

UNDERSTANDING AUTHORITARIAN LIBERAL REGIMES: GOVERNING
RATIONALES, INDUSTRIALIZATION PATTERNS AND RESISTANCE

By

ASSEL RUSTEMOVA

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Philip Cerny

And approved by

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ABSTRACT OF THE DISSERTATION

Understanding Authoritarian Liberal Regimes: Governing Rationales, Industrialization
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By ASSEL RUSTEMOVA

Dissertation Director:
Philip Cerny

This project aims to answer two primary research questions. First, why some authoritarian regimes that export commodities decide to conduct advanced liberal industrialization (ALI) in order to create intensive-growth firms that produce internationally competitive finished goods at home? Second, what explains the success of such industrialization patterns? An original analytical framework is developed. It shows that export of commodities facilitates creation of patrimonial capitalism that is based on commodity and bureaucratic rents.

Commodity rents are vulnerable to the Dutch Disease, internal economies of scale and international price and demand fluctuations. Lopsided economic structure is unsustainable, because it losses manufacturing industries and creates budget gaps. Intensive-growth firms are more reliable, because they produce high value-added internationally competitive goods and diversify the export structure offsetting negative trends of commodity production. But these industries require rule of law and competition to survive. Patrimonial capitalism cannot create both requirements. The contradiction between the long-term necessity for ALI and short-term incentives for patrimonial capitalism create a split between the ruler and bureaucracy, because the rulers are

interested in ALI to keep the power and stability of the existing regime, whereas bureaucrats are interested in keeping control over rents.

The rulers design implementation paths for ALI, called governing rationales, to discipline bureaucracy into sharing the vision. However, bureaucrats resist and subvert the proposed reforms by developing a) personality cults that transfer responsibility for ALI upon the ruler and shift responsibilities for the specific reforms away from their offices; b) depoliticize significance of economic and political problems in order to keep the impression of progress and compliance with higher regulations; c) subversive patrimonial activities that help affiliated companies to win the best bids, subsidies and contracts.

The hypothesis is that ALI is impossible with bureaucratic resistance, because rulers' oversight mechanisms cannot cope with the subversive practices. To prove it, a new analytical framework is applied on two countries that rely on mineral rent (Kazakhstan) and cotton rent (Uzbekistan).

PREFACE

This dissertation is about industrialization patterns in authoritarian regimes that want to shift its commodity-based economy towards technologically-advanced competitive market structure. You may ask why another book on this subject? The relevance of the topic is determined by the recent praise of China as the next model for development. Authoritarian China was able to lift 400 million people out of poverty by forcibly transferring labor and resources across the country, by suppressing calls for more consumption and distribution of profits, and by subsidizing its domestic producers.

However, the author of this dissertation is not optimistic, because bureaucratic resistance undermines introduction of two main pillars of market economy: competition and the rule of law. Competition, as the main mechanism of resource allocation, ensures efficiency and quality of production. As firms compete for customers they seek to produce goods of the highest quality at cheapest price. The second component, the rule of law, refers to the ability of the state to enforce law equally to all actors, regardless of status, power, and authority of each individual actor. Technologically-advanced production requires competition and the rule of law, because firms need to determine the quality and quantity of goods to produce in order to occupy larger market share. Commodity-based production suffers from international competition, because its goods are in demand, but in order to expand, states have to constantly seek new fields for crops, new mineral deposits and new labor reserves to grow. Volume, rather than productivity rate is the driving force of production. Under these circumstances, competition and the rule of law are detrimental to patrimonial capitalism, because they undermine extensive growth firms. As pillars of economic liberalism are undermined, industrialization through market mechanisms remains unviable.

This relatively simple argument took eight long years. Exploration of the political differences between relatively similar primary commodity-oriented countries, such as Kazakhstan and Uzbekistan, inspired me to join Ph.D. program in Politics at the New School for Social Research. Its specialization on the theories of justice and deconstruction of liberalism honed my theoretical skills. I adopted Foucault's framework of *governmentality* as a way of 'reading' liberal practices in authoritarian regimes. As my research shifted towards more comparative politics I transferred to the Division of Global Affairs, which provided incredible support for my ideas. Equipped with the support of Philip Cerny, Frank Fischer, Peter Rutland and Carlos Seiglie I ventured into field research meeting amazing people and collecting information about bureaucratic resistance strategies in both states. The work proved to be truly investigative, challenging, but fulfilling.

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This dissertation is dedicated to my parents, Svetlana Rustemova and Ilyas Rustemov

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LIST OF ACCRONYMS

BCh – Bureaucratic Choice

BCO – Beijing Consensus

BG – British Gas

CNB – Committee of National Security (Kazakhstan)

ENI – Eni S.p.A., an Italian multinational oil company

EOI – Export-Oriented Industrialization

FDI – Foreign Direct Investments

FMCG – Fast Moving Consumer Goods

GBP – Great Britain Pound Sterling

IMF – International Monetary Fund

IMU – Islamic Movement of Uzbekistan

ISI – Import Substituting Industrialization

KZT – Kazakhstani Tenge

MINT – Ministry of Industry and New Technologies of the Republic of Kazakhstan

SME – Small and Medium-size enterprises

R&D – Research and Development

SAP – IMF's Structural Adjustment Program

SEZ – Special Economic Zone

USD – United States Dollar

UZS – Uzbekistani Sum

VoC – Varieties of Capitalism

WCO – Washington Consensus

INTRODUCTION

Many authoritarian regimes in the developing world are characterized by patrimonial capitalism. Patrimonial capitalism is an economic system where political actors obtain profits from manipulating ownership rights over public properties and then, draft economic actors into the web of patron-client relationships (Robinson, 2009, p. 2; also in Schlumberger, 2008; Robinson, 2002; Isaacs 2009). Patrimonialism is a “position [that] lacks the bureaucratic distinction between the ‘private’ and the official spheres” (Weber, 1978, p. 284). Officials that treat their bureaucratic posts as sources of personal gain become major economic actors because they force businesses to become their ‘clients’, who pay bribes in order remain under the officials’ patronage, enabling them to move ahead in the domestic and international market (Collins, 2006; Schlumberger, 2008; Robinson, 2009).

Patrimonial capitalism is based on two types of rents, commodity and bureaucratic rents (Hutchcroft, 1998; Auty, 2012). Commodity rent is an income derived from the difference between the production costs of raw materials or basic intermediate goods with minimal additional processing (known as commodities) and the sales of commodities to the international markets. Four types of commodity rents are distinguished in this project. First, agricultural rent occurs when a state appropriates the margin of profit from buying cash crops cheaply at home and selling them abroad for the world prices.¹ Other regimes lease or sell public assets to private companies and receive income for the right to exploit those resources. This is called mineral rent, and is defined as an income regimes receive from international investors, who are paying for the right to

¹ For scholarship on this topic, please see Bates, 1983; Hall, 1984; Kreuger, 1974

develop natural resources.² Strategic rent is income states earn in exchange for providing safe-passage, stability and security, to another country, business or private individuals.³ Lastly, manufacturing rents are defined as rent extracted in exchange for benefitting from the states' exclusive monopoly control over occupation and geographical location of labor resources.⁴ Each type of rent requires bureaucratic involvement and management of public property.

Furthermore the economic system of many primary commodity producers in the developing world is characterized by the second type of rent, the bureaucratic rent, which is an income derived by bureaucrats as a personal reward for the manipulation of public property for profit, providing it to businesses or other entities with the right to own or manage these government-controlled resources. Such rents come from non-productive activities obtained from control over means of production (Auty, 2006, p. 4; Carmody, 2011).⁵ In other words, the personal reward is income derived by the authoritarian regime whose members distribute the right to operate physical, technological and financial assets under the state monopoly to private actors (Pollin, 2007). Bureaucratic rent is possible

² This literature is the most developed. Please see the most renowned publications that examine the impact of this rent on domestic politics Karl, 1999; Karl, 2007; Carmody, 2011; Auty 2012

³ For example, Petersen, 2007; Ahmed, 2011; Auty 2007

⁴ For the most recent analysis, please see Rein, 2012. Although not many scholars use the term 'manufacturing rent', they imply that the government gets benefits from supplying investors with cheap labor Lardy, 1995.

⁵ Rather than defining rent as an income obtained in addition to above the one obtained in competitive market, I choose this specific definition that points to the way bureaucrats and AL regimes make money in the first place. They augment their personal income by leasing, renting, or in some other manner ceding control over public property into private or national companies. In other words, they exploit the right to distribute public resource for their personal gains. This point is expanded in Chapter 3.

because in the authoritarian regimes, power is vested in a single ruler⁶, be it a political party, a single individual or a small elite group, who acts as a source of law rather than its servant. Vested with power, these regimes undermine market mechanisms of supply and demand because no checks and balances control their mode of intervention into the market. Lack of the rule of law cannot protect market exchange or guarantee that regulations are fair and equally applied to all actors. Usually, private actors reward such officials with favors in forms of interest, dividends, fees, or capital gain. These officials establish patron-client relationships with businesses, thereby solidifying patrimonial capitalism.

The system of patrimonial capitalism is self-perpetuating. In these systems, politics is practiced by the privileged few. Most of the population and business firms are excluded from political life.⁷ The politicians have the ability to create laws that impede competitive business development, but favor affiliated firms, who pay for this favoritism. Business becomes inherently linked to politics. Conventional authoritarian regimes are interested in expanding their economic empires with minimal investment or improvement of the resources they provide.

⁶ The usage of the term 'ruler' might seem colloquial, but it reflects the meaning of the power structure in the authoritarian regimes. The term was borrowed from Moustafa & Ginsburg, *Rule by Law: the Politics of Courts in Authoritarian Regimes*, 2008 who address the problem of authoritarian rulers controlling their bureaucracies.

⁷ Patrimonial regimes share the following traits:

- Formal and informal rules work against each other
- Formal rules used to punish disloyal
- Absence of the rule of law creates elitist concentration of power secured best by personal connections
- Transaction costs are high
- Pace and nature of the reform serves elite's interests and reforms can be predicted by these interests
- Political leadership is not subject to democratic constraints and personalistic relations dominate (Robinson, 2009, p. 2; also in Schlumberger, 2008; Robinson, 2002; Isaacs 2009)

However, some authoritarian regimes in the developing world are characterized by a curious desire to move away from patrimonial capitalism towards a market economy that produces internationally-competitive finished goods. They want to transfer commodity rents towards supporting firms that export non-commodity goods, resulting in change in the structure of the domestic economy. In the process of implementation of this shift towards a market economy, three features of economic liberalism are embraced:

1. Government needs to engage as many people into the market as possible so every participant can fulfill their desires through voluntary exchange.
2. Government needs to interfere minimally into economy, and only if markets develop outcomes that threaten the stability of economic system. Therefore, governments have to adopt an analytical lens and check how each economic or political outcome such as high inflation, high unemployment, low standards of living, and extremist ideologies influence the stability of the market. Important factors to monitor include: social conflicts, poverty, low purchasing power of the population, and low savings rates. These issues undermine the stability of the system of exchange and allocation of resources.
3. Government needs to identify crucial competitive industries accurately. Then, change the scale of regulation away from prohibitive law towards incentives for these industries. Incentives are norms that enable actors to follow when structuring or restructuring their path towards deriving the most benefit (Johnson, 1982; Johnson, 1995; Woo-Cumings, 1999; Minokha, 2009).

Three key features of economic liberalism make authoritarian regimes that embrace the desire to become market economies different from those regimes that govern irrespective of market principles based on the one-person-rule.

In order to separate regular authoritarian regimes from those that respect market regulation, it is critical to reinterpret the term Authoritarian Liberalism. Authoritarian Liberalism (AL)⁸ refers to politically authoritarian, but economically liberal regimes (within a range on the political spectrum) that aspire to turn their economies, based on the primary commodity industries, into active competitive technologically-advanced participants in the international market through a political system unaccountable to the people.⁹ Aspiration for the competitive market economy becomes the primary

⁸The background of this term comes from political philosophy. The basic idea was developed by Carl Schmitt. In 1936, Carl Schmitt used the term Authoritarian Liberalism to characterize constitutional systems prevailing in the 19th century (Cristi, 1998, p. 6). Schmitt pointed out that Liberalism is unable to secure political unity and stability of the state where pluralist and individualist tendencies (that, according to Schmitt are antipolitical) if given freedom would weaken state authority (Cristi, 1998, pp. 16-17). Moral claims by various political actors call for the growing engagement of state in society redistributing resources away from the economy. His mandate against Parliamentary Democracy, issued first in *Der Hutter Der Verfassung*, called for a strong state, but limited. His view of the state considers it the only actor capable of taking the politics out of economic matters while promoting decentralization of economic decisions. The end result provides 'economic autonomous administration' (Cristi, 1998, p. 33), thereby, making authoritarian arrangements necessary (Cristi, 1998, p. 34). Like Hegel, he called for a monopoly of state over politics, while fostering various forms of civil society. As a result, freedom of individuals exercised in the context of market economy called for a strong and autonomous state (Cristi, 1998, p. 94). Contrary to Hegel, Schmitt disliked any form of pluralism, radically claiming that no need exists for individual identity outside of the state (Cristi, 1998, p. 103). This work argues that individual identity outside of the state is possible in states that promote competition. These states expand individual ability to choose and act in the market. The principal thrust of Schmitt's work had far reaching impact.

