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2008

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December 2008

The aim of the paper is to understand how the structure of government-business relations influences the quality of institutions and economic development in Kazakhstan and Uzbekistan. The paper identifies the key elements of the business community engaged in negotiations with the state, explores the consistency of formal and informal institutions and the balance of power between the state and the business and analyzes how these particular power relations and inconsistencies influence the economic development via both designing formal institutions and affecting strategies of private and public actors.

The paper was written within the framework of the project "Emerging Market Economies in Central Asia: The Role of Institutional Complementarities in Reform Process".

1. Introduction

The relations between government (politics and public administration) and enterprises obviously belong to the main determinants of economic performance in most countries: government-business relations drive both economic policy decisions and corporate strategies. The post-Soviet countries differ substantially in terms of government-business relations implemented; these differences on the one hand, are endogenous to the chosen reform strategies, but on the other hand, influence the further institutional changes. This paper reviews the specifics of government-business relations in two countries of the former Soviet Union, which are often used as a case for comparison of differences in economic development paths: Kazakhstan and Uzbekistan. Obviously, in case of Uzbekistan the term "business" should be used with caution, since the country basically did not implement any large-scale privatization and restricted access of foreign investors, there seems to be no clearly defined "private interest" noticeable in economic policy decisions. However, there are exceptions even to this rule; moreover, even a centralized economy can develop a system of informal bargaining between enterprises and bureaucrats (or, better, between bureaucrats in charge of enterprises and bureaucrats in charge of governmental agents). On the other hand, Kazakhstan obviously has a large and influential business community. This paper proceeds as follows: the next section summarizes the main hypotheses regarding the main hypotheses regarding the impact of government-business relations on institutional development. The third and the fourth sections provide a brief account of the specifics of government-business relations in Kazakhstan and Uzbekistan as factors of institutional development in these countries. Finally, the last section concludes.

2. Institutional quality and institutional consistency

Basically, the models of government-business relations include two main components: first, the *formal rules* governing the degree of public intervention in the economic decisions of enterprises (both privatized and state-owned), and second, the *informal interdependence* between political, bureaucratic and business groups. Hence, there are two distinct analytical perspectives, which could be applied. First, one can focus on the *content* of the government-business relations, considering both formal and informal components "as a whole". From this point of view formal and informal aspects of government-business relations models can be more or less important, and hence, deserve more or less consideration in the analysis. Second, however, one can specifically look at the *contradictions* between formal and informal institutions as a source of incentives of public officials and businesses. As I will try to argue bellow, the conclusions following these two approaches may significantly diverge.

The main parameter of the government-business relations from the point of view of the **content** is the *power asymmetry* between politics and bureaucracy, on the one hand, and business, on the other. The power asymmetry may result from both formal provisions and informal channels of influence and always refers not to unspecified “business” or “politics”, but to specific interest groups in administration, political system and business community. The power asymmetries influence the design of economic institutions through two channels. First, the relatively more powerful agent can simply design “the rules of the game” to increase the benefits, and second, institutions can become an untended result of government-business conflicts (for a more detailed discussion see Libman, 2006, 2006a).

For the first channel the key two contradictions for the post-Soviet world from this perspective is the discussion between “the independent / impartial government” and the “rent-seeking government”, on the one hand, and between “demand for bad institutions” and “demand for good institutions” on the other. The first contradiction refers to the interests of politicians and bureaucrats: the older view focuses on the *independence* of government from the redistributive desires of interest groups, which makes it able to implement economic reforms (cf. Afontsev, 2000, for the description and critique of this approach), while the more recent ideas focus on *impartiality* of the government in the long run (Rothstein and Teorell, 2008). The opposite point of view claims that governments which are independent are rarely impartial and usually just use their power to extract rents. The second contradiction looks at the interests of business groups: while the “demand for bad institutions” point of view claims that business main uses its political interest to secure competition advantages against the opponents, the “demand for good institutions” line of thought expects businesses to support protection of property rights and contract enforcement. Obviously, both factors co-exist, but the question is as always the balance of demand for good and bad institutions. Currently there is little doubt that at the early stage of transition most post-Soviet countries faced an overwhelming demand for bad institutions; the main question is whether the accumulation of wealth supported the shift to the demand for good institutions, or the demand for bad institutions still prevails.

