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25 Years of Transition Economies Research and Three HUs¹⁾

Islamov Bakhtiyor Anvarovich

1. Research at Harvard University (HIID, JFK School of Gov., NBER 1990-1991, 1992).

In 1990 among the first three scholars, I was selected by the government of Uzbekistan to go to the USA to study market economy and to research the best ways of transition to it. According to prof. W. Leontieff's recommendations we became visiting scholars in Harvard Institute of International Development (HIID) under supervision of its director D. Perkins well-known economist on Chinese reforms. We attended his and other professors (like M. Fieldstein, J. Kornai, G. Sachs, E Vogel, T. Sicular) classes to learn fundamentals of the market economy and reform experiences of China, Central and East European countries, as well as development strategies of post-WWII Japan and East Asian Newly Industrialized Countries. Using new knowledge we applied it to the realities of the former Soviet Union (FSU) and specifically to the Central Asian republics – the least developed part of it. Participating in symposiums, conferences and seminars discussions we argued about the necessity to introduce gradual reforms not “Shock Therapy”, elaborated also our own position on Center-Republics economic relations versus “500 Days” Program of transition to market and confederalization of the FSU (S. Shatalin, G. Yavlinskiy, A. Zadornov). In reality instead of new “Union Treaty” on confederation and formation of the Union of Sovereign States there was a “Putch” (coup) in Moscow on August 19-21, 1991 with its subsequent failure and breakup of the FSU. On August 31, 1991- Uzbekistan proclaimed its Independence.



The main findings at Harvard on the strategy of evolutionary transition and integration to the World Economy were published in different papers and chapters of the books within the first years of independent development. They were as follows: 1. Gradual transformation, especially, in the field of privatization was needed to form proper institutions that could provide better property rights and protect it from raiders²⁾. 2. Uzbekistan would not have “gloomy prospects” after independence as some Russian and American scholars tried to predict (A. Khazanov, B. Rumer) since it was subsidized. Our re-assessment was: the volume of subsidies from the FSU Center was around its loss from turnover taxes³⁾.

1) Three HUs - Harvard, Hitotsubashi and Hokkaido Universities.

2) B. Islamov (Sept 1991) “Property Rights and Economic Reform in Uzbekistan”, WP 90, World Institute for Development Economics Research (WIDER) of the United Nations University, Helsinki, Finland, 29 p. (with Simon Johnson).

3) B. Islamov (Dec. 1991) “Soviet Central Asia: Problems of Development in the Context of Republic-Center Relations: A Political-Economic Analysis”. DDP#413, Harvard University, USA, 80p. (in Eng.).

3. It was also proved, that the real problem was not losses of subsidies and grants, but overnight disruption of traditional economic ties. The FSU republics were much more inter-dependent than COMECON, EU countries or even states of the USA, because the USSR had closed (autarchic) economy. The ratio of foreign exports to non-FSU countries to value-added for Central Asians was between 1.2 to 7.4%. Therefore, it was necessary to disintegrate gradually, keeping reasonable traditional ties and participating in the CIS, diversifying relations especially with highly developed states⁴.

2. Professorship and Findings in the IER, Hitotsubashi University (1998-2001).

The systemic transformation, in fact, appeared to be a much more complex and lengthy than initially expected. Summarizing the experience of transition J. Stiglitz noted: “failures of the reforms in Russia and majority of CIS countries were not just due to sound policies that had being poorly implemented. It occurred because of a misunderstanding of both the foundations of a market economy and the basics of an institutional reform process. The limited success in so many of the countries in transition also meant that they remain many opportunities for applying better policies”⁵.

Collaborating with Japanese colleagues (N.Takayama, Y. Nishimura, M. Kuboniwa, H. Ishi, K. Odaka, K. Suzumura, J. Teranishi, I. Iwasaki) in the Institute of Economic Research of Hitotsubashi University I tried to suggest alternative approach in the series of publications, including monograph and journal articles⁶. The principal points were as follows: 1. Macro-economic stabilization, structural adjustment policies and institutional building are necessary, but not sufficient. 2. In order to make them efficient each state, based on thorough examination of their initial conditions and long-term goals needs to formulate tailor made strategy as for speed and sequence of reforms, and implement them properly. 3. The best scenario was to transit from plan to industrial policy. Not total and overall deregulation but state-led transformation that could prevent output decline and provide better economic growth. 4. Transition from autarchic dependence to regional and global interdependence via gradual trade and exchange rate liberalization also required evolutionary approach. 6. Political and economic study of output decline within transformation and multiple exchange rates in Uzbekistan were complemented by econometric analysis of the respective data. 7. Methodologically, this positions were further backed up by the original study of transformational ‘traps’ published as the book in monograph series of the IER, Hitotsubashi University⁷.

4) B. Islamov (1994), “Post-Soviet Central Asia and Commonwealth of Independent States: The Economic Background of Interdependence”, in edited by Beatrice Manz, *Central Asia in Historical Perspective*, Westview Press, USA, pp.202-232. B. Islamov (1995), “Central Asia: From Administrative-Command Integration to the CIS”, in *Rethinking Federalism: Citizens, Markets and Governments in a Changing World*, Vancouver, Canada: IBS Press, pp. 183-196.

