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Economic Transformation and Institutional Development in Tajikistan^{*}

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Abstract: In Tajikistan, economic reform was substantially delayed in the initial period of transition. The negative effects of the long lasted civil war can be grasped here. But in the late 1990's, the Government abruptly accelerated its steps towards a market economy. For instance, domestic pricing was almost liberalized between 1995 and late 1996, and the state order system was completely abolished as early as before 1996. Moreover, the Government succeeded in establishing a relatively liberal trade and exchange system by late 1998. However, in striking contrast with the remarkable success in economic liberalization, privatization of state-owned industrial enterprises showed little progress. In addition, the Rakhmonov administration strove to prolong the life of inefficient enterprises by maintaining a soft budget and institutional constraint—inherited from the communist regime. For these reasons, marketization in Tajikistan, as a whole, is greatly out of balance. Hence, the Government ought to put in operation more drastic measures in such a way as to benefit from being a late starter in its economic transition. JEL Classification Numbers: E21, P31, P37.

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INTRODUCTION

Today, Tajikistan is facing two economic challenges. The first challenge is economic revival after a civil war whose combatants were the Communist Party and the United Tajik Opposition (UTO) of the Democrats and the Muslims.¹ The political war broke out in May 1995, in Dushanbe, capital of Tajikistan. Intensive gunfight soon developed into an all-out civil war. Until a peace agreement was concluded in June, 1997, the Republic suffered a great many human and material losses. According to one report, about 50,000 people lost their lives and over the same number of people became disabled. Besides, nearly 0.6 million people were forced to evacuate and about 60,000 people experienced hard refugee lives in northern Afghanistan. In addition, about 0.5 million citizens including many technocrats and skilled workers fled their country. The damage inflicted upon the economy and social infrastructure was also enormous: 600 km of road, 165 bridges, over 200km of floods protective wall, 39,000 hectares of agricultural irrigation systems, 1,100km of power lines, 5,000 telephone lines, 36,000 houses, 80 medical facilities, and 200 educational facilities were completely or partially destroyed. Additionally, factories and farmland at the battlefields were largely damaged.²

The long lasting dispute severely damaged production activity in Tajikistan. According to official statistics, for five years in the beginning of the transition period, the gross domestic product recorded negative growth by two digits (see **Table 1**). As a result, the real output level, which takes 1991—the end of Soviet era—as the standard at 100, fell drastically to 37.4 and industrial production fell even further, to 34.2 in 1996. The extent of decrease in GDP and industrial production in Tajikistan was the worst among all Central Asian countries (see **Figure 2**). After 1997, the Tajik economy finally got back on track. Yet, the after-effects of the civil war combined with structural depression, which originated from the collapse of a centrally planned communist economy, and frequent natural disasters burdened the material sectors.³ In fact, the proportion of the industry, agriculture and construction in terms of GDP fell sharply after 1993 (see **Table 2**). As for employment, the industry and construction sector showed a

¹ The UTO was originally formed in 1993 in Afghanistan. This anti-communist force was mainly composed of three political groups: The Islamic Renaissance Party (IRP) was the leading force of so-called “Islamic-Democratic Blocs”. The IPR advocated the revival of the Islamic spirits in all spheres of the life in Tajikistan. Second group was the Democratic Party. This Party stood for a creation of secularist democracy, and mostly supported by intellectuals and young generations in urban areas. The political movement Lali Badakhshan was the last one. It was organized for the rights of the Pamiri minority and their home region, the Gorno-Badakhshan Autonomous Oblast. For more details on the UTO and the civil war, see Kuzmin (2001) and EIU (1996, pp. 90-93).

² World Bank (1994, p. 22), IMF (1996, p. 1), ADB (1998, p. 3).

³ For example, the country suffered substantial flood damage in 1992, 1993, and 1998. As a result, residents’ lives have been seriously affected (World Bank, 1994, p. 22; ADB, 1998, p. 13).

sharp decline in the employment rate between 1993 and 2000. The former experienced 42.7% (from 213,000 employees to 122,000), while the latter experienced 73.0% (from 126,000 employees to 34,000) of such decline. In contrast, the agricultural sector expanded its work force during the same period by 15.3% (from 945,000 to 1,090,000).⁴ However, as time-series dynamics of labor productivity indicates, this phenomenon may be reflected by a rapid increase in disguised employment in agriculture (see **Figure 3**).⁵ It is inferred that disguised unemployment rose due to the outflow of unemployed citizens from urban areas moving into rural areas and the long-lasting employment slump, which continued to rise during the civil war. Consequently, even since 1997, the slump in the material sectors of Tajikistan has remained in critical condition, keeping the Government racking its brains for a viable solution.

