be inadequate to prevent them from further happening.

Table 7.4.1.1. Access to the regulations in force in Central Asia

Country	Are the laws that are currently in effect available in a single place?	How are the laws that are in effect accessed?	Are subordinate regulations are codified and available in a single place?	Are these websites or registries updated regularly?	Can these websites or registries be accessed by the public free of charge?
Kazakhstan	Yes (*online at online.zakon.kz*)	On a unified website managed by the government On a unified website managed by the private sector Printed in an official gazette / journal or other publication	Yes	Yes	Yes
Kyrgyz Republic	Yes (*online at cbd.minjust.gov.kg*)	On a unified website managed by the government Printed in an official gazette / journal or other publication	Yes	Yes	Yes
Tajikistan	Yes (*online at adlia.tj*)	On a unified website managed by the government/ Printed in an official gazette / journal or other publication	Yes	Yes	Yes
Uzbekistan	Yes (*online at lex.uz*)	On a unified website managed by the government On a unified website managed by the private sector Printed in an official gazette / journal or other publication	Yes	Yes	Yes

Source: *Author's own findings. No information available for Turkmenistan*

Table 7.4.1.2. Right to Information Rating of Central Asian (2018)

Rank	Country	Date of specific Law adopted	Right of Access (MAX-6)	Scope (MAX-30)	Requesting Procedure (MAX-30)	Exceptions & Refusals (MAX-30)	Appeals (MAX-30)	Sanctions & Protections (MAX-8)	Promotional Measures (MAX-16)	Total (MAX-150)
39	**Kyrgyz Republic**	2007	4	30	24	13	19	3	8	101
109	**Kazakhstan**	2015	1	30	21	1	7	0	1	61
113	**Uzbekistan**	1997	3	25	10	13	7	1	0	59
119	**Tajikistan**	2002	4	8	17	16	2	0	2	49

Source: *Access Info Europe & Center for Democracy and Law. No data available for Turkmenistan*

7.4.2. E-Government and Public Service Delivery

Digital Government (also known as *E-government – electronic government*) refers to the use of information and communication technologies (ICTs) and other web-based technologies to increase the efficiency and effectiveness of public administration (Alenezi et al., 2015; United Nations, 2014). Digitalisation of the governance improves the quality of policy planning and management, accelerates information exchange and data sharing between agencies, reduces time and transaction costs of dealing with public matters and enquires. The digitalization contributes to transparency and openness of the government and reduces the incidents of corruption. Hence, it is very important for effectively delivering and implementing regulatory changes and reforms.

Although the use of ICTs in the public administration is longstanding in Central Asian, targeted policy measures to establish e-government is relatively new development. All regional governments have taken steps to digitalise the government services. However, the pace and scale of the reforms and achievements vary across countries. Kazakhstan was the first country in the region to start adopting state programs for e-government development. In 2004, the Kazakh government enacted first State Program for E-Government Development for the period of 2005-2007. During this period, the government had created a basic infrastructure and key components of e-governance, such as unified government portal and several web-based gateways, such as E-System for interagency document management and coordination, E-banking, E-ID and etc.

The following two-year State Program was adopted for 2008-2010. In this phase, majority of the popular public services had been automated. The government had successfully implemented projects such as E-licencing, E-tax, E-notary, E-customs, E-procurement and others. Currently, the government of Kazakhstan is simultaneously implementing two state programs for e-government development: "Informational Kazakhstan – 2020", initiated in January 2013, and the "Digital Kazakhstan – 2018-2022", adopted in December 2017. As part of the "Informational Kazakhstan – 2020",

almost all the important sectors of the public policy, including education and healthcare, are currently being digitalized. Important measures have been taken to create so called "mobile government". The program "Digital Kazakhstan – 2018-2022" aspires to achieve improved quality of public life and increased competitiveness of the economy by implementing following five key projects: "Digital Silk Road" – to develop reliable, affordable, high-speed and secure transportation infrastructure; "Creative Society" – to improve digital literacy and competence of the population; "Digital Economy" – to transform the key sectors of the economy by using digital technologies; "Proactive Digital Government" – to improve public service mobility.

The impetus to the e-government development in Uzbekistan was given by the State Program for the Development of National Information and Communication Systems for 2013-2020, and the Law "On E-government", enacted in December 2015. Today, information exchange between government agencies and the public is carried out through the Unified Portal of Interactive Government Services (UPIGS), which was established in 2013 as part of the implementation of the State Program. The UPIGS currently integrates key government agencies such as Tax Committee, Customs Committee, the National Identification Authority, People's Bank, and national regulatory e-service – REGULATION.UZ, and others. However, public services are not fully automated yet. Today, out of total 780 government services, only 185 types of services are provided through UPIGS. The government have put in place several web-based service platforms, such as E-clearing, E-procurement, E-budget, E-customs, E-license and others, which allowed to automate the collection and processing of documents. Registration of export and import contracts are carried out through UPIGS for free of charge. Banks, tax and customs authorities began to monitor all foreign trade transactions through the Unified Electronic System of Foreign Trade Operations. The work is currently underway to create such platforms as E-health, E-education and E-communal services.

The development of e-government in Kyrgyz Republic began in 2014 with the adoption of the State Program on Electronic Government. As part of this initiative, Kyrgyz parliament passed the Law "On Electronic Governance in Kyrgyz Republic in

July 2017. A year later, in 2018, the Kyrgyz government announced a new strategic initiative – "Digital Kyrgyzstan – 2019-2023". Currently, majority of the interdepartmental correspondence and information exchanges as well as public services are delivered through the unified electronic system called TYNDYK. The system is managed and administered by a dedicated state body – The State Enterprise "Center for Electronic Interaction", which was founded in 2018. The government is currently expanding the TYNDYK to include territorial units of the state agencies into the system. The government has launched 'Information Kiosks' in local administrations in order to digitalise the most basic public services, such as registration of the marriage, the birth, the deaths and the paternity, issuance of ID cards and civil passports. There are total of 453 such kiosks are currently operating throughout the country. Kyrgyz government has also started implementing number of other projects, such as Hybrid Mail (unified system for communal services), E-HRM (electronic human resources management), E-Gate (automated border control system), E-visa, E-patent, E-registration, E-notary and others.

In Tajikistan, the introduction of e-government principles started with the adoption of two strategy documents – State Program for Computerization of Central and Local Government Bodies for 2012-2015 and the Concept of E-Government Development for 2012-2020. Within the framework of these programs, the government has launched a number of e-governance initiatives, such as unified electronic register for licensing and permits (ijozat.tj), electronic register for corporate businesses and individual entrepreneurs ("Single Window"), electronic tax management system (andoz.tj; mbma.tj), national labour market database (kor.tj), e-system for primary and secondary school admissions, and others. However, majority of the state initiatives have not realised yet. According to ICTs expert Marufjon Abdujabborov (2019), many important projects envisaged in the state programs for e-government still remain on paper. For example, the key initiative – Unified Government Services Portal, which is the basis of e-governance, hasn't been created yet. There are many other projects in the state programs that remain unrealised due to the financial and technical problems, said the expert.

Despite having the second highest per capita income in the region, Turkmenistan is lagging far behind other countries of the region in terms of digitalising the public administration. The Turkmen government has recently announced about its intention to introduce some elements of e-government by adopting the Concept of Development of Digital Economy for 2019-2025. The document envisages policy measures of digitalising some of the strategic sectors of the national economy, such as energy, chemical industry, construction, transport, telecommunication, textile and agriculture. However, the pace of e-government development in Turkmenistan remains rather slow.

While all regional governments have taken important steps to develop e-government, according to the E-Government Development Index (EGDI), biannually presented by the United Nations Department of Economic and Social Affairs, the progress in digitalising the public administration has been quite uneven in the region (see Table 7.5.2.). [1] For instance, Kazakhstan is ranked among the top-50 most digitalised governments of the world, whereas Turkmenistan and Tajikistan are included in the category of the least digitalised countries of the world. Over the course of a decade between 2008-2018, Kazakhstan have progressed more than two-fold – from 81st to the 39th. Uzbekistan and Kyrgyz Republic have also progressed over the observed period and currently placed 81st and 91st respectively. Tajikistan's global rank generally remained unchanged, but Turkmenistan dropped from 128th down to the 147th.

In terms of overall EGDI index score, Kazakhstan scored much higher than the world average (see Figure 7.5.2.). Uzbekistan outperformed the world average in 2010 and showed persistent progress since. Kyrgyz Republic has generally been performing

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[1] The EGDI is a composite indicator that consists of three components: Online Service, Telecommunication Infrastructure and Human Capital. The components are equally weighted and cover a broad range of topics that are relevant for e-government. For example, 'Online Services' measures country's emerging information services, enhanced information services, transactional services and connected services. 'Telecommunication Infrastructure' measures fixed-telephone subscriptions, mobile-cellular telephone subscriptions, wireless broadband subscriptions, fixed (wired)-broadband subscriptions per 100 inhabitants, and the percentage of individuals using the Internet. 'Human Capital' measures country's adult literacy percentage, gross enrolment ratio, expected years of schooling and mean years of schooling.

around the world average without any noticeable progress. Tajikistan and Turkmenistan, however, remained well-below the world average.

Table 7.4.2. E-Government Development Rank, Central Asia 2008-2018

Country	2008	2010	2012	2014	2016	2018	Regional Rank
Kazakhstan	81	46	38	28	33	39	1
Uzbekistan	109	87	91	100	80	81	2
Kyrgyz Republic	102	91	99	101	97	91	3
Tajikistan	132	122	121	129	139	131	4
Turkmenistan	128	130	125	128	140	147	5

Source: United Nations

Figure 7.4.2. E-Government Development Index, Central Asia 2008-2016
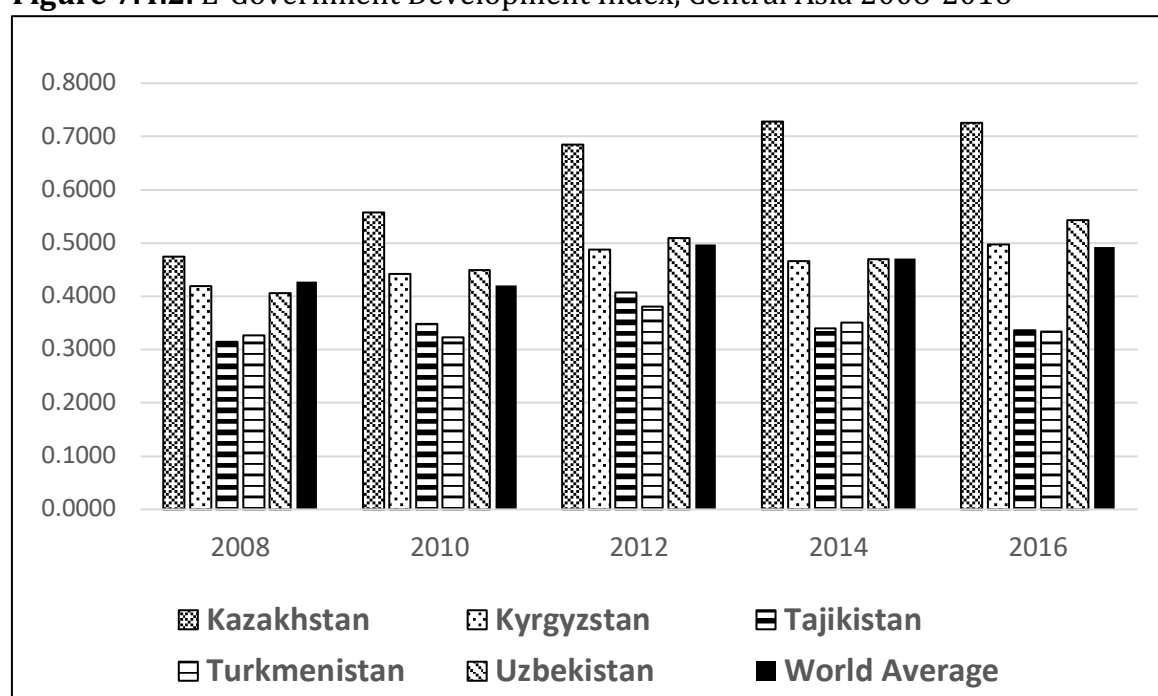
Source: United Nations

7.4.3. Human Resource Capacity

Human resource is an important determinant of the economic potential of the nation. It is an essential capital that can be used to create goods and services and generate added value by innovation and knowledge. The literature emphasising the importance of human capital in economic development is vast (Solow, 1956; Lucas, 1988; Romer, 1990; Rebelo, 1992; Becker, 1993; Mincer, 1993; etc.). Human capital is directly related to human development, and when there is human development, the qualitative and quantitative progress of the nation is inevitable (Ul Haq, 1995). The government bureaucracy consisting of capable and productive human resources is key for the successful implementation of policy reforms and regulatory changes.

Measuring human resource capacity of the nation is in fact a difficult task. Most literature uses the share of the educated population, overall literacy rate and health conditions of the citizens as proxies for the human resource capacity. Taking these metrics into account, human resource capacity of Central Asian countries is significant. Overall literacy rate in the region is around 99% (CIA, 2016). Regional countries on average allocate about 15-20% of government expenditure to education, which is generally compatible with average of high-income OECD countries (World Bank, 2018). In UNESCO's Education for all Development Index (EDI) for 1999-2010, which measures the progress of nations in achieving universal level of primary education, adult literacy and gender parity, regional countries were ranked among world's Top 50 counties with "High EDI" (see Table 7.4.3.). Kazakhstan was ranked first in the world in terms of the pace of progress made in making education accessible for all citizens over the observed period.

Table 7.4.3. The Education for All Development Index, 2010

Global Rank	Countries	EDI	Primary adjusted net enrolment	Adult literacy rate	Gender-specific EFA index	Survival rate ECCE to grade 5
7	Kazakhstan	0.992	0.997	0.997	0.988	0.988
30	Kyrgyz Republic	0.978	0.953	0.992	0.991	0.976
34	Tajikistan	0.976	0.978	0.997	0.943	0.989
41	Uzbekistan	0.970	0.921	0.994	0.985	0.981

Sources: UNESCO

Citizens of all regional countries are guaranteed free secondary education (it is usually 11-12 years of education starting from age 6-7) in state educational institutions. Enrolment rate is well above the 90-percentile point. Although many rural and remote communities still face problems to access quality education, regional governments continue investing in expanding access to education with improved quality. Countries have been implementing best international standards of quality education. Kazakhstan, Kyrgyzstan and Uzbekistan participate in international assessments like Programme for International Student Assessment (PISA), Trends in International Mathematics and Science Study (TIMMS) and the Programme for the International Assessment of Adult Competencies (PIAAC), which are known to be important benchmarks of learning outcomes and pathways to develop stronger national education systems (World Bank, 2018).

Tertiary education (including bachelor's, master's and doctoral degrees, others similar level diplomas and certificates) is the most instrumental in fostering economic development and reducing poverty. Quality tertiary education produces highly skilled workforce to support economy's productivity, competitiveness and innovativeness. Returns from tertiary education is believed to be much higher than other stages of education. Estimates of World Bank (2017) show that the higher education increases earnings on average 17 percent, compared to 10 percent of primary and 7 percent of secondary education.

Access to tertiary education in Central Asia is, however, lower compared to the other economies of CIS and OECD. The Figure 7.4.3. below presents the ratio of total enrolment (regardless of age) to the population of the age group that officially corresponds to the level of education. According to the data, tertiary education attainment in the region is lower than the average of Europe and Central Asia, and much lower than the average of OECD. The situation is particularly grim in Tajikistan and Uzbekistan, where tertiary education attainment over the past years has been on average 25% and 10-12%, respectively. Although the situation seems better in Kazakhstan and Kyrgyz Republic than other regional countries, the average ratio for three decades has been around 50%, which is still lower than the average of Europe and Central Asia.