5) J. Stiglitz (Apr. 1999), *Whither Reform? Ten years of the Transition*. Keynote Address, WB, Washington D.C. p.1

6) B. Islamov (Dec. 1998), *State-Led Transformation and Economic Growth in Central Asia: From Plan to Industrial Policy* in *Hitotsubashi Journal of Economics*, Vol. 39# 2, p. 57-74. B. Islamov (Dec. 1999), “Central Asian States: On the Way From Autarchic Dependence to Regional and Global Interdependence” in *Hitotsubashi Journal of Economics*, Vol. 40# 2, p. 75-96. B. Islamov (June 2000) “Challenges of Globalization and Exchange Rate Policies in Central Asian Independent States,” in *Hitotsubashi Journal of Economics*, Vol. 41# 1, pp. 27-52 (with co-author). B. Islamov (June 2001) “Systemic Transformation and Output Decline,” (with co-author) in *Hitotsubashi Journal of Economics*, Vol. 42# 1, pp. 29-54.

7) B. Islamov (2001), “The Central Asian States Ten Years After: How to Overcome Traps of Development, Transformation and Globalization”, monograph # 37, published by Maruzen, Japan, Tokyo, (in Engl.)

3. Cooperation and Publications at Hokkaido University

Cooperation with professors of Hokkaido University (Sh. Tabata, T. Uyama) started in 1997-2001 when four papers on economic reforms, migration, the Aral Sea and water problems in Central Asia were published in Sapporo by Slavic Research Center (SRC)⁸⁾. It continued within foreign visitors fellowship program in the SRC (Nov. 2013 - Mar. 2014) and an article on Central Asian “Puzzles” of systemic transformation was printed⁹⁾. It resumed in the Faculty of Economics of HU (Jul. 2015 - Mar. 2016).

Evaluating results of systemic transformation in the first decade IMF experts has introduced, so called, “Uzbek Puzzle” (How and why Uzbekistan without introducing the recommended policies achieved such impressive economic growth?) which is still unresolved by them. Two decades after the EBRD Transition Report “Stuck in Transition?” (2013) identified a reversed “Puzzle”- Kyrgyz “Puzzle”: Why Kyrgyzstan applying almost all recommendations stuck in transition and economic growth? Political economic and quantitative analyses of more than 20 years experiences of transition countries in Central Asia led us to the main conclusion that less radical and more gradual reforms resulted in better economic growth. In this respect the achievements of Uzbekistan is not a “puzzle”, but logical result of its efforts to introduce gradually, step-by-step, market reforms combined with state-led industrial export-oriented policy, that was first successfully used in Post-World War II Japan. The most important thing in “Uzbek Model”, proposed by President I. Karimov, is to make following steps of reforms upon readiness of state, institutions and people motivated to support and implement them properly. For that they should lead to positive economic and, especially, social outcomes. As a result, Uzbekistan in the last 10 years was one of the most dynamically growing countries in the world with average annual GDP growth rates of 8%. According to the World Economic Forum Report, now Uzbekistan is among top 5 countries with the fastest growing economies in the world. It also had the highest “Happiness index” among all transition states positioning within the top 50 (#44) in the list of 158 countries (WHR, 2015).

Now in the GSEBA of HU joint research with Prof. M. Hiwatari has been focused on transformation and sustainable human development in Uzbekistan. It is intended to contribute further to the analysis of alternative approach to economic transition undertaken by the people of Uzbekistan. Taking this opportunity I would like to express my gratitude also to Dean, Prof. H. Yoshimi, Director of the REBN Center Prof. K. Machino and Chief for International Exchange, Prof. T.Takai for their sincere cooperation and encouragement.

8) “Economic Reform and Private Sector Development in Uzbekistan: Preconditions, Peculiarities and Methods,” Occasional Paper on Changes in the Slavic-Eurasian World, No.37, SRC Hokkaido University, June 1997, Sapporo, Japan, 85 pages (with co-author). “Sotsial’no-ekonomicheskie aspekty migratsionnykh protsessov v nezavisimyykh gosudarstvakh Tsentral’noy Asii” (“Social and Economic Aspects of Migration Processes in Independent States of Central Asia”) , *Acta Slavica Japonica*, Journal of Slavic Research Center, Hokkaido University, Tomus XVI, 1998, pp. 184-206. (in Russian). “Aral Sea Catastrophe: Case for National, Regional and International Cooperation,” Quest for Models of Coexistence- National and Ethnic Dimensions of Changes in the Slavic Eurasian World, ed. by Koichi Inoue et al., SRC, Hokkaido University, 1998, pp.353-398. (in Eng.). “Doubling Freshwater Inflow is Key to Curbing the Aral Sea Crisis,” in “Russian Regions: Economic Growth and Environment” ed. by Takashi Murakami & Shinichiro Tabata, SRC, Hokkaido University, Sapporo, Japan, 2000, pp.413-227. (in Eng.)

9) B. Islamov (2014), The Central Asian States 20 Years after: “Puzzles” of Systemic Transformation, in *Journal Acta Slavica Japonica*, Tomus 35, SRC, Hokkaido University, Sapporo, Japan, pp. 110-134 (with co-author).