The second channel of influence is even more interesting, since it relies on analysis of equilibrium behavior rather than strict assumptions regarding the preferences of actors. The idea that the property rights can spontaneously emerge from anarchic environment has been one of the main subjects of the modern economics of conflict (e.g. Grossman, 2001 or Hafer,

2006) and could be traced back to the Hayekian ideas of spontaneous evolution (Beaulier and Prychitko, 2006). Similarly, democratic political system can also directly result from anarchy (Wantchekon, 2004). Of course, not every conflict results in increasing institutional quality (and, moreover, conflict per se may be costly), so the question is under which conditions confrontation between economic and political actors is good for institutional development. One particular aspect relevant for the study may be the *instruments of the conflict.* If conflict is resolved through traditional "hidden bargaining" and bribes, it is unlikely to improve the quality of institutions; if, however, government and / or business had to resolve to "alternative" instruments (like, say courts – domestic or international – or media), the conflict may have a positive effect on institutions. The likelihood to use the alternative instruments is, in turn, dependent on the relative power: there are arguments in favor of both hypothesis that the stronger party prefers alternative instruments rather than its opponent, and that the weaker party does.

From the point of view of the **consistency** of formal and informal institutions, the government-business relations models can be described in terms similar to the concept *institutional complementarity*. The original notion of institutional complementarity in the comparative political economy, however, mostly refers to the combinations of different formal institutions governing different social arenas (say, labor market, firm hierarchy, educational system etc.). In case of informal institutions the situation is more difficult, because they usually "share" the arena with formal rules. Hence, consistency of institutions may imply that

- institutions mutually reinforce each other in terms of incentives set for agents and informal institutions increase the strength of formal rules (defined in terms of enforcement and stability, cf. Levitsky and Murillo, 2009),
- the formal and informal rules divide the domain of application in a form of a "division of labor among institutions" (Leipold, 2006) in a way, which leads to their mutual survival (though it may, actually, imply incentives for *different* choices in similar situations on different arenas – Helmke and Levitsky (2004) refer to "accommodating" informal institutions) or
- there exists a division of labor among institutions over time: for example, in the period of weakening formal institutions informal rules ensure the "survival" of the conditions, resulting in the replication of old formal structures (see also Libman, 2008).

One should notice that I define consistency of institutions not in terms of efficiency, but in terms of survival of (combinations of) institutions. However, it is reasonable to claim that the inconsistency of institutions, i.e. if formal and informal institutions directly contradict each other, so that the formal institutions cannot be fully enforced (Gruževaja, 2005) or are misused (Polishchuk, 2008, 2008a) per se generates additional costs for actors. It is easily possible to imagine a trade-off between a stable combination of inefficient institutions and institutional reform, creating better institutions but causing additional costs through inconsistency. The concept of "second-best" institutions (Rodrik, 2008) targets exactly this trade-off; the problem is of course that the trade-off may easily imply corner solutions. The costs of inconsistency may also be related to instability (see Peregudov, 2008, for the discussion related to government-business interaction in Russia) of institutional combinations.

The problem of consistency is obviously important for government-business relations. Basically, both formal and informal rules may set a certain balance of power between politics, administration and business, as well as specifically restrict the parties from using certain forms of intervention and instruments of influence. However, the rules set by formal and informal institutions may differ substantially. For example, while formal institutions may specify clear restrictions on interventions of government in economic affairs, informal institutions may as well construct a de-facto hierarchical structure, where businesses are forced to seek support of specific groups in politics and bureaucracy. A more interesting case is that even in case the government has de-jure complete authority over business decisions, de-facto this formal hierarchy may co-exist with a sophisticated system of informal bargaining. For example, the formally highly hierarchical economic system of the Soviet Union (for a comprehensive review see Lück-Jarczyk, 1991) slowly transformed itself after the end of economic growth of the 1950s and softening of repressions into a system of "administrative market": the hierarchical planning was substituted by a de-facto "iterative" process where all levels of decision-making process bargained over the final formulation of plans, which became ex post representations (rather than ex ante guidelines) for economic activity. Even the most powerful agents failed to "enforce" their will in this bargaining system (Naishul, 1991, 1992, Kordonskiy, 2001).[1] This system was complemented by a network of horizontal relations between enterprises, which often involved interaction of several hierarchies and created de-facto property rights (mostly in form of "minus property rights", based on very low punishments for abuse of "people's" resources, see Timofeev, 2000) and

[1] One should notice, that unlike the shadow economy (which also flourished in the Soviet system), the administrative market was not just a "market economy behind the glass walls" of the hierarchical plans, if one may use the De Soto analogy, but rather a system spreading over the whole Soviet economy. It is not surprising that the idea of the administrative market was initially based on the observations of the Gosplan activity (Naishul, 2004)

increasing autonomy of regions (in particular, Southern republics, see Furman, 2005) and businesses and governmental agencies (de-facto privatization, see Naishul, 1995).