The second challenge is drastic restructuring of the national economy. Since Tajikistan became an independent state in September of 1991,⁶ the Government has been more than willing to shift to a market economy.⁷ However, it goes without saying that the civil war hampered the Rakhmonov administration in the promotion of economic reform, and, as we have seen afterwards, particularly in the early 1990's, as state control over enterprise activities remained extensive. The turning point came in mid-1996 before the conclusion of the peace agreement. In that year, the Government, supported by the IMF and World Bank facilities, launched a full-scale economic stabilization program. At the same time, they took additional measures for the further promotion of economic liberalization and enterprise privatization, which had in fact already restarted in 1995.⁸ Subsequently, transition to a market economy in this country continued developing, especially during recent years. It is even evaluated that the gaps with other FSU countries have been narrowing gradually. Nevertheless, Tajikistan's backwardness in its economic transition still remains unsolved and the restructuring of its economic system is to date a heap of political problems.

The aim of this paper is to trace the transition process toward a market economy in

⁴ Calculated by the author based on IMF (2000, p. 65) and IMF (2001, p. 19).

⁵ "Disguised unemployment" refers to those workers who, despite being unemployed due to a lack of job opportunities, are in fact not counted as such officially because they earn their living by farming.

⁶ The Statement of Supreme Soviet on the Independence of the Republic of Tajikistan dated September 9, 1991 is equivalent to this. Hereinafter, laws and decrees cited in this paper are referred from *Narodnaia Gazeta* and from the law database on CIS countries made available in full on the Internet by the University of Bremen (<http://www.lexinfosys.de/lexinfosys/>).

⁷ Outlines of reform plans declared by the Government in the beginning of 1990's, see Plyshevskii (1993, pp. 29-30).

⁸ The Tajik government reached agreements with the IMF in May, 1996, on "Standby Arrangement" (Total 22 million USD) and with the World Bank in September, 1996, on "Agricultural Recovery and Social Protection Credit" (Total 50 million USD), according to ADB (1998, p. 10).

Tajikistan, whose hardships are twofold, as already stated, and attempts to grasp what achievements have been made in building economic institutions for the development of the private sector. For this purpose, the rest of the paper is organized as follows: The first section describes the introduction of a law system on private business activities. The second deliberates the achievement of economic liberalization. The third examines the institutional frameworks and progress of enterprise privatization. The final section summarizes the author's conclusion.

LEGISLATION OF PRIVATE BUSINESS ACTIVITY

Despite accelerating internal instability, the Republic's Government and Parliament took very intensive measures toward legislating private enterprise activities for several years throughout the end of the Soviet era and right after independence. The result was put into effect by the introduction of the Ownership Law, enacted in December 1990, as well as the Law on Entrepreneurship (December 1991), and the Law on Enterprises (June 1993), among others.

These laws, as a whole, ensure liberal business activities based on private ownership and are still the basis of today's Tajik law system on enterprise activities. For instance, the Law on Entrepreneurship, which was adopted by the Parliament whose principle was to "vest entrepreneurs with possibilities to utilise the fruits of their own labor in an entirely different manner",⁹ emphasising liberty of enterprise activities. All this is based on equality among different forms of ownership as ordained by the Ownership Law. These include: (a) state ownership, (b) collective ownership,¹⁰ (c) citizen ownership (later revised as "private ownership"). Furthermore, the Law on Entrepreneurship endows a wide range of rights including some to favor, (a) establishing enterprises, (b) the acquisition of assets, (c) hiring and firing of employees, (d) decisions on a wage system, (e) planning of economic activities, (f) establishing price and fees, (g) disposal of profit, (h) entry to foreign economic activities, and (i) effecting foreign currency exchange, among others (Article 7). These rights were given to domestic and foreign entrepreneurs after having approved the exclusive control right for the owner's assets of the enterprise concerned (Article 14). Moreover, in an effort to prevent state intervention in entrepreneurial activities, this law prescribes in detail the responsibility of administrative authorities not to obstruct domestic business activities (Article 21 to 27).

Ensuring enterprise corporate bodies similar rights to those listed above, the Law on

⁹ Quoted from the official explanation of the bill's aim given by Tashtanov, Vice Chairman of the Supreme Soviet's Committee of Economy and Finance (*Narodnaia Gazeta*, December 25, 1991).

¹⁰ "Collective Ownership" includes ownership by labor collectives (employee groups), cooperative associations, joint-stock companies, leasing enterprises and enterprise amalgamations (World Bank, 1994, p. 29).

Enterprises also provides the liberty to join and withdraw from an enterprise amalgamation (*obedinenie predpriyatii*) (Article 4), which was banned during the Soviet era, and prohibits the intervention of national and local authorities in enterprise management and financial affairs (Clause 2, Article 12). In addition, this law did not succeed in providing labor collectives' direct participation in enterprise management, something "the Federal Law of USSR on Enterprises" (June 1990) did allow (Article 14 to 16). Such prohibition further reinforces the discretion of managers and asset owners by giving labor collectives only the right to reach a "collective contract" (*kollektivnyi dogovor*) with the management side (Clause 2, Article 15).