⁹ The literature on political correctness is deliberately excluded. In contemporary society, Authoritarian Liberalism has been applied to studies of political correctness in Western societies that preclude freedom of speech and expression by imposing social 'etiquette' about sensitive issues (Aidan Rankin "The Politics of the Forked Tongue: Authoritarian Liberalism", London: New European Publications, 2001). According to Rankin, "The underlying similarity between Political Correctness [and Totalitarianism] is that they are both based on a deterministic belief in "Progress", both seek wholly materialistic solutions to human problems and both are "Internationalist" in the sense that they do not care for local custom or the differences between nations (Rankin, 2001, p. 8)". In this regard, liberalism is pseudo-liberal in practice.

justification of the political regime to stay in power until the goal is reached.¹⁰ This aspiration serves as the main difference from conventional authoritarian leaders, such as Robert Mugabe in Zimbabwe or former Libyan president Muammar Qaddafi, who take power to gain independence from capitalist states. In the regimes where the ruler continues to personally benefit from the rent-seeking practices and enjoys patrimony, industrialization is a smokescreen that covers up real intentions for personal enrichment. These regimes are not AL and lie outside the scope of this work, although transition from the AL back to the authoritarian regimes is not uncommon. For example, it is possible to assume subversion of economic transition plan towards competitive market by the rulers in the AL regimes due to external conditions or personal reasons. Alternatively, the global financial crisis could cause cancellation of the industrialization processes by the rulers and encourage rent-seeking practices. Although change towards patrimonial capitalism is possible, this dissertation develops an analytical framework for the AL regimes that introduce this tremendously difficult transition. It poses several research questions:

1. Why do AL regimes exist? Patrimonial capitalism is more convenient for the rulers, because it provides lucrative opportunities for personal wealth and extensive network of 'clients'.
2. What determines success of transition paths in the AL regimes? Is transition possible?

¹⁰ AL regimes should be distinguished from state capitalism models, where export grew, because the state determined the scale and scope of the production process (Gerschenkron, 1962; Hirschman, 1968; Zysman, 1993). State capitalism is not liberal, because market economy is not permitted in the domestic economy. For more, please see (Cliff, 1974; Frieden, 1981). For example, state capitalism dominated in China after 1978 (Yang, 2010).

To begin answering the questions, this dissertation will call the ‘transition path’ as Advanced Liberal Industrialization. By this term we mean introduction of techniques and mechanization of the production process in the business of manufacturing high value-added internationally-competitive finished goods. For the purposes of this paper, the process excludes production of intermediate goods, utilities, transportation and financial companies¹¹. Advanced Liberal Industrialization (or simply ALI) is a process where the state corrects market failures in industrial sectors of the economy by relying on two primary policies: policies that are aimed to prevent abuses of the market and policies that stimulate economic growth (Gerschenkron, 1962; Hirschman, 1981; Helpman & Krugman, 1987; Bates, 1986; Cohen, 2006). The goal of such industrialization is to shift the pattern of foreign trade away from domination of commodity exporting firms that bring the most revenues into state budget towards export based on the local technologically-advanced, internationally competitive, non-commodity producers of finished goods.

This process of ALI is complex, because ALI involves three crucial changes: changes in the structure of the domestic production at the level of firms from commodity producers to producers of finished goods (microeconomic changes). Second, the state needs to change the structure of international trade from export of commodities towards high value-added finished goods (macroeconomic changes). This means that existence of the producers of finished goods is not enough; their goods have to be desirable in the

¹¹ This definition of industrialization does not include state-directed industrialization based on the examples of Stalin or Nazi Germany (Kuromiya, 1990; Bendersky, 2001). Both of these enterprises were ideologically motivated and denied respect of the market). It also does not include ‘finance capitalism’ (Lenin, 1916[2000]), which depicts industrialization as an alliance of big industrial banks with big industrial firms, because they were more concerned with the production of intermediate inputs rather than finished goods.

international market and bring revenue from international trade. Third, in order to make the first two changes possible, the state needs to conduct political changes in how the domestic economy is governed. Three principles of economic liberalism minimize opportunities for bureaucratic rent, since officials need to withdraw from interfering into the market to allow market mechanisms of supply and demand to distribute goods among market actors. Only by satisfying with the three types of changes is ALI possible.

In order to answer the first research question and describe the type of microeconomic changes AL regimes must adopt, the distinction between extensive and intensive economic growth is necessary. Extensive growth refers to growth based on the increase in the volume of goods produced (Jones, 1988; Spechler, 2008). Firms in the commodity sectors grow extensively. These firms are interested in the expansion of ordinary inputs, such as more land, labor and capital to produce more raw materials or agricultural goods. Productivity in the extensive growth is measured by gross output, i.e. the volume of production (Carson, 1998, p. 251). To prosper, commodity-based regimes constantly expand the volume of the extraction of natural resources, crop-growing potential, and the number of workers engaged in such sectors. By concentrating on the increases of gross output, extensive growth firms do not export high value-added products. They remain in production of raw materials or at best minimally-processed intermediate goods. Both of these outputs are called commodities here to reflect similar dependence on the extensive growth. Even if countries bring sophisticated technologies to develop machines for oil extraction or agricultural tilling machines, the type of growth remains. It is the gross output that defines firms' growth and not the quality of the product that is critical.

Some may argue that production of steel and yellow cake from uranium ore is a highly sophisticated production, but these goods are not finished goods. They are intermediate goods used as inputs to produce the finished products. These goods improve the quality of commodities, but remain driven by volume of commodity production. The economic growth pattern of these firms remains extensive. For the purposes of this dissertation extensive growth is defined as commodity production that is based on raw material production and basic processing into intermediate goods.

Intensive growth is driven by the desire to increase total factor productivity, i.e. productivity of every unit of input, because more volume of goods produced from less inputs increases financial returns (Kalecki, 1971; Spechler, 2008). This type of growth is based on the constant perfection of efficiency. Efficiency is the relative result of learning in the market (Kalecki, 1971). To prosper, intensive growth firms constantly monitor their present methodology and seek new perspective to facilitate producing more from less, in order to remain competitive in international markets. They seek to export high value-added products because they bring the largest profits. These products require constant introduction of new technologies, know-how and cost-saving strategies. Success of these businesses depends on market mechanisms of supply and demand. The market sends signals to the intensive growth firms to produce, enhance or alter their finished goods to make them continually more competitive in the international markets and obtain higher returns. Intensive growth firms are more valuable, because they utilize ordinary inputs as basic factors of production, while adding financial capital and human skill to turn them into products with higher value than the sale of primary commodities. ALI

involves transitioning domestic economies of the AL regimes from the extensive growth firms that export commodities to the intensive growth firms that produce finished goods.

Extensive growth is undesirable, because commodity rents in the authoritarian regimes are susceptible to three vulnerabilities: a) revenues are susceptible to international price and demand fluctuations (Kaldor, 198; Labys & Maizels, 1990); b) their economies suffer from the internal economies of scale (Krugman, 1989); c) they suffer from the Dutch Disease (Yokoyama, 1989; Auty, 2008). Frequently price fluctuations reflect political events, consumer expectations, and introduction of new technological innovations. For example, in 2006 oil prices were below USD20 per barrel, but due to political instability resulting in wars in the Middle East and rapid population growth and consumption in Asia, oil prices jumped five-fold. In 2008, a barrel of oil was USD20. In 2009, it reached USD150, and in 2011 it exceeded USD100. With the rise of new market options such as alternative fuels and electric cars, prices might decline again. Under these circumstances economic planning and investment is difficult because firms cannot predict the availability of investment capital. Fluctuation of demand also produces risks. According to Chand, countries that specialize in cash crops are especially vulnerable to food preferences of the developed world (Chand, 2008). Declining popularity of coffee made a vulnerable dent in the economies of Vietnam, Columbia and Ethiopia (Fafchamps, 1992), whereas recognition of fair trade and organic produce dramatically reduce poverty in the developing world from poverty (Stiglitz & Charlton, 2005). Vulnerability to price and demand fluctuations cause commodity firms to demand protection from the state during difficult times (Auty, 2007; 2008). They ask for subsidies from specific bureaucrats who are responsible for such decisions; the same bureaucrats

who benefit from bureaucratic rents (Auty, 2007). If revenues from commodity firms make up the largest share in the domestic budget, authoritarian regimes are forthcoming with their expenses to save the chicken that lays 'golden eggs'.

The second vulnerability is linked to the first. Risk exposure to the changing prices and demands is minimized with the size of the company. When there is a larger agricultural holding, capital is invested in many firms within the industry to procure self-sufficiency. Large firms that evolve sufficiently to withstand price and demand fluctuations elicit another pathology that requires state intervention, which is internal economy of scale (Helpman, *The Structure of Foreign Trade*, 1999). Internal economies of scale refer to the distorted competition produced by the cost advantage of larger firms compared to smaller enterprises (Krugman & Obsfeld, 2007, p. 111). Suppliers tend to charge large firms wholesale prices per unit of good in order to keep them as customers. Small firms get a retail price, because suppliers can afford to lose them as clients. Wholesale cost advantage on inputs allows large firms to produce competitively priced goods and kick small firms out of the market. In other words, when large firms acquire rights to extract and ship natural resources, competition for smaller firms becomes difficult and deters competitors from entering the industry (Krugman & Obstfeld, 2007, p. 121). As a result, the economy of scale leads to a distorted uncompetitive market structure (Krugman & Obsfeld, 2007, p. 112). State support of the extensive growth firms is necessary, because it employs the majority of people who have no option of joining intensive growth firms since competition is not possible.

The last vulnerability, Dutch Disease carries severe consequences to the structure of the domestic market. Dutch Disease is a term that signifies the loss of profitability in

economic sectors, usually manufacturing industries that depend on cheap exports and weak domestic currency (Auty, 2008, p. 390; Yokoyama, 1989). Intensive growth firms depend on cheap domestic currency, because it makes production of their goods at home cheaper and more internationally competitive. However, high volumes of commodity exports bring hard currency into the country as payments for the commodity sales, which alter the exchange rate. High influx of foreign cash is exchanged for local currency making domestic currency stronger. As a result, finished goods from the intensive growth firms become uncompetitive in international markets as the value of domestic currency rises. The growing volume of commodity exports undermines competitiveness of the intensive growth firms. Dutch Disease causes de-industrialization, because extensive growth firms decrease price competitiveness of manufacturing goods (Auty, 2008). Three vulnerabilities of the extensive growth firms show how commodity exports support establishment of patrimonial capitalism and demonstrate the necessity of ALI.

ALI becomes essential for stable and sustainable economic development. State support of intensive development, which expresses an effort to improve “microeconomic efficiency, competitiveness and profitability of industry... [that involve] the latest cutting-edge production, financing, and marketing methods” (Cerny, 2005, p. 379) becomes crucial for economic well-being. Governmental planning and management of industrialization in strategic industries become essential to successful liberal industrialization (Chaudhry, 1993, p. 245). However, price and demand fluctuations provide officials with bureaucratic rents, a reward for allocating subsidies and protection during the difficult times. The presence of large corporations in authoritarian regimes makes protectionist measures even more desirable because such actors can afford to pay a

larger bureaucratic rent and because their collapse will be deadly for everybody. Dutch Disease solidifies incentives for bureaucratic rent, because intensive growth firms are small and the ‘reward’ for their support is minimal.

The distinction between intensive and extensive growth firms helps to answer the first research question posed in this dissertation. The first hypothesis of this dissertation states that if authoritarian leaders decide to conduct ALI, then the internal split between the rulers and bureaucracy happens. Bureaucracy is defined as a body of non-elected officials that administer government regulations and policies. The rulers are interested in ALI because the longevity of his regime is vulnerable to the fluctuation of commodity rents, whereas bureaucrats are interested in resisting implementation of ALI, because it minimizes opportunities for bureaucratic rent.

The hypothesis of the internal split between the rulers and bureaucracy has theoretical support. The assumption is derived from scholarship on patrimonialism.¹² The scholars argue that patrimonial rulers face challenge to power from a) his immediate elites (patrimony) who are strong enough to challenge the rulers and whose loyalty, therefore, needs to be constantly ‘bought’ by ever-expanding opportunities for their personal enrichment (Myrdal, 1957; Robinson, 2009, p. 2; also in Schlumberger, 2008, Robinson, 2002; Isaacs 2009; b) from the general population who threatens the ruler with possibilities of popular uprisings, violent coup d’état, or simmering revolutionary activities if basic state functions are not maintained. Under these conditions, the nexus of the patrimonial authoritarian regimes is expressed through the formula of the ‘crisis point’

¹² The scholarship uses the term patrimonialism and neopatrimonialism interchangeably. The former term developed by Max Weber (1942) refers to the historical behavior of nobility during monarchic reign across European continent when nobles treated their domain as sources of personal benefits. Neopatrimonialism refers to similar type of behavior by bureaucrats who treat their official posts as a source of personal enrichment.

that the ruler is seeking to escape. Crisis point is a situation when the amount of money needed to maintain patrimony (P) + the amount needed to maintain basic state functions (S) is more than the amount that can be appropriated by a patrimonial regime domestically (R) and borrowed internationally (C) (Robinson, 2009, p. 8).

$$(P + S) \geq (R + C)$$

In other words, authoritarian regime durability is threatened when the expenses of the regime exceed its revenues. Revenues consist of taxes and bribes from the general population that are accumulated and channeled from local bureaucrats to their superiors, as well as international loans that governments borrow utilizing sovereign guarantees. This revenue has to cover the costs, i.e. the amount of money necessary to retain the loyalty of patrimony and provide minimal social functions; thereby keeping both groups that can challenge his power peaceful. Theoretical support of the hypothesis about the internal split between the rulers and bureaucrats complements the idea that economic incentives determine position of political actors regarding ALI.