The Soviet administrative market is interesting, because it demonstrates the trade-off between consistency costs and effectiveness of the overall system mentioned above. On the one hand, the administrative market (as well as, to a certain extend the shadow economy) was crucial for the survival of individuals and families in an economy of deficit and the overall adjustments in the Soviet economy, overcoming the unavoidable deficits of hierarchies. More importantly, the administrative market served as an institution allowing entrepreneurship (in the Baumol's sense) and played a crucial role in development of new behavioral patterns necessary for further transition (which, in fact, contributed to the development of the Russian market economy in the 1990s, as in case of barter trade). However, the administrative market was based on inconsistency between formal and informal institutions: it was costly at the Soviet period (in terms of efficiency of resource allocation at the administrative market, which was heavily influenced by formal status in hierarchies) and supported the development of other patterns, which actually contributed to the problems the post-Soviet economies experienced after the collapse of the Soviet Union: the de-facto privatization of governmental agencies, which continues to plague the Russian economic system in spite of all power shifts, soft budget constraints (Shastitko and Tambovtsev, 2000) and the strong preference of informal economic ties to a certain extend originated from the administrative market. Hence, the administrative market, which once evolved to overcome the restrictions of hierarchical planned economy, turns out to be an institution preventing further evolution through knowledge accumulation in the new environment, thus hampering one of the main goals of transition (Colombatto, 2002).

3. Government-business relations in Kazakhstan

3.1. Two government-business relations models in the early 2000s

Considering Kazakhstan, it is first important to notice that the government-business relations in this country passed two main stages of development. There is no clear separation between them; in fact, elements of the second stage started to accumulate after 2003-2004. At least from the formal point of view, Kazakhstan belongs to the countries implementing consequent liberal reforms and abolishing most forms of public control over economy. In fact, the privatization and deregulation in Kazakhstan was even broader than in other countries of the CIS, for example, with respect to banking system, power utilities and housing sector. So, from the point of view of *formal institutions* Kazakhstan achieved a significant progress in the development form the Soviet-type hierarchical relations to the restricted role of the government in the economy (cf. Libman, 2003). Moreover, Kazakhstan seems to be unique in the post-Soviet space (at least, among larger countries) from the point of view of establishing favorable conditions for foreign investors. The government of the republic offered unique guarantees for the foreign investors, e.g. introduced the production sharing agreement (as the first in the post-Soviet states). Unlike Russia, foreign investors were considered as the priority group, which received access to the majority of more attractive assets, including oil and gas, power utilities and metals and mining (in countries like Russia, Uzbekistan, Turkmenistan or Ukraine these sectors were strictly reserved for national private business or remained state-owned; even in Azerbaijan the presence of government in oil projects in the 1990s was larger than in Kazakhstan). As a result, Kazakhstan outperformed all other post-Soviet countries in terms of foreign direct investments inflow in the early 2000s, while most foreign companies concentrated their activity in the most lucrative sectors of the economy.

However, while the formal government-business relations model differed substantially from that existing in Russia or in Ukraine, the situation in terms of informal power distribution was quite different. Kazakhstan actually established a regime with two separate models of government-business relations. On the one hand, in spite of privatization and liberalization effort, Kazakhstan developed a large segment of privileged domestic business groups (mostly controlled by large banks) with strong ties to government (even more specifically, to the president Nazarbaev and his family). The dependence of large business from the governmental support was even stronger than in, say, Russia or Ukraine, due to greater power concentration in the office of Nazarbaev. However, at the same time the government had to interact with large multinationals from developed countries, which received privileged treatment. The history of Kazakhstan was full with attempts to “re-write” the rules of the game by individual bureaucrats and politicians on central and regional level; however, foreign corporations still enjoyed significant influence on the governmental politics.