These provisions in the Laws on Entrepreneurship and on Enterprises are aimed at promoting (a) thoroughgoing ownership principals concerning enterprise activity, (b) drastic expansion of discretion rights of asset owners and managers, and (c) national neutrality in business activities. On the whole, these were to drastically change the enterprise management principals of the Soviet era. Furthermore, these series of laws; the Law on Banks and Bank Activities (February 1991), the Law on Joint-Stock Companies (December 1991), the Presidential Decree on Foreign Economic Activity of Domestic Entities in the Territory of Tajikistan (June 1992), the Law on Foreign Trade Activities (December 1993), supplement the insufficient stipulations of the Law on Entrepreneurship and the Law on Enterprises, and heighten its legal efficiency. In this sense, the law system the Tajik Government and Parliament prepared between 1990 and 1993 is equal to that of other Central Asian countries.¹¹ It is a fact that despite the adoption of repeated amendments and revisions, economic laws in Tajikistan have been regarded questionable due to (a) the incompleteness of unified procedures regarding law and regulations, (b) the lack of a central depository, and (c) inconsistency among laws and unclearness of the text of law.¹² There is no doubt that this is partially attributable to legislative stagnation during the civil war. Yet, Tajikistan at least does not seem substantially behind when comparing it to other neighboring countries. However that may be, law system reform without liberalization of the internal market comes just to naught. Therefore, we need to examine measures for economic liberalization that play an important role in the actualization of a new legal system in Tajikistan—the main subject of next section.

ACHIEVEMENT OF ECONOMIC LIBERALIZATION

Since immediately after independence, the Tajik government has taken a number of measures

¹¹ For more regarding the legislation situation in other Central Asian countries, see Iwasaki (2001, Part II).

¹² IMF (2000, p. 44). Furthermore, the IMF also points out that many corrections, in agreement with international standards, were added to economic law between 1998 and 1999 (*ibid.*).

toward a drastic liberalization of its economy. However, the attempts in the early transition period were very limited and it was not until the late 1990's that this policy field experienced remarkable development.

This is typically exemplified by price liberalization. Right after Russia and Kyrgyzstan carried out sweeping price liberalization, the Tajik government, on January 1, 1992, repealed the official price upon 80% of goods and services all together. 8 industrial products and 15 consumer goods were excluded, but by maintaining the official price against basic foods, main export goods, energy products, transportation, communication and public services, the Government continued to influence domestic pricing. Later there was an influx of former Russian roubles from neighbouring FSU countries that had adopted their own currencies. This brought steep inflation to Tajikistan and strained domestic markets. In turn, the Government further strengthened price control again.¹³ In doing so, the Ministry of Finance and other industrial ministries strikingly restricted price determination of influential enterprises by using a wide range of administrative guidance rights as allowed by antimonopoly-related regulations and ordinances effective at the time.¹⁴ As a result, the process of price liberalization in Tajikistan came to a standstill and might have even retreated between late 1993 and the end of 1994.

However, the Government changed its plan drastically in 1995. That is to say, after abolishing direct price control on all products except for six basic food items¹⁵ (January 1995) and phasing in food product price liberalizations (June 1995 and March 1996), domestic pricing came close to being completely liberalized.¹⁶ Moreover, later laws against natural monopolies and other monopolistic enterprises were prepared step by step and the opaqueness of antimonopoly policy was solved to a certain extent.¹⁷

¹³ World Bank (1994, pp. 10-11), IMF (1996, pp. 41-42). The average inflation rate between January and October of 1993 was about 30%, but that of November and December, when inflow of the former Russian rouble became serious, reached 63% and 176% respectively.

¹⁴ See the Resolution of Cabinet of Ministers on the National Registration of Monopolistic Amalgamations and Enterprises dated May 24, 1993, the Law on Regulation of Monopoly Activity and Development of Competition dated December 27, 1993 and World Bank (1994, p. 117).

¹⁵ Bread products, wheat flour, milk, daily products, vegetable oil, and meat are included here (IMF, 1996, p. 42).

¹⁶ IMF (1996, p. 42), IMF (1998, p. 54), Gürgen, E. et al. (1999, p. 57).

¹⁷ Namely, by the Law on Natural Monopolies enacted in December, 1997, and the Government Resolution on State Republican Organ for Regulation of the Activity of Subjects of Natural Monopolies dated May 4, 1998, the Ministry of Economy and Foreign Economic Relations came to unitarily supervise natural monopoly enterprises. Furthermore, the Law on Competition and Restriction of Monopoly Activities on the Product Market enacted in November, 2000, for the first time clearly defines "dominant situation". According to article 3 of this law, an economic entity holding over a 65% market share of a particular merchandise becomes "dominant". Also, even if market share is below 65%, the antimonopoly authority could still regard an entity as "dominant".