This dissertation is based on the hypothesis of the internal split between the ruler and bureaucracy as the pivotal starting point. But rather than relying on patrimonial literature and formula of the crisis point to prove its existence, it develops a specific analytical framework to design and test the success of ALI during full-fledged bureaucratic resistance in the AL regimes. This original framework approaches the split by analyzing economic incentives of rulers and bureaucrats and by eliciting potential policies they might support or potential ways bureaucrats can use policies to subvert ALI. By testing the framework in two case studies, we will substantiate the hypothesis with supporting empirical evidence.

This new analytical framework starts out with comparison of the incentives between bureaucrats and the rulers. The discussion of three vulnerabilities of the economies based on the extensive growth firms and two political threats from the bureaucracy and population point to the importance of the following questions that determine the interests of the rulers: what happens if the rulers do not have enough money in the coffers to support and subsidize extensive growth firms during the bust cycles? What if extensive growth firms, characterized by the economies of scale, become bankrupt and create massive unemployment? The ruler¹³ of the AL regimes is interested in liberal industrialization, because primary commodity sales are volatile. For example, Russia is highly susceptible to volatility, because energy production makes 30% of its Gross Domestic Product (GDP)¹⁴ and near 60% of its exports (using 2006 indicators) (Goldman, 2008, p. 13). When international oil prices were USD10-12 a barrel, the Russian government could no longer service its debt and defaulted, causing the collapse of private banks with it. In addition, the Russian ruble lost most of its value (Goldman, 2008, p. 14). Similarly, during the 1998 financial crisis, Kazakhstani regime had to spend over USD600 million of oil revenues in order to stabilize the exchange rates of the local currency, sell over 50% of its export revenues from oil from April-November 1999 were funneled back to international markets to service its debt, and issue currency bonds worth USD100 with a five-year expected maturity (Nazarbayev, *The Kazakhstan Way*, 2008, p. 220). If intensive growth firms do not evolve, then the regime has no opportunities to

¹³ The terms ruler and rulers will be used interchangeably throughout the text. The term signifies not just the personalist rule of individual autocrats, but embodies individual dictators, military elites, ruling oligopolistic cliques – any form of power unrestricted by law and unaccountable to population.

¹⁴ Gross Domestic Product is an indicator that measures the total value of all goods and services produced in an economy (Krugman & Obstfeld, 2007, p. 11)

spread the risks by taxing intensive growth industries during the bust cycles. Whereas intensive growth firms will cease to exist if the increasing export of commodities continues. So the rulers are keen on introducing ALI to avoid severe economic and political risks.

The original framework anchors explanation of the AL regimes on outcomes of two key variables, commodity rents and bureaucratic rents. Commodity rents define economic pathologies dangerous to the rulers, but profitable to bureaucrats. Bureaucratic rent outlines political implications of patrimonial capitalism, which is profitable to the rulers and bureaucrats alike in the short run, but unsustainable in the long run. The split in the political and economic incentives causes the ruler to declare ALI and follow it through. The assumption about internal split challenges three conventional explanations of the AL regimes. These explanations are one-sided and provide solely political story of ALI by analyzing bureaucratic rent or solely economic story that studies commodity rent.

The literature on industrialization process has been occupied with finding the best industrial policies, i.e. government policies that regulate important economic sectors (Krugman, 1983, p. 123). Industrial policies are important, because they define the success or failure of ALI. This literature can be grouped into three large groups that take up rationale, cultural or structural explanations for industrial policies within the ALI. Rational explanation assumes that industrial policies proposed by the rulers are ideological tools to stay in power and disguise the patrimonial nature of the regime (Lipset, 1960; Schedler, 2002). Rulers, as utility maximizers prefer patrimonial capitalism. Self-interested rulers convince the population that the AL regime is working towards the goal of competitive market economy, encouraging popular support.

According to the authors the goal of ALI is a rational choice, because it is modern and no one can object (Schatz, 2008). Another strand of rational explanation treats industrial policies within ALI as rulers' way to enhance domestic control and power over territories and population (McFaul, 2000). By promoting ALI, the rulers have the ability to remove disloyal officials, which helps to solidify their political regime into a classic authoritarian structure (McFaul, 2000; Goldman M. , 2008). Rational explanation fails to explain the practice of ALI. If the rulers are interested in creating a sham, why do they strive for microeconomic changes and take the risk of following the transition? Rational explanation cannot explain 'irrational persistence' of the rulers' loyalty to policies of ALI.

Another explanation takes culture as the main explanatory variable. These scholars argue that cultural practices of some communities are conducive to the introduction of the ALI (Morishima, 1982; Rozman, 1991). For them policies of ALI reflect 'Asian' values that promote ideals of honor, obedience, community and individual responsibility for the common good (Rozman, 1991). The recipe to success is based on a) honorable bureaucrats who embrace Confucius ethics and design industrial policies; and b) obedient population that complies with bureaucratic requests implement policies due to the shared culture and ethics (Rozman, 1991). Cultural explanations anchor successful ALI in South Korea, Malaysia, Hong Kong and Taiwan on their shared cultural principles (Rozman, 1991). However, these explanations cannot explain successful cases of ALI in South Africa, Brazil, and India – countries that do not share 'Asian values'. In addition, cultural explanations cannot explain variations of ALI between South Korea and Taiwan. Two countries with theoretically similar 'Asian Values' took completely different

development paths. South Korea developed through large domestic corporations, whereas Taiwan hosted international investors attracted by cheap labor (Amsden, 2001).

Lastly, the structural explanation assumes that industrial policies of ALI are a result of the global nature of capitalist production, where global capitalism becomes less interested in the commodity exports and found more lucrative economic sectors to develop (Amsden, 2009; Haggard, 1990). ‘Success’ is not the merit of the regimes, but rather the result of impact of international realm on the domestic politics (Gourevitch, 1978). The ‘flying geese’ model is a good example of this argument where Japan industrialized by moving production of computer chips to countries with cheaper labor costs while it mastered production of more sophisticated technologies (Crone 1993; Hatch and Yamamura 1996). When Japan shifted to production of electronics, it moved the computer chips factories to Malaysia and Vietnam and helped those countries to industrialize.

ALI in post-Soviet states was imposed by international institutions, such as IMF and the World Bank (Blustein, 2001). These countries had no way of resisting the promotion of free market mentality being poor and semi-independent. However, the structural view fails to explain why countries continued with ALI even when they became rich and sovereign. What motivates this behavior? Commodity and bureaucratic rents provide sound explanation for the question of why AL regimes happen and are discussed in depth.

This framework shows that the internal split within the elites makes the authoritarian rulers fervent promoters of economic liberalism, because their political future depends on it. Consequently, the rulers are interested in government withdrawal

from interfering into businesses of the intensive growth firms on a microeconomic level in order to support these businesses. Intensive growth firms require competition and the rule of law to thrive in the domestic market (Hayek, [1944], 2005; Mises, 1997). Competition is a superior mechanism for resource allocation – theoretically, it weeds out the worst and rewards the best (Hayek F. , 1997). When firms compete for profits and market shares, they are constantly engaged in perfecting their products, optimizing costs and prices in order to please the consumer (Hayek F., 1997). A best product is defined as the one that pleases the customer the most. Since liberal industrialization in the AL regimes is based on the competitive market economy, inefficient distribution of resources is not satisfactory. Market economy thrives when the terms of contract are applied and upheld, when information is more or less transparent, when regulations are clear and stable. In other words, law needs to become the highest authority and support business interests over interests of patrimonial bureaucracy that strives for personal private gain. The rule of law sustains competition that ensures fair distribution of resources, rewards and punishments in the market. Provision of the rule of law and competition make ALI possible.

Besides introducing microeconomic policies that induce the rule of law and competition, the rulers are also interested in macroeconomic policies to support the diversification of exports. Specifically, macroeconomic policies consist of enhancing favorable conditions for the development of industrial sectors. These conditions include low inflation and unemployment rates, stable exchange rates and trade turnover. Export-oriented non-commodity industries are sensitive to the exchange rates and thrive under stable and weak local currency. Weak currency means that the cost of the final good will

be cheaper in the international market than that of the competitors. Lower prices (assuming a desirable product) should increase the demand and share of non-commodity exports. Government needs to monitor the inflation rates and keep a positive trade balance in order to achieve and maintain a stable exchange rate. Low inflation rate helps non-commodity industries to save money, crucial for the future investments and expansion. High inflation threatens investment capital, because it decreases in value. Positive trade balance (exporting more than importing) helps citizens to save money and encourages investment in competitive domestic industries that bring high dividends. If the state ensures macroeconomic stability, non-commodity industries will be profitable and will be the primary recipients of that capital.

These macroeconomic policies are necessary to change the structure of foreign trade, because international trade of primary commodities is limited. Initially, the trade of ‘resources for everything else’ can benefit the AL regimes and international markets. In macroeconomics, this trade is characterized by exports based on the ‘intensive-margin growth’,¹⁵ where growth of exports depends on the increasing volume of the same products to the same markets (Pham & Martin, 2007, p. 4). The term reflects dominance of the extensive growth firms in the domestic market that expand commodity production through the volume of output. Once production leaves to the international markets into the same markets and partners, its export is characterized by the ‘intensive-margin growth’ rate. For example, if Madagascar, the largest exporter of vanilla, exports vanilla to France, the largest importer, then it is vulnerable to the same microeconomic vulnerabilities as extensive growth firms, but on a larger scale. If consumers decide to use

¹⁵ Paradoxically, the macroeconomic term ‘intensive-margin growth’ signifies microeconomic domestic economic structure that is based on the extensive growth firms. From here on such export is equivalent to the domestic structure based on extensive growth firms.

Mexican vanilla or international prices drop, then Madagascar's economy will be vulnerable, because of revenue loss. On the other hand, if international demand and commodity prices are high, then commodity producers face physical limits to the expansion of the volume of exports due to the limited territories, scarce capital, finite labor reserves and natural resources necessary for production and export of these goods. Industrialization should stop vulnerabilities to price and demand fluctuations by diversifying the structure of exports. This distinction of export structure challenges the basic theory of comparative advantage¹⁶ that celebrates a country's commodity exports to the same international markets. Instead, growth of exports from states with diversified economic structure is said to be 'extensive-margin growth' because it depends on the ability of local firms to create and sell new products and seek new trading partners. Even if the demand for commodities changes, other industries that create new, internationally competitive products will provide stable revenues to state budget. Extensive-margin growth reflects strong presence of the intensive growth firms in the domestic economy that expand their productivity by making more goods from fewer inputs. Macroeconomic policies of export diversification are inherently linked to the structure of domestic economies.

The structure of economic incentives provided by the ruler to implement micro- and macroeconomic policies in order to support intensive-growth firms is contrasted to the different set of incentives among the bureaucrats. Bureaucrats are not as enthusiastic about ALI, because at the microeconomic level they have to adopt three liberal rules of

¹⁶ The theory of comparative advantage states that each country has a comparative advantage of producing a good if the relative cost of producing a good is lower than that in other countries (Krugman and Obstfeld, 2007, p. 25). The theory of comparative advantage explains expansion of primary commodities in the AL regimes as the most profitable strategy to create wealth, since they produced commodities such as natural resources, land and labor cheap in high volumes without increase of productivity.

regulation, none of which has apparent benefit for the bureaucrat, whose goal is to use public resources for personal profit: a) respect the autonomy of the market and interfere minimally; b) embrace the moral authority of governing rationale proposed by the ruler as the only guide for regulation; c) design and tailor regulations for the specific problem in order to elicit expected results, rather than regulate based on theoretical abstract ideas (Minokha, 2009). Minimal state intervention undermines the ability of the bureaucrat to obtain bureaucratic rents, because officials no longer decide on distribution of resources. The market does. Bureaucratic rent-seeking motivation also contradicts the second premise of liberal regulation, which is to tailor regulations to specific problems that threaten the stability of the market. A cookie-cutter approach of ‘renting’ public property does not fit the requirements of ALI. The third principle of liberal regulation forces officials to implement industrialization as their primary responsibility. Rather than being accountable to the ruler and to superior officials in governmental hierarchy, they are asked to be accountable to the goals of liberal industrialization, i.e. the supremacy of the market that is defined and introduced by the ruler. Bureaucrats that used to be mini-kings in their own domain must be accountable to the ruler’s vision of ALI, accurately reporting and evaluating the steps leading to success of his project. Competitive firms suffer from bureaucratic involvement in the market because, by artificially keeping uncompetitive firms on the unnecessary life support, state intervention alters the workings of supply and demand. Competitive firms lose part of the profit to those bureaucratic zombies and fail to acquire adequate revenue for innovation and expansion. Bureaucrats menace ALI.

The differences between incentives between the rulers and the bureaucrats bring us to the second research question, which focuses on the evaluation of success of ALI since the outcome of the successful transition is unclear. Patrimonial practices undermine the two essential economic components to liberal industrialization, the microeconomic and macroeconomic transitions. However, ALI needs to have full compliance of bureaucrats with economic reforms proposed by the ruler. The absence of patrimonial practices represents the third, political, component of liberal industrialization.