Figure 7.4.3. Tertiary Education Enrolment (% gross) in Central Asia, 1991-2017

	1991	1995	2000	2005	2010	2015	2017
Kazakhstan	39.3	35.6	31.8	58.2	46.2	46.4	50.1
Kyrgyz Republic	25.7	21.1	35.4	42.6	42.2	46.7	42.8
Tajikistan	22.6	20.9	17.9	20.5	22.9	26.6	31.3
Uzbekistan	17.5	15.1	13.1	10.1	9.4	8.2	9.2
Europe & Central Asia	33.2	37.1	44.9	55.9	61.2	66.1	69.8
OECD members	39.6	47.0	51.1	60.6	68.8	72.6	75.6
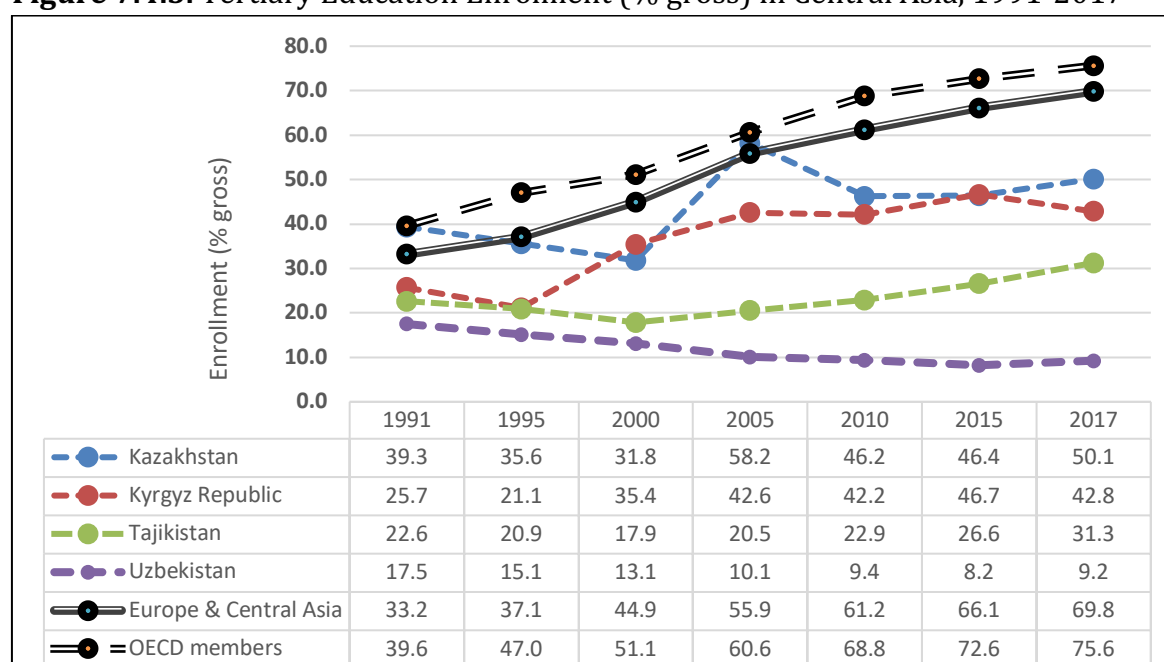
Source: World Bank

Having a great portion of educated population is indeed key for the economic and social prosperity. But the prosperity would only be possible with transforming these educated people into a highly skilled human capital capable of delivering policies and reforms effectively and efficiently. Establishing specialised post-university and mid-career training programs on policy planning and advocacy is critical to create a pool of

able bureaucrats and public servicemen who would form the basis of effective regulatory reforms. For instance, OECD (2009) analysis of the 31 judications with sound regulatory management systems found that the vast majority of them had a formal training programs to better equip public servants with the skills needed to develop and implement high quality regulation, including conducting regulatory impact analyses, using alternative policy instruments, informing and communicating with general public, ensuring effective regulatory delivery, compliance and enforcement, and the like.

Over the past decades, the Central Asian governments have taken a wide range of policy measures with the aim to create an effective public service by introducing merit-based employment principles, new management methods and techniques, innovative performance measurement systems, specialised training and retraining programs, and so forth. However, these initiatives have had very little practical implications so far. Public sector remains heavily bureaucratic with outdated management tools and techniques. Performance and productivity measurement systems are rather vague. Incentives schemes and payment levels are far behind that of the private sector. Public service recruitment processes are largely based on nepotism, personal relationships and bribery. Although all regional countries have established centralised government institutions for training and retraining of public servicemen, none of them had a formal training programs on developing and delivering a good regulatory policy. The contents of the training programs offered were general theoretical with little emphasis on nurturing important practical skills in public servants.

Likewise, the legislative sectors were also short of qualified specialists, having serious implications for the quality of the legislative documents drafted and adopted. This is partly caused by the absence of professional development programmes and appropriate methodological guidelines for the people involved in legislative drafting. Especially newcomers to the legislative work find it hard to get involved in the drafting process independently. The situation is even more grim in the parliaments where most of the parliamentarians have no prior experience in legislative drafting. Parliaments

were also in short supply of qualified assisting personnel and affiliated research institutions which would help MPs with drafting regulations.

TJK2 thinks that the root cause of the shortage of quality cadres in the legal sector is the fundamental fault of the legal education in post-soviet space. As he noted, "legal education in the region largely continues the soviet legacy of training lawyers with prime concentration on administrative and criminal laws. It does not produce lawyers with a deep knowledge of, for instance, corporate law, commercial law, banking and finance law, environmental law and the like. Thus, our economic regulations are mostly drafted by the lawyers who have fairly limited understanding of the economic matters. Their sole concern has so far been the legal quality of the regulatory documents, instead of focusing on whether the new regulations bring about positive changes to the economy and people's lives."

Similar account was made by UZB8, who considers post-independence period "as lost decades" in terms of creating able cadres who could carry out effective policy reforms and change. The first factor, according to him, is unmodernised curriculum at all stages of education. We tried to create new type of schools, colleges, universities, post-university training institutions, but the curriculum we used, materials we taught, pedagogical tools we employed didn't meet contemporary standards. Scientific research and innovation remained underdeveloped due to the discrepancy between the goals we set and the means we utilised to attain them. This is why the pace of region's convergence with the world of knowledge, science and innovation has been extremely slow. The outcome of these all reflects on the economic performance of the regional countries where actual human capital contribution is quite marginal."

7.4.4. *Financial Resource Capacity*

From the literature, it appears that financial resource capacity of the government has a significant impact on the successful policy implementation (Edwards, 1980; McLaughlin, 1998). Policy makers are also acutely aware of the impact financial

allocations would have on implementation efforts. However, many developing countries struggle to support state policies and programs with adequate financial resources which often leads to the implementation failures. Similarly, scarcity of financial resources in some Central Asian economies tends to cause delays or sometimes total termination of the enacted programmes and policies. The insufficiency of the budgetary resources is especially evident in lower income countries such as Tajikistan and Kyrgyz Republic, where governments heavily rely on financial aids and assistants from the donor countries and international institutions.

The issue of persistent financial constraints was expressed by many local officials and experts. According to the KGZ2, "around 60-70 percent of the failures of reform programs and initiatives caused by the lack of financial resources needed for their full-fledged implementation." Tajik expert TJK4 went even further saying that "financial resource scarcity not only hinders the government's ability to effectively implement policies, but also to develop sound policy proposal in the first place. For instance, he argued, good proposals require in-depth research and analyses by way of inviting leading experts, scholars and research institutions, organizing various workshops, conferences and training programs, etc. These all inevitably require sufficient financial provisions that the government of Tajikistan often lacks."

Foreign businesses operating in Tajikistan and Kyrgyz Republic also related the problem of policy implementation to the shortage of financial resources. As TJK7 said: "We regularly witness the policy initiatives to be delayed, postponed or suspended entirely. This is partly due to the shortage of necessary financial resources for the realization of the government projects. Most often than not local decisionmaker fail to forecast potential expenditures related to the project realization simply due to the miscalculations and incoherent project proposals."

7.4.5. "Top-down" Decision-Making Approach

Centrality of the decision making in the public administration is a long-standing argument in literature (Sabatier & Mazmanian, 1979; Simon, 1997; Bozeman & Pandey, 2004). Making right decisions is particularly essential for the success of the policy implementation (Sabatier, 1986). Public administration literature uses "top-down" and "bottom-up" approaches to describe how decisions are made and how changes are implemented. A "top-down" approach is where a top-level decision-maker decides of how policies should be made and implemented, whereas for the "bottom-up" approach decisions arise from the joint involvement of a large number of people working together.

Despite some claims on the positive aspects of a "top-down" decision making approach (Sabatier & Mazmanian, 1979; Mazmanian & Sabatier, 1981), a "bottom-up" approach is widely recognised as a better approach for developing good and informed policies and implementing them effectively (Hjern, 1982; Hjern & Porter, 1983; Bresser-Pereira & Przeworski, 1993; Stewart et al, 2015). Bottom-up approach is an "incremental change approach that represents an emergent process cultivated and upheld primarily by frontline workers" (Stewart et al, 2015: 241). It allows for more experimentation and a better sense of what is actually needed at the grassroots (ibid). When policies are accepted by majority of people in lower levels, their implementations tend to be much more effective. On the other hand, if reforms are perceived to be imposed "from above", it can be difficult for lower levels to accept them (Bresser-Pereira & Przeworski, 1993).

The "top-down" decision making has been the main procedure for regulatory decision making and implementation in Central Asia. Decision making is heavily concentrated in the hands of the people on the very top. Although national constitutions clearly institute checks and balances between power branches, executive branch exerts unprecedented authority over legislative and judicial branches. Vast majority of important policy decisions come from the heads of state – they either derive from the annual presidential addresses or from other presidential instructions given to the

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executive and legislative bodies. According to some local experts, around 95-97% of all important political and economic reforms have been initiated by the presidents and implemented under their direct guidance.

As UZB6 has noted, "positive changes in Central Asia haven't been possible due to the "top-down" decision-making approach. Vast majority of the policy initiatives comes from the very top. Once these policies are adopted and enacted it is barely possible to make further modification or changes should something goes wrong during the implementation process. Feedback mechanism is almost non-existent. Executive authorities are expected to implement policies without questioning their plausibility. And, most often than not, policy failures fall on the middle management."

In a similar note, TJK7 said that "over many years of the working with high level decision makers across Central Asia, I have understood that everything is based on the top-down approach. Everybody in the public administration is afraid of taking initiatives. Everything must come from the top. It has become an administrative norm. They always wait for the instructions from the hierarchy. Middle management never sabotages the orders of the top management. They seek for clearance for every course of action they take."

"The prejudice that "the leader is always right" is deeply imbedded in the mindset of the people in the region", contended TJK3. Djuraev. All constitutional provisions of balance of power and that the people are the main source of power are effectively "dead principles". Reality is entirely different. Many democratic institutions and norms stipulated in the Basic Law have been marginalised – often from authoritarian "one man decides everything" rule. There are no effective constraints on powerholders."

7.4.6. Inter-Agency Collaboration and Policy Coordination

Collaborative policymaking and a common ground for public problem-solving through a constructive management of difference is key for successful implementation of

policies (Gazley, 2017). Regulatory implementation should be an integrated process rather than simply a series of discrete and distinct stages. Effective implementation requires continuous vertical and horizontal collaboration with a range of stakeholders at multiple political, policymaking, managerial and administrative levels as well as the engagement of local implementation actors such as end users, frontline staff and a range of local service agencies (Ansell et al., 2017).

Despite growing interest in developing ideas and tools for promoting effective inter-agency collaborations in public sectors of Central Asian states, improvements have been rather patchy and limited. The lack of effective inter-agency collaborations has been one of the key impediments to the effective regulatory implementation. As KAZ3 rightly observed, "poor regulatory implementation in the regional states can be partly explained by the coordination failures. Unless it is strictly monitored or guided by the top authority, government agencies tend to be less keen on collaborating with each to achieve a more desirable policy outcome. Occasionally, one can even observe an explicit adversarial relationship between state bodies. This unhealthy situation obviously prevents many important changes from happening. As a consequence of miscommunication and poor collaboration between agencies, regulatory implementation often misses deadlines or fails. Hence, successful regulatory policymaking surely requires close inter-agency collaboration."

Using analogy from the policy management in Kyrgyz government, KGZ3 stated that: "Coordination failure starts at the level of highest government bodies. For instances, a regulatory proposal initiated by the executive government following thorough studies and research and submitted to the parliament for consideration, sometimes gets entirely changed by the parliamentarians and submitted to the president for promulgation. And the president, in turn, sings the regulation without the consulting with the government. As a final product you will have a legal document that does not correspond with the initial draft prepared by the executive government. At the end of the day, government finds itself in a complete deadlock when it comes to the implementation of that regulation, because it has been entirely altered and already lost

its' initially content. This problem is a clear consequence of miscommunication and miscoordination between state bodies."

7.4.7. *A Weak Central Government: Kyrgyz Republic*

Unlike other regional states, policy implementation in Kyrgyz Republic suffers also from the weakness and inability of the central government to ensure compliance with the rules and orders. The political system of the country has witnesses multiple revolutions, instabilities and endless changes of the political leadership. As KGZ2 put it, "since the independence, the country has had 30 different governments with 30 prime ministers with 30 different policy agendas and development strategies." These frequent changes in the political system rendered it impossible to adopt long-term development strategies and deliver positive and sustainable changes. As a result, fairly ineffective central government has emerged.

KGZ1 also pointed out that, "none of the governments in Kyrgyz post-independence history has been able to deliver its' development agenda until the logical end. This is due primarily to the constant changes and chaos in the political system and the lack of clear political ideology and commitment. We failed to create effective public management system. Corruption has become endemic. Every new government, instead of trying to bring some positive changes to the economy and social life, tried to grab its' share from the public resources. We have developed a system that is susceptible to corruption and disorder. Unfortunately, our people got used to live with these maladies."

However, many argue that the power relations in the state system of Kyrgyz Republic is relatively more balanced than in neighbouring countries. The national parliament is powerful enough to contain the executive branch. The Kyrgyz constitution limits the decision-making power of the president. Parliamentary system of the country was one of the fastest developing in the post-soviet space throughout the 90s. However, according to KGZ2, "the legislative body has started degrading since the mid 2000s. Nowadays, it has lost its' credibility and professionalism. Corruption has become

ubiquitous in the parliament – starting from the early party nomination stage till the law-making processes. It turned into a club of rich people and criminal groups who pursue specific private or corporate interests."

7.4.8. The Rule of By-Laws: Uzbekistan

One of the unique features of Uzbek regulatory system is *de facto* dominance of the subordinate laws over primary laws. Most of the primary laws adopted by the parliament can be described as "framework laws". Although framework laws are more specific than constitutional provisions, they contain a large number of so called "reference provisions" which require from governing authorities to enact further legislations – by-laws (Knuth & Vidar, 2011). That means, without corresponding by-laws, the framework laws will not have any practical value. This creates a condition where by-laws take precedence over primary laws. Hence, along with other areas, the economic sector of Uzbekistan is predominantly regulated by by-laws.

The problem with the rule of by-laws is that the by-laws tend to be very poor in quality. As a rule, all the legal documents that have wider public implications must undergo thorough impact assessments and reviews before their inaction. However, by-laws barely go through the same procedure of reviews and evaluations as primary laws, argued UZB2. They are normally prepared by the legal departments of relevant government bodies and approved by their respective heads. Targeted outreach to stakeholder and experts is fairly limited. Moreover, as he stressed, "by-laws are subject to constant changes and amendments due to the simple adoption process. Sometimes they may contain provisions that are contradictory to or beyond the scope of the primary laws, generating conditions for corruption or other wrongdoings."

There were numerous instances, according to UZB3, when by-laws clearly contradicted the primary laws. There have been even cases, he contended, when too many by-laws were enacted on the basis of a single primary law. "For instances, there are currently 17 different by-laws that regulate fishery and fishing in the country. It is not clear what is the rationale of having so many regulatory acts on a single issue?! One

comprehensive legal instrument would be enough to regulate the entire sector", he said.

The dominance of by-laws is also evident in the judicial sector. Judges very rarely refer to the primary laws during the court ruling and trials. As UZB3 reckoned: "During my 30 years of law-enforcement service, I can recall only one case when the judge referred to the national constitution. It was an indeed exceptional case. The reason was that the judge had no option but to refer to the constitution as one of the disputed parties was a foreign national. In other cases, judges had no option but to refer to the by-laws because of the inadequacy of provisions of the primary laws to settle disputes."

UZB1 pointed out that "regulatory policymaking cannot be improved unless the rule of by-laws is not eliminated. The parliament must start adopting laws that have a direct effect, without the need for additional by-laws. Obviously, framework laws with great deal of reference norms reduces the status of the national laws and hampers the implementation process".

However, in other regional countries, primary laws have a direct effect and do not require the enaction of by-laws. Kyrgyz legislative system limits the right of executive authorities to adopt normative documents that are of collective nature. They can only issue legal documents for internal use. Tajik lawmakers also claimed that their laws have a direct effect, unless otherwise specified in the law, and they are implemented without additional legal documents. Kazakhstan had eliminated the long-established practice of adopting framework laws in the mid 2000s.

7.4.9. Rule of Law: Law-enforcement, Justice and Corruption Control

Well-functioning regulatory regime, to a significant degree, rests on the condition of the rule of law in society, particularly on the ability of the law-enforcement and judicial bodies to ensure the hierarchy of law. Many studies have emphasized the importance of the rule of laws for economic development and social progress. For instance, Hayek (1994:81) argued that "under the rule of law the government is prevented from stultifying individual efforts by ad hoc action. Within the known rules of the game, the individual is free to pursue his personal ends and desires, certain that the powers of government will not be used deliberately to frustrate his efforts." According to Acemoglu and Robinson (2012), in the society with a strong presence of the rule of law, political institutions are constrained on the exercise of power, which is distributed pluralistically. And, inclusive economic institutions excel only in pluralistic societies.