The State Order System followed almost the same path. Between 1991 and 1994, the Government maintained the state order system, though subjecting it to main agricultural and industrial products. In fact, about 70% of the industrial output was based on the state order contract, which was agreed upon by the Government and domestic enterprises. Especially, the state order rate for cotton and aluminium (the primary processed goods and the most important sources of hard currency) was rigidly fixed at 100%. However, in 1995, the range of goods on the state order was considerably minimized and even that of aluminium was cut in the second half of 1995. The state order of cotton also ended by 70% of forced purchases of products harvested in 1995. In other words, the state order system of Tajikistan was completely abolished as early as before 1996.¹⁸

Deregulation in foreign trade and currency exchange proved the most complicated among all measures designed for economic liberalization. Even though the aforesaid presidential decree (June 1992) and the Law on Foreign Trade Activities (December 1993) advocate a extremely liberal trade system, until the end of 1994 the Government stretched its interpretation of the reserved provisions inserted to these laws and organized the centralized trade regime, which is equivalent to the one of the Soviet era. That is to say, by the last half of 1993 all trading businesses were obligated to have licenses or quota, and their issuance was exclusively controlled by six trade organizations designated by the Government.¹⁹ In addition, earnings on exports of state monopolized goods including cotton and aluminium , which formed more than 80% of the total exports, were imposed 32 to 100% of the surrender requirement whereas other exported items were imposed 30% across the board. Moreover, import business was mostly monopolized by the aforementioned trade organizations. Also in January, 1994, the subjected items by the centralized trade regime expanded from 37 to 54 items. The surrender requirement toward export earnings of state monopolized export goods was raised to 70% across the board.²⁰

Two reasons why the Government persisted on such a restricted trade regime are plausible. First, at that time, Tajikistan had an obligation to pursue the governmental agreement on mutual material procurement, which had concluded with Russia. Therefore, state order and

However, this law provides that in any case, a share inferior 35% is not “dominant”.

¹⁸ World Bank (1994, p. 72), IMF (1996, pp. 39-43), ADB (1998, p. 26).

¹⁹ These organizations are composed of the Ministry of Trade and Material Resources, two joint-stock enterprises in the light industry, the Union Alliance of Agriculture Producers, the Consumer’s Cooperative, and the Tursunzade Aluminium Smelter. These six organizations were permitted to enter the export business under the provision of exercised jurisdiction of exporting license and/or quota. (World Bank, 1994, pp. 70-71)

²⁰ World Bank (1994, pp. 70-74), IMF (1996, p. 38).

monopoly over the main exports were necessary. As a previous essay already points out,²¹ this agreement showed strong humanitarian support on the side of the Russian government and offered very beneficial trade conditions to Tajikistan.²² Also, to substitute industrial relations from the Soviet era, which had been broken off, large-scale barter trade with Russia became very important to the Tajik economy. Secondly, as the export industry and foreign capital were the main sources of political and economic power, the Government was afraid that those supremacies would switch sides and support the opposition.

Along with the development of price liberalization and the shrinking of the state order system, the centralized trade regime approached a turning point. Deregulation in the trade and currency exchange progressed drastically after going through, first, the abolition of the license/quota system in July, 1995, which was subjected to most exports except for cotton and aluminium,²³ then, starting the foreign exchange auction (February, 1996),²⁴ and, lastly, abolishing the export earning surrender requirement and export duties (March, 1997).²⁵ However, this sector did to immediately experience a considerable shake. Due to renewed disputes in several parts of the country and against a background of ineffective peace talks, the Government restrengthened its control against trade activities by reactivating the monopolization of cotton exports, export duties, and export licences as well as introducing protectionistic import duties.²⁶ These measures were introduced in early 1997 and were then repealed one after another once the peace agreement was concluded. As a result of these twists and turns, comparatively liberal trade and a foreign exchange system were established finally in the beginning of 1998.²⁷

These economic liberalization processes of Tajikistan discussed above were delayed by one year and half to two years in comparison to Kazakhstan and Kyrgyzstan, where radical

²¹ See Iwasaki (1999, pp. 18-22).

²² Based on the agreement, in 1992 the Tajik government procured 50,000 tons of cotton and 42,000 tons of primary processed aluminium goods to Russia. In exchange, it received 260,000 tons of fuel, 260,000 cubic meters of timber, and 25,000 tons of cereals (World Bank, 1994, p. 70). Taking the remarkable steep rise of fuel prices at that time into consideration, such trade probably brought a great amount of transaction rent to the Tajik side.

²³ Presidential Decree on Further Liberalization of Foreign Trade dated June 27, 1995. At the same time, the Government abolished all favorable measures toward exporters.