Both models should be considered separately in terms of their influence on institutional development in the country. The relations of semi-autocratic political regime with privileged domestic business groups were hardly different than those existing in other countries of the post-Soviet world in terms of demand for bad institutions at the early stage of transition and unclear shifts at the latter stage when business groups from Kazakhstan matured in terms of wealth accumulation and international expansion. Like Russia or Ukraine, Kazakhstan experienced a number of conflicts between the government and the wealthy businessmen, which were lost by the business groups (in particular, the Abliazov deal and the

Zhakianov deal in the 2000s). However, there is no evidence that business resolved to "alternative" channels of influence (like it happened in Ukraine), on the contrary, the Abliazov conflict was resolved through a typical undercover agreement.

The position of international business as factor of institutional development in Kazakhstan is less evident and can be put in a broader perspective of discussions of impact of multinationals on economic policies in their host countries. On the one hand, it is obvious that foreign managers and experts provide (even unconsciously, but also often as part of the corporate policy) examples of behavior and implement (or support) rules consistent with the better practices from their home countries. From this point of view consistent liberalization and increasing presence of multinationals were obviously mutually reinforcing. On the other hand, however, multinationals in countries with weak institutions often become part of corruption networks and in fact accept the existing inefficient (formal and informal) rules in their operations rather than challenge them (in fact, resource extraction seems to be the area where this transformation happens more often). Moreover, foreign investments are crucial for the design and support of semi-autocracies and thus (indirectly) strengthen the position of politicians and bureaucrats in relations with domestic business, thus increasing the range for rent-seeking. There seems to be no clear evidence in favor or against the "reform-promoting" impact of multinationals (The details of the first stage of development of government-business relations in Kazakhstan are provided by Libman, 2004, 2004a, 2005, 2008a).

To conclude, the models of government-business relations in Kazakhstan seem to have questionable efficiency in terms of their content (though probably the stronger presence of multinationals was at least *relatively* a positive factor explaining the reform progress in Kazakhstan as opposed to other post-Soviet countries). It is possible to claim that, as in other post-Soviet countries, government-business relations at least partly contributed to the *absolute* deficit of institutional quality (in spite of possible relative improvements). The interrelations with domestic business seem to be obviously plagued by the inconsistency costs with respect to formal and informal institutions. The situation with multinationals is, once again, less obvious, because they also had a specific formalized body to implement the lobbying activity (the Foreign Investors Council), but the inconsistency costs may also have been present.

It is probably possible to relate the inconsistency costs in this case with the well-known phenomenon of the "transition trap", when the winners of the early stage of transition capture the rents and block the further reform process. The problem of the transition trap is often not just the loopholes in the institutions, but rather the fact that the initially implemented institutions are misused. In fact, any institutional system is imperfect (especially if it is a transplant for another economy, as it was often the case at the early stage of transition) and slowly overcomes its imperfection through trial and error; the transition trap is foremost a blockade of the further adjustments of the initially adopted institutions, if they happen to fail to succeed in a given environment. The early winners were able to succeed at the early stage of transition not just because of the misuse of the new institutional framework (there are of course examples of this group either – like financial pyramids of the mid-1990s, which existed in most post-Soviet countries – but they usually disappear relatively fast), but because their informal status (say, connections to public officials) granted them the opportunity to explore these loopholes. It is exactly the combination of *new formal rules* and *old informal power*, which provided them the position to obtain rents. The stronger the discrepancy between formal and informal rules is, the higher is the threat formal institutions are misused and the higher are the costs of transition trap. Of course, transition trap also requires specific informal rules (those granting high power to individual actors); so, transition trap is in fact a combination of inconsistency and content of informal institutions.