There are also empirical studies showing strong causality between the rule of laws and economic growth. For instance, Morita and Zaelka (2007) empirically discovered that sustainable economic development would not be possible without an effective rule of law. According to Graham & Stroup (2016), the system with a weak rule of law discourages investments and reduces overall economic efficiency. By examining the rule of law and growth nexus in the case of China, Dam (2006) argued that the improved rule of law is critical for the developing economies to move from one income level to a more advanced one. Comparative studies of the International Development Law Organization (IDLO), which focuses on the promotion of the rule of law and development across the world, showed that the economic transition in the majority of developing countries has been unsuccessful due mainly to the absence of the rule of law (idlo.int).

Central Asian countries have been known for their calamitous rule of law regimes, explicated by rogue law-enforcement systems, politicised justice, lack of judicial independence, and endemic corruption (Trochev, 2014). According to the Rule of Law index of the World Bank's WGI, the situation with the rule of law in the region has not changed much throughout the period since acquiring independence from the Soviet

Union (see Figure 7.6.1.). In fact, the Kyrgyz Republic, which was known as a "Democratic Island" of the post-soviet space in the 90s, has been turned into a politically unstable state with a weak rule of law. Although the situation with the rule of law in Kazakhstan has made slight improvements over the observed period, it is still very low compared to the international standards.

Figure 7.5. Rule of Law Index of Central Asia, 1996-2018
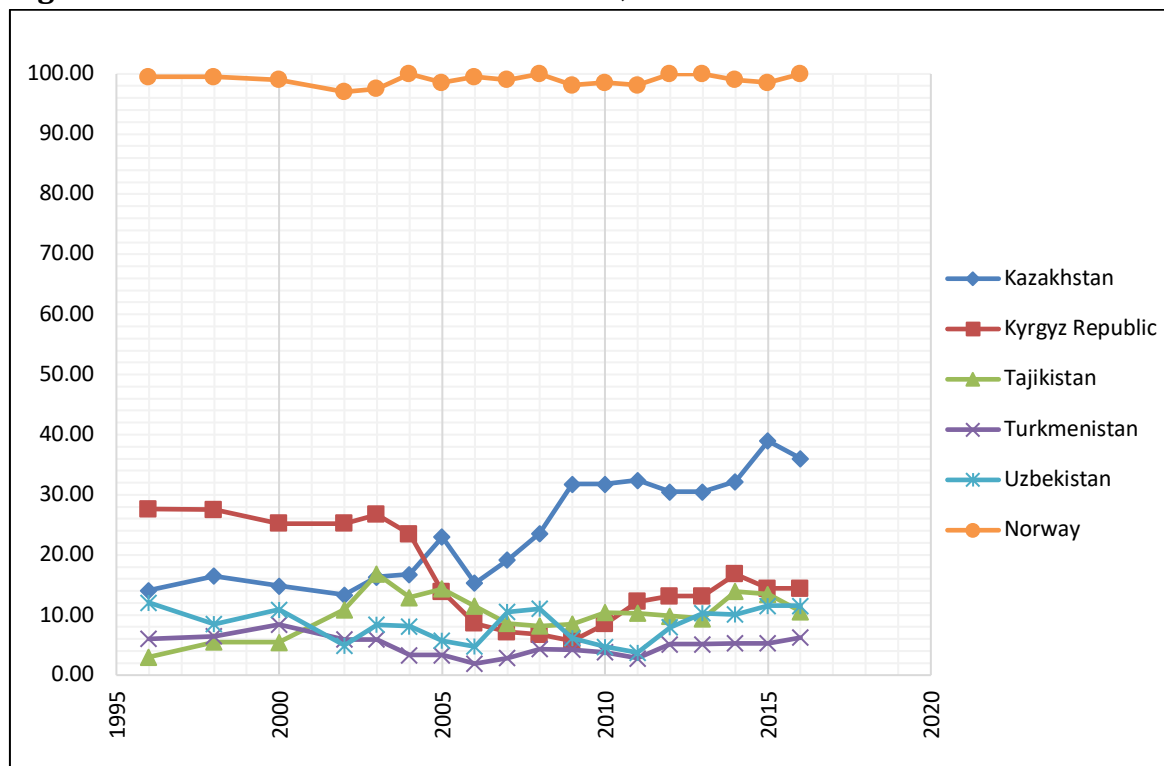
Source: World Bank World Governance Indicators.

Close scrutiny of the existing literature as well as interviews with local policymakers and experts, have revealed number of reasons as per why the issue of rule of law has been a serious challenge to the development of regional countries. Particularly, four common problems have been highlighted: prohibitively high role and authority of the prosecutorial office, lack of judicial independence, absence of adequate alternative dispute resolution system, and last but not least, the endemic corruption. In the forthcoming subsections, each of these factors will be thoroughly discussed.

7.4.10.Prosecutorial Ascendancy

Political and academic discourse on the rule of law and justice tend to provide rather little attention to the role of prosecutors in comparison to judges, defence lawyers, and court administrators. For example, international universal legal instruments, such as Universal Declaration of Human Rights and the International Covenant on Civil and Political Rights do not say anything about the role of prosecutors, whereas the case law of the Human Rights Committee of the United Nations provides very little attention to the status of the prosecutorial institutions (Nowak, 2005). This stems from the fact that the prosecutor's role in Western societies is confined solely to the decision to prosecute and represent the prosecution in courts.

However, prosecutors play an instrumental role in ensuring the principle of equality before the law and before the court in some societies. The rule of law cannot be upheld, nor can human rights be protected, without effective prosecution services that act with independence, integrity and impartiality in the administration of justice (UNODC, 2014). This is especially true in the case of Central Asia, where the prosecutor's office enjoys an unprecedented and unrestricted power of exercising the highest supervision over the observance and application of laws at a national level by all legal and private entities irrespective of the form of ownership. It is mainly due to the political and legal environment in which the prosecutorial system had evolved during the region's membership in the Soviet Union and after. For this reason, the discussion on the rule of law in the Central Asian context should start with the analysis of the role of the prosecutor's office.

Exceedingly powerful prosecutors, weak and nondependent judiciary, strong accusatorial bias and procedural unfairness were the fundamental defining features of the Soviet justice system. The position of the prosecutors within law enforcement agencies rather than the judiciary had become more ominous because of the reduced status of judges and their dependent relationship with procurators (Solomon, 1987). Prosecutor's sole purpose was to secure the conviction of the accused, and judges, in turn, were expected to help prosecutors fight against crime on behalf of the state.

Courts did not have enough legal authority to acquit accused by the prosecutors. The dominance of prosecutors also determined by their power of supervision over the judiciary's work (Foglesong, 2017). Judges were constrained from holding prosecutors to account by rejecting their accusations. The role of defence lawyers, on the other hand, was even more relegated than the judges' (Solomon, 2015). The only thing that was expected from the defence lawyers was to cooperate with the prosecutor without challenging the charges and focusing on a plea in mitigation (Huskey, 1986).

It doesn't seem to have been a fundamental shift in what is regarded as the proper role of the prosecutor in Central Asia since obtaining independence from the Soviet Union. Basic Laws of all regional countries stipulate that the prosecutor's office, on behalf of the state, exercises the highest supervision on the strict and uniform observance and application of laws on a national level by persons and entities irrespective of the form of ownership, including private enterprises. The prosecutor's office represents the interest of the state in court, conducts criminal prosecution, protects the rights and freedoms of citizens and the legitimate interests of the private sector. It coordinates the activities of all law enforcement and other state agencies in ensuring the rule of law and order in society. Prosecutor's office exercises its' power independently of any state body and does not belong to any branch of the power triangle. In Tajikistan and the Kyrgyz Republic, the prosecutor's office is accountable to the parliament and the president, whereas in Kazakhstan, Turkmenistan and Uzbekistan, it is accountable only to the president.

Regional countries have done very little to eliminate the Soviet legacy of prosecutorial ascendancy in the justice system. Despite some legal reforms to enhance the status of judges and defence lawyers, the prosecutor's office still enjoys as much power as it is probably unknown anywhere else in the world (Solomon, 2015). Given the strong role of the state and that the prosecutor's office is a central state apparatus to ensure rule and order in society, it has been key to decide what is just and what is unjust in the society. Despite the fact that the prosecutor's status in the court proceedings is equal to the defence lawyers, in practice prosecutors have enough power to silence both defence lawyers and judges during the trails. Judges often take the prosecutors' side

and find the accused guilty, without a thorough examination of the evidence and facts. Evidence provided by the prosecutor is often deemed as true and consistent, while the testimony of the defence lawyers is dismissed as untrustworthy.

There is no credible system to hold prosecutors accountable for their misconduct. The excessive and unconstrained power has made this institution one of the most corrupt state bodies. Fabricated evidence, forced confessions and impunity for perpetrators of crimes have been the defining feature of the prosecutorial system in regional countries. Some top state authorities in the region have been using the prosecutor's office for extra-legal practices and politically-motivated charges and convictions against political opponents and successful businessmen (Galushko, 2018).

Prosecutorial intervention in private affairs has been quite systematic in the region. Unlawful inspections of businesses and chasing after successful entrepreneurs are routine conduct for the prosecutors. Only Kazakhstan and Kyrgyz Republic have recently formally discharged the prosecutor's office from the right to intervene in the affairs of private entities, authorise and appoint inspections, request information or documents on grounds not provided for by law. However, according to KAZ1, "despite legislative changes, the prosecutor's power to inspect private sector entities has not been entirely eliminated. In fact, it was just renamed. It can still initiate inspections of businesses, but now it does so under a different pretext. Most common reason to appoint inspection is to check whether the entrepreneurial activity is causing any harm to people's lives and health or to the environment. Moreover, the prosecutor's office still retains the power to sanction inspections of businesses by other regulatory agencies. This power had been transferred to the courts at some point, but it was recently returned back to the prosecutor's office."

Similarly, KAZ4 admitted that "Kazakhstan has not been able to entirely limit the prosecutors' power. They still exert a considerable amount of influence on the judiciary's work. Formerly, the prosecutor's office used to submit a letter of protest if they disagreed with the court decisions. With recent reforms, the prosecutorial "power of protest" has been replaced with the "power of petition", which implies that their

expression of disagreement over the court decisions is more like a recommendation. This gives judges some level of freedom to agree with or reject the petitions of the prosecutors. Nowadays, judges try to ensure a balance between fulfilling state interests and protecting the rights of the private entities. However, judges are still limited in their capacity to act entirely independently."

In the Kyrgyz Republic, in accordance with the new Constitution of 2010, the number of responsibilities of the prosecutor's office was eliminated. One of the important amendments was the deprivation of prosecutors from the right to exercise supervision and conduct criminal prosecution against private entities. This amendment was welcomed by many as an important step to promote the private sector. However, according to KGZ8, "prosecutor's office still can interfere in business affairs through multiple channels and under different pretexts." This is particularly obvious in the process of dispute resolution between the state and the private sector entities, where persecutors very often resolve the case in favour of the state, and judges, in turn, often collaborate with prosecutors. Moreover, as KGZ3 pointed out, "persecutor's office remains to be one of the most influential state bodies. It can submit a protest against the decisions of courts, appeal to the Supreme Court on the issues of the inconsistency of laws and regulatory acts with the Constitution, submit proposals to the legislative bodies to amend, cancel or adopt specific laws, initiate criminal cases against parliamentarians and judges, issue statements on the wrongdoings of the president and able to charge with a crime."

In the case of Tajikistan, according to TJK4, "although prosecutors do not openly and directly intervene in the judicial affairs, no one can deny judges' dependent relationship with prosecutors." TJK1 also stressed that "there is a huge disparity between the accusing and the defending sides in court trails. Throughout my professional experience, I had never encountered a single case when the prosecutor issued a decision in defence of the persons or legal entity against the state. Defence lawyers have never enjoyed the same level of authority as prosecutors." Similarly, TJK3 contended that "prosecutor's office does not react to obvious violations of the constitutional rights and interests of citizens and private enterprises. Instead of

putting the fraudster behind bars, they harbour crimes. Investigations against corrupt officials are carried out formally, selectively, and again to the detriment of the interests of citizens. Moreover, pressure on defence lawyers by government officials is practiced very often."

Prosecutorial power is probably nowhere so omnipotent as it is in Uzbekistan. According to UZB2, "Limiting the power of the prosecutor in Uzbekistan has been an impossible task. The prosecutor's office not only enjoys a constitutional power as a central watchdog of rule and order in the country, but also possesses the right of legislative initiative in equal terms with the main power branches. Many lawyers, including me, opposed giving so much power to the prosecutor's office at the beginning of the 90s, believing that this would jeopardize the rule of law in the society. However, the lack of political will from the highest authority to limit the power of such an important state apparatus that serves the interests of the central government rendered it possible for prosecutor's office to continue its soviet legacy of deciding the fate of justice in the society."

7.4.11. Constrained Judiciary

Independent, impartial and effective judiciary is vital for the success of the rule-of-law endeavour. The judicial systems of Central Asian countries have undergone profound reforms since the breakdown of the Soviet Union. Soviet judicial legacy has been gradually transformed into a new, democratic judicial system. For instances, new constitutional frameworks, revised civil codes and codes of criminal procedure, the local versions of habeas corpus (judicial review of arrest), consolidated laws on the status and work of judiciary and advocacy, ratification of the most important justice-related international conventions, treaties and protocols – the list is by no means complete – all point to the progress have been made so far (Golovko, 2011).

Some global indicators measuring the quality of justice system also indicate that the judicial work in the region has made noticeable improvements. However, there is a difference in the pace of development between regional countries – some regional

countries have made better progress than others in creating a series of good practices to promote the quality judicial system. According to 'quality of judicial processes' index of the World Bank's Doing Business Project, which evaluates whether a country has adopted a series of good practices that promote effective and efficient court system to deal with commercial disputes, Kazakhstan's judiciary has advanced considerably, outstripping many advanced economies (see Table 7.5.2.). Although progress is evident in other regional countries too, they still lag behind many economies with similar income levels.

Likewise, perception-based global surveys show that the confidence of local citizens and businesses in the justice system has also improved over time. For example, according to the World Justice Project's "quality of the civil justice" indicator, which measures whether the judiciary is free from discrimination, corruption, unreasonable interruptions and improper outside influences, Kazakhstan was ranked number one in Eastern Europe and Central Asian and scored above the global average (see Figure 7.5.2.). The Kyrgyz Republic and Uzbekistan also performed better than many countries with similar income levels, though still below the global average. Two regional countries, Tajikistan and Turkmenistan, are not represented in the rankings due to the lack of data.

Table 7.5.2. Quality of judicial processes in Central Asia (2020)

Country	Quality of judicial processes index (0-18)	Court structure and proceedings score (1-5)	Availability of a court or division of a court dedicated solely to hearing commercial cases?	Availability of small claims court or a fast-track procedure for small claims?	Are new cases assigned randomly to judges?	Case management score (0-6)	Does the law regulate the maximum number of adjournments that can be granted?	Court automation (0-4)
Kazakhstan	16.0	5.0	Yes	Yes	Yes	5.0	Yes	3.0
Tajikistan	6.5	2.5	Yes	No	No	2.0	No	0.0
Kyrgyz Republic	5.0	2.5	Yes	No	No	1.0	No	0.0
Uzbekistan	8.5	2.5	Yes	No	No	1.0	No	2.0

Source: World Bank Group's Doing Business Report. No data for Turkmenistan

Figure 7.5.2. Civil justice quality index of Easter Europe and Central Asia (2020)

#	Country	Value
1	KAZAKHSTAN	0.6
2	Belarus	0.6
3	North Macedonia	0.55
4	Ukraine	0.54
5	Russian Federation	0.54
6	Georgia	0.53
7	UZBEKISTAN	0.51
8	Serbia	0.51
9	KYRGYZ REPUBLIC	0.49
10	Bosnia and Herzegovina	0.48
11	Moldova	0.48
12	Albania	0.48
13	Kosovo	0.46
14	Turkey	0.44
.	WORLD AVEGARE	0.55
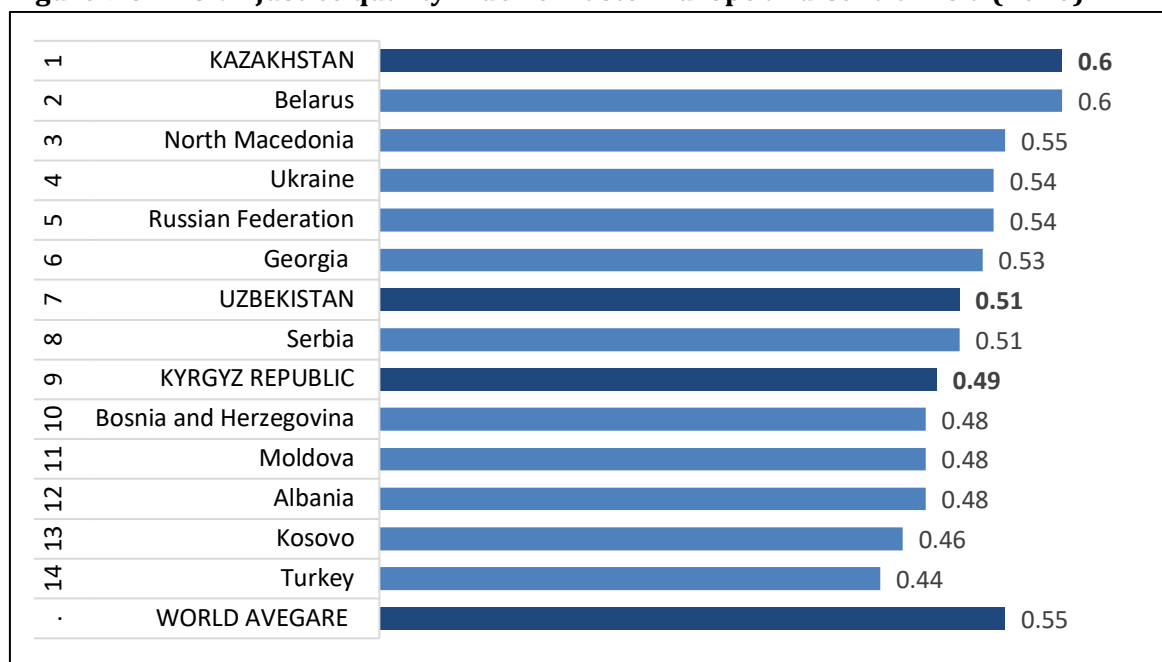
Source: World Justice Report. No data for Turkmenistan and Tajikistan.