The second hypothesis of this dissertation is that ALI in the AL regimes is impossible with continued bureaucratic resistance.¹⁷ As a result, the regime can either increase bureaucratic repression to increase compliance or support patrimonial bureaucrats that develop intensive growth firms and contribute to the extensive-margin of export growth. In both cases, AL regimes must change their nature towards either authoritarian regimes without liberal components or towards a neopluralistic regime, where tycoons-bureaucrats will provide strong opposition to the rulers and contest policies. Neopluralistic regime signifies a political system where decisions represent an outcome of the informal ‘collective bargaining, competition and coalition-building’ (Cerny, 2010, p. 104) among the privileged powerful interest groups. Neopluralistic regime is not a democracy, because oligopolistic elites adopt major political decisions between themselves unaccountable to people. At the same time, neopluralistic regime is

¹⁷ The proposed hypothesis intentionally excludes regimes with minor bureaucratic resistance, where liberal principles of economic governance were installed, such as the industrialization experiences of Japan and South Korea in the 1960’s and 1980’s respectively. Their bureaucrats were supervised by secret service police and were accountable to the rulers with strict discipline (see Kohli, 2005; Amsden, 2010). The proposed hypothesis also excludes regimes where liberal industrialization was present only on paper, never actually occurring. These countries include Eritrea and Mauritania where the rulers proclaim liberal economic reforms, but are unable to follow through on promises. These regimes are proxies for patrimonial capitalism.

not a crony capitalist system, because competition in policy-making remains as bureaucrats venture into intensive-growth economic sectors. In neopluralistic regime financial-industrial groups (FIGs) determine economic policies and politics inside the state. FIGs will control both, large extensive growth firms, and intensive growth sectors. Representatives of these financial-industrial groups determine economic development. Unilateral decision of authoritarian rulers is not longer possible. Two political outcomes of anti-resistance strategies show that ALI is not possible, because the strategies change nature of the AL regimes and undermine autonomy of market mechanisms.

The outcome desired by the rulers is uncertain during the implementation of ALI. The implementation of ALI needs to be analyzed as the practice of disciplining bureaucrats into adopting liberal principles, intended to govern the market in a way determined by the rulers. In other words, implementation of ALI in the AL regimes is not just a vision of becoming a developed market economy imposed by the ruler from top to bottom, but the process of embedding liberal mentality in bureaucratic decisions away from patrimonial practices. Bureaucratic disciplining is necessary, because bureaucrats have to change their way of thinking in order to change their priorities. Otherwise, bureaucracy acts as a leech for business development. If the ruler decides to return to patrimonial practices, it means that the patrimonial bureaucrats won.

Theoretical Contribution

There are two main contributions that this dissertation makes by dissecting the crucial questions raised in the previous section. This work proposes to call the implementation of ALI ‘governing rationale’. The term ‘governing rationale’ is a common term in management and psychology research meaning the guiding force behind decision-

making. Its vague definitions encompass everything from studies of utilitarian pragmatic thinking of adolescents (Arya, 2010) to the electoral strategies of geriatric population in Florida (Biskupic, 2005, chapter 17). For this project, governing rationale refers to a body of assumptions derived from scientific knowledge about the effects of market forces and international competition on the economy that bureaucrats have to adopt as the guiding force of market regulation. Implementation of ALI, defined as governing rationale, includes *a general vision* of the future competitive market economy proposed by the ruler *and a roadmap* to achieve this goal. ALI still means the ‘process of introduction of techniques and mechanization of production of manufacturing high value-added internationally-competitive finished goods’, but at the heart of this process lays an intentional curbing of the commodity and bureaucratic rents in the domestic economy in order to produce competition and the rule of law. In practice, governing rationales depends on rulers’ abilities to discipline bureaucrats into the basic premises of economic liberalism and to transition from the extensive- to intensive-growth firms. The second contribution that this dissertation makes is the theory of bureaucratic resistance that goes beyond cases of open or discrete challenge to the life of rulers. Instead, implementation of ALI is subverted by the clandestine indirect political measures conducted by patrimonial officials, which undermine the rule of law and competition. By comparing the results of the governing rationale with the outcomes of bureaucratic resistance, the possibilities of the success or failure of ALI and the sustainability of the AL regimes are clarified.

Both contributions are derived from the heuristic application of Michel Foucault’s ideas of ‘governmentality’ and ‘dissidence’ (Foucault, 2007) . Foucault’s term

‘governmentality’ was modeled on the experiences of the 16-18th century Europe and came to define a shift in the style of governance from personalist rule by a king to a system of governance where the ruler’s authority is restricted by law forcing the monarch to act in public interest (Foucault, 2007, p. 131). At the heart of the process, Foucault identified a change in assumptions about governing. Best government was no longer based on the attributes of the enlightened or benevolent dictators, but on the body of knowledge about how the rule of law and competition should be practiced to ensure that market forces govern themselves. The term ‘governmentality’ is suitable to depict the changing practice of governing in the AL regimes, because it shows how implementation process of ALI is informed by economic liberalism and how liberal mentality is embedded in the process of governing ALI. By introducing economic liberalism, the AL regime disciplines bureaucracy away from the rent-seeking behavior to allow for the workings of the ‘invisible hand’ that operates at macro- and microeconomic levels. Since ‘governmentality’ was coined to trace historical processes in Europe, this dissertation reinterprets the term ‘governing rationale’ in order to trace the rulers’ prescriptions against commodity and bureaucratic rents.

Implementation of industrialization, defined as governing rationale, is different from the Development Economics literature¹⁸ that analyzes the main conditions for

¹⁸ Development economics is a broad field that incorporates various schools of thought. For the purposes of the argument, neo-classical school of thought that came to dominate the field and international development institutions in the recent years is taken as the primary example. The disparate literature shares an assumption that development needs economic growth that depends on performance of the domestic firms (Gore, 2000). If they are profitable and produce competitive output, then they should be supported first. As a result, the second shared assumption of the literature is that development happens through stimulation of supply, i.e. industries that can supply markets with goods in exchange for profits (ECLAC, 1996). By supporting industrial giants that pay the most taxes and employ the most people, states guarantee functioning of the economy. As large enterprises expand, they hire even more people who will support domestic producers of consumer goods and stimulate the economy (Friedman, 2000). As the wealth trickles through the domestic economy, the output increases and economic growth starts.

economic growth and seeks to identify industrialization policies that induce companies to export more internationally competitive technologically-advanced goods. For development economists, growth is the sole object of analysis and is conceptualized as a total output represented by the quantity of value added exports, and expressed as a function of inputs and the level of productivity (Helpman & Krugman, 1987). The key task for the government is to support firms that continuously refine productivity by introducing technology and human skills without a corresponding increase of quantity of inputs.¹⁹ It is thought that the firms with high productivity and internationally competitive goods are the vehicles of economic growth. The more products they export, the more returns they gain. Their returns have implicit social benefits, since they employ more people as they expand their production and pay more taxes as their profits increase. Under these circumstances, development economics is interested in a growth of overall wealth, not its quality.

Implementation of ALI defined as governing rationale questions the notion of growth defined as total output of value-added goods, because the quality of output matters and affects this definition. Governing rationale recognizes production of high-value added finished goods by domestic producers as ALI. If foreign investors set up maquiladora plants in Mexico producing high quality goods for export to the United States, the economic impact for local consumer is minimal since population cannot afford these goods or run the plants themselves. The goal of industrialization is to turn economic structure away from the raw materials and agricultural goods towards internationally

¹⁹ In addition, these firms also need economic stability. The state is responsible for controlling inflation, encouraging domestic savings and investments, frugal and prudent government expenditures – all of the policies that help firms to maintain and increase levels of production.

competitive technologically-advanced domestic production. Rather than only looking at indicators of economic growth, the important purpose of governing rationale is that it allows us to ‘see’ the macroeconomic goals and principles that inform government strategic programs and regulations. Government policies of supporting profitable business are symptoms of industrialization path proposed by the ruler, rather than the causes of economic growth. Industrial policies are only possible if authoritarian regime respects the workings of the market forces of supply and demand, and recognizes them as superior mechanisms for resource distribution in comparison to the state intervention. Although this attitude towards the market is common, there are cases, where industrialization was based on the support of unprofitable firms with the strong presence of the state in the economy. For example, in the 1960’s, the Brazilian government directly subsidized technologically-advanced value-added industries, which increased the production of airplanes, cars, electronics and other consumer goods for the domestic market (Kohli, 2004). Implementation of ALI defined as governing rationale, argues that the choice of the path is determined not by the need for economic growth per se, but on government’s assumptions about the impact of the market on domestic economy.

Implementation of ALI defined as governing rationale is also different from policy analysis literature, which looks at the process of policy implementation and decision-making without connecting and framing them in terms of the ultimate goal of becoming competitive technologically-advanced market economies. Conventional policy analysis literature interprets policy as a compromise between competing interests and contested positions. As a result, an analytical focus of policy analysis literature that treats policy as a ‘solution within given constraints’ zooms in on the empirical resolution of the

specific issues (Wade, 1990; Helleiner, 1994; Saith, 2001).²⁰ The proposed analytical framework analyzes the practice of liberal industrialization where policies represent the implementation of the shift economic structure from extensive to intensive growth.

Policy analysis of industrialization would be useful in explaining how specific decisions were adopted, but it will not explain why actors produce the rhetoric that accompanies these decisions.²¹ By defining implementation of ALI as governing rationale, we are able to depict the ‘practical reasoning’ produced by the authoritarian rulers whose power depends on economic distribution of rents from selling primary commodities in international markets. We want to trace the normative beliefs as the boundaries that define the scope of permitted or restricted behavior imposed on bureaucrats. The term governing rationale helps us to peek into the thinking process²² of the regime. The thinking entails not only how AL regimes design government regulations,

²⁰ The term competition will be used here solely in economic sense and not to define competing interests in political sense.

²¹ This work contributes to the debate that began in 2000s, when the empiricist stance of policy analysis has been changing towards more discursive turn, paying more attention to the words and language. For example, Frank Fischer (2003) develops an analytical framework for power of reasoning. Fischer writes:

Here the word ‘reasoning’ refers to a method of convincing or dissuading adversaries, and for coming to an agreement with others about the legitimacy of a decision. Practical reasoning operates between the logic of demonstration and theories of action and motivation. Practical reasoning cannot originate in the absence of normative commitments. Such norms are never universal or eternal; all that is required in practical reasoning is that they be recognized by the audience – larger or smaller – to whom to discourse is addressed at the specific time of the argument (Fischer 2003, p. 189). Since then, the following works have been developed (Hajer 2003; Yanow, Ybema, Wels, & Kaamsteeg 2009).

²² *Some scholars define governmentality as ‘analytics of government’* (Dean, 1999, 2010), while others see it as ‘rationality’ (Kerr, 1999). Governmentality defined as rationality of governing stresses the importance of ideology that government adopts in making its programs and policies. Governmentality becomes a mere instrument of the elites to brainwash the population into a false consciousness. Such interpretation turns into a study of government’s rhetoric cynically waiting to find ‘true’ and ‘objective’ interests that contradict the rhetoric. Governmentality as ‘analytics’ is an attitude about specific market outcomes, ‘a way of seeing things’ that is concerned with an analysis of any specific conditions under which particular entities emerge, exist and change’ (Dean 2010, p. 30). The problem with interpretation as analytics is the lack of specificity, because each new governmental involvement is a response to the previous regulation, where analytics are ‘shaped by its successor’ (Li, 2007, p. 18). Therefore, it is difficult to identify whether or not government was responding to a certain previous regulation.

but also what problems do they decide to tackle and why they are important. At a macroeconomic level, governing rationale embodies not just the aspiration for the change of exports away from primary commodities, but also identifies the tools and strategies they adopt to achieve it.

Foucault nuanced the term of ‘governmentality’ to explain differences at the way microeconomic regulations are tailored in various countries. Some countries allow more freedom and competition, while others prefer a more incremental approach based on the preservation of order. Specifically, Foucault noted the impossibility of introducing competition and the rule of law, two necessary components for the intensive growth firms, simultaneously (Foucault, 2008, lecture 2). In order to address this difficulty, Foucault outlined radical and revolutionary paths of transformation from the sovereign [in this case patrimonial] rule to the liberal self-limiting authority (Foucault, 2008). According to him, the revolutionary approach is structured around strong intervention by the regime into economy through public law (Foucault, 2008, p. 41). In other words, revolutionary approach advocated transition based on the principles defined by law, which determined the scope and scale of state regulation. Radical approach structured governing based on economic freedom and competition (Foucault, 2008, p. 41). For Foucault, the key difference between the two approaches is their conception of the market. Radical approach assumes ‘a natural economic reality, with intrinsic laws that the art of government must bear in mind and respect’ (Lemke, 2001, p. 193). Revolutionary approach assumed that the natural state of the market that operates under pure competition creates perverse effects if left without state regulation. Revolutionary approach assumes that economic mechanisms of supply and demand cause monopolistic

tendencies and undermine innovation if left on their own. State's responsibility is to prevent 'homogenizing trends of a 'mass society' in order to sustain competition (Lemke, 2001, p. 195).

Based on this distinction a new theoretical framework works out a typology of governing rationales in the AL regimes. It starts with the assumption that in the AL regimes competition and the rule of law are in tension. Competition must administer itself. Self-limiting state regulations of the market preclude effective administration of law in countries with patrimonial capitalism. The rule of law requires government control and intervention into the market processes. AL regimes face this tension in determining how much to govern: *competition* requires less government intervention and *the rule of law* calls for stronger state participation to enforce the principles. The rulers choose to achieve market economy by either supporting competition or administering the rule of law.