3.2. Re-nationalization and changes in government-business relations

However, in the recent years both models started to change dramatically. On the one hand, the government started a slow *re-nationalization process*, which was may be less obvious than in Russia, but still significant. Second, the government clearly changed its attitude towards foreign investors: instead of privileged treatment the new aim was to reinstate the control over attractive assets. Though the first successful re-nationalization act was implemented already in 1997, when the government regained control over the nuclear industry (Kazatomprom), it was not until mid-2000s when the re-nationalization affected the most attractive oil and gas industry. In 2002 the government announced its intention to revise the conditions of existing contracts regulating the status of foreign investors. In 2003 the first conflict over the expenditures plan of Tengizchevronoil was resolved by the president, indicating, however, the increasing interventionism of the government (Smirnov, 2003). In 2004 the government received the priority right to purchase the shares in oil extraction projects if they are sold by their current owner. Moreover, additional restrictions on the share of foreign investors in selected industries (in particular, telecom) were introduced. In 2005 this regulation was expanded in order to include holding companies. One of the first cases when the new regulation was applied was the conflict between the Canadian PetroKazakhstan and the Russian LUKoil over the Turgai Petroleum joint venture. The government actively intervened in the disagreement, mostly against PetroKazakhstan (though not entirely in favor of Lukoil). As a result, the state-owned Kazmunaigaz was able to acquire a share in the project. Finally, in 2007 the parliament allowed the government to revise the conditions of contracts, if the actions of foreign investors significantly change the economic interests of Kazakhstan and threaten the national security. In February 2008 the government stopped any negotiations with respect to the production sharing agreements, although it would be too farfetched to claim that the protectionism in Kazakhstan reached the level of Russia or Venezuela: for example, in 2008 the foreign investors received additional benefits (vis-à-vis Kazmunaigaz) through new regulation of export duties on oil (Smirnov, 2008, 2008a).

The clear benchmark in the government-business relations was the Kashagan conflict in 2007. Kashagan, one of the largest oil fields in the republic, was explored by the Agip KCO international consortium. In 1998 the government sold its share to Inpex Nord and Philipps Petroleum and was able to enter the group only in 2005 at extremely high costs. After the new delay of commissioning was announced, the government requested an increase of the share of Kazmunaigaz in the project. The authorities used all possible means to support their claim, including accusations in customs, fire-control and environmental regulations, as well as amendments to the existing legislation. In January 2008 the partners of Agip KCO (Eni, Total, Shell and ExxonMobile) had to agree to increase the share of Kazmunaigaz according to the requests of the government. However, Kashagan is not the only example of expanding public interventions. The Karachaganak Petroleum Operating consortium (oil and gas) was accused of violations of tax and environmental regulations. In 2007 about 100 contracts with foreign investors were cancelled. The public sector, however, expands not only in oil and gas, but also in power utilities and mining sectors. For example, in 2007 the government attacked the American AES and the Russian Access Industries with assets in the coal extraction (for example, an antitrust accusation against AES included fines comparable to the overall 10-years investments made by the group in the economy of Kazakhstan). In April 2008 a partial re-nationalization of the non-ferrous metals group Kazakhmys was announced (while the government intended to purchase about 15% of the shares of the company).

It is possible to claim that the re-nationalization trend is still relatively inconsistent: the attacks clearly focus on individual investors and let others (in spite of possible violations of regulation potentially usable for re-nationalization purposes) out of sight (Smirnov, 2008b). For example, in August 2008 Kazmunaigaz and Gazpromneft acquired 51% and 49% respectively of Mangistaumunaigaz; in this case re-nationalization was clearly related to the conflict between president Nazarbaev and Rakhat Aliev, an influential politician (and former son-in-law of the president) currently exiled to Europe and sentenced in Kazakhstan to a 20-years imprisonment. Generally speaking, the processes in Kazakhstan resemble very much the re-nationalization wave in Russia in mid-2000s, although the scope of public control in Kazakhstan seems to be smaller than that achieved in Russia (on the other hand, Russia was less liberalized in the first place). What is, however, specific for Kazakhstan, is the new infrastructure for public control over assets. The state owned shares in all sectors were consolidated within the Samruk holding group under direct control of the president (in Russia there is a number of state-owned enterprises with normal legal status, as well as so-called public corporations controlled by the president) created in 2006. Samruk received the public stake in telecom, oil and gas, power utilities, postal services and railroads. The holding officially does not intervene in the operating decisions of companies, however, does make strategic decisions (Smirnov, 2007). In 2008 Samruk was merged with the state-owned development fund Kazyna.

The economic crisis 2008 obviously supports the nationalization trend: the banking system of Kazakhstan (relatively more developed and also better integrated in the world economy) was hit by the crisis, and the government had to partly re-nationalize several large banks, including People's Bank, Kazkommerzbank and Allianz Bank. Of course, the question remains whether this increase of public control at the turbulent times will ever be withdrawn? Russian experience from the banking crisis 2004 shows that economic turbulences can be used to support the re-nationalization process.