However, what was observed during the field research and from several empirical studies is that global indicators and ratings seem to overlook many fundamental deficiencies of and obstacles to justice on the ground, given that they put too much emphasis on the formal *de jure* aspects of the judicial work. Although there has been *de jure* increase in judicial discretion and an introduction of some adversarial features in court proceedings in regional countries, in reality, majority of judicial reforms and initiatives remain on paper and regional countries have not yet established totally independent, impartial and effective judiciary. Citizens and businesses in the region persistently face problems in resolving their grievances in courts. Discriminations, biases, corruption and frequent interferences from the higher public officials and other law-enforcement structures in the judiciary's work often undermine justice. Judicial reforms and world-standard institutional arrangements could be characterised as either the way to respond to the pressures from the international community or a mere show-off by the local political leaders to legitimize their stay in power, rather than as a product of real internal institutional normalization (Golovko, 2011).

Many local experts in the region considered the judiciary as the weakest branch of the power triangle and totally dependent on the executive government. Indeed, when the system of checks and balances is ruined and the executive branch exerts unconstrained power over the judicial authority, there is no prospect for justice and the rule of law (Lemke, 2018). It is also clearly present in the regional countries that even a new generation of judges are committed to the old rules of putting state interests first and collaborating with prosecutors. As Trochev (2017: 50) rightly observed, "even as a new generation of judges and prosecutors that never worked in the Soviet-era enter the scene, old habits of mutual agreements and cover-ups among them persist."

According to KAZ2, courts function as simply another agency of the executive branch. Unfortunately, he said, "the Soviet-era corrupt practice of "a telephone law" is still deeply embedded in the mentality of our judges". He defined "telephone law" as an unlawful abuse of power by high government officials giving subordinates informal orders on how to decide cases. "Telephone law" is indeed a widespread mechanism through which many hierarchical communications are sorted out in Central Asia.

UZB4 also contended that "the judiciary has always been under the influence of the executive branch and other law-enforcement agencies. For instance, any mid-rank officer of the prosecutor's office could simply ask judges to come to his office and give an explanation on a particular court decision if that decision does not comply with the prosecutor's investigation results and accusations." Similarly, TJK9 noted that "a vast majority of the court decisions are predetermined – made by government officials or prosecutors in their offices rather than by judges in court hearings. Judges rarely care about the rights, freedoms and interests of the citizens or private entities. They are primarily concerned with what their 'bosses' in the state hierarchy expect from them to do."

KGZ6 argued that "the private sector of Kyrgyz Republic has not benefited from any judicial sector reforms. We have not established fully independent and impartial courts – they still remain dependent on the government. Unfortunately, without

exaggeration, over 90% of disputes between government bodies and private sector entities end up in favour of the former. If the judiciary were truly independent and transparent, we would not lose so many court cases against the government agencies. Fur the success of entrepreneurship and businesses, we have to abolish the system of "puppet courts". Most of the clashes between businesses and law enforcement and regulatory agencies happen due to the discriminatory and biased courts decisions."

Judges continue to follow the Soviet justice legacy of nearly universal approval of pre-trial detention of the accused and avoidance of acquittals, often due to the pressure from the state prosecutors. The acquittals remain an extreme rarity in regional countries. According to a rough estimate of local experts, the acquittals' ratio across the region has been around 3-4 percent of all court decisions. Only in Kazakhstan, with the introduction of trials by mixed juries (ten lay judges and one professional judge), the proportion of acquittals in the past decade has been gradually increasing.

Another reason for the low rate of acquittals is that judges' career promotion to a large extent depends on the number of reversals. As it was during the Soviet era, judges are still expected to achieve low rates of reversal and avoid acquittals. This structure of incentives based on quantitative indicators remains the key tool for assessing the performance of judges in the majority of post-soviet republics, including Central Asia (Foglesong, 2017). While measuring the performance of judges, Judicial Disciplinary Committees primarily focus on the rates of acquittals. High scores are given to judges with the lowest acquittals. Some local judges argued that this soviet method of assessing the performance is in fact counterproductive. According to the KGZ5, "it is not acceptable when the disciplinary committee sanctions or dispels judges from their positions based on the rate of acquittals. Committee implicitly relates the acquittals to corruption. For instance, if a judge has a high acquittal rate, he is suspected of involving in corrupt activities. This is simply not true!"

Almost all people interviewed mentioned corruption as the utmost impediment to justice. For example, TJK3 contended that "corruption in the judicial sector is endemic. The majority of the court decisions are predetermined; court hearings are held for the

sake of mere formality. While the fate of disputes between state agencies and private entities is obvious, the cases between private sector entities are often resolved in favour of the party that offers ransom or have a connection to the higher management in the government." According to KGZ1, corruption in the judicial sector starts from the nomination and appointment stage of judges, which is often non-transparent, arbitrary and corrupt. Thus, he argued, it is utterly nonsense to expect fair decisions from the judges who have acquired their posts by corrupt means." Commenting on the corruption in the judiciary, KGZ4 also admitted that the judiciary is not free from corruption. However, as she stressed, "I can confidently say that the scale of the corruption in the judicial system is by no means more than that of in executive and legislative systems."

There is nothing that can be more important than the judiciary in maintaining the rule of law and order in society. Courts are the last, highest instance of justice. Unfortunately, courts in Central Asia have not been able to deliver true justice on the ground. This is probably the main cause of the deficiency of the entire legal system in regional countries. As UZB4 stated, "If the courts had been free and impartial, we would have resolved many issues: police officers would never initiate unlawful cases, mayors would never issue discriminatory and arbitrary decisions, tax offices would not conduct illegal inspections, customs would refrain from breaching fundamental principles of trade, and so forth."

7.4.12. Alternative Justice: Arbitration

Alternative Dispute Resolution (ADR) is a set of different schemes that enable to resolve disputes between parties (predominantly private sector) without having to go to court. Although a handful of scholars and legal professionals perceived the need for alternatives to traditional courts, ADR is gaining great popularity in recent years. ADR's increasing popularity is explained by high costs and increased caseload of traditional courts and the need for more efficient ways of resolving disputes (Stipanowich, 2004; Menkel-Meadow, 2015). Today ADR is widely used across the

world as a tool to help settle various disputes together with the court systems (Pirie, 2000).

There are various schemes of ARD in practice globally. One of the most popular and widespread schemes is called 'Arbitration'. Arbitration is a system that considers cases arising from civil law relations between legal entities and (or) individuals. Arbitral institutions are created as independent commercial bodies that function in accordance with the national legislation and international arbitration treaties. Arbitration has many advantages over traditional courts: it provides a speedier and cheaper resolution of disputes, parties are free to choose arbitrators (arbitration centres usually establish a pool of highly qualified arbitrators), no involvement of prosecutors and lawyers, all pre-hearing disputes are considered by the same arbitrator that ultimately decides the case, it is useful in finding common grounds in resolving disputes between entities of different countries (Moses, 2017).

Although informal methods of dispute resolutions are long-standing in the cultures of Central Asia, international commercial arbitration principles came to be known in the region in the 1980s, when Soviet authority had established a permanently-operating foreign trade arbitration commission and maritime arbitration commission in Moscow with its liaison offices in other regions of the Union (Butler, 2014). However, Central Asian republics have never had experience with arbitration due to the fact that enterprises located in the region had not been involved in direct international commercial activities during the Soviet rule. Elements of the commercial arbitration started emerging in the region only after acquiring independence. Currently, all countries of the region have established regulatory frameworks and institutional arrangements of the commercial arbitration (see Table 7.5.3.).

Official recognition of the arbitration rules started with the regional countries' accession to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (also known as the New York Convention). Kazakhstan was the first country to become a party to the New York Convention in 1995, followed by the Kyrgyz Republic and Uzbekistan in 1996. Tajikistan joined the convention only in

2012, whereas Turkmenistan remains the only regional country not party to it. New York Convention requires that courts of contracting states should give effect to private agreements to arbitrate and to recognize and enforce arbitration awards made in other contracting states. To do so, member-states need to establish a relevant regulatory framework by adopting consolidated law on arbitration or incorporating arbitration principles into the relevant legislative documents. Based on the principles of the convention, United Nations Commission on International Trade Law (UNCITRAL) designed a Model Law on International Commercial Arbitration to assist countries in reforming and modernizing their national regulatory frameworks on arbitral procedures.

Table 7.5.3. Regulatory framework of commercial arbitration in Central Asia

Country	Party to International Convention on the Recognition and Enforcement of Foreign Arbitral Awards?	Is there a consolidated law encompassing all aspects commercial arbitration?	Is there an independent arbitral institution that exclusively deals with commercial arbitration?	Does the law require that arbitration clauses or agreements enforced by the local courts?
Kazakhstan	Yes	Yes	Yes	Yes
Uzbekistan	Yes	Yes	Yes	Yes
Tajikistan	Yes	Yes	Yes	Yes
Kyrgyz Republic	Yes	Yes	Yes	No
Turkmenistan	Yes	Yes	Yes	Yes

Source: Author's own findings

The legal basis of the arbitral procedures in Kazakhstan was created in 2004 by enacting two laws: The Law "On Arbitration Courts" and the Law "On International Commercial Arbitration." The second law – international commercial arbitration – is only applicable for arbitrations if one of the disputed parties is a non-resident of the Republic Kazakhstan. The arbitral work in the country is coordinated by the Arbitration Centre – an independent legal body within the National Chamber of Entrepreneurs "Atameken". Arbitration Centre considers disputes arising from civil law relations between legal entities (including foreign companies) and individuals

(including individual entrepreneurs) regardless of their citizenship, permanent residence, or location. Currently, it has 14 regional offices and 57 arbitrators.

Along with the Arbitration Center, there is an International Arbitration Centre (IAC) within the framework of Astana International Financial Centre (AIFC) – a special jurisdiction formed on the territory of Kazakhstan's capital city of Nur-Sultan. The jurisdiction has its own commercial and civil law, reproduced in accordance with the English Common Law. IAC is the main institution to help resolve disputes between the participants of AIFC and it is totally separate and independent from Kazakhstan's judicial system. The IAC has its own panel of international arbitrators and mediators, mainly with practical experience in countries with jurisdiction over English Common Law. Parties may agree for the IAC to administer their arbitration according to the IAC Arbitration and Mediation Rules, UNCITRAL Arbitration Rules or ad hoc arbitration rules.

In the Kyrgyz Republic, arbitration rules are stipulated in the Law "On Arbitration Courts" adopted in 2002 on the basis of UNCITRAL Model Law. Arbitration principles are also incorporated in the Code of Civil Procedure and the Law on Investments. The main arbitral institution is the International Arbitration Centre (IAC), which is attached to the Chamber of Commerce and Industry of the Kyrgyz Republic. There are currently 187 lawyers on the IAC's list of arbitrators, including 75 international arbitrators from 22 countries (www.arbitr.kg). Since 2004, IAC has examined more than 814 disputes, including 47 disputes involving foreign companies.

Uzbekistan was actually the first in the region to enact the law on commercial arbitration back in November 1991. However, it was soon cancelled in 1993 due to unknown reasons. A new law on arbitration courts was adopted again in 2006. However, the law does not specify the procedures of arbitration between foreign and domestic commercial entities. The first attempt to introduce international commercial arbitration rules was made by the government in early 2020 by submitting the draft law on international commercial arbitration to the parliament. However, the draft was rejected by the Senate, pointing to various shortcomings of the proposed legal

document. Although there is no regulatory framework of international commercial arbitration, the Uzbek government established Tashkent International Arbitration Centred (TIAC) in 2018. Currently, TIAC's panel of arbitrators consists of 34 arbitration practitioners.

Arbitration procedures in Tajikistan and Turkmenistan came to existence only recently. The regulatory framework of commercial arbitration was enacted in Tajikistan in 2015 and Turkmenistan in 2016. International arbitration centers in both countries were created un the auspices of the chambers of commerce and industries. However, there was no information available on the cases administered by these arbitration institutions.

Despite the presence of regulatory and institutional frameworks, commercial arbitration hasn't gained enough popularity amongst business communities in the region and failed to turn into an effective dispute settlement platform alternative to the traditional courts. As Butler (2014: 268) rightly observed, "experience with commercial arbitration has for the Central Asian countries accumulated mostly by trial and error in the literal and metaphorical meanings of that phrase". Regional countries' lack of experience with and knowledge of international commercial arbitration practices, shortage of experienced local arbitrators, inadequate awareness of local businesses and entrepreneurs on the benefits of arbitration, failure of the regional governments to provide sufficient advisory services to local businesses, absence of political will from higher authorises to facilitate the successful integration of arbitration rules into the judicial systems of the countries – the list by no means exhaustive – have been amongst major obstacles to the successful development arbitration in the region.

As KAZ4 said: "Although commercial enterprises are gradually building confidence in the real benefits of arbitration rules, it is not yet as popular as it was initially expected to be. Arbitration is mainly popular amongst foreign companies and joint ventures. Local businesses still prefer traditional courts. Only a limited amount of highly informed domestic business enterprises started to include arbitration in their

agreements and contracts. The reason is that the vast majority of local businesses are ill-informed about the arbitration rules and their benefits. The government is not doing enough to promote the arbitration system."

On the other hand, some believe that the efficiency of the arbitration institutions in resolving commercial disputes is much lower than the courts. According to KAZ4, "Arbitration system was meant to reduce the burden of the trial courts, but it failed to do so. In my experience, there were numerous cases when both parties of arbitration were unhappy with the decisions or the quality of work of the arbitration institutions. The majority of disagreements were related to the procedural aspects of arbitral conduct."

UZB4 also believes that one of the reasons why arbitration has not gained widespread recognition and popularity in the region is that the traditional courts are more affordable than arbitration institutions. Although in many developed countries, arbitration is considered to be less costly than courts, in Central Asia, it is vice versa due to the fact that court services are heavily subsidized by the state. Therefore, arbitration is not worth approaching if the amount of the dispute is relatively small. Because arbitration fees could be more costly than the amount of disputed money. Thus, small-sized businesses tend not to use arbitration in dispute resolution.

Another reason, according KGZ4, that the arbitration system lacks proper enforcement mechanisms. For example, if one of the parties fails to comply with the arbitral award or delays the fulfilment, they will need an intervention from the bailiffs (court executors) to help reimburse the debts. Usually, the decision of the arbitration is final and binding. There is a limited right of appeal, and it is only possible when parties of the dispute believe that there was a procedural shortcoming in the work of arbitrators. There is no appeal against the overall decision.

TJK9 contended that "if implemented effectively, arbitration could be the best alternative to the region's corrupt court systems. However, it seems most local businesses seem to be unwilling to accept the arbitration rule, probably because they

do not want to play fair business games. As most of the successful businesses are one way or another linked to the ruling elites, they are more comfortable with the traditional corrupt courts than arbitrations, because courts can easily be manipulated through administrative pressures or bribes. Only law-abiding, conscientious, self-reliant, and honest businesses would be keen on including arbitration clauses in their contracts. The businesses that are linked to corrupt elites clearly avoid arbitration."