Each rationale balances the needs of extensive growth firms that might suffer from open markets and competition, and the intensive growth firms that might suffocate from overregulation of their activities on part of the state. Governing rationales adopted by the AL regimes eager to promote competition in favor of the intensive growth firms will be called *Managerial*.²³ Liberal industrialization path based on the rule of law that supports extensive growth firms while introducing intensive growth firms will be called *Paternalistic*.²⁴ The terms were chosen to depict the differences in microeconomic regulation during the liberal industrialization process. AL regimes that adopt managerial

²³ I developed this term together with Laura Adams. Please see (Adams & Rustemova 2009).

²⁴ Both terms were introduced for the first time in (Adams & Rustemova, 2009). Since then I applied the terms to a project in political economy as originally designed, rather than to illuminate cases in cultural anthropology where they were also useful in exposing how the state perceived itself in society.

rationale treat the competitive market as a realm that is superior to that of state regulation, because markets provide opportunities and freedoms for each firm to make strategic business decisions. Managerial rationale positions the state as a market actor, its facilitator and preserver of the competitive market system with minimal social responsibilities. The state's goal is to ensure stability of the market. By decreasing the number of functions and responsibilities from bureaucrats, managerial regimes provide more freedoms to people for wealth-creation and personal enrichment. Industrialization is compared to the management of large corporations that seeks to ensure maximum profits and minimal costs of each unit that participates in the production process.

Paternalistic rationale presumes protective functions of population against the vestiges of market and includes large component of social responsibilities. Industrialization is seen as a volatile and dangerous process where people and their firms risk assets. The state is responsible for cushioning the transition and leveling the playing field for everyone involved in the market. It calls for the state to provide social protection and equalize opportunities for members of the national community. Both governing rationales aspire for the same goal of becoming market economies producing high value-added internationally-competitive domestic products, but the pathways are different.

Two conceptions of competition are guided by two styles of the rule of law. In the AL regimes, where the ruler defines the scope and scale of liberal industrialization, his regime is responsible for provision of the rule of law, i.e. application of principles laid out in legislation to both, extensive and intensive firms. The enforcement and monitoring of those principles also depends on the ruler. In the AL regimes the ruler serves as both the source of law and its enforcer. Hence, the primary responsibility of the ruler is to

design a framework of competition conducive to both types of firms, but also to ensure that patrimonial bureaucrats implement the legal framework in practice and minimize the bureaucratic rents. Two legal regimes that govern bureaucratic behavior throughout the industrialization process are distinguished. Legal regime is the underlying system of principles and rules of monitoring and enforcement of liberal industrialization. It signifies the way the law is drafted and enforced in governing the markets in the AL regimes. In practice, the legal regime provides a framework of legal rules for all market participants in liberal industrialization and consists of an oversight mechanism that pinpoints the type of problems government wants to regulate and the type of methods it will use in supervising the industrialization process.

The main principle of law-making at the micro-economic levels in managerial rationale is based on the idea that competitive markets thrive when individuals are free to make decisions. Contrary to criticism from political liberalism,²⁵ managerial AL regimes give free hand to individual firms to exercise choice in the market. When competition and freedoms are allowed, consumers are the best regulators of supply and demand (Jouvenel, 1997). This principle is logically connected with their understanding of the market as a realm of opportunities, satisfaction of personal desires and wealth-creation. Therefore,

²⁵ Political liberalism literature reveres the notion of individual autonomy, which refers to an ability to be 'a law to oneself', a self-governing person who is accountable for one's own decisions and activities. Political liberalism vehemently accuses authoritarian states of infringing on basic human rights. They claim that the exercise of individual decisions is an indispensable attribute of each human being and that individual choices define a person (Rawls, 1991; Grey, 2000; Appiah, 2006; Connolly, 2010). In other words, for this literature, the state is responsible for the provision of autonomous space for individual freedoms to blossom, which authoritarianism is incapable of providing. Democracy, as a form of government accountable to the will of the electorate (the people), is deemed as the only political regime where authority guarantees protection of individual will. Political authoritarianism is unacceptable not only because the ruler is endowed with unrestricted authority, but also because it is a gross violation of human right, of what it means to be a human. There is a strand of political liberalism literature that presupposes strong protection of population against the vagaries of markets. This interpretation of liberalism is common in Europe and Foucault called them 'ordo-liberals' (2003, 2007).

managerial rationale does not prohibit behavior, but adopts norms that reward or reprimand behavior of market actors.

Regimes that adopt managerial rationale hire technocrats. Technocrats make *a body of executives equipped with skills and knowledge of how to govern the market and encourage competition*. Under this system of subordination, technocrats have certain freedoms to implement the reforms in practice. Their loyalty to the authoritarian leader is measured by economic performance rather than strict adherence to central directives. The term technocrat used in this dissertation is different from the conventional negative meaning that it carries in literature outside of the former Soviet Union. In Public Administration it denotes a functional logical way of thinking based on scientific laws, which serve as foundations of social policies governmental policies (Fischer, 1990). The importance of expertise is exactly the reason for their support by the ruler. For the rulers, these experts, blinded by the dogmatic belief in science, are the saviors who utilize their knowledge in the process of ALI. Technocrats are praised, rather than critiqued for being undemocratic (Lasswell, [1947] 1999; Lefort C. , 1986) or irresponsive of criticism and unaccountable to the people. In addition, the positive backing of technocrats in the former Soviet Union comes from the juxtaposition against the former Soviet apparatchiks. Technocrats are positively received precisely because of their expertise and knowledge of how to build and regulate market economy. They are considered to be less affiliated with patrimonial practices because of their anti-Soviet or even post-Soviet (technocrats are usually young) past. Technocrats do possess knowledge about how to govern markets with minimal state intervention and foster intensive-growth firms at home.

Paternalistic rationale values prescriptive and directive functions of law, because protection of people in the market requires restrictions of their behavior, freedoms and competition. Contrary to the managerial rationale, paternalistic regime prevents commodification of social functions. Rather than ceding it to private parties, government prefers to retain as many industries possible out of the market, rather than pushing more economic activities into the market²⁶. Therefore, the primary responsibility of state is to maintain a fair procedure of exchange and ensure benefit of all participants in the transaction. With the understanding that market is a realm of high risks, law serves as the primary instrument of leveling playing fields and thereby equates and veils the differences. The goal of the paternalistic AL regime is to ensure protection of population against market domination. This thinking is derived from the assumption that the population needs tools and skills to minimize failure in the market and government's job is to foster business education, private property management skills, financial services and productivity basics. Paternalistic regime builds intensive growth firms by providing population with inputs, such as capital, for production of necessary consumer goods. By providing people with necessary skills and tools, the government helps the population to engage in economic transactions and increase the general prosperity of all. Therefore, the state with paternalistic rationale relies on law-enforcement and the government's interpretation of right and wrong to coordinate liberal industrialization.

Strong emphasis on social welfare does not require knowledge of minimalist governing of the market. Rather than technocrats, paternalistic rationale is implemented by autocrats – a body of the officials whose governing coordination is based on trust and personal loyalty to the authoritarian ruler. Central directives become dogmatic and

²⁶ I am grateful to Phil Cerny for pointing this distinction to me. For more, please see (Cerny, 1990).

‘morally superior’ to the agency of the autocrat. The term autocrat differs from the conventional meaning of ‘one person rule’ or bureaucratic oversupply model (Niskanen, 2007), which assumes that bureaucrats are motivated by the career self-interest looking to attract more functions to their agency and raise their status and office budget. Autocrat in both scholarships is depicted as an anti-social element that does not act in public interests. For the purposes of this dissertation, autocrats are the instruments of liberal industrialization and are personally loyal to the authoritarian rulers. They are the primary tools that patrol and monitor the industrialization process. Rather than being an impediment to the intensive growth firms, they execute directives of the ruler throughout the bureaucratic structure.

The second contribution that this dissertation makes is the development of an analytical framework of assessing ‘bureaucratic resistance’ to governing rationale over rents. However, before that the distinctions between bureaucrats and autocrats and bureaucrats and technocrats need to be specified. In the AL regimes with paternalistic rationale, autocracies are distinct from the bureaucracy, because they are personally endowed with the responsibility to implement the reforms. They are politically appointed officials who are responsible for ALI. Autocrats rely on the bureaucrats, a body of officials that is free from personal directives of the rulers. The further they are removed from the ruler, the more patrimonial they can be. The mid- and low bureaucrats undermine ALI the most, because they are the furthest removed from the rulers. In countries with managerial rationale, bureaucrats are distinct from the technocrats not only in the way they think and act or the type of education they possess, but also in the way they are subordinated to the rulers. Technocrats are responsible for governing the market in a managerial fashion, but they need to rely on data, information and implementation of

the proposed reforms on patrimonial officials, products of the exact system technocrats want to change. As a result, bureaucrats provide more resistance to ALI, because they control knowledge transferred to technocrats. Similarly, mid-to-low officials provide the most resistance, because they are free from control from their superiors. Both resistance practices are informed by the struggle over rents.

Foucault formulated resistance as the ‘dissidence of conduct’ (Foucault, 2003, lecture 12), as a practice of alternative non-governing rationale. Foucault compared dissidence to participation in secret sects where the hidden truth was restricted, and which ‘only members of the sect knew and shared’ (Foucault, 2003, pp. 233-234). According to Foucault, people’s resistance defends another, non-sovereign truth and interpretation of what is right and moral. For example, if the ruler calls for war with the heretics and infidels killing women and children, some officials engaged in conflict might refuse to conduct atrocities and instead, might secretly provide secure passage. Resistance is based on an alternative interpretation of what is right and what is moral.

This definition of resistance as dissidence applies to the AL regimes, where bureaucratic rent-seeking practices in commodity-based regimes take up the patrimonial system as normal and acceptable. It functions because everyone participates and sees bureaucratic rents as the status quo. However, contrary to Foucault’s definition of the dissidence of conduct as a practice of alternative morals, bureaucratic resistance has no normative or ethical components. Perverted patrimonial ‘morality’ is highly utilitarian. The logic of the dissidence of conduct identified through the interviews among officials is based on the idea ‘if not me, then someone else will get rich’. In addition, the

authoritarian structure of the AL regimes precludes acceptance of alternative non-liberal ethics and force officials to frame their behavior in liberal terms.

As a result, bureaucratic resistance in the AL regimes is always clandestine. In the regime where the ruler remains patrimonial or is weak to discipline bureaucrats into liberal governing principles, patrimonialism is no longer dissident, but part of the governing principles. Hence, bureaucrats in such regimes are not dissident and the regimes are not AL. AL regimes are those where the ruler is interested in curbing rent-seeking practices of patrimonial bureaucrats in order to industrialize. Dissidence is a term that points to the implementation of ideas of advanced liberal industrialization in a way that subverts the ALI.

Several modifications are required to the Foucault-ian perspective. First, Foucault's analytical method of investigation looked at how liberalism became 'normalized', seen as truth and the only possible solution in the present among both, government and the people (Foucault, 2007). For the AL regimes the normalcy of liberalism is not given, but constructed and re-constructed through disciplining bureaucracy. The ruler's liberal ideal is imposed against the normalcy of patrimonialism and acquires extraordinary importance, because the political longevity of the ruler depends on the success of liberal industrialization. As a result, this project looks at interests and incentives within the elites and treats industrialization as a clash within the state.

The clash is visible through the resistance strategies that bureaucrats use. If liberal governing rationale prescribes autonomy of the market, bureaucrats implant fake affiliated firms and divert resources away from supporting competition. If governing

rationale prescribes state intervention in order to alleviate deviant outcomes, officials depoliticize problems by pretending that they do not exist or exhibit diminishing recognition of issues. As problems go on unreported, the ruler has to take extraordinary measures to sustain industrialization. Lastly, as governing rationale prescribes responsible officials, bureaucrats develop ruler's personality cults, to shift the blame for unfulfilled promises upon the ruler. Personality cults are intentional exaggeration of the ruler's abilities as the sole source and guarantor of the vision for the future. Therefore, industrialization is a result of the disciplining attempts of the ruler over bureaucracy and the scope of their resistance.

Lastly, Foucault's European perspective prevented him from looking at the politics in commodity-based countries. He did not see the importance of technological innovations and the difference between intensive and extensive growth firms in the economy. The heuristic application of Michel Foucault's work in the proposed analytical framework enables the depiction of industrialization as a disciplining practice of liberal governing rationale. He explains that it is impossible to introduce the rule of law and competition, two essential criteria of market economy, simultaneously. In addition, Foucault conceptualized resistance as practice of alternative governing rationales. By applying Foucault's work to the analysis of industrialization in AL regimes, the practice of liberal governing rationale appears with an inherently political nature.

The analytical framework developed in this dissertation adds and systematizes the political nature of governing rationale. Foucault did not raise the question of what motivated the choice of radical and revolutionary paths. This dissertation provides a comprehensive answer to explain the difference. Second, Foucault does not look at the

oversight mechanisms that follow the governing rationale of ALI. The question of policy application did not interest him. As a result, his analytical structure cannot provide an answer to how success or failure of ALI should be evaluated.