²⁴ Official regulations on foreign exchange auctions were all abolished in April, 1998 (EBRD, 1999, p. 270).

²⁵ IMF (1996, pp. 39-40), IMF (1998, p. 55). More accurately, the surrender requirement of export earning was converted into the repatriation requirement of export earnings.

²⁶ IMF (1998, p. 9, pp. 55-56), EIU (4th Quarter of 1997, p.30) - hereafter abbreviated as EIU (1997Q4, p. 30).

²⁷ Furthermore, rather protective import duties were converted into 5% unified tariffs in January, 1998 (EIU, 1998Q1, p. 29).

structural reform was promoted since the beginning of the transition period. The effects of the long-lasting civil war can be grasped here. Notwithstanding, EBRD evaluates that by mid-1988 Tajikistan had caught up with these two countries to some extent as far as liberalization of the domestic market and trade activities are concerned.²⁸ In this sense, reform efforts put forth by the Tajik government in the last several years are worthy of a positive evaluation. Moreover, the evolution of the institutional environment surrounding domestic enterprises is sufficiently coordinated with the marketization process. However, dynamic enterprise activities cannot emerge only by improving jurisprudence and liberalizing the economy. Decentralization of the highly concentrated industrial organization²⁹ and a daring reform in ownership and a reorganization of the enterprise sector are indispensable. Therefore, the next section focuses on the privatization of state-owned enterprises (SOEs) — the most powerful driving force of economic transformation.

PRIVATIZATION OF STATE-OWNED ENTERPRISES

Institutional Framework of Privatization Policies

As in other Central Asian countries, privatization policies in Tajikistan constitute a complicated system consisting of innumerable laws and ordinances. Also, due to the frequency of minor adjustments in the country's privatization system, it is difficult to introduce each one of these within the limited space of this paper. Thus, this subsection attempts to provide an outline of only the most important points of the institutional framework influencing the privatization of SOEs. Specifically, the focus here is the Law on Denationalization and Privatization of State Property (February 1991) and a considerably revised version of this law, the Law of on Privatization of State Property (May, 1997).

The Law on Denationalization and Privatization of State Property provided privatization measures just during the civil war period. This law set forth a privatization framework that can be summarized in the following four points: (a) Privatization of the republican assets is to be controlled by the State Property Committee (SPC), and the so-called "public assets" (assets of local administration) is to be controlled by the local assembly (the National Deputy's Soviet) and the SPC's local branch respectively. (b) As basic manners of privatization, five forms exist: (i) leasing, including future purchase, (ii) reorganization into a joint-stock company, (iii) buy-out of

²⁸ Namely, marks given in mid-1998 by EBRD (4 being the highest) on liberalization of prices, and the trade and exchange system were 3 & 4 respectively for both Kazakhstan and Kyrgyzstan, but 3 & 3 for Tajikistan. (ERBD, 1998, pp. 26-27).

²⁹ For more details concerning the industrial organization in Tajikistan and other Central Asian countries at the starting point of transition, see Iwasaki (2000).

whole company, (iv) selling by tender or auction, and (v) free distribution. (c) The initiative in privatization and priority in property acquisition belong to the labor collectives. (d) However, the Government will take the initiative in carrying the privatization of low-profit or deficit or bankrupted enterprises.³⁰

Between 1992 and 1994, in accordance with the aforementioned privatization framework, the central and local governments selected thousands of SOEs every year and attempted to sell them.³¹ According to **Table 3**, however, despite these policy targets, the numbers of privatized enterprises in these three years reached only 1,246 (average of 415 per year). Moreover, 45% of these enterprises were small businesses having only a little more than one employee each.³² Of course, insider control progressed greatly in privatized enterprises.³³ At that time, political leaders were not sufficiently aggressive toward achieving the privatization of enterprises. For instance, they regarded the wishes of the local assemblies and labor collectives too seriously, and reserved the property sale of certain industrial sectors and important enterprises. In spite of this, the above result even fell short of their expectations.

Therefore in August 1995, President Rakhmonov and the Cabinet of Ministers were determined to take action.³⁴ They decided that (a) fundamentally, all industrial sectors are subject to privatization, (b) strengthening the control of SPC over the initiative of enterprise privatization, and (c) under these circumstances, allowing foreign investors to join all stages of enterprise privatization. After having clearly stated these resolutions, they proposed introducing a voucher-type mass privatization plan. Moreover, in November of the same year, the Law on Denationalization and Privatization of State Property itself was revised and SPC was given the right to independently select the enterprises to be privatized.³⁵ These series of measures strongly suggested a shift under the strong leadership of the central government from privatization “from the bottom” towards omnidirectional privatization. In fact, the Privatization Program of 1996-1997 included cotton ginneries, which so far had been kept as

³⁰ See Article 7, 9, 11, 12 of the Law on Denationalization and Privatization of State Property.