7.4.13.Corruption Control

Although the literature on corruption is vast, there seems not much disagreement among scholars on the definition of corruption. The difference could be observed only in the scope and range of activities that could be categorised as corrupt. Hence, the notion of corruption can be summarised as the abuse of public status and power for private gain. Corruption includes bribery, nepotism, theft, and other misappropriation of public resources (Bardhan, 1997; Drudy et al., 2006; Lambsdorff, 1999; Mauro, 1995; Shleifer & Vishny, 1993). Corruption may be petty and grand in form and includes "capture" of the state by elites and private interests (Kaufmann et al., 2010).

Corruption affects societies in multiple ways. It can have political, economic, social and environmental consequences. The corruption humpers people's freedoms, health, money, and, in the worst-case scenario, may cost lives. Economically, corruption distorts competition, deters investment and hinders the development of fair market structures (Mauro, 1995). It slows down the growth through adverse effects on human capital and political instability (Hodge et al., 2009). Corruption draws off resources that would otherwise be used for productive activities that could bring about economic progress (Lien, 1990).

While corruption is generally considered to negatively impact the economy irrespective of the type of political regime, some argue that non-democracies suffer from corruption more significantly than democratic societies. Using time-series cross-section data for more than 100 countries between 1982-1997, Drury et al. (2006) showed that although democracies are not free from corruption, the electoral

mechanism prevents politicians from engaging in corruption that damages the overall economic performance of the country and thereby jeopardize their political survival. Several other studies presented similar claims saying the more authoritarian the political regime is, the more likely to engage in corruption and cronyism (Bueno de Mesquita et al. 2001; Przeworski and Limongi, 1993). Indeed, due largely to the authoritarian rule developing world has been severely suffering from corruption. According to the estimates of Global Financial Integrity, a Washington DC-based think tank, illicit financial flows, including corruption, bribery, theft and tax evasion, between 2000-2009, costed developing countries $1.26 trillion per year, which could otherwise lift the 1.4 billion people living on less than $1.25 a day above this threshold for at least six years.

Corruption has been a significant challenge to the development in Central Asia. Regional governments have created relevant legal instruments, institutional arrangements and administrative procedures to fight against corruption (see Table 7.5.4.). The penal codes of the countries clearly define and criminalise all forms of corruption (including abuse of office, embezzlement, forgery, active and passive bribery, extortion and others) and contain a number of provisions that establish sanctions depending on the form and level of the corruption. Besides, regional governments have enacted specific laws that establish basic principles of state anti-corruption policies and measures, as well as the mechanisms of prevention, disclosure, suppression, and detection of corrupt practices. The governments have also been implementing various short and long-term state programs and action plans on fighting against corruption.

On the institutional level, only two countries, Kazakhstan and Tajikistan, have established special state agencies responsible exclusively for fighting corruption. It is Agency for Combating Economic and Corruption Crimes in Kazakhstan (created in 2003) and Agency for State Financial Control and the Fight against Corruption in Tajikistan (created in 2008). In the Kyrgyz Republic, Turkmenistan and Uzbekistan, the Prosecutor's Office coordinate the activities of all law-enforcement bodies to combat corruption.

Table 7.5.4. Legal and institutional frameworks for combating corruption in Central Asia

	Corruption is clearly defined and criminalized by the Penal Code	Specific law that regulates national level anti-corruption measures	Central state body responsible for coordinating and monitoring national anti-corruption measures	National level strategies and programs to fight against corruption	Party to the 2003 UN Convention against Corruption
Kazakhstan	Yes, Criminal Code, articles - 176, 193, 209, 307, 308, 310, 314, 315, 311, 312, 380	Law on Combating Corruption (1998)	Agency for Combating Economic and Corruption Crimes	State programs for: - 2001-2005 - 2006-2010 - 2011-2015 - 2015-2025	Yes, in 06/2008
Kyrgyz Republic	Yes, Criminal Code, articles - 303, 304, 305, 310, 311, 312, 313	Law on Combating Corruption (2012)	General Prosecutor's Office	State programs for: - 2001–2003 - 2006–2007 - 2009–2011 - 2012–2014 - 2015-2017	Yes, in 09/2005
Tajikistan	Yes, Criminal Code, articles - 279, 314, 316, 317, 319, 320, 324, etc.	Law on Combating Corruption (2005)	Agency for State Financial Control and the Fight against Corruption	State programs for: - 2010-2012 - 2013-2020 - 2008–2012 - 2013-2020	Yes, in 09/2006
Turkmenistan	Yes, Criminal Code, articles - 184, 185, 186, 199, 229, 267, 358, etc.	Law on Combating Corruption (2014)	General Prosecutor's Office	n/a	Yes, in 03/2005
Uzbekistan	Yes, Criminal Code, articles – 167, 205, 206, 208, 209, 210, 211, 213, 214, 236, 243, 171	Law on Combating Corruption (2017)	Republican Inter-agency Commission (RIC), General Prosecutor's Office	State programs for: - 2010 - 2016-2017 - 2017-2018 - 2019-2021	Yes, in 07/2008

Source*: author's own findings*

Moreover, all regional countries have become parties to the 2003 UN Convention against Corruption, which is the only legally binding international anti-corruption multilateral treaty. Except for Turkmenistan, all countries are signatories to the Istanbul Anti-Corruption Action Plan – a sub-regional peer-review program launched in 2003 to supports anti-corruption reforms in some Eastern European and Central Asian countries. The Action Plan conducts country reviews and continuous monitoring of participating countries' implementation of recommendations to assist in implementing the UN Convention against Corruption and other international standards and best practice.

Despite all the abovementioned regulatory and institutional measures, corruption remains widespread in the region. International corruption-related indexes provide a rather bleak picture of anti-corruption efforts in Central Asia. According to the Corruption Perception Index (CPI) of Transparency International, the region has made almost no progress in fighting corruption over the period (see Figure 7.5.4). In the 2019 CPI, the region scored 24 out of 100, which is almost twice as low as the global average of 43. This score makes Central Asia the lowest scoring region in the world, even below Sub-Saharan Africa with an average score of 32. At the very bottom, Turkmenistan earns the lowest score in the region (19), followed by Tajikistan (21) and Uzbekistan (22). Kazakhstan and the Kyrgyz Republic scored higher than others – 34 and 31, respectively – but still below the global average.

Figure. 7.5.4. Corruption Perception Index, 2003-2019
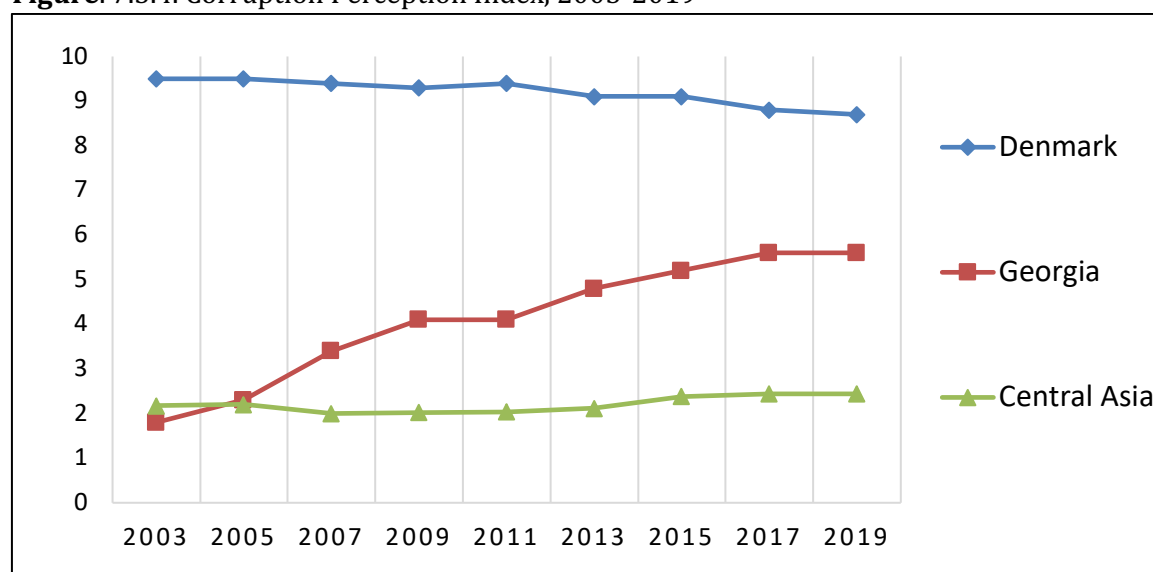
Source: *Transparency International. A higher score means 'less corrupt'. Since 2013, the CPI score has been calculated on 0-100 scale; to enable comparison, the CPI 2013 and 2019 scores were converted to 0-10 scale.*

According to the reports of the "Freedom House" organization – US-based NGO that conducts research and advocacy, along with many areas of democracy, political freedom, and human rights, on the susceptibility of countries to corruption and the efficiency of anticorruption measures – Central Asia has not made any significant changes in terms of corruption over the years since the independence from the Soviet rule (freedomhouse.org). In terms of the 'democracy status' index of the Freedom

House, which measures the transition from the authoritarian, corrupt political regime to consolidated democracy with the rule of law – all Central Asian governments are classified as consolidated authoritarian. In fact, some regional countries, namely, Kyrgyz Republic, Tajikistan and Turkmenistan, have demonstrated a negative trend in terms of their transition towards democracy (Ibid).

Interviews conducted during the field trip also offer direct evidence that corruption is widespread in the region. The situation is especially dire in the economic sectors where citizens and businesses use bribes, personal connections and political patronage to obtain money, credit and important licences, win tenders and state-financed projects, evade taxes, bypass inspections and so on. Businesses engaging in bribery in order to secure financial resources both from state-owned and private banks that will help them start or expand their businesses is a routine reality in the region. Obtaining land and construction permits for business purposes are the areas where corruption is particularly severe. The majority of profitable business in the regional countries are said to be connected with or patronaged by the public officials.

According to UZB5, policy and legal measures to fighting against corruption in the region have been ineffective due mainly to two key reasons. First of all, given that the corruption had been deeply rooted in the governance system of the Soviet Union and that the vast majority of the public leaders in the region are former communist bureaucrats, it has been virtually impossible to transform the governance style and mindset of those leaders. Secondly, all anticorruption campaigns have been ineffective by nature, because they largely assumed to fight the consequences of corruption using punitive methods, which often yielded inverse outcomes. Pre-emptive or preventive methods have never been a policy priority for policymakers.

Sh. Ismailov argued that one of the biggest obstacles to fighting corruption in Central Asia is state capture. Influential individuals or groups seize control of national decision-making and use corrupt means to circumvent justice. Every so often, Central Asian governments take very harsh steps to combat corruption by bringing the penetrators to justice and applying the most severe sanctions. However, according to

him, there usually appears to have a hidden motive behind these measures. In reality, anticorruption campaigns are rather selective. What governments actually do is chase after those who have fallen out of favour or those who have not been loyal enough to the authorities.

Describing the situation with corruption in Uzbekistan, UZB3 said, "although national legislation has a sufficient regulatory base to fight against corruption, we have never had a clear policy and mechanisms to prevent corruption from happening in the first place. Actually, there was no political will whatsoever from ruling elites to create a comprehensive system of unrooting corruption. Because, the main perpetrators of the corruption were the ruling elites themselves. For instance, the anticorruption law, which entered into force only in 2017, was actually drafted back in the early 2000s. It took almost two decades to finally enact it. The main reason is that most of the elites implicitly opposed the adoption of anticorruption law as it would jeopardize the status quo and hinder their corrupt schemes."

Speaking about the Kyrgyz Republic, KGZ1 pointed out that "the vacuum created by the collapse of the Soviet Union triggered the power struggle and ran after the private wealth. As a result, the government has lost the most important thing to run the country – the people's trust and willingness to obey. All the political crises that the country has faced so far can be attributed to the absence of trust between the state and citizens. The state and citizens have gradually distanced from each other and, as a result, we now have a corrupt state on one hand and unmanageable society on the other". Similarly, according to KGZ6, corruption is not the cause of the problem, it is the consequence of the political systems that is established in the Kyrgyz Republic. As he stressed, "we should first create a properly functioning state system and then be concerned about fighting corruption. If we have a system that by nature conducive for corruption, how can one think about the anticorruption measures, strategies, regulations and others?!"

CHAPTER VIII. DISCUSSION AND ANALYSIS: JUXTAPOSING QUALITATIVE AND QUANTITATIVE FINDINGS

The importance of institutional variables for economic development is well-established in the literature (Woolcock, 1998; North, 1990; Acemoglu et al., 2001 and 2005; Dollar and Kraay, 2003; Rodrick et al., 2004; Kaufmann and Kraay, 2008). A voluminous literature documents significant cross-country differences in regulatory policymaking and a strong correlation between the quality of the regulation and economic performance (Djankov et al., 2002; Schleifer, 2010; Casey & Niblett, 2013). The current research has so far investigated this nexus in the case of transition economies of Central Asia since their disintegration from the Soviet Union in the early 1990s.

Contrary to the expectations of mainstream economics and largely ignoring the recommendations of international development organisations, Central Asia has achieved remarkable economic growth rates over the period since the disintegration of the USSR. Such economic achievements have been possible under non-democratic political and quasi-liberal economic settings. Stark & Ahrens (2012) described the unique feature of the regional political economy as "market-developing autocracies". While regional economies have greatly benefitted from natural resource exports, many believe that the governments of regional states have pursued distinct country-specific reform policies and built up necessary institutional structures that have contributed to bringing about not only political stability, but also economic and social progress (Pomfret, 2010b, 2012; Stark & Ahrens, 2012).

This research has examined the nexus between regulatory policy and economic performance of the Central Asian states using mix-method analysis. The quantitative method involved using a panel data regression model to assess the relationship between variations in the quality of regulatory variables and economic growth in the regional states with the time span of two decades (1996-2016). To measure the quality of regulatory policies, this research has operationalised three indicators obtained from

the World Bank's World Governance Indicators: i) 'Regulatory Quality' index – to assess the quality of the regulatory design (framework) of market development; ii) 'Government Effectiveness' index – to evaluate the quality of government's regulatory implementation; iii) 'Rule of Law' index – to measure the quality of regulatory enforcement and justice systems in place in regional states. As a proxy for the outcome variable – economic growth – the research has used GDP per capita PPP.

The results of statistical analysis have revealed that, while 'Regulatory Quality' and 'Government Effectiveness' variables had a significant relationship with the growth variable, while 'Rule of Law' had no relationship at all. However, when we re-ran the regression by creating a 'composite regulatory policy' variable out of the merger of three above-mentioned independent indices, the overall regulatory policy did not have any relationship with the economic growth of the region. Drawing on this outcome, we can assume that the negative effect of the 'Rule of Law' counterbalanced the net positive effect of the two other variables - 'Regulatory Quality' and 'Government Effectiveness.' The main conclusion drawn from this analysis is that although Central Asian countries have established sound regulatory frameworks and appropriate institutional arrangements, due to the ineffective regulatory implementation, enforcement and justice systems, the contribution of the regulatory policy to economic growth has been insignificant.

The statistical analysis has also shown that some of the control variables – economic determinants – had a significant relationship with the economic growth of the region. Particularly, such variables as 'rents from natural resources', 'state investments', and 'human capital' exhibited a strong correlation with the economic growth of the region. There seem to have some economic rationale behind these findings. For instance, the rents from these resources might have played a significant role in economic progress, because channelling the rents obtained from natural resource extraction to the domestic investment projects may have boosted the state investments' share in economic growth. Likewise, the role of human capital can also be justified given an extremely high literacy rate (around 98-99% on average) in the region explained by a universal mandatory state-sponsored primary and secondary schooling in all regional

countries. A more in-depth examination of the effects of these variables on the economic performance of regional countries is another exciting area to discover in future research.

This study is supplemented with qualitative research to fathom the background stories about the overarching problems associated with the regulatory policymaking in regional countries. Qualitative study included semi-structured and unstructured interviews, as well as the analysis of key national legislative acts and policy documents related to the regulatory policymaking and reforms. The qualitative study has discovered that there are already many regulatory management initiatives, institutions and tools put in place in the regional countries. Clear procedures of creating and amending regulations, appropriate rule-making strategies and mechanisms, relevant platforms for consultation with general public and stakeholders, coherent tools and procedures for regulatory review and impact assessment, sufficient human capital, capable public service – the list is by no means complete – all point to the progress have been made so far.

However, there are various, albeit interrelated issues that prevented governments from implementing regulations effectively and achieving underlying policy objectives of these regulations. The study has revealed several factors that are common in all regional countries including, but not limited to: the absence of an appropriate pattern of implementation and feedback mechanisms; the lack of formal procedures or requirements for monitoring and evaluating the regulatory compliance; excessive power concentration and "top-down" decision-making approach; poor interagency communications and coordination of policy implementation; scarcity of necessary financial and technical resources allocated for realisation of regulatory initiatives.