Methodology

In order to answer these questions, the studying of governing rationale and bureaucratic resistance needs to be detailed. The power of resistance to liberal industrialization stems from the lack of control over reform implementation, which becomes visible when discursive and disciplinary practices are compared. Discursive practices, defined as *what is said* about industrialization by rulers in the AL regimes, outline the scope of the permissible behavior for the bureaucrats. Discursive practices impose specific frames, the way of seeing things, upon officials and thereby restrict the set of permitted and acceptable ideas. If officials want to remain in power, they must replicate the jargon of discursive practices to justify their actions and present policy proposals in those same terms. Discursive practices are linked to the disciplinary practices. Disciplinary practices are what the regime does to embed governing rationale into the thoughts and actions of officials. Besides imposing the mental frames, officials are endowed with responsibilities to introduce liberalism through administering specific reforms. Successful implementation of industrialization programs is measured by the number of firms exporting non-commodity-based domestic goods. This dissertation examines whether the ruler's words match bureaucratic practices. These differences are often overlooked. However, the small differences between discursive and disciplinary practices are valid indicators that signify the success of ALI. These differences illuminate not only the

degree of differentiation between what is said and what is done, but also show specific practices challenged by patrimonial rent-seeking bureaucracy.

Comparison between discursive and disciplinary practices needs to be operationalized in order to trace the ruler's success in disciplining bureaucrats at macroeconomic and microeconomic levels. The methodology operationalizes two practices by modifying Mitchell Dean's (1999) framework. ALI's discursive practices are divided into Telos, Ethos, and Episteme, which are compared with the disciplinary practices of Techne. Techne is introduced at a microlevel. In doing so, we are able to trace whether embedding of liberal mentality among patrimonial bureaucrats has been successful. Telos, the ultimate goal of becoming internationally competitive producer of high value-added finished goods justifies the ruler's stay in power. Ethos develops a more nuanced account of industrialization principles. But Ethos is significantly constrained by the nature of commodity exports. Ethos determines the pace of reforms. The choice of Ethos depends on the amount of rent from primary commodity sales. Abundant rents allow governments to take more risks and introduce governing rationale that supports competition and fast implementation of ALI. Scarce rents constrain government options for industrialization policies and determine more controlled, incremental and orderly transition to ALI. The Episteme is a realm of strategy that defines macroeconomic policies that support intensive growth firms. They support expert diversification strategies of local firms. Episteme represents the scale of ALI. It identifies strategies that support diversification of export away from intensive-growth margin' when the state ships the same goods to the same partners. In doing so, we notice the following relationship: if domestic economy is heavily interdependent and integrated within it, then

the scale of ALI will be smaller and the regime will prefer to impose strict control and order while it slowly introduces conditions for the intensive growth firms. If the domestic economic enterprises are not integrated, then the scale of ALI will be higher since many more sectors can take part in global trade and international competition. The former approach is based on the incremental introduction of competition and export diversification strategies. The latter supports more integration of more economic sectors in global trade to facilitate dependence on commodity exports. *Techne* is a disciplinary practice that describes the realm of microeconomic reforms and it reflects the scope of ALI. If the majority of the population is involved in producing commodity rents, then the AL regime has scarce resources for ALI and prefers to adopt paternalistic governing rationale. If the majority of commodity rents are appropriated by the AL regime, then managerial rationale is likely to be chosen.

Such analytical separation of governing rationale into four realms allows us to trace bureaucratic dissidence in various fields of industrialization, both economic and political. Disciplinary practices of *Techne* are avoided if bureaucrats report positive economic statistics, while distributing government resources among affiliated firms, this analytical framework will be able to trace it. By tracing bureaucratic resistance we can trace the success of specific policies that help economic transition from the extensive to intensive growth firms. Since ALI presupposed limited bureaucratic intervention and minimal patrimonial practices at a micro-level, at the level of firms, comparison between the discursive practices and disciplinary practices will show the success of bureaucratic discipline, because *Techne* will provide a microeconomic picture .

Existence of open protests and growing share of the extensive industries in exports allow one to infer about unsuccessful introduction of ALI by the authoritarian regimes. Specifically, in the political realm, the existence of open protests shows whether the rulers have been successful in disciplining bureaucrats into adopting liberal governing rationale. Open protests are defined as collective actions that elicits frustration and aggression against the government, its institutions and officials.²⁷ In economic realm, success of the industrialization strategies is measured by the increasing volume of high value-added final goods in total exports. As a result, an analytical framework for success or failure of liberal industrialization in the AL regimes depends on the choice, implementation of and resistance to industrialization paths introduced by the AL regimes.

Case Selection

In order to test the hypothesis and show the actual practices that undermine liberal industrialization efforts, a small number of countries is required. The comparative strategy of the Most-Similar systems will strengthen the argument by pinpointing the peculiarities and intricacies of bureaucratic resistance within the AL regimes. Preferably, these cases should be geographically and culturally similar in order to attribute the differences of outcomes to the relationship between the bureaucracy and the ruler rather than culture, history, or geography. In addition, they should be different in the nature of exports as the primary source of income for the industrialization project; and in the type of governing rationale, which defines the relationship between the ruler and the officials.

²⁷ This definition is modified and applied from (Opp, 2009, pp. 163-165), who discussed protests as outcomes of political opportunity structures. The theory is applicable here, because it traces the process of the relationship between governments and people in an interactive fashion. For more, please see McAdam, Tarrow, & Tilly, *The Dynamics of Contention*, 2001; Tilly, 2004; McAdam & Snow, 2010

Kazakhstan and Uzbekistan are suitable cases for the proposed methodology: both share similar Turkic culture and shared experiences as part of the Soviet Union. Most importantly, both leaders have been in power for two decades and oversaw transition from socialism to patrimonial capitalism and are now in charge of the liberal (to different degrees) industrialization policies. Nonetheless, they developed opposing characteristics of bureaucratic subordination. The Uzbek regime established autocracy with strong involvement of the state in economy, which fits the argument, because the main input of Uzbekistan is cotton. Cotton production involves the majority of the population in the industry. If the state appropriates agricultural commodity rent, it has to provide welfare to the population. Kazakhstan gets its wealth from the sale of oil, natural gas and minerals. Its technocrats possess large incomes to fund industrialization and patrimonial bureaucracy. By comparing Kazakhstan and Uzbekistan, more detailed data can be presented to avoid the problem of loose conceptualization (Sartori, 1984).

Comparison of the ‘most-different’ system of studying ‘normal’ and ‘most deviant’ case could have been fruitful only if those expectations were valid (O'Donnell, 1973). However, too many alternative explanations can explain the differences between China and Kyrgyzstan or Belarus and Laos because of the lack of shared historical, cultural and physical experiences. Comparison of these states would force more abstract generalizations, rather than looking at the important tendencies operating within both political regimes.

Data Collection

This analysis of liberal practices and industrialization strategies starts in 1997, the first year when both rulers designed and introduced the Telos of ALI. The Ethos and

Epistemes came later when both countries experienced stability and saw the first signs of economic recovery and growth (for economic analysis see Gray, Lane, & Varoudakis, 2007). The primary source of data will come from the government programs juxtaposing speeches and public declarations as they comment on the issues of industrialization and economic development. Checking the veracity of the programs is not the purpose of this dissertation. Rather, the goal of this dissertation is to show how liberalism becomes the defining principle in the relationship between the rulers and bureaucracy²⁸. Boundaries of patrimonial possibilities are explored. The findings from the discourse analysis will be triangulated by in-depth interviews with the government officials who are responsible for the conduct of industrialization. Guaranteed full confidentiality, officials were chosen from the list of newly formed government bodies responsible for ALI (see Table 1). Selection was restricted by the following criteria:

- Work experience no longer than five years in the following agencies or retired personnel involved in these agencies:
- Educational background should be no less than an undergraduate degree
- Position involves mid- to high level officials who are responsible to the decision-making

²⁸ This goal complicates conventional views of the authoritarian regimes that emphasize the role of clans (Collins, 2006), institutions (Luong P. J., 2002). The 'clan' literature traces industrial policy process as an outcome of the consensus among the competing groups (Schatz, 2008). ALI as governing rationale points to the fact that even within the powerful clans there might be those who stand for the rulers' ALI and those who derive their power from the extensive growth firms. Economic distinction of the elites proposed in this dissertation reflects ALI more accurately. Institutional explanations show the capacity of rulers' abilities to embed liberal mentality among bureaucrats. Authoritarian rule and broad powers allow presidential administration to be at the helm of ALI (Acemoglu & Robinson, 2008; Way & Levitsky, 2010, chapter 5; Luong & Weinthal, 2010). Institutionalists trace bureaucratic resistance to inadequate administrative system that needs reforms (Luong & Weinthal, 2010). This dissertation shows that administrative reforms can be successful only when the structure of economic system changes to the intensive growth enterprises.

- International consultants who have worked with the officials in developing and introducing policy initiatives

Officials were excluded from the interviews if they fit the following criteria:

- Officials who worked in these agencies before 2000. Before that Kazakhstan and Uzbekistan were trying to cope with economic and social difficulties without ability to conduct pro-active independent policies.
- Officials with work experience in a legislative or judicial branches of government.

Besides in-depth interviews deconstruction methods, deep reading and analysis of statistical data are used to clarify and expand the findings.

Chapter Outline

In the second chapter relevance of the new analytical framework of industrialization will be elicited. Specifically, literature review brings two reasons in support of this project. The first problem is analytical separation between political scientists and economists when it comes to industrialization in AL regimes. Economists call for less state involvement into the market and political scientists aspire to protect the people from the vagaries and risks of market exchange. Implementation of ALI, defined as governing rationale, escapes political and economic divide, because regulations to secure competition or individual autonomy are interdisciplinary. The second problem is that literature is separated between macro and micro levels of analysis. Industrialization needs macroeconomic policies of stability, but depends on firms' ability to make the decisions about how and where to allocate investments. By theorizing industrialization as bureaucratic disciplining by the ruler that faces resistance, these problems are avoided.

In the third chapter this dissertation develops analytical framework and conditions for successful industrialization. It fully develops two versions of liberal industrialization, its managerial and paternalistic models by going through their Telos, Ethos, Episteme and Techne specifying policies at the macroeconomic and microeconomic levels. Then it elaborates on the methods of bureaucratic resistance. It outlines the expected modes of dissidence at a micro-level and specifies limitations and benefits of legal regime oversight. It concludes with the idea that there are two ways out of bureaucratic resistance for the AL rulers. One is to become authoritarian and increase repressions of patrimonial bureaucrats, which alters the nature of the AL regime. The second option is to work through patrimonial bureaucrats by supporting their investments and management of the domestic non-commodity firms. Existence of rich and independent local business class makes political system neopluralistic rather than authoritarian, because such business people begin to question authority of the ruler as their wealth and control over economy increases, which makes the system unstable and insecure.

In order to test this theory, the fourth chapter will look at Kazakhstan and Uzbekistan as case studies. This chapter will describe patrimonial capitalism that provides incentives against industrialization by the bureaucracy. It will also show specific pathologies of the extensive growth firms in the domestic market and negative impact of the 'intensive growth' exports.

The fifth chapter will describe discursive practices of two states in order to show common Teloses of these two AL regimes. It will then concentrate on the Ethoses that choose managerial or paternalistic rationales. It will specify key differences in the

assumptions of governing reforms at the macroeconomic and microeconomic levels showing how they are aiming to curb pathologies of the extensive growth.

The sixth chapter shows that Kazakhstani regime attracted technocrats to power endowed with the sole responsibility to expand autonomy of the market and entrepreneurship. Profit-maximization strategies were introduced under the auspices of competitive advantage (Porter 1998).²⁹ In case of Uzbekistan, its autocracy became responsible for providing welfare to people ensuring access to basic public goods and services. The regime slowly allows international investors access by guaranteeing protection if they supply domestic markets with technologically-advanced goods.

In the seventh chapter will evaluate the success of disciplinary practices by analyzing the actual resistance strategies utilized by the bureaucrats. The comparisons between the type of personality cults, depoliticization strategies and subversive patrimonialism will be described. The chapter will point to the effectiveness of these strategies and gaps within the system of oversight imposed by the AL rulers. It will also point to the necessities of change away from the AL regimes towards more authoritarian system of governance in Uzbekistan and more systemic changes towards neopluralistic governance in Kazakhstan. The conclusion of this dissertation will present benefits and limitations of the proposed analytical model and will shed light on the path to appropriate research in the future.

²⁹ For the discussion on different understanding of competitive advantage, please see page 100-102

CHAPTER 2 LITERATURE REVIEW

This chapter reviews the research on industrialization in order to justify the need for a new analytical framework that could correct two major problems with the existing scholarship. First, the new framework needs to avoid separation between politics and economics, because besides macro- and microeconomic changes, political disciplining of patrimonial bureaucrats is necessary. In addition, a new analytical framework needs to overcome rigid separation between the levels of analyses, because explanation of successes and failures of industrialization that concentrates solely at the level of a firm or a country, or solely at the level of the bureaucracy or the ruler provides only a partial picture. This chapter concludes that by studying the words and actions of the AL regimes comprehensively, we get a more systemic picture of industrialization dynamics is clarified and understanding of economic liberalism is enhanced.

