

succeeded in repelling the insurgents, on Aug. 15, driving them back across the border. However, as Bolot Dzhauzakov, secretary of the Kyrgyz Security Council, announced the following day, the rebels crossed into the country again during the preceding night, penetrating 10 kilometers inside Kyrgyz territory.

As the situation in Kyrgyzstan was heating up, neighboring countries were preparing to upgrade their own defenses. The Turkmen government on Aug. 11 beefed up security measures along its border with Uzbekistan, by demanding special identification for citizens in the border area. About 100 rebels of the IMU had attacked Uzbekistan a week earlier,

and captured a strategic road over a 4,000-meter pass. Uzbek forces said that the militants were trying to create a base for further operations and open a route to traffick drugs and weapons. Unofficial sources claimed that the rebels had succeeded in cutting the only road linking the Fergana Valley to the rest of Uzbekistan.

On Aug. 15, Kazak television announced increased security measures, and training for military readiness, in southern Kazakhstan, evidently in expectation of an assault by the IMU.

At the same time, the affected governments intensified efforts to coordinate their defense. On Aug. 12, a working meeting took place in the Kyrgyz city of Baktan, with Kyrgyz,

## Uzbekistan and National Economic Policy

Uzbek President Islam Karimov, in his book *Along the Road of Deepening Economic Reform* (Tashkent, 1995), outlined the principles for the transition to a market economy. These included, that “the state should play the role of a chief reformer.” The reform process, founded on a legal basis, should take into due consideration, the demographic characteristics of the population and its living standard, and include “a strong and efficient mechanism of social protection and guarantees, which will maintain social and political stability.” Karimov emphasizes that an abrupt shift to a market economy, would lead to “destruction, to the brink of precipice and to social violence.” Citing the popular saying, “Never destroy the old house before you build a new one,” Karimov insists on maintaining a strong role for the state: “Denial of state regulation of [the] economy in yet volatile conditions of self-regulation under strong impact of supply and demand with no visible signs of free competition and limited range of external links provokes [a] deepening of [the] crisis, price rises, and a higher inflation rate.”

Referring frequently to the disastrous consequences that “shock therapy” had on Russia, Poland, and other former Communist countries, Karimov explains that his country “categorically rejected ‘shocking’ methods,” and introduced price liberalization, for example, gradually, from 1992 to 1994. In the process, the government maintained price controls on several categories of basic goods and services: Grain, bread, and flour producers were subsidized; education and school lunches for children were covered by the state, as were certain products for children and medicines. “Prices for bread and flour were still subsidized, as well as housing and public utility services and

public urban transport.” In addition, “The state secured reliable protection of the interest” of the population through various compensation funds, introduction of child-care allowances, regular increase of minimum salaries, pensions, and stipends, etc. Child-care allowances were increased, as was the length of time they were paid, to two years. All families with children under the age of 16 were granted state support. In the second phase of the transition, which began in 1994, Karimov identifies as priority tasks, continuing privatization (with the emphasis on small and medium-sized enterprises), overcoming the recession, and stabilizing production, strengthening the national currency (the soum), and shifting the structure of the economy, from a raw materials exporter to an industrial economy, producing a wide range of manufactured goods.

As for the privatization process, Karimov again stresses that it cannot be wild and all-encompassing, but must be carefully guided. “The privatization process should not be considered as the end in itself of economic reforms. Privatization is not a panacea for all the vices in the economy and social sphere inherited by us from the totalitarian and completely state-controlled system.” Therefore, he writes, it is not the number of firms privatized that counts. Again, learning from the tragedy of Russia, Karimov says, “the experience of other countries provides us with a number of examples when mass privatization has practically brought no desired results for the revival of the economy. Moreover, without appropriate preparation, without creating effective mechanism[s] of support for enterprises, it aggravated the economic crisis, drove many enterprises to the verge of bankruptcy, increased unemployment, as well as increased stratification of the population by their income and social status. No wonder that such privatization was not welcomed by the majority of the working people and became the subject of corrupt, criminal bargains.”