Another major impediment stressed by vast majority of the respondents is calamitous rule of law regimes in regional states. Based on the field-work findings, this research has identified several reasons as to why the rule of law has been a serious impediment to the realisation of regulatory reforms and changes. Particularly, prohibitively high role and power of the prosecutorial system, lack of judicial independence and

infringed authority of judges, absence of adequate alternative dispute resolution schemes, and last but not least, the endemic corruption – all point to the poor rule of law in the region.

Hence, the main conclusion drawn from the findings of the quantitative and qualitative analyses is that regulatory changes and initiatives have not had a significant contribution to the economic growth of the Central Asian states. Hence, focusing solely on the improvement of the regulatory design and establishing appropriate institutional arrangements alone cannot ensure economic prosperity unless effective regulatory implementation and enforcement systems are in place.

Moreover, as part of empirical studies, the research has analysed the regulatory reforms and their outcomes in some of the key areas of the economies of the regional states. In particular, the thesis has presented an analysis of regulatory reforms on such areas as privatization and property rights, creating an environment conducive for business development (e.g., simplifying license and permit systems, removing the costs and burdens for market entry), cross-border trade and financial sector regulation. The analyses showed that, despite all relevant regulatory changes and institutional upgrading, these measures had not improved the economic efficiency on the ground due to the problems associated with the implementation and enforcement of those regulatory changes.

CHAPTER IX. CONCLUSION

The issue of state regulation and its impact on the economic outcomes remains to be one of the widely discussed topics amongst scholarship. Despite longstanding opposition of the standard literature against any form of state intervention in the economy, including regulations, pointing to the drawbacks that these interventions can produce, the reality is that the state regulation is now omnipresent around the world. Economic relations are more regulated than ever before, and this is the case in both progressive and nonprogressive, democratic and nondemocratic societies (Shleifer, 2010). A famous metaphor used by Hayek more than a half-century ago – "the world of today is just interventionist chaos" – still holds (1967 [1949]: 136).

Thus, today, the economic performance of a state cannot be determined by the presence or absence of regulations, but by the quality of these regulations. The literature demonstrating a strong positive relationship between good regulation and economic growth is now vast. However, majority of them have produced overly ambiguous results due to a narrow conceptualization of the state regulatory policy. So far, the quality of regulatory policy is measured merely in terms of technical design of the most appropriate regulatory instruments. However, crucial elements of the regulatory regime – regulatory implementation, enforcement and justice – have largely been overlooked.

The current research has examined the nexus of state regulation and economic growth in the case of Central Asian countries by adopting appropriate policy indicators of the WGI to measure the quality of **three independent but mutually inclusive arrays of the regulatory policy – regulatory framework, regulatory implementation, and regulatory enforcement and justice.** The study has revelated that there was no relationship between changes in regulatory performance of the regional countries on one hand and their steady economic growth over the past two decades on the other.

However, as has already been emphasised, the quantitative study can have a number of shortcomings. First of all, there is a problem with patchy and not always continuous

secondary data in Central Asia. The data emanating from the national statistical agencies are often incomplete, out-dated, and of low quality given the low administrative capacity of the statistical offices, or not publicly available. The problem is especially acute with the policy-relevant national surveys, which are conducted under strict guidance from the central authority and thus are often biased. This research, therefore, used policy surveys produced by various international institutions, which served as a supportive basis, and deemed reliable in terms of methodological appropriateness. However, these surveys are also not free from certain ambiguities.

The recent suspension of the Doing Business reports by the World Bank due to some issues related to data updating is a clear example. According to the World Bank statement of August 27, 2020, several irregularities have been reported regarding changes to the data in the Doing Business 2018 and Doing Business 2020 reports on individual countries. This thesis has used Doing Business reports quite extensively to analyse the business regulation regimes of the regional countries. The reports are also one of the underlying data sources of WGI, which is used for our regression analysis. However, as WGI is comprised of more than thirty various underlying data sources, Doing Business report's potential effect on the overall result of the regression analysis must be fairly marginal. On the other hand, given that the issues had been reported only on Doing Business reports of 2018 and 2020, this may not cause a problem to our analysis as it covers the period between 1996 and 2016.

However, in order to fill the gap and complement the findings of the statistical analysis, we have conducted a qualitative study by way of fieldwork research across Central Asia. Qualitative research has, in many ways, confirmed the findings of the quantitative analysis. As the field research has revealed, there are already many regulatory management initiatives, institutions and tools put in place in the regional countries. However, where regional governments lack is the effective implementation of the regulatory changes to achieve underlying policy objectives of these regulations. Another major obstacle was the calamitous rule of law regime explained by the lack of adherence to the established laws and regulations.

Undeniably, Central Asian states have recorded an impressive rate of economic growth over the period. However, in terms of policymaking and governance style barely anything has changed from the Soviet days. The problem with most former soviet nations is that they have been trying to develop an alternative system of democratic institutions as part of "planned capitalism" (Sen, 1999). This strategy assumes adopting market-oriented frameworks and creating appropriate institutional structures, while preserving a strong presence of the state in the economy and using old-style economic management tools. However, this 'partial imitation' will hardly succeed, unless true market economic principles are installed properly.

Regional growth of the past decades seems to be driven by the export of commodities and, to a certain extent, cheap labour. However, the end of the commodity super-cycle in the world economy and constant turbulences in the commodity markets highlighted the importance of more stable and inclusive growth by fostering private sector development. Indeed, private sector development is key for long-term sustainable economic growth. The private sector will flourish only under a market-friendly environment attained through an effective regulatory policy of the state.

This thesis intended to offer insight in understanding the most pressing challenges of regulatory regimes in Central Asia. One of the most serious obstacles to the region's long-run economic development seems to be the ineffective realisation of regulatory initiatives and reforms. Although this is improvable, it is neither automatic nor easy. A confluence of factors, in particular a critical juncture coupled with a broad coalition of reformists pushing for changes is often necessary to make strides toward more effective economic regulation.

Lastly, in the course of writing this research, several interesting areas were identified worthy of discovering further. For example, as this research's core focus was to examine the economic impact of the overall regulatory policy, a more micro-level – sectoral-level regulatory impact assessment would be exciting to explore in the future. In particular, a comparative assessment of the state privatisation policies and their economic outcomes in the regional context could be a potential research project.

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APPENDIX I. Discussion Guide for semi-structured interviews.

The interview is anonymous which means that you will be referred to as "Respondent" unless you express the will to be referred by your real name or the name of your company. Your participation is voluntary which enables you to withdraw from the study at any moment. The discussion on the subject "Regulatory Policymaking and Economic Development in Central Asian countries" is composed on the basis of four subsections:

Discussion topic 1 "Quality of regulatory framework: Ability of the rule-makers to develop sound regulations"

Comprehensive policy or action plans on the improvement of regulatory quality? Dedicated body responsible for promoting regulatory policy and monitoring on regulatory reform? Presence of quality standards and quality oversight mechanisms? Coherent approaches between regulatory bodies in developing regulations? Availability of practical tools, guidelines, handbooks for rulemaking? Consultations with relevant stakeholders and the general public? Ex-ante and ex-post regulatory assessment practices? Regulatory impact assessments practices? The procedures of amending regulations? Feedbacks, resolving duplications and conflicts of regulations? etc.

Discussion topic 2 "Quality of Regulatory implementation: Ability of the government to implement regulations effectively?"

Coherent state strategy for regulatory implementation? Centralised public body responsible for promoting and coordinating effective regulatory implementation? Accessibility of regulations and legal information? Digitalization of regulatory delivery and the development of e-government? Human resource capacity of the government? Financial and technical resource capacity of the government? Effective collaboration between public bodies in regulatory implementation? etc.

Discussion topic 3 "Rule of law: Ability of law-enforcement and judicial bodies to ensure the hierarchy of laws and universal observance with established rules"

Judicial independence and quality of justice system? The role of prosecutorial system in ensuring the rule of law? Availability and accessibility of alternative dispute resolution systems? Level of confidence the private sector has in the rule of law in the country? Enforcement of contracts, property rights? etc.

Discussion topic 4 "Anti-corruption regime: Effectiveness of the policy measures taken by the governments to tackle the problem of corruption"

THANK YOU VERY MUCH FOR PARTICIPATION!

APPENDIX II. Introductory letter to respondents

"Regulatory Policymaking and Economic Development in Central Asian countries"

Dear Sir/Madam, my name is Adham Khudaykulov, I am a PhD candidate at the Centre of Development Studies, University of Cambridge, UK, conducting research on the Nexus of State Regulation and Economic Development in Central Asian countries over the period since their disintegration from the Soviet Union.

I am respectfully asking for your participation, which will involve in-depth interviews and discussions on the matters related to the topic of my research. Your valuable opinions will make a significant contribution to the understanding of the post-independence reality of market regulation and its economic outcomes in your respective country. I will be happy to share my findings in exchange for your participation.

Specifically, the interview will contain questions on what you think and feel about effectiveness of regulatory policymaking in the context of your country. The interviews are aimed to take about an hour. This research is entirely anonymous for interviewees who participate. Neither your personal details nor individual answers and other identifying information will be disclosed. Your participation in the study is voluntary which enables you to withdraw from the project at any point you wish. Should you have any questions, please do not hesitate to contact me.

I sincerely hope that you will have some interest to participate in this project!

Thank you for your cooperation

Sincerely,

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APPENDIX III. Summary of Interview Reponses

For the research ethics reasons and to secure the personal and professional data of the interviewees, their real names are not specified in the thesis. Instead, a specific codification method is applied. In codification, I used officially adopted abbreviations for the countries with subsequent index numbers of the interviewees. For example, for Kazakhstan is used an abbreviation "KAZ" with a subsequent index number of the interviewees – KAZ1, KAZ2 and etc.; for the Kyrgyz Republic – KGZ1, KGZ2 and etc.; for Tajikistan – TJK1, TJK2 and etc.; for Uzbekistan – UZB1, UZB2 and etc. A full transcript of the interviews can be further provided on request.

In UZBEKISTAN, nine interviews were conducted.

UZB1 is a member of the Uzbek Parliament. He is a well-known legal scholar with extensive work experience in the top management of the country. He served as a state advisor to the president of Uzbekistan for several years. He is known as one of the architects of the legal policymaking and legislative reforms in Uzbekistan since the breakdown of the USSR. During the interview, he outlined the evolution of regulatory policymaking in Uzbekistan during the years of independence and depicted the challenges of implementing regulatory changes and reforms. He mentioned several shortcomings and inefficiencies of regulatory policymaking in Central Asia as a whole and in Uzbekistan in particular. He also briefly described the de jure procedures of rule-making, regulatory implementation, and compliance matters.

UZB2 is currently a public official in the sphere of legislative policymaking. Formerly, he had several ministerial positions and also served as a chief judge. During the interview, he spoke about the principles and procedures of rule-making, quality of regulatory work and legal documents, the effectiveness of regulatory implementation, enforcement and compliance. He also elaborated on the interactions of regulatory agencies in delivering regulations, issues of the rule of law, and judicial independence.

UZB3 is a government official responsible for promoting trade and commerce in Uzbekistan. He worked in leading positions of the prosecutorial and judicial system for decades. He has a profound experience in legislative drafting and law-enforcement sectors. During the interview, he mainly discussed the issues of regulatory implementation, law enforcement, and legal compliance. In particular, he outlined several overarching problems that the private sector faces in dealing with regulatory bodies. He also highlighted the issues of corruption and the rule of laws as key obstacles to effective policy implementation.

UZB4 is an independent lawyer known as one of the leading defence lawyers dealing with economic and business cases. He has a long experience in the legislative sector of the country. During the interview, he shared his knowledge and expertise on regulatory drafting and quality of adopted regulations in promoting private sector development. He highlighted several most pressing issues that the private sector faces due to the inadequacy of the regulatory framework in promoting the private sector. He also mentioned the shortcoming of the judicial system in protecting the rights of the private sector. He also briefly discussed the problems of full-fledged introduction of commercial arbitration and alternative dispute resolution principles in Uzbekistan.

UZB5 is a former state official who worked in the government dealing with foreign economic and investment regulations. During the interview, he described the problems of business regulations and how they evolved over time. In the real-world examples, he described how some major regulatory changes resulted in increasing the costs and burdens on the private sector. He highlighted discrepancies between the regulatory framework and actual regulatory implementation. Problems of the rule of laws, corruption, and judiciary were also part of his discussions.

UZB6 is a prominent economist researching the issues of economic policy and business regulation. Formerly, he was a member of the Economic Policy Advisory Board under the first president of Uzbekistan. During the interview, he explained economic policymaking and changes and reforms over the past two decades. He depicted some fundamental problems of economic policy planning and

implementation. In particular, he explained the shortcomings of the national strategies of privatisation, deregulation and liberalisation. He also briefly talked about public sector management and decision-making approaches in delivering regulations.

UZB7 is a senior public official dealing with economic and industrial development matters in Uzbekistan. He has more than three decades of experience in public service and economic policymaking. During the interview he talked mainly about the Uzbek model of economic policymaking and regulatory role of the government. In particular, he explained the economic strategies of Uzbekistan, state protectionist policies, as well as the pros and cons of the state regulatory intervention in economic affairs.

UZB8 is a private businessman. Formerly, he worked in the executive government dealing with foreign economic and investment activities. During the interview, he talked about the business regulations, investment climate and issues of creating a favourable climate for foreign as well as domestic investors. He outlined several factors that hindered the government's ability to deliver effective regulations, such as corruption, shortage of qualified public servants, the rule of law, corruption.

UZB9 is one of the leading businessmen in Uzbekistan and a chairman of the association of business owners. During the interview, he provided insight into the interactions of state and private sectors. Particularly, he explained the issues of private sector involvement in regulatory policy reforms and changes. He has also elaborated on the issues of the rule of law, corruption, judicial dependence on the executive branch, and persistent "red tapes" by the government.

In KAZAKHSTAN, nine interviews were conducted.

KAZ1 is a prominent independent legal expert. He is a former government official served at the ministries of justice and the national economy, dealing with business development and regulatory reform policies. He also has a long experience in business regulation matters at local and regional levels. During the interview, among other things, he described the peculiarities of the Kazakh strategy of market regulation and state vs. business relationships. He highlighted the issues of state management of natural and artificial monopolies and the promotion of competition. He also shed light on rule-making processes and tools, regulatory assessment mechanisms, policy implementation, and compliance issues.

KAZ2 is a well-known legal scholar and lead expert on regulatory impact assessment and legislative monitoring. Moreover, he is an associate professor of law at one of the leading law schools in Kazakhstan. During the interview, he elaborated on the main principles and priorities of the state regulatory policy in Kazakhstan and how these principles and priorities have evolved over time. He highlighted several important shortcomings of the regulatory framework of doing business in the country and explained how an established legal framework could not bring about desirable outcomes. He touched upon the capacity of public bureaucracy and its effectiveness in promoting private sector development.

KAZ3 is a public official responsible for economic policy planning and research in Kazakh government. His responsibilities range from regulation of natural monopolies to promotion of competition and entrepreneurship. During the interview, he talked about the overall business environment in the country by specifically highlighting the business rights and responsibilities, obstacles and constraints, administrative and financial burdens, as well as the state policies to promote private sector development. He described the state strategies of regulating monopolies, privatisation of state enterprises and their shortcomings. Ha also briefly shared his views on the problems of drafting legislative acts related to the business affairs and a lack of proper public consultations and business sector involvement in regulatory policymaking.

KAZ4 is a professor of law and a judge of the economic court. She has long-time experience in law enforcement and judicial sectors. During the interview, she mainly spoke about the role of the judiciary in maintaining the rule of law and regulatory compliance and the interactions between judicial authority and other law-enforcement bodies in ensuring the universal adherence to the established laws. She highlighted several issues due to which regulatory changes and reforms have not been fully implemented on the ground. In particular, she stressed on the dependent relationship between judicial authority and the executive branch, as well as the lack of collaboration and coordination between state bodies in delivering policies effectively.

KAZ5 is a public official of the justice sector and a leading expert on the arbitration and alternative dispute resolution in Kazakhstan. She has extensive experience in legislative and judicial sectors. During the interview, she elaborated on the protection of rights and freedoms of private sector entities and the legal guarantees of promoting entrepreneurial development in the country. Along with this, she has explained difficulties and obstacles to the full-fledged implementation of alternative dispute resolutions system and promotion of arbitration rules amongst business owners in Kazakhstan. She also touched upon the challenges of the country's judicial system in ensuring the rights and freedoms of private sector entities.

KAZ6 is an official of the Kazakh government responsible for business regulation, registration and provision of legal services. He also served in the judiciary system of Kazakhstan for several years. During the interview, he described the rule-making processes, legislative drafting, legal monitoring. He also highlighted some important reforms and improvements in terms of business regulation, such as reducing administrative barriers, removing unnecessary and burdensome costs, simplifying licencing procedures, improving registration processes, and others. Additionally, he underlined some fundamental issue that the private sector face on the ground.