In this section, four major analytical perspectives of industrialization are evaluated. They fall into two opposing views regarding the question of whether authoritarian regimes can successfully entrench liberal governing rationale among its bureaucrats. For the purposes of this paper, the two opposing viewpoints are divided into pessimists, who believe that the AL regimes are doomed and optimists, who believe that only regimes with the AL political structure are capable of introducing liberalism successfully. Pessimists and optimists are further divided between those who analyze industrialization at the macro-level looking at the interaction between the state and the market and those who examine industrialization at the level of firm and concrete bureaucrats. Macro-level pessimists, represented by the neoclassical transition

economists, called ‘Washington Consensus’ (the WCO)¹, equate industrialization with economic growth. They defend a hypothesis that economies grow only when politics is bound by rule of law and honest competitive elections continuously improve governance in the interests of competitive industries. They argue that authoritarian regimes cannot sustain export diversification, because governments always intervene into economy becoming an impediment for economic growth. The WCO’s trust in the theory of comparative advantage prevents them from looking at the negative outcomes of commodity exports. Liberal industrialization at a macro-level should be concerned with the diversifying exports from the competitive intensive growth firms. Otherwise, primary commodity exporters stagnate as in the vanilla-based Madagascar economy. Macro-level optimists, the ‘Beijing Consensus’² (the BCO), treat industrialization as a political project that ‘compensates for backwardness’ (Gerschenkron, 1962) by correcting pathologies of the market in strategic industries. They believe that the authoritarian government is more efficient in allocating resources where necessary and enforce implementation of the reforms. Both of these definitions fail to theorize industrialization as a diversification of

¹ Originally the term was not meant to signify the normative dogma of neoliberal thinking, but aimed to describe a set of economic reforms that achieved universal agreement in Washington DC, including the policy-makers, economists and politicians (Williamson, 1993, p. 1329). Williamson did not support the term being equated to Neoliberalism, he preferred neoconservatism. Neoconservatism is a view of ‘positive economics’ (Williamson, 1993, p. 1334). Competition requires macroeconomic stabilization measures, which include: fiscal policy discipline; redirection of public spending to pro-growth services and investment; broadening tax base and tax reform; interest rates to be determined by the market in real terms; competitive exchange rates; trade liberalization; liberalization of inward FDI; privatization of state enterprises; deregulation; and legal security of property rights (Williamson, 1993).

² Historically, the literature of what is called Beijing Consensus is a heuristic revision of the dependency theory developed in the 1960’s and 70’s, mainly by Latin American scholars who cited the economic structural impediments of colonialism and promoted strong state intervention. However, state-led development caused severe economic problems, such as the mounting debt and corruption. The Washington Consensus literature is the response to negative experiences of government intervention in Latin America. Background evidence links both literatures to a dynamic dialogue.

exports away from commodity sales. Export diversification depends on the microeconomic policies and the demand for productions from the intensive growth firms.

Micro-level theories are also divided into pessimists and optimists. However, instead of studying grand relationship between the politics and economics, they analyze relations either between bureaucrats and firms or between the ruler and firms. Micro-level pessimists, represented by the Bureaucratic Choice literature (BCh) treat industrialization as an economic outcome of free trade. They claim that industrialization is successful only when bureaucrats overcome their desire to increase the welfare of its population through protectionist measures. The desire constantly interferes with economic processes of competition and the rule of law and creates incentives for the influence of special interests on industrial policy-making (Bhagwati, 1982). Tariffs, quotas and other protectionist measures impede competitive allocation of resources. Unfair competition destroys intensive growth firms, even if protectionist measures uphold social welfare. This framework is useful for the project because it outlines negative outcomes of protectionism, but BCh theory has limited understanding of bureaucratic interests and incentives. Besides provision of welfare, personal interests might play the most important role, together with the desire to expand control over the economy. Micro-level optimists, represented by the Varieties of Capitalism literature, treat industrialization as a political reform that provides the best conditions for firms for a maximum profit (Hollingsworth & Boyer, 1997; Lane & Myant, 2007). Looking at domestic politics, they mandate authoritarian state to introduce market-friendly regulations in strategic sectors making it profitable for firms to produce specific goods. For them, the nature of the political regime is of secondary importance so long as

government provides economic incentives to increase firms' profitability. Contradictory definitions of industrialization that attribute success to solely political or economic factors and support their views with macro and micro levels explanations call for an integrated analytical framework.

Macro-Level Pessimists: The *Washington Consensus*

The Washington Consensus is a body of literature that treats industrialization as a rapid increase of economic growth due to the integration into international trade. Economic growth serves as a proxy for overall wealth produced in the country, which expands as the country integrates into global markets by finding new economic partners, selling more competitive domestically-produced goods. But authoritarian regimes do not respect the autonomy of the market and interfere into the workings of supply and demand. Unaccountable to people, they purge profitable non-commodity exporters with paperwork, red tape and licensing. They are rent-seeking and thrive on commodity sales that do not require domestic competition and the rule of law. In addition, these states do not have stable income to fund the industrialization process throughout the five to fifteen years needed due to the expected fluctuations in international prices and in volatile demand on commodities in the short run. The WCO 'sees' the sole solution to industrialization in the commodity exporting states as occurring through the market. The job of the state is to create domestic conditions attractive enough to international investors to come and set up businesses in non-commodity sectors that produce internationally competitive goods and export them to the international markets. This model of industrialization is called export-oriented industrialization (EOI). But EOI is

impossible in the authoritarian regimes where intensive growth firms lack conditions for growth.

The WCO's pessimism rests on the need of authoritarian regimes to respect the autonomy of the market and 'withdraw' from market regulation, enabling foreign investors to have stronger bargaining positions vis-à-vis the state and even dictate their own rules and conditions. Most of the time investors want promises on macroeconomic stability and guaranteed minimal government interference into their affairs. They do not want to be surprised with extra taxes or high inflation rates after investments are made. Policies described in the original article on the Washington Consensus (Williamson, 1993) represent primarily what is desired by investors. Macroeconomic stability requires the state to conduct strict fiscal discipline, redirect public spending towards investments, introduce market-based interest rates, broaden its tax base and introduce competitive exchange rates so the price for the domestic goods remains attractive in the international markets. The list of policies that guarantee minimal state interference includes trade liberalization, privatization of state enterprises, legal security of property rights, and liberalization of inward FDI³(Williamson. 2003). The grounds for pessimism of the AL regimes' inability to reach two sets of EOI⁴ policies require elaboration.

Fiscal policy discipline points to responsible government spending and cut in taxes. Such policies stimulate economic growth due to increased economic activity (Gale

³ By FDI we mean 'international capital flows in which a firm in one country creates or expands a subsidiary in another... [which] involves not only a transfer of resources but also the acquisition of control' (Krugman & Obstfeld, 2007, p. 157).

⁴ This dissertation acknowledges that EOI literature is diverse. Some research proved that EOI policies of particular states were not as 'free' and governments did interfere into economy. Particularly, works of (Kohli, 2004, Amsden, 2001). However, the general interpretation of the Asian Miracle is that these states developed because of the market and were considered 'open economies' despite relative high tariffs and protectionist barriers to trade (Amsden, 2001).

& Orszag, 2003; Kumar & Ter-Minassian, 2007; Wiarda, 2007). As the intensive growth firms obtain more money from lower tax rates, they can invest extra income and expand their operation, i.e. hire new workers, set up new affiliates. Therefore, production of the competitive products will grow and export will be diversified. In addition, if government expenses remain low, then currency appreciation will not happen. However, if the government spends USD100 billion on industrialization projects, it boosts demand for domestically-produced goods and makes them more expensive relative to foreign products. As a result, domestic industries become uncompetitive. According to the EOI, fiscal policy discipline is essential for economic growth that brings export diversification.

The second policy on macroeconomic stability details how the public money should be spent. Instead of throwing USD100 billion into the market as subsidies, government can become a lender for domestic enterprises (Cho, 1997). According to this logic, loans are not subsidies, but capital that needs to be returned after a positive performance of the entire industry. New industrial sectors can appear if they have access to the necessary investments and opportunities for growth. This policy also means that government should cut-down on social spending and consumption, because it is unproductive and causes rapid inflation. This story is familiar to the population in the post-Soviet AL regimes where a raise in pensions or salaries of state workers causes high increase in inflation, which ‘eats’ the extra premium distributed by the state. Instead of ‘wasting’ capital, EOI proposes to use public money for productive sectors that are short of cash (Brodie, 2004).

Another policy that expands economic growth relates to the expansion of tax base. Contrary to the initial logic, decrease in taxes stimulates businesses to expand. As

they expand, they hire new labor, which joins the pool of taxpayers and sends money back to state coffers (Cheikbossian, 2008; Freinkman & Plekhanov, 2009). High taxes lead to economic contraction and industries fire people in order to stay afloat (Evans, 1997; Strange, 1996). The responsibility to sustain a pool of unemployed population belongs to the state, which has to spend money on their welfare. Low taxes increase the tax base and engage more population into the liberal industrialization process.

Another macroeconomic instrument that supports export diversification is an interest rate that is determined by the market (Dennis & Shepherd, 2007). Interest rate is the amount of currency an individual can earn by lending a unit of it for a year (Krugman and Obstfeld 2007, p. 319). By depositing various currencies to the bank, individuals acquire extra income, whereas the banks acquire investment capital that they could use to sponsor businesses of non-commodity firms. If the interest rate is regulated by the bank, not the government, then the bank, interested in profits, will seek the most competitive industries for investments. By supporting the best enterprises, banks ensure economic growth of non-commodity firms that are, in turn, responsible for the increasing exports value.

The last macroeconomic instrument is a competitive exchange rate (Eichengreen, 1998; Goldstein, 2004). In practice, it means that the government needs to keep the value of its domestic currency low vis-à-vis other currencies, so the final price of goods from domestic producers will be competitive abroad. For example, if 150 Kazakhstani Tenge (KZT) are exchanged for 1 US Dollar (USD), then domestic producers that export goods worth one dollar spend KZT150. If government allows local currency to weaken for example, $USD1 = KZT200$ vis-à-vis the dollar, then it means that local producers have to

spend more money producing the good, which will increase the final price of this example by 25%. Governments cannot keep local currencies strong all the time. Exchange rate depends on the amount of trade turnover. If the government exports more than it imports, then it will have a surplus of foreign currency in the economy, which will make local currency stronger. If the surplus of money is invested back into the economy, then local economy will grow further.

After going through the macroeconomic policies necessary for liberal industrialization, WCO scholars conclude with pessimism. They argue that authoritarian regimes cannot sustain fiscal discipline and expansion of tax base, because primary commodity exporters are not interested in living off the taxes (Khan, 2000). They want to keep taxes low in order to be less accountable to its population, while impeding development of new businesses (Ross, 2001). Lack of the rule of law and competition, patrimonialism, bribes and racketeering practices of monitoring agencies deters entrepreneurial activities. Under these conditions, firms are required to invest additional resources to minimize political risks and secure themselves with bureaucratic connections (Williamson O. , 1996). These high transaction costs make entry of independent firms into the market difficult (Milgrom & Roberts, 1992). The underdevelopment of non-commodity businesses due to the nature of political regime undermines diversification of exports.

In addition, political interference into market regulation undermines the second set of policies necessary for liberal industrialization. According to WCO literature, authoritarian regimes cannot conduct fair trade liberalization (policies that open domestic economies to import competition), transparent privatization of state enterprises (the

transfer of state property and functions into private hands), enforce legal security of property rights, and liberalize inward FDI (freedom of capital flows within the country that eases business expansion) (Williamson 2003).

The WCO pessimists illustrate the failure of economic growth due to political interference by the example of Russia in the 1990s. Russia attempted to adopt market reforms and achieve rapid economic growth. Global financial institutions, such as IMF and the World Bank group spearheaded the implementation of reforms towards economic growth. The IMF's Structural Adjustment Programs (SAPs) consisted of three pillars: export-led growth, privatization and liberalization and increasing efficiency of domestic production (Walter & Sen, 2009). SAPs prescribed lifting trade barriers and devaluing currency to achieve growth of exports and trade. Currency devaluations allowed domestic enterprises to sell their goods at cheaper prices, both abroad and domestically. Competitive pricing permitted the states to improve the balance of trade. By exporting more than importing, firms obtained revenue, which effectively meant more revenue to the state budgets. In addition, low taxes that were devised as part of the promotion of the economic growth, helped big producers offset losses and invest additional capital into the production process, increase the size of the business, improve the labor pool and obtain more revenue from sales. Lastly, SAPs also reformed government apparatus into a leaner government. The Washington Consensus justified the 'retreat of the State' (Strange, 1996; Evans, 1997; Friedman, 1999) away from directing the market and providing costly welfare for people and towards supporting the market by enhancing economic efficiency and international competitiveness of domestic economy (Levy, 2006, p. 367).

Although the privatization of national assets boosted economic activity and domestic production, the WCO scholars blame lack of economic growth in Russia on the Russian government because it is neither democratic nor accountable to its people. In Russia, liberal reforms were introduced by the former Soviet apparatchiks who had complete control over business operations. The process of the reforms was tailored to the needs of these officials (Kotkin, 2009). Since the government was no longer recognized as the property holder and labor was divested of the right to manage property after the collapse of the Soviet Union. These officials had unrestricted access to shares of the industrial sector. Consequently, they were able to sell shares to the recipient they personally chose. During the process of privatization, high-ranking officials sold business ownership to international investors through illegal schemes, with the revenues from the sale going directly into personal accounts (Bunce, 1998; Collins, 2006; Gleason, 1997; Jones Luong, 2002; Olcott, 2005). After state properties were sold, the same officials were elected to the Board of Directors or appointed as associates (Matthews, 1994, p. 312). Top managers of state enterprises conducted fake privatization, where money changed hands, but the only thing that altered was a name change, indicating a new shareholding society, company or association (Matthews, 1994, p. 312). Authoritarian regime stalled economic reforms towards rent-seeking patrimonial capitalism, where officials technically become the primary economic actors engaged in producing goods for profit.