The shifts of the power balance in the government-business relations obviously affects not only foreign investors, but also domestic companies (as the example with Mangistaumunaigaz shows), however, since the politics and bureaucracy has already had a significant impact on domestic business, the changes in relations with multionationals are more pronounced. It is difficult to clearly identify the effects of the shifts on institutional quality: on the one hand, it reduces the possible demand for good institutions from private sector, but on the other hand, this demand has already been relatively limited (even, as already shown, in case of foreign investors). There are anyway no reasons to expect any positive institutional changes; what is more likely is that the re-nationalization initiates a new redistribution cycle in the national economy.

Moreover, re-nationalization may to certain extend decrease the inconsistency costs, since it reinstates de-jure public control over business and centralizes the governmental shares (thus reducing the opportunity for uncoordinated rent-seeking of individual groups within the public sector of the economy). From this point of view re-nationalization is certainly a way to “exist” the transition trap (though not through economic opening up and diversification, as Samson et al. (2007) expect for Kazakhstan). It is, however, unlikely that this reduction will compensate for increasing rent-seeking, in particular if the world commodities markets become less favorable for Kazakhstan (as the current development seem to be). Once again, it is a question of corner vs. interior solution in the trade-off between inconsistency costs and inefficient institutions from the point of view of their content. Moreover, as demonstrated above, personal agendas and redistribution may still make the current re-nationalization a good source of rent-seeking (for example, in Russia the initial reduction of inconsistency costs through re-centralization of economic and political life turned out to be a huge source of new rent-seeking and in fact just replace the old inconsistency with a new one (similar but not identical to the administrative market type described above), see Gudkov, 2007). It may as well happen in Kazakhstan.

Finally, the most astonishing thing is that the current changes at least to a certain extend are an *outcome* of government-business relations of the 2000s. In fact, the re-nationalization wave is certainly a good example of commitment problem which all non- and semi-democracies are facing. By investing in Kazakhstan multinationals at the same time support and strengthen the existing regime (at least, indirectly through improving economic situation, but also directly through participating in corruption networks and contributing to the formation of international legitimacy). In a phase of high commodity prices even significant expropriation threat still allows profitable investments; hence, businesses cannot credibly commit to “punish” autocrat in case of expropriation. On the other hand, given increasing political power of the regime, the autocrats have an increasing incentive to appropriate the investments. Kazakhstan is a very good example supporting this claim, because, unlike other countries where similar re-nationalization waves were observed, the policy shift happened without any leadership changes. However, it implies that given the demand for good institutions in the early model (with relative power on the side of multinationals) was not high enough, the political-economic system was not “pushed out” the old inefficient equilibrium, and hence, multinationals created the basis for their own demise.

4. Government-business relations in Uzbekistan

As already mentioned, Uzbekistan basically maintained the old hierarchical structure of economy. Although the beginning of the 1990s witnesses a rapid small-scale privatization, which at least partly implied legitimization of previously underground activities and administrative market (Spoor, 1993), the government still maintained control over the largest enterprises and the most attractive assets (which, in fact, constitute the nature of government-business relations). Moreover, in 1996 Uzbekistan introduced severe exchange controls restricting private economic activity across the borders, thus even going back in terms of economic liberalization (cf. Pomfret, 2006). Government holds direct or indirect stakes in almost all medium and large enterprises, which operate within the framework of numerous public holding companies, which often have de jure or at least de facto veto power in the corporate decisions. State and business are “fused at almost all levels” (Melvin, 2004), and the degree of state capture by the business is extremely low as opposed to other transition economies (Hellman and Schankerman, 2000). Uzbekistan has also extremely low acceptance of privatization among population even among other post-Soviet countries with their huge legitimacy problems for property rights (especially those of large business, cf. Kapelyushnikov, 2008).

A business elite able to counteract or to challenge the authority of the government (even in extremely limited forms and finally unsuccessfully, like in Kazakhstan), did not appear in Uzbekistan (Serra i Puig, 2007). The few wealthy entrepreneurs in Uzbekistan are closely related to the president (for example, president’s daughter Gulnara Karimova, is claimed to have business interests in telecom, gold-mining (Collins, 2006:271), as well as retail, beverages, construction material, media and tourism. Further important business groups (according to of the Eurasian Home database[2]) include that of Mirabror Usmanov (former minister of trade of Uzbekistan at the Soviet times and vice prime minister: food trade, retail, banking and restaurants), as well as of Gafur Rakhimov (transportation, automotives and textiles) and Salim Abduvaliev (metals), while the latter two groups apparently do not have formal claims on assets (which are state-owned), but rather “control financial flows” (as the Russian oligarchs in the very early stage of transition used to do).