KAZ7 is a Kazakh government official in charge of legislative drafting and coordinating the activities of all regulatory agencies and state bodies in developing regulatory proposals. During the interview, he mainly discussed the procedures and tools of

drafting regulations, rule-making stages, regulatory impact review processes, ex-post monitoring activities and compliance evaluation methods. He also elaborated on the role of different state bodies in developing market-friendly regulatory proposals and stakeholder involvement in rule-making processes.

KAZ8 is a responsible person of the chamber of commerce and entrepreneurs in Kazakhstan and a former government official who served in the justice sector for several years. During the interview, she talked about the involvement of chambers of commerce, business associations, and private businesses in shaping the regulatory policy of the government. He also highlighted some of the persistent issues of business regulation in the government, particularly pointing to the ineffectiveness of state bodies in terms of regulatory implementation as well as the incompetence of judicial authority to preserve the legal rights of the businesses while dealing with government bureaucracy.

KAZ9 is a director of the Legal Department of the Lower House of the Parliament of Kazakhstan. During the interview, she described the parliamentary legislative processes, committee hearings and discussions in resolving economic, regulatory matters. She also elaborated on the role of parliamentary in overseeing the implementation of enacted regulations and state policies on economic affairs and business development.

In the KYRGYZ REPUBLIC, eight interviews were conducted.

KGZ1 is a former senior political figure who worker in various high-rank positions ranging from head of the department to prime minister, with responsibilities of formulating policies of economic development and public finance. During the interview, he discussed Kyrgyzstan's post-soviet policy of economic recovery and subsequent regulatory reforms and changes. He explained the essence of the Kyrgyz model of development, economic liberalisation and private sector development in the country over the period. He briefly discussed the persistent political crises in the country and their economic repercussions. He also outlined the politics of making regulations in the legislative branch and their actual implementation processes. As significant drawbacks of the economic policymaking in the country, he mentioned corruption, weak central government, state capture, untrustworthy judicial and law-enforcement systems.

KGZ2 is a former senior government official who worked in ministerial positions at the ministries of economy and finance., as well as in the national parliament. He worked extensively to reform the system of national economic regulation and to install effective market institutions. He is also an academic expert researching the issues of market regulation and democratic institutions. During the interview, he outlines the priorities of economic regulation and strategies of entrepreneurial development in the country. He discussed in-depth the issues of public bureaucracy, economic management system and the importance of executive neutrality in delivering effective regulatory reforms. Government stability is said to be of utmost importance for effective policy implementation and long-term development.

KGZ3 is a former government official and the member of the national parliament. He has a long professional experience in rule-making and regulatory policy. During the interview, his discussion mainly focused on the law-making work in the parliament and the government. He described how economic, regulatory initiates arise, how private sector entities engage in these processes, and how the regulations are adopted and subsequently implemented. He highlighted the problems related to the quality of

regulatory work, the regulatory impact assessment and the compliance monitoring. He also touched upon the interaction of state regulatory agencies in coordinating and implementing regulations, as well as on the rule of law regime in the country.

KGZ4 is an experienced lawyer and one of the longest-serving judges who has been working in the judiciary since the early 1990s. During the interview, she gave an in-depth explanation of the evolution of the judicial system in the country and reforms undertaken to create an independent and neutral judiciary. However, she admitted that many of those reforms hadn't produced desirable outcomes and today's role of the judicial system in ensuring the rule of law in the country cannot be admired. She also spoke about the government's economic management policy and corrupt practices in all areas of economic relations. She gave a brief explanation of the judiciary's role in ensuring the rights of private entities, problems of introducing alternative dispute resolution mechanism in the economic sector of the country.

KGZ5 is a county judge who deals with administrative and economic matters and disputes. She also worked in the legislative sector of the country for many years. During the interview, she discussed a wide range of topics, including (but not limited to) the legislative role of the judicial branch, application of economic regulations in legal practice, problems of ensuring adherence to the enacted regulations, defending the right and freedoms of the business entities in courts and others. She also touched upon the problems of application of laws in practice due to the limited capacity of judicial authority and persistent intervention of the executive government and other law-enforcement bodies in the judicial affairs.

KGZ6 is an experienced entrepreneur and the president of the association of markets, trade organizations and services. During the interview, he shared his experience and understanding of the regulatory policymaking processed and tools in Kyrgyzstan and the private sector involvement in shaping the regulatory course of the government. He explained what effective state regulatory policy means for the business owners and private sector entities, and how their views and proposals have been heard by the public authorities. He highlighted several important gaps in the legal frameworks of

market regulation, as well as the real challenges that the local businesses face in terms of dealing with the state regulatory agencies. He also depicted the causes of endemic corruption, the effectiveness of anti-corruption measures, judicial independence in ensuring the rule of law, and other issues.

KGZ7 is public official in charge of regulatory impact assessment and licence-permit matters in the government. He has a long professional experience in the government dealing with business regulation matters. During the interview, he discussed the strengths and weaknesses of the government's regulatory work as well as the recent reforms and policy initiatives aimed at improving the effectiveness of the regulatory activities of the executive government to promote better private sector development. He also outlined the processes and tools of rule-making, conduct of regulatory impact assessments, ex-post regulatory evaluations and compliance monitorings, as well as inter-agency coordination of regulatory implementation and feedback systems.

KGZ8 is a senior official at the national prosecutor's office in charge of corruption prevention and administrative relations. He has extensive experience in the law-enforcement and judicial sectors of the country. During the interview, he primarily talked about the rule of law and regulatory compliance in the country. He shared his understanding of the long-standing dilemma of prosecutorial ascendancy over the judicial branch and disbalance in the power relations, which hinders the effective rule of law. He also briefly elaborated on certain shortcomings and biases in developing regulatory proposals, conducting regulatory assessments and subsequent implementation of those regulatory initiatives.

In TAJIKISTAN, ten interviews were conducted.

TJK1 is a former government official who served in many leadership positions in the justice system of Tajikistan. Currently, he is working as an independent lawyer and policy consultant. During the interview, he talked about Tajikistan's administrative and regulatory reforms and their outcomes since obtaining the state independence from the USSR. He explained the decision-making style and processes in dealing with market regulation matters. He also elaborated on the problems of private sector development, promotion of private ownership and the role of the state in regulating market transactions.

TJK2 is a long-serving government official who worked in various senior capacities at the ministry of economic development and trade. During the interview, he discussed the key state policies and programs related to the private sector development and promotion of entrepreneurial activities in the country. In line with the adopted regulatory measured and reform initiative, he outlined several important issues and obstacles that business have been facing. In particular, he highlighted the problem of regulatory implementation and ensuring compliance on the ground. He also stressed the need for capacity improvement of state regulatory agencies in delivering sound regulations.

TJK3 is a renowned lawyer, legal scholar and former official of the state prosecutor's office. He is also an active member of the several international lawyer's councils. During the interview, he discussed in-depth about the public and private sector interactions in Tajikistan and revealed persistent violations of the constitutional rights and freedoms of the private entities by the state authorities and regulatory agencies. In particular, he spoke about the endemic corruption in public sector, excessive power of ruling elites and law-enforcement agencies, reduced status and role of judiciary and defence lawyers, and other related problems. He also shared his ideas about the quality of regulatory frameworks and implementation processes, and the public and stakeholder engagement in regulatory policymaking processes.

TJK4 is a director of the independent consultancy group for commercial law. He has an extensive experience in legislative drafting and working closely with the state regulatory agencies for about fifteen years to improve the legal framework of business activities. During the interview, he shared his opinion on the overall regulatory policymaking and its effectiveness in Tajikistan. Along with several positive developments in terms of adopting a series of regulations aimed at promoting the private sector, he outlined some problems that hinder the realisation of those reform policies. In the list of such problems, he included the absence of clear procedures and mechanism of private sector engagement in regulatory policymaking, shortage of both material and quality human resources in the public sector, ineffective and incapable public bureaucracy, corrupt public leaders and managers and others.

TJK5 is a senior government official with more than twenty years of experience in legislative drafting and regulatory policymaking. During the interview, he described in detail the procedures of initiating market-related regulatory proposals, the processes and stages of drafting, regulatory impact assessments, and enaction and subsequent implementation of regulations. He mainly talked about the *de jure* procedures of law-making, public consultations and stakeholder engagement. Together with this, he briefly explained the issues related to the realisation of regulatory reforms, existing problems with business registration and obtaining permits and licences, etc.

TJK6 is a government official responsible for the management of state properties, privatisation and support of investment activities. During the interview, he talked about the measures taken by the government of Tajikistan to ensure the compliance of national regulatory acts related to private sector development with the international best practices and universal legal instruments. He also elaborated on the international cooperation aimed at improving the trade regulation and investment climate in Tajikistan. In particular, he outlines the procedures of amending and changing regulations related to business development based on the WTO trade rules and principles.

TJK7 is a foreign national who has been working in the business sector of Tajikistan for several years consulting various international and foreign companies on doing business in Tajikistan. During the interview, he shared his knowledge and experience in the regulatory management and private sector development in Tajikistan. He talked about real business environment on the ground, corruption, real rules of the game in business sector, and the role of the state in economic affairs, and other problems.

TJK8 is a senior government official and a former state adviser to the head of state on economic policymaking. During the interview, he discussed the origins and priorities of the national economic development and strategies of market reforms. He outlined the processes and stages of the economic and regulatory reforms and their outcomes. He highlighted several drawbacks in regard to the realisation of regulatory initiatives and reforms. For him corruption and shortage of qualified servicemen in the public service are the two biggest obstacles to the effective realisation of reform initiatives.

TJK9 is an independent legal consultant and economist with an extensive professional experience in various government agencies and major international development organisation (i.e. World Bank, ADB and UNDP). During the interview, he spoke about the overall problems of regulatory work and policy implementation in Tajikistan. He also elaborated on the implementation of the country's international obligations on installing market rules and principles based on WTO rules and guidelines. He also briefly discussed the situations in the country with the rule of law, business dispute resolutions, administrative barriers, corruption and etc.

TJK10 is an independent lawyer. She has a long experience in legislative drafting and working with government institutions. She was involved in the process of regulatory work from the early stage of drafting until the enaction and implementation of regulations. During the interview, she spoke about the role of the judicial branch and defence lawyers in shaping the regulatory framework of market regulation and in protecting the rights and interests of the private sector entities. She also elaborated on the government intervention in judicial decisions and informal pressure on the judges.

APPENDIX IV. Transliteration Table

Vernacular	Romanisation	Vernacular	Romanisation
Upper case letters		**Lower case letters**	
А	A	а	a
Б	B	б	b
В	V	в	v
Г	G	г	g
Д	D	д	d
Е	E	е	e
Ё	Ё	ё	ё
Ж	Zh	ж	zh
З	Z	з	z
И	I	и	i
І	Ī	і	ī
Й	Ĭ	й	ĭ
К	K	к	k
Л	L	л	l
М	M	м	m
Н	N	н	n
О	O	о	o
П	P	п	p
Р	R	р	r
С	S	с	s
Т	T	т	t
У	U	у	u
Ф	F	ф	f
Х	Kh	Х	kh
Ц	TS	ц	ts
Ч	Ch	ч	ch
Ш	Sh	ш	sh
Щ	Shch	щ	shch
Ъ	" (hard sign)	ъ	" (hard sign)
Ы	Y	ы	y
Ь	' (soft sign)	ь	' (soft sign)
Ѣ	IE	ѣ	ie
Э	Ė	э	ė
Ю	IU	ю	iu
Я	IA	я	ia
Ѳ	Ḟ	ѳ	ḟ
Ѵ	Ẏ	ѵ	ẏ

Correlation Coefficient Matrix for Kazakhstan

Variables	1	2	3	4	5	6	7	8	9	10
logGDPpc	1.0000									
logRQ	0.6943* 0.0002	1.0000								
logGE	0.8897* 0.0000	0.8073* 0.0000	1.0000							
logRoL	0.8744* 0.0000	0.7898* 0.0000	0.8830* 0.0000	1.0000						
RegPol	0.6998* 0.0002	0.9877* 0.0000	0.8018* 0.0000	0.7984* 0.0000	1.0000					
logGovExp	-0.5325* 0.0107	-0.4129 0.0562	-0.5073* 0.0160	-0.3901 0.0726	-0.3741 0.0863	1.0000				
logCapital	0.6212* 0.0020	0.3527 0.1074	0.3994 0.0656	0.2893 0.1916	0.3517 0.1085	0.2558 0.2506	1.0000			
logOil	0.3179 0.1493	-0.1775 0.4293	0.1698 0.4499	-0.0277 0.9025	-0.1804 0.4216	-0.1426 0.5266	0.3756 0.0850	1.0000		
LogFDI	-0.3106 0.1491	-0.5310* 0.0091	-0.3749 0.0780	-0.4244* 0.0435	-0.5915* 0.0030	0.2252 0.3136	0.1440 0.5226	0.2999 0.1751	1.0000	
logHuman	0.8272* 0.0000	0.7949* 0.0000	0.8254* 0.0000	0.8377* 0.0000	0.8424* 0.0000	-0.3012 0.1732	0.3737 0.0867	-0.0410 0.8563	-0.5238* 0.0103	1.0000

* = 0.05 confidence interval = 5% significance level

Log in front of a variable means logarithm of the variable concerned.

GDPpc = Gross Domestic Product Per Capita PPP (purchasing power parity) in constant 2011 USD
RQ = Regulatory Quality
GE = Government Effectiveness
RoL = Rule of Law
RegPol – Overall Regulatory Policy = RQ+GE+RoL
GovExp = General government final consumption expenditure (% of GDP)
Capital = Gross capital formation (i.e. investment) as % of GDP
FDI = Foreign Direct Investment, net inflow (as % of GDP)
Oil = Oil rents (as % of GDP)
Human = Human capital = Secondary school enrolment (% of population aged 15 or above)

Correlation Coefficient Matrix for Tajikistan

Variables	1	2	3	4	5	6	7	8	9	10
Log GDPpc	1.0000									
Log RQ	0.6524*0.0007	1.0000								
Log GE	0.8517* 0.0000	0.8346* 0.0000	1.0000							
Log RoL	0.5686* 0.0046	0.7361* 0.0001	0.7322* 0.0001	1.0000						
RegPol	0.6168* 0.0017	0.9857* 0.0000	0.8297* 0.0000	0.6825* 0.0000	1.0000					
Log GovExp	0.3877 0.0747	-0.1551 0.4908	0.2233 0.3178	-0.1134 0.6153	-0.1009 0.6551	1.0000				
Log Capital	0.6221* 0.0020	0.1782 0.4276	0.4518* 0.0348	-0.0916 0.6853	0.2213 0.3224	0.5707* 0.0055	1.0000			
Log FDI	0.3758 0.0772	0.3391 0.1135	0.4872* 0.0184	0.3794 0.0742	0.3189 0.1381	-0.0121 0.9575	0.0911 0.6869	1.0000		
Log Remit	0.6179* 0.0082	0.5118* 0.0357	0.6150* 0.0086	-0.5434* 0.0242	0.4792 0.0516	0.3777 0.1493	0.8555*0.0000	0.1316 0.6147	1.0000	
Log Human	0.4318* 0.0396	-0.1256 0.5679	0.2503 0.2494	-0.1161 0.5978	-0.0467 0.8323	0.7021* 0.0003	0.6563*0.0009	0.2471 0.2557	0.6929* 0.0020	1.0000

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Capital = Gross capital formation (i.e. investment) as % of GDP
FDI = Foreign Direct Investment, net inflow (as % of GDP)
Remit = Personal remittances, received (as % of GDP)
Human = Human capital = Secondary school enrolment (% of population aged 15 or above)

Correlation Coefficient Matrix for Uzbekistan

Variables	1	2	3	4	5	6	7	8	9	10	11	12
logGDPpc	1.0000											
logRQ	0.5680* 0.0047	1.0000										
logGE	0.9075* 0.0000	0.5536* 0.0061	1.0000									
logRoL	0.1415 0.5194	-0.0546 0.8046	0.0316 0.8863	1.0000								
RegPol	0.5368* 0.0083	0.9508* 0.0000	0.5161* 0.0117	0.0868 0.6937	1.0000							
logGovExp	-0.7169* 0.0001	-0.5548* 0.0060	-0.6421* 0.0010	0.0520 0.8137	-0.4699* 0.0237	1.0000						
logCapital	0.7103* 0.0001	0.6727* 0.0004	0.5765* 0.0040	0.0960 0.6629	0.6484* 0.0008	-0.6120* 0.0019	1.0000					
logFDI	0.1981 0.3649	0.3627 0.0890	0.2830 0.1908	-0.3135 0.1452	0.3023 0.1609	-0.1821 0.4057	0.2590 0.2327	1.0000				
logGas	0.0303 0.8934	0.5252* 0.0121	0.1023 0.6505	-0.4260* 0.0481	0.4116 0.0570	-0.2935 0.1850	0.4242* 0.0491	0.2453 0.2712	1.0000			
logOil	-0.4565* 0.0327	0.0686 0.7618	-0.3709 0.0892	-0.3026 0.1711	-0.0001 0.9997	0.1482 0.5104	-0.0070 0.9752	0.0897 0.6915	0.7421* 0.0001	1.0000		
logRemit	-0.2841 0.3971	-0.1369 0.6882	-0.2471 0.4638	-0.1672 0.6231	-0.0781 0.8195	0.4265 0.1909	0.3044 0.3627	0.3859 0.2411	0.6879* 0.0193	0.7467* 0.0083	1.0000	
logHuman	-0.0653 0.7671	0.1070 0.6269	-0.1855 0.3967	0.2376 0.2749	0.1121 0.6107	0.1573 0.4735	-0.0304 0.8904	-0.0589 0.7894	-0.0801 0.7229	-0.0880 0.6970	-0.3178 0.3409	1.0000

* = 0.05 confidence interval = 5% significance level

Log in front of a variable means logarithm of the variable concerned.