Uzbek, and Tajik representatives of bodies for defense, interior, and national security. It was reported later, that one option under discussion, was joint air strikes. Kyrgyz Presidential spokesman Osmonakun Ibraimov said that the three governments were discussing air raids, against mountain bases where they believed up to thousands of rebels were situated. He added that Uzbekistan had offered its Air Force for deployment against the rebels in the tri-border area, and in fact, on Aug. 15, the Russian agency Interfax reported that an air strike had taken place, against a rebel position in the Bakten region. In addition, it was decided to set up a joint headquarters in Khujand, Tajikistan.

The position expressed by the governments, was of total intransigence: Uzbek Foreign Ministry spokesman Bakhodiy Umarov said, "We don't intend to enter into polemics with bandits and terrorists. We can make them understand only one way, which means using force to destroy them." And Kyrgyz Security Council head Dzhanuzakov said, "With our joint forces we will annihilate the rebels, and we will take measures to annihilate them wherever they gather." He told reporters that the three governments would not only expel the invaders, but "wipe them out completely from the territory of the Commonwealth of Independent States."

Following the Bakten meeting, an emergency meeting

To achieve macro-economic stability, Karimov rejects the monetarist approach, which, he writes, is based on "the suppression of the inflation level, stabilization of currency circulation by means of abrupt reduction of money stock and aggregate capacity to pay." This, he says, reduces output, and freezes investment. Rather, Karimov opts for the option based on production: "the stimulation of the production and entrepreneurship activities, the promotion [of] structural transformations and elimination of discrepancies in the economy along with the measures based on the moderately tight fiscal and monetary policies, constraining excessive demand that is not backed up by goods. Our approach," he summarizes, "is as follows: We can overcome the deep protracted crisis we have found ourselves in, without social upheavals and explosions, *through reliance on production, on those who create material values. We are supported by those who produce goods, cultivate land, erect buildings, constructions and new production capacities*" (emphasis added).

What this means concretely, is that priority sectors must be identified and promoted in every way. This, in turn, requires a fiscal and tax policy that promotes production. Rejecting the idea of balancing the budget at all costs, Karimov insists on maintaining state expenditures to support production, and specifies, "The most important function of the taxation system is its stimulating influence on the development of production, efficient utilization of material resources and raw materials, natural, financial, and manpower resources, property accumulation." Furthermore, the taxation system must be changed, so as to reduce the tax burden on enterprises: "The high enterprise income tax rate gave no possibility for an enterprise to allocate funds for the development of production, technical retooling, replenishment of their working capital." Otherwise, he argues, recession would ensue, and increased tax revenues could only be accrued as a result of inflationary growth in profits, which could lead to a collapse of the financial

system. By reducing corporate income taxes, enterprise would also have the ability to raise workers' wages. Similarly, with credit and monetary policy: "Bank credits should be advanced in first turn to those who can increase the output of the strategically important products, consumer goods and to ensure their timely repayment." Uncontrolled credit extension, he writes, would be inflationary and undermine the currency. "This is the reason why every soum being put into circulation must be backed up by goods." Strengthening the national currency, which was introduced as legal tender in 1994, is to be achieved through increasing reserves, in terms of production. "The major objective is to increase the domestic output of the goods that would meet the most vital needs of the people."

Furthermore, foreign exchange reserves are to be increased, through the increase of exports of manufactured goods. The sectors which Karimov identifies as priorities for development, include of course oil and gas, but the emphasis is on developing the processing industries for such raw materials. In particular, the chemical industry is targeted for reorganization and expansion, for manufacture of polyethylene, polypropylene, polystyrene, etc. In addition, the machine-tool production sector is to be developed, so as to expand domestic production of manufacturing machines, agricultural machinery, and vehicles. Aircraft, automobile, and electronics production are also scheduled for development.

To achieve this transformation, Karimov writes, "Dynamic development and an increasing role of science-intensive production is the most important priority of the sectoral structural policies. Orientation to the development of science-intensive and technology-consuming industries will resolve the strategic task, i.e., strengthening Uzbekistan's hold in the world market, achieving economic and technological independence for the country."

— Muriel Mirak-Weissbach