An alternative possibility for industrialization exists if authoritarian political regime transforms itself into democracy. However, AL regimes constantly violate the transition to democracy via electoral manipulations. Elections and opposition in the AL

regimes should not be seen as progress towards democracy (Carothers, 2002; Schedler, 2002; Way & Levitsky, 2010). The system of secret electoral manipulation and abuse of opponents are among the most frequent methods of dealing with opposition. Andrew Wilson calls these methods an electoral technology (Wilson, 2005, p. xiii). In his book “Virtual Politics” he identified how voters were duped into selecting fake candidates because the regime introduced ‘clones’ and doubles, people with similar first and last names as opposition candidates into electoral ballots. He explored the extensive use of the ‘administrative resource’, when government officials force state workers to vote for the chosen candidate by threatening them with the job losses, and with salary withholdings for noncompliance. He also showed how opposition leaders are threatened with *kompromat*, a compromising story broadcasted via government-controlled media in case an opposition candidate becomes too popular and does not stop aspiring to a political career. Bureaucrats register fake parties without offices, members or secretariat (xiii) to run them. Under these conditions opposition parties and their candidates are doomed to lose elections and are unable to threaten stability of the authoritarian elites.⁵ Democracy becomes impossible and economic growth unviable.

The WCO outline of economic outcomes caused by the “undisciplined” bureaucracy is useful for this project. It pertinently shows that the existence of patrimonial capitalism undermines industrialization because of the strong personal interference of government officials into the market. Market mechanisms of supply and demand are destroyed by bureaucrats who implement the reforms. They argue that democracies, which are accountable to people, constantly recalibrate the scope of

⁵ On the overall (mis)understandings of the rule of law in post-Soviet states, with Russia as the prime example, please see Michael Urban, *Cultures of Power in Post-Communist Russia* Cambridge University Press, 2010.

government interventions and minimize bureaucratic regulation. Authoritarian regimes cannot respect the autonomy of the market because they cannot guarantee the rule of law and fair competition. Authoritarian regimes possess unrestricted power, which is often used for political interference and undermines economic growth.

According to the WCO literature, successful industrialization depends on the ability of firms to produce and trade internationally competitive goods (Brown, 2004; Weinstein, 2003). As their profit rises, companies employ more people; pay more taxes leading to overall economic growth. Economic growth inspired by the international trade of competitively priced goods provides the best solution for industrialization. Firms unfettered by state involvement minimize the cost of inputs, such as natural resources, land and labor. The freedom to choose management personnel on merit rather than political alliances, coupled with modern technologies increase the efficiency of final products. Competitively priced and easily marketed these products obtain a larger share of the international market.⁶ When governments attempt to manage business, firms are unable to sustain the competitive edge, because government officials fail to manage enterprises effectively.

But the economic side of the argument remains problematic and calls for stronger government intervention into the economy in violation of ‘the 10 commandments’ described above. The core of the problem rests on the definition of industrialization as economic growth. Desire to expand economic growth prevents WCO from analyzing the quality and direction of that growth. Two major impediments to industrialization remain unresolved. First, the prescription for the government to act according to the ten

⁶ This point was seen as the fundamental truth and was especially prominent in the 1990s causing declaration of the End of History (Fukuyama, 1989).

principles of WCO, undermines development of the intensive growth firms in commodity-based regimes. All of the policies aim to enhance comparative advantage. Comparative advantage prescribes domestic companies to specialize in exporting commodities that they produce using domestic labor, when they do so relatively efficiently (Walter & Sen, 2009, p. 46). In practice it means that states that grow bananas relatively efficiently should remain in the banana business, even if the business brings smaller returns than export of computers, unless they learn to competitively produce another good (Walter & Sen, 2009, p. 49). The WCO's lack of attention to the importance of the learning process and uneven distribution of technology and innovations allows them to believe that when the 'invisible hand' of the market rules, then intensive growth firms will come and industrialization will take place. Governments are required to step in and provide opportunities for learning and knowledge of advanced technological innovations, if they want to develop domestic intensive growth firms.

Second, even if governments provide low taxes, strict fiscal discipline, competitive interest and exchange rates, there is no guarantee that the countries will produce high value-added internationally competitive products. Frequently, large corporations are lured by low-cost labor or vast land reserves for agriculture. If NIKE Corporation opens a subsidiary in Guatemala, it hires relatively cheap labor and exports textiles to specific markets. As the Guatemalan economy grows, more people pay taxes and investors are happy with macroeconomic stability. In addition, the presence of FDI allows the local population access to technologies, and increases the volume and quality

of production. However, there is a limit to this growth.⁷ The WCO literature neglects demand as a source of growth for these firms (Parkins, 2002, p. 2). Textile plants are forced to produce as many t-shirts as there is demand, regardless of new technologies and best practices. These states are dependent on export that is plagued by the ‘intensive-margin’ of growth. Their exports are tied to only a handful of partners whose demand determines the well-being of industrializing states. They are dependent on selling non-commodity goods to NIKE’s limited markets and cannot sell these goods to other nations or even to their own people. The fate of entire economy depends on the well-being of international investors responsible for export of non-commodity goods and the demand from the developed world. Consequently, the government needs to interfere and constantly expand the number of partners for its non-commodity producers so they can establish themselves in the market. If AL regimes want to diversify their exports, they need to engage in export promotion and support its domestic firms. The two impediments to industrialization, the comparative advantage and export based on the ‘intensive-margin’ of growth requires AL regimes to conduct more interventionist policies that go against market incentives and principles of international trade.

The Macro-Optimists: *Beijing Consensus*

The WCO’s pessimistic perspective is contrasted with the optimists. Optimists theorize industrialization as a strategic state⁸ intervention into crucial sectors of the domestic

⁷ By assuming that firms use the best technologies possible, the WCO scholars replicate indicators of technological competitiveness directly into equations for exports and imports, in order to prove that competition matters the most (Fagerberg, 1996, p. 43).

⁸ The notion of ‘strategic state’ was used in the dependency school literature to signify responsibility of the state to develop domestic internationally competitive industries that could serve as the main vehicles of economic growth (Gerschenkron, 1962; Hirschman, 1981). The state decides which strategic industries to support, hence the name. Strategic state should not be confused with the geopolitical strategy. Instead, the term used in this paper refers to the interaction between firms in oligopolistic market, where the state can

economy, where state compensates for absent market mechanisms and decides on the prices, competitiveness and allocation of resources instead of the workings of supply and demand. They argue that precisely because of the drawbacks of the WCO model that pays no attention to technological inequalities in international trade and proposes a model vulnerable to international demand fluctuations, state intervention, is necessary. For the purposes of this paper, the optimistic literature is called the Beijing Consensus to reflect the relatively successful introduction of industrialization in authoritarian China. In the 1980's, China was closed to the international trade and the middle class was suffocating from the lack of capital and technologies. The Chinese economic structure was composed of small rural entities. When the state intervened in the economy, optimism about industrialization in rural China resulted.⁹

The primary job of the government was to create market actors where market was missing so its domestic industries could diversify domestic exports by selling internationally-competitive goods. Although it is hard to derive coherent and recognized set of policies, Ramo, the father of the term BCO, identified three theorems to reach this goal. First, the Chinese government repositioned the value of innovation (Ramo, The Beijing Consensus, 2004, p. 11). Talented scientists were given the opportunity to go abroad and work at the top research institutions to obtain adequate training. When they

shift excess of profits to domestic firm, raising domestic welfare and diminishing foreign welfare (Walter & Sen, 2009, p. 53). The term strategic state as the main industrializer has been elaborated by Zysman (1983).

⁹ Note that this dissertation takes the example of the rural industrialization processes in China as its primary case study. China also introduced Export-Oriented industrialization into the manufacturing sector where foreign corporations were lured by the cheap labor force to produce manufacturing goods for export in the rest of the world. However, the growth of these firms remains extensive since productivity depends on the volume of goods produced by workers rather than the increase of productivity of each unit of input. Most of these firms operate in Special Economic Zones and have few ties with the local market. Chinese industrialization strategy also depends on cheap labor, but fundamentally aims to satisfy the domestic demand and domestic market. Its intensive-growth firms are developing high-tech products optimized for the purchasing power of Chinese residents.

returned, state support assisted with the absorption and application of technologies and innovations into practice. Hence, the state managed to avoid the pitfalls of the WCO model. Second, the Chinese government prioritized equality and sustainability of the transition model over luxuries and excessive spending. Loans and opportunities are given to local entrepreneurs in order to prevent large income inequality and chaos (Ramo, 2004, p. 12). The authoritarian nature of the regime helps to achieve this goal and direct masses of people to work in the domestic enterprises. Third, Chinese government declared the principles of self-determination as a way to achieve success in the competitive race for dominance with other hegemonic powers (Ramo, 2004, p. 12). The theorem expresses the desire of the state to avoid demand fluctuations of its products in foreign markets even if the policies might violate the rules of free trade and competition practices. The Chinese state declares its loyalty and unconditional support of the domestic enterprises. It aims for self-reliance wherever possible. Thus, the industrialization process, according to the BCO is a political project that has ties to the security and stability of the national economy.

The last theorem of the BCO solicits intellectual ground for the overall industrialization scheme. The model that gave the intellectual rationale for the Chinese industrialization project is called the Import-Substitution Industrialization model (ISI). ISI was implemented in Latin America¹⁰ and even by the Asian Tigers before they switched to EOI in the 1970's. ISI encourages governments to support an industrial base that initially produces goods for domestic consumption (Frank, 1966; Hirschman, 1968;

¹⁰ Particularly, experiences of Brazil are instructive. Its aircraft factory is highly successful in international markets. Its history goes back to the ISI policies. The company *Empresa Brasileira de Aeronáutica (Embraer)* was established in 1969 as a partnership between Brazilian government and Italian Aermacchi to create airplanes for Brazilian agriculture. In the 1970's, the company supplied planes for Brazil and Italy. In the 1990's, the company was privatized; and in 2004 it made its first commercial jet. Today Embraer is present in 92 countries (Embraer, 2010).

Cardoso & Faletto, 1979). The support of the local industrial base happens through protectionist measures, where high tariffs, subsidies and quotas artificially create a shortage of imported goods in the domestic market. Local producers pick up production in order to satisfy domestic demand. By substituting imports with local production (hence, the name Import-Substituting Industrialization), the AL regimes compensate for the lack of dynamic independent firms capable of venturing into international competition. They use the domestic market as a field for improvement and innovations.

Such policies at the macroeconomic level encourage the replacement of imported goods in the domestic markets (Krugman & Obstfeld, 2005, p. 246) improving the balance of trade. The BCO believes that creating prosperity through a positive and healthy balance of trade with other nations¹¹ is essential. A positive trade balance leads to the increase of capital (money saved from spending on imports) that is reinvested into domestic industries. ISI efforts to develop industries with high productivity and dynamic linkages to the rest of the economy encouraged a multiplicity of firms, each competing for larger share of the domestic market. When the majority of goods in the domestic markets are produced by local industries, free trade and competition should take place to export internationally competitive goods abroad. This way, diversification of exports will avoid the traps of the WCO, which ignores technological inequalities and international demand fluctuations of domestically-produced goods.

The Chinese blueprint of introducing technological innovations, the key theorem of BCO, requires elaboration. Bramall describes how the Chinese government mobilized

¹¹ In the literature this theory is called mercantilism, which was popularized by Fredrick List, who questioned postulates of free trade promoted by the scholars of Scottish Enlightenment, including Adam Smith.

the rural population, which was unqualified and uncompetitive, to join the army of qualified labor force (Bramall, 2007). The government invests in educating the labor force in the most innovative industries, like biotech, nanotechnology, etc.. For example, China produces 75,000 people with higher degrees in engineering and computer science a year (Economist, 2010, p. 2). Qualified labor force works for foreign companies in the Special Economic Zones (SEZ) providing facilities to 98 R&D institutions in China (Economist, 2010, p. 2). Access to the top notch technologies allows China and other states to reconfigure them into much cheaper and more efficient versions in order to satisfy domestic demand. In addition, China relies on state-owned enterprises that act as semi-national entities able to borrow cheap from the government and use the subsidy to reconfigure innovations. Reconfigured innovations drive domestic demand and allow companies to avoid reliance on external demand. As a result, innovative companies from the Chinese economy supported by government, developed \$3000 cars, \$300 computers and \$30 mobile phones that provide a nation-wide service for 2 cents a minute (Economist, 2010, p. 1). Cheap and qualified labor force that utilizes locally-made equipment is able to improve the quality of life of more people.¹²

The last theorem of BCO deals with the ability of authoritarian state to move resources. Chris Bramall is fascinated by the ability of authoritarian state to mobilize labor while suppressing resistance from social groups. In order to solve the skill gap, the Chinese government allowed temporary migration of rural workers to urban areas in specific provinces (Guangdong was one of them) to work at the giant plants by relaxing

¹² This is done by implementing frugal new ideas, such as organizing hospitals based on mass-production techniques, where 40 doctors specialize in a single operation and do it 600 times a week, thereby reducing its costs from USD20 000 for an open heart surgery in the US to USD2000 or by producing cheap medical equipment with less costly parts (Economist, 2010, pp. 4-5)

hukou (the internal passport system).¹³ As a result, the manufacturing sector attracted more than 43% of its workers from rural areas (Chan, 2008). Migrants were the