GDPpc = Gross Domestic Product Per Capita PPP (purchasing power parity) in constant 2011 USD

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FDI = Foreign Direct Investment, net inflow (as % of GDP)

Gas = Natural gas rents (as % of GDP)

Oil = Oil rents (as % of GDP)

Remit = Personal remittances, received (as % of GDP)

Human = Human capital = Secondary school enrolment (% of population aged 15 or above)

Correlation Coefficient Matrix for Kyrgyz Republic

Variables	1	2	3	4	5	6	7	8	9	10
logGDPpc	1.0000									
logRQ	-0.2196 0.3140	1.0000								
logGE	-0.7158* 0.0001	0.5230* 0.0104	1.0000							
logRoL	-0.5414* 0.0076	0.3687 0.0834	0.6517* 0.0008	1.0000						
RegPol	-0.3415 0.1108	0.9810* 0.0000	0.6044* 0.0023	0.4342* 0.0384	1.0000					
logGovExp	-0.3009 0.1630	0.2884 0.1820	0.2575 0.2356	0.0596 0.7870	0.3304 0.1236	1.0000				
logCapital	0.7532* 0.0000	-0.0978 0.6572	-0.4886* 0.0180	-0.5068* 0.0136	-0.2284 0.3024	-0.0413 0.8516	1.0000			
LogFDI	0.3058 0.1776	-0.0814 0.7258	-0.2184 0.3415	-0.4068 0.0673	-0.1585 0.4926	0.1457 0.5285	0.3071 0.1758	1.0000		
logRemit	0.8912* 0.0000	-0.4536* 0.0297	-0.7948* 0.0000	-0.7133* 0.0001	-0.5609* 0.0054	-0.2731 0.2073	0.5929*0.0029	0.3245 0.1512	1.0000	
logHuman	0.8917* 0.0000	-0.2646 0.2225	-0.6627* 0.0006	-0.3083 0.1523	-0.3628 0.0888	-0.3887 0.0668	0.4647*0.0255	0.1084 0.6399	0.7944* 0.0000	1.0000

* = 0.05 confidence interval = 5% significance level

Log in front of a variable means logarithm of the variable concerned.

GDPpc = Gross Domestic Product Per Capita PPP (purchasing power parity) in constant 2011 USD
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RoL = Rule of Law
RegRol – Overall Regulatory Policy = RQ+GE+RoL
GovExp = General government final consumption expenditure (% of GDP)
Capital = Gross capital formation (i.e. investment) as % of GDP
FDI = Foreign Direct Investment, net inflow (as % of GDP)
Remit = Personal remittances, received (as % of GDP)
Human = Human capital = Secondary school enrolment (% of population aged 15 or above)

Correlation Coefficient Matrix for Turkmenistan

Variables	1	2	3	4	5	6	7	8	9	10
logGDPpc	1.0000									
logRQ	-0.6251* 0.0014	1.0000								
logGE	0.3928 0.0637	0.2326 0.2855	1.0000							
logRoL	-0.1032 0.6394	0.4748* 0.0221	0.5843* 0.0034	1.0000						
RegPol	-0.5798 0.0037	0.9629* 0.0000	0.2765* 0.0000	0.4026 0.0569	1.0000					
logGovExp	-0.8386* 0.0000	0.4686* 0.0278	-0.3025 0.1712	0.2530 0.2559	0.3351 0.1274	1.0000				
logCapital	0.2018 0.4374	0.3761 0.1368	0.5337* 0.0274	0.4048 0.1071	0.3838 0.1282	-0.3697 0.1442	1.0000			
logFDI	0.5037* 0.0143	-0.4551* 0.0291	-0.0910 0.6797	-0.4355* 0.0378	-0.4182* 0.0471	-0.6962* 0.0003	0.2932 0.2535	1.0000		
logGas	-0.1306 0.5623	-0.2298 0.3036	-0.4882* 0.0212	-0.3524 0.1077	-0.2013 0.3689	-0.0175 0.9384	-0.5081* 0.0373	0.1444 0.5214	1.0000	
logOil	-0.5572* 0.0071	0.2344 0.2937	-0.5340* 0.0105	-0.2340 0.2946	0.2514 0.2590	0.2789 0.2088	-0.4429 0.0750	-0.0786 0.7280	0.7331*0 .0001	1.0000

* = 0.05 confidence interval = 5% significance level

Log in front of a variable means logarithm of the variable concerned.

GDPpc = Gross Domestic Product Per Capita PPP (purchasing power parity) in constant 2011 USD
RQ = Regulatory Quality
GE = Government Effectiveness
RoL = Rule of Law
RegPol – Overall Regulatory Policy = RQ+GE+RoL
GovExp = General government final consumption expenditure (% of GDP)
Capital = Gross capital formation (i.e. investment) as % of GDP
FDI = Foreign Direct Investment, net inflow (as % of GDP)
Gas = Natural gas rents (as % of GDP)
Oil = Oil rents (as % of GDP)

Correlation Coefficient Matrix for Central Asian region

	logGDPpc	logRQ	logGE	logRoL	RegPol	logGov~p	logCap~l	logOil	logGas	logFDI	logRemit	loghuman
logGDPpc	1.0000											
logRQ	0.0292	1.0000										
	0.7566											
logGE	0.2479*	0.7379*	1.0000									
	0.0076	0.0000										
logRoL	0.2216*	0.7836*	0.7964*	1.0000								
	0.0173	0.0000	0.0000									
RegPol	0.2034*	0.9344*	0.7394*	0.8000*	1.0000							
	0.0292	0.0000	0.0000	0.0000								
logGovExp	-0.4691*	0.1853	0.1859*	0.1845	0.1639	1.0000						
	0.0000	0.0505	0.0497	0.0515	0.0843							
logCapital	0.4326*	-0.1415	0.0008	-0.1646	-0.0706	-0.0501	1.0000					
	0.0000	0.1460	0.9936	0.0903	0.4701	0.6086						
logOil	0.7680*	-0.2738*	-0.1176	-0.0839	-0.0960	-0.2667*	0.3417*	1.0000				
	0.0000	0.0038	0.2212	0.3836	0.3183	0.0049	0.0004					
logGas	0.5004*	-0.7084*	-0.3952*	-0.4223*	-0.5637*	-0.2032*	0.4180*	0.7819*	1.0000			
	0.0000	0.0000	0.0000	0.0000	0.0000	0.0376	0.0000	0.0000				
logFDI	0.3516*	0.1500	-0.0106	-0.0465	0.1572	-0.4211*	0.2335*	0.2224*	-0.0076	1.0000		
	0.0001	0.1127	0.9111	0.6251	0.0964	0.0000	0.0165	0.0207	0.9393			
logRemit	-0.7107*	0.0145	-0.0999	-0.1769	-0.2007	0.4988*	-0.0060	-0.7593*	-0.4349*	-0.2285*	1.0000	
	0.0000	0.8945	0.3603	0.1032	0.0639	0.0000	0.9580	0.0000	0.0001	0.0366		
loghuman	0.6244*	0.3248*	0.4797*	0.4927*	0.4292*	0.1174	0.2920*	0.4261*	0.2126*	-0.0302	-0.2960*	1.0000
	0.0000	0.0004	0.0000	0.0000	0.0000	0.2177	0.0023	0.0000	0.0294	0.7505	0.0057	

APPENDIX VI. Hausman Tests

Hausman Test results (without control variable)

With individual policy variables

```
            —— Coefficients ——
              (b)         (B)         (b-B)      sqrt(diag(V_b-V_B))
              fe          re        Difference          S.E.
   ─────────────────────────────────────────────────────────────────
     logRQ   -.2120635   -.2119807   -.0000828           .0201
     logGE    .5162081    .5156963    .0005118          .0062686
     logRoL  -.0720565   -.0696895   -.002367           .0057952
   ─────────────────────────────────────────────────────────────────

                  b = consistent under Ho and Ha; obtained from xtreg
         B = inconsistent under Ha, efficient under Ho; obtained from xtreg


   Test:  Ho:  difference in coefficients not systematic


              chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                    =        0.17
            Prob>chi2 =      0.9823
```

With a composite policy variable

```
            —— Coefficients ——
              (b)         (B)         (b-B)      sqrt(diag(V_b-V_B))
              fe          re        Difference          S.E.
   ─────────────────────────────────────────────────────────────────
    RegPol   .1175522    .1156201    .0019321          .0099257
   ─────────────────────────────────────────────────────────────────

                  b = consistent under Ho and Ha; obtained from xtreg
         B = inconsistent under Ha, efficient under Ho; obtained from xtreg


   Test:  Ho:  difference in coefficients not systematic


              chi2(1) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                    =        0.04
            Prob>chi2 =      0.8457
```

Hausman Test results (by including control variables)

With individual policy variables

	(b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
logRQ	-.3467561	-.1278353	-.2189208	.
logGE	.1819847	-.0070207	.1890053	.
logRoL	.0952717	.0768029	.0184688	.
logGovExp	-.1039136	-.4360718	.3321582	.
logCapital	.2762892	.2501885	.0261007	.
logOil	-.0607771	.128736	-.1895131	.0102041
logGas	.068973	-.0334291	.1024021	.0117978
logFDI	.0004161	.0648459	-.0644298	.
logRemit	.0170546	-.0691009	.0861555	.0149828
loghuman	3.413766	6.213685	-2.799919	.1177409

```
                b = consistent under Ho and Ha; obtained from xtreg
    B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test:  Ho:  difference in coefficients not systematic

        chi2(10) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                 =        36.78
        Prob>chi2 =       0.0001
        (V_b-V_B is not positive definite)
```

With a composite policy variable

	(b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
RegPol	-.0105651	-.0327264	.0221612	.0168274
logGovExp	-.1730935	-.452112	.2790185	.0941218
logCapital	.2433322	.2460158	-.0026837	.
logOil	-.0729874	.1076956	-.180683	.0370452
logGas	.0862525	-.0116312	.0978838	.0397384
logFDI	-.0057048	.0526635	-.0583683	.
logRemit	-.0029177	-.0802096	.0772919	.0201269
loghuman	4.035055	6.302589	-2.267534	.4847116

```
                b = consistent under Ho and Ha; obtained from xtreg
    B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test:  Ho:  difference in coefficients not systematic

        chi2(8) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                =        34.72
        Prob>chi2 =       0.0000
        (V_b-V_B is not positive definite)
```

Appendix VII. Regression Tables

Fixed-Effect panel regression results (without the control variables)

With individual policy variables

```
Fixed-effects (within) regression           Number of obs      =        115
Group variable: cntry1                       Number of groups   =          5

R-sq:                                        Obs per group:
     within  = 0.3718                                       min =         23
     between = 0.0490                                       avg =       23.0
     overall = 0.1008                                       max =         23

                                             F(3,107)           =      21.11
corr(u_i, Xb)  = 0.0249                       Prob > F           =     0.0000


     logGDPpc |     Coef.    Std. Err.      t     P>|t|    [95% Conf. Interval]

        logRQ |  -.2120635   .0937475    -2.26   0.026    -.3979071    -.02622
        logGE |   .5162081   .0693862     7.44   0.000     .3786581    .653758
       logRoL |  -.0720565   .0803347    -0.90   0.372    -.2313106   .0871976
        _cons |   3.346465   .094732     35.33   0.000      3.15867   3.534261

      sigma_u |  .37726379
      sigma_e |  .12578042
          rho |  .89996303   (fraction of variance due to u_i)

F test that all u_i=0: F(4, 107) = 196.01              Prob > F = 0.0000
```

With a composite policy variable

```
Fixed-effects (within) regression           Number of obs      =        115
Group variable: cntry1                       Number of groups   =          5

R-sq:                                        Obs per group:
     within  = 0.0615                                       min =         23
     between = 0.0390                                       avg =       23.0
     overall = 0.0414                                       max =         23

                                             F(1,109)           =       7.15
corr(u_i, Xb)  = -0.1176                      Prob > F           =     0.0087


     logGDPpc |     Coef.    Std. Err.      t     P>|t|    [95% Conf. Interval]

       RegPol |   .1175522   .0439672     2.67   0.009     .0304108   .2046937
        _cons |   3.669043   .0142032   258.33   0.000     3.640893   3.697194

      sigma_u |  .38181829
      sigma_e |  .15231208
          rho |  .86271514   (fraction of variance due to u_i)

F test that all u_i=0: F(4, 109) = 142.54              Prob > F = 0.0000
```

Fixed-Effects panel regression (by including control variables).

With individual policy variables

```
Fixed-effects (within) regression              Number of obs      =         73
Group variable: cntry1                          Number of groups   =          5

R-sq:                                           Obs per group:
     within  = 0.7886                                        min =          8
     between = 0.2207                                        avg =       14.6
     overall = 0.2668                                        max =         22

                                                F(10,58)           =      21.64
corr(u_i, Xb)  = -0.0140                         Prob > F           =     0.0000

     logGDPpc |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
     ---------+----------------------------------------------------------------
        logRQ | -.3467561    .072176     -4.80   0.000    -.4912321   -.2022801
        logGE |  .1819847   .0686462      2.65   0.010     .0445743     .319395
       logRoL |  .0952717   .0627153      1.52   0.134    -.0302667     .22081
     logGovExp | -.1039136  .1261568     -0.82   0.413    -.3564439    .1486168
    logCapital |  .2762892  .0633205      4.36   0.000     .1495394     .403039
       logOil | -.0607771   .0434375     -1.40   0.167    -.1477268    .0261725
       logGas |   .068973   .0422694      1.63   0.108    -.0156385    .1535844
       logFDI |  .0004161   .0232563      0.02   0.986    -.0461364    .0469686
     logRemit |  .0170546   .0236313      0.72   0.473    -.0302485    .0643578
     loghuman |  3.413766   .5534436      6.17   0.000     2.305928    4.521604
        _cons |  -3.11261   1.029429     -3.02   0.004    -5.173236   -1.051985
     ---------+----------------------------------------------------------------
      sigma_u | .32842491
      sigma_e | .05932143
          rho | .96840572   (fraction of variance due to u_i)

F test that all u_i=0: F(4, 58) = 17.61               Prob > F = 0.0000
```

With a composite policy variable

```
Fixed-effects (within) regression              Number of obs      =         73
Group variable: cntry1                          Number of groups   =          5

R-sq:                                           Obs per group:
     within  = 0.6883                                        min =          8
     between = 0.6767                                        avg =       14.6
     overall = 0.6667                                        max =         22

                                                F(8,60)            =      16.56
corr(u_i, Xb)  = 0.5678                          Prob > F           =     0.0000

     logGDPpc |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
     ---------+----------------------------------------------------------------
       RegPol | -.0105651   .0312864     -0.34   0.737    -.0731472    .0520169
     logGovExp | -.1730935  .1461063     -1.18   0.241    -.4653495    .1191625
    logCapital |  .2433322  .0732809      3.32   0.002     .0967486    .3899157
       logOil | -.0729874   .0518932     -1.41   0.165    -.1767892    .0308145
       logGas |  .0862525   .0501248      1.72   0.090     -.014012    .186517
       logFDI | -.0057048   .0269042     -0.21   0.833    -.0595213    .0481117
     logRemit | -.0029177   .0272237     -0.11   0.915    -.0573733    .0515378
     loghuman |  4.035055   .6682061      6.04   0.000     2.698443    5.371666
        _cons | -4.267026   1.299945     -3.28   0.002    -6.867303   -1.666749
     ---------+----------------------------------------------------------------
      sigma_u | .26194454
      sigma_e | .07081813
          rho | .93188649   (fraction of variance due to u_i)

F test that all u_i=0: F(4, 60) = 7.98                Prob > F = 0.0000
```