³¹ e.g. 1,276 enterprises were to be privatized between 1991 and 1992. (World Bank, 1994, p. 33).

³² IMF (1996, p. 43).

³³ e.g. About 60% of privatized small-scale enterprises were acquired by labor collectives and more than half of all mid and large-scale enterprises were also sold to them. Also, in the case of industrial enterprises reorganized as joint-stock companies, 40% of the stocks on average were transferred to labor collectives (World Bank, 1994, pp. 33-38).

³⁴ Presidential Decree on Measures for Further Deepening and Enlarging Privatization of State Assets dated August 2, 1995. Also, the Government Resolution on Organizational Measures for Further Deepening and Enlarging Privatization of State Assets dated August 23, 1995.

³⁵ See the Law on Introduction of Corrections and Amendments to the Law on Denationalization and Privatization of State Property dated November 4, 1995, and IMF (1996, p. 44).

“untouchable” state enterprises,³⁶ in addition to political goals such as the early completion of small-scale privatization and the incorporation of all medium and large scale SOEs as open-type joint-stock companies (*aktsionernoe obshchestvo otkrytogo tipa*). Also, in April, 1997, a “privatization check” started to be distributed to the Tajik people.³⁷

The Law on Privatization of State Property, enacted in May 1997, along with many other laws and ordinances promulgated since then, brought about further revisions to the institutional framework of enterprise privatization. This action was done in accordance with the aforementioned revised policies. The following three points are the most remarkable of the revised policies.³⁸ First, the fundamentals of the basic manner of enterprise privatization were limited to sales by tender or auction and competitive sales of state-owned stocks on the condition that the individual investment project (management reconstruction plan) be executed after having been approved by the Government. The latter was mainly applied to government designated medium and large-scale enterprises. This included, in addition to all the cotton ginners and most of the representative large scale SOEs in the industrial sector including “Tursunzade Aluminium Smelter (or Tajikistan Aluminium Factory)”, “Vakhsh Nitrogen-Mineral Fertilizer Factory”, “Leninabad Rare Metal Complex”, “Tajik Textile Production Amalgamation”, and “Kyrgan-Tiube Transformer Factory”.³⁹ Secondly, the authority in control of sales of state-owned stocks was exclusive to SPC. Moreover, SPC was obliged to keep selling the stocks of the target enterprises for privatization until the share of state ownership became 25% or less per enterprise. Thirdly, the establishment of private investment enterprises, “Investment Funds” was legalized. This was done to promote effective management of “the privatization check”. The main functions of the Investment Funds are considered to be very similar to the

³⁶ Government Resolution on the Program of Privatization of State Property in 1996-1997 dated May 20, 1996.

³⁷ *Narodnaia Gazeta*, February 28, 1997. Also, a privatization check was supplied until April 1998 and mainly used as a means of purchasing state rental housing and enterprise stocks at open auctions sponsored by SPC and local administrations (*Narodnaia Gazeta*, May 15, 1998 and April 18, 1998.)

³⁸ The following author’s summation is based not solely on the Law of the Republic of Tajikistan on Privatization of State Property, but also on the Government Resolution on Selling State Owned Shares of Open-Type Joint Stock Companies dated February 20, 1998; the Government Resolution on Confirmation the List of State Companies, which are Subject to Privatization on Individual Project dated October 27, 1998; the Government Resolution on Confirmation of the Rule on Privatization of State Business by Individual Projects dated December 30, 1998; and the *Narodnaia Gazeta*, April 18, 1998.

³⁹ e.g. Based on an individual project, public sales of state-owned stocks of cotton ginners started in March 1999. By the second quarter the predominant stock (75% of the stock) of 23 out of a total of 28 ginners were sold to strategic investors (EIU, 1999Q2, pp. 25-26; EIU, 2000Q2, p. 37).

“Investment Privatization Funds” established in Kazakhstan and “Special Investment Funds” of Kyrgyzstan.⁴⁰

Progress and Problems of Enterprise Privatization

As mentioned before, the actual results of the initial stages of privatization during 1992 and 1994 fell far short of government’s expectations. Even more, privatized enterprises were concentrated on the trade and catering industry and service sector (86.4%), while the industry enterprises, which needed the most radical structural reform, remained at a mere 3.5%. Also, the number of privatized enterprises in 1995 only increased by 10.8% (37 enterprises) in comparison to the previous year. But, according to **Table 3**, a series of systemic reforms put into force in the summer of the same year, combined with the advancement of economic liberalization sped up the privatization process, which had been on the stagnant side. The effect is clearly shown on actual privatization results after 1996. Privatized enterprises increased by 80.3% in 1996 in comparison to 1995. In 1997, the number of privatized enterprises grew to 742 and, both in 1998 and 1999, reached four digit figures (1,435 and 1,460 enterprises respectively). In this way, at the end of 2000, the total number of privatized enterprises was recorded at 6,570—5.3 times more than that at the end of 1994.