To conclude, Uzbekistan is an extreme example of power concentration at the side of the politics and administration, providing huge opportunities for rent-seeking. Of course, even in Uzbekistan there seem to exist fields where foreign investors had a substantial influence on economic decisions. Troschke and Zeitler (2006) claim, that the companies with foreign shareholders are less dependent from governmental support in Uzbekistan. Even more, Gilmore et al. (2007) provide an example of British American Tobacco, which controls the privatized tobacco industry of the republic and is one of the largest (if not the largest) foreign investors. According to their study, BAT was successful in influencing the tobacco excise

[2] Located at www.eurasiahome.org; details are provided only in Russian version

policy, in particular, reducing the excise and creating a system benefiting its brands and putting the competitors at a disadvantage. Hence, even in this centralized system there is some place for private rent-seeking. However, it is certainly restricted to non-critical industries.

This model of government-business relations provides substantial opportunities for rent-seeking of public officials. There is certainly no evidence that the government used its “independence” in order to foster institution-building. However, the case of Uzbekistan is particularly interesting from the point of view of consistency costs. High centralization seems to be more consistent with the informal institutional framework. It is possible to claim that the lower inconsistency costs at least contributed to the “Uzbekistan economic miracle” in the early 1990s, when in other countries pursuing faster reform strategies the gap between formal and informal institutions was huge. However, informal institutions (although they are highly persistent) *do* change, if there are significant shifts in economic environment; thus one can hypothesize that the gap in “fast” transition countries became smaller in the early 2000s, thus providing them a relative advantage. It is especially important, because it would be too simplified to assume that the inconsistency between formal and informal institutions in Uzbekistan simply does not exist: on the contrary, as already demonstrated, the de-jure highly centralized and hierarchical system was used by a small number of entrepreneurs to extract rents. From this point of view Uzbekistan seems to reproduce the patterns of the Soviet administrative market with two main exceptions. First, traditional clans become important political-economic players establishing their clientele networks and creating the “tacit division of major industries and sectors” (Gaman-Golutvina, 2007). Second, even limited openness and introduction of quasi-market institutions increase enormously the potential for rent-seeking. For example, in spite of formal centralization, individual managers of enterprises seem to have extremely large opportunities for asset-stripping (Reppegather and Troschke, 2006): the de-facto devolution of power is, probably, similar to that in the Russian state-owned sector under Yeltsin.

5. Conclusion

The aim of this paper was to understand how the various forms of government-business relations in Kazakhstan and Uzbekistan could influence the development of institutional framework for market economies in these countries. Kazakhstan experienced significant changes in its government-business relations model: while until recently it combined two patterns of government-business relations (that with relatively weak privileged domestic private business groups and that with strong multinationals), now the re-nationalization process and increasing protectionism reduce the impact and presence of multinationals and increase the role of state-owned companies. In Uzbekistan government remained the absolutely dominant pole in the state-business relations.

The paper looked at two dimensions of government-business relations in Central Asian countries: the content of the models (determined by the preferences of agents and their relative power) and the consistency of formal and informal institutions. From the point of view of the first factor government-business relations in both Kazakhstan and Uzbekistan at least partly contribute to the inefficient institutional equilibrium. In Kazakhstan the domestic business is not really different from that in Russia, thus experiencing the same problems of "demand for bad institutions" and deficit of legitimacy of property rights. Multinationals seem to at least partly support stronger reform progress, but were also involved in corruption networks and were able to profit from the inefficient equilibrium. Current re-nationalization seems to be a substantial source for redistribution and rent-seeking. In Uzbekistan the governmental officials used their power position to extract rents and to support the privileged entrepreneurs.

Both countries are characterized by significant inconsistency between formal and informal institutions. It is probably possible to claim that Kazakhstan with its rapid economic reforms faced higher inconsistency costs in the early stage of transition; however, at the later stage adaptation of expectations and behavioral patterns of private agents seems to have reduced the inconsistency. The re-nationalization trend diminishes inconsistency costs, but they still remain far from zero, and, if re-nationalization is used for redistribution and development of new power centers in the economy, may even increase. In Uzbekistan the inconsistency costs are similar to those of the Soviet administrative market, but are actually higher due to clan structure of society and elements of quasi-market institutions present.

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