Likewise, the privatization process surely accelerated since 1996. However, the major sectors still continued to be the trade and service industries and not the more essential manufacturing industry. In fact, privatized industrial enterprises between 1996 and 2000 numbered only 201, and the weight on the total privatized enterprises each year was an average of less than 5%. Needless to say, this is greatly estranged from the trend of the entire economy.

Table 4 provides more detail on the mid-term achievement of enterprise privatization. According to the table, small-scale privatization and the incorporation of all medium and large scale SOEs as joint-stock companies had almost reached completion by September 1999. Conversely, the privatization rate of middle and large-scale enterprises was at the rather low level of 16.7%. Therefore, it is strongly suggested that most industrial enterprises could not push reform beyond reorganization and become state-owned joint-stock enterprises.⁴¹ This may be a main factor accountable for the lack of any appropriate changes in the structure of industrial production and employment of whole economy. Two facts are noteworthy: First, the weight of the state sector remained heavy in gross industrial output, at 75.5% in 1999,⁴² and secondly,

⁴⁰ For further details, see Iwasaki (2001, Chapters 6 and 7).

⁴¹ World Bank (2001, p. v) also reported that by March of 2000, only 140 of 750 of large and medium enterprises had been privatized, and it was partly due to too high initial asking price set by the Government.

⁴² SART (2000, p. 52).

despite the privatization rate of nearly 80% for all sectors, the total share of government employees only decreased by 12.4% within the eight years between 1993 and 2000.⁴³

As already mentioned, it is no exaggeration to say that privatization policy during the nine years of transition could scarcely contribute to structural reform in Tajikistan, particularly, the restructuring of influential industrial enterprises.⁴⁴ Furthermore, as far as the author has investigated, the Rakhmonov administration has neither set forth other effective policies for industrial reorganization nor for the contribution to state-owned enterprise reform. Rather, it attempted to prolong the life of state enterprises by maintaining a soft budget and institutional constraint, which is equivalent to the Soviet era. This includes (a) the continuation of direct credit by the Central Bank,⁴⁵ (b) the extension of the bankruptcy law for enterprises under management failure,⁴⁶ and (c) overlooking corporation tax arrears.⁴⁷

Moreover, there are many problems that prevent enterprise privatization. Various issues common among the FSU countries include: an unstable situation of politics and society, insufficient capital accumulation, management dullness of SOEs, underdevelopment of the banking system and capital market, and difficulty in attracting foreign capital investment. There might be differences in gravity, but these unsolved problems exist in Tajikistan as well as in other FSU countries. Besides, international financial organizations and individual students point out that there is (a) a sharp conflict of interests between SPC and local authorities, (b) complicated procedures of asset transformation and slowness of administrative affairs, (c) irrationally high initial prices of state assets to be sold by tender or auction, (d) frequent irregularities, including the illegal concealment of public information and embezzlement of capital by governmental officials, (e) threats and violence by criminal groups against public auction participants, and (f) non-payment of large amounts of capital sales. There is no doubt that all of these are also serious problems hampering privatization policy in Tajikistan.⁴⁸

⁴³ Calculated by the author based on IMF (2000, p. 63) and IMF (2001, p. 17).

⁴⁴ See World Bank (2001, pp. iv-vii). In addition, EBRD (2001, p. 198) points out that “post-privatization restructuring is hampered by the lack of investment funds, including foreign investors, who remain deterred by the security situation”.

⁴⁵ e.g. In Tajikistan, despite having banned direct credit from the central bank for the national budget and non-banking sectors in October 1999, the central bank largely financed the cotton sector and SOEs in the beginning of 2000 (EBRD, 2000, p. 215).

⁴⁶ Even though the bankruptcy law was established in October 1992, and revised greatly in May 1998, no bankruptcy indictment was instituted until January 2000 (IMF, 2000, p. 44).

⁴⁷ e.g. The tax revenue for the first quarter of 1999 was less than the target figure by 35%. At least 600 enterprises neglected on paying their taxes (EIU, 1999Q2, p. 25). Even so, the Government is yet to put any drastic measures into effect to tackle this problem.

⁴⁸ For further details on these issues, see IMF (1996, pp. 43-44), Usmanov (1997), EIU (1997Q4, p. 28), EIU (1998Q3, p. 27), EIU (1999Q4, p. 34), EIU (2000Q2, p. 37), IMF (2000, pp. 44-46),

CONCLUDING REMARKS

Unless the Tajik government sets forth appropriate policies against the social and economic problems described above, and demonstrates a resolute attitude toward SOEs, radical reform in the industrial sector will not proceed—still less, creating dynamic competition, which would be the impelling force of production system modernization and high growth among enterprises.

As already stated in the introduction, material production remains floundering at the bottom in spite of economic recovery since 1997. Some statistical data strongly suggest that manufacturing is in much worse critical condition than any other sector. Namely, as a result of recording a long period of negative growth in most sectors, the actual output of the total industrial production decreased almost by half from 1992 to 2000. To be more specific, production in these four sectors: the steel industry, chemical and petrochemical industry, wood, wood-working and paper industry, and construction material industry, were reduced to a fatal level (see **Table 5**). Meanwhile, the output structure of the industry inclined more deeply toward the electric energy industry and non-ferrous metallurgy (i.e. the aluminium industry), which remained state monopolies. Also, the share of electric and non-ferrous industries increased by 38.8% out of the total industrial production from 1993 to 2000 (see **Table 6**). Consequently, as shown on the **Table 7**, Tajikistan's trading activities could not escape the simple, traditional trading structure and had kept on falling in the red.

Nonetheless, problems are not merely limited to this. That is to say, retaining the biggest monopolistic enterprise “Tursunzade Aluminium Smelter (TADAZ)”⁴⁹ is tantamount to keeping the whole aluminium industry and forces a direct or indirect sacrifice on the various sectors of the national economy. For example, TADAZ consumes about 40% of all domestic electricity for electrical smelting of aluminium, enjoying a quite lower government-set price for electricity than other domestic enterprises.⁵⁰ Despite this fact, TADAZ has not paid for a great deal of electricity to electric power company “Balki Tojik” by reason of an aggravation in financial affairs.⁵¹ In order to reconstruct TADAZ, the Government carried out various

Umarov and Hanmadsoev (2001, p. 149).

⁴⁹ TADAZ is one of the largest smelters of its kind in the world. It is based in the city of Tursunzade. At its peak in 1989, annual output reached 416,000 tons. In 1998 it had about 12,000 employees (ADB, 1998, pp. 24-26). After the collapse of the Soviet Union, output from the smelter has sharply decreased. In 1997, output fell down into 189,000 tons. It was the lowest level in 1990's, but since then, the aluminium production has been steadily recovered and was reported to have increased to 296,000 tons in 2000 (EIU, July 2001, p. 38).

⁵⁰ e.g. In 1996 industrial electricity cost 1.5 cents per 1 KW per hour, but the special rate that applied to TADAZ was only 0.85 cents (IMF, 1998, p. 17).

⁵¹ In 1996, TADAZ only paid 8.6% of its electricity expenses (IMF, 1998, p. 17). Moreover,

measures through the World Bank and other financial institutions. Yet, this enterprise was not in the black as of 1999.⁵² In the meantime, the Balki Tojik has been importing electricity for higher prices from neighbouring countries to secure domestic supply of electricity and make up for inefficiency. Moreover, the import of electricity has all the time exceeded the export since 1997.⁵³ Taking economic calculations under consideration, the chances of the aluminium industry of being a big burden on the national economy are high. In this manner, it is said, the industrial sector is currently broadening the warp in production structure and economic inefficiency.

This paper's analysis has made it clear that Tajikistan has been achieving remarkable progress toward its transition to a market economy in fields of law reform and economic liberalization. It is true that such progress is the fruit of the Government's reform efforts, which began in 1995 and became earnest in mid-1996. However, obvious as it may be, the marketization process in Tajikistan as a whole is greatly unbalanced. So, I cannot but think that the emergence of an inefficient reproduction cycle is depriving the whole economy of its vitality. This all originated while the economic environment was becoming liberalized, leaving behind its paternalistic background. In short, it is the result of shelving, on one hand, the privatization of mid and large-scale SOEs, and on the other, industrial and competition-promoting policies. If this is indeed the case, such kind of institutional structure needs to be broken down quickly. Fortunately, it seems that today political leaders of Tajikistan have not lost eagerness for drastic structural reform.⁵⁴ Hopefully Tajikistan will take a drastic leap toward economic revival by utilizing its condition as a transitional country with a late start.

according to IMF (2000, p. 48), the accounts receivable of the Balki Tojik in 1999 had accumulated 26 months worth of unpaid electricity costs—largely attributable to TADAZ.

⁵² IMF (2000, p. 49)

⁵³ The factors behind Tajikistan's simultaneous import and export of electricity include the lack of a nationwide electricity supply as well as geological and technical circumstances.

⁵⁴ In fact, at the Tajikistan Trade Investment Conference held in Tokyo on May 17, 2001, and sponsored by the Japanese Ministry of Foreign Affairs, President Rakhmonov and accompanying Economy and Trade Minister Saliev, on their first visit to Japan, gave a speech that emphasized their determination to move towards a market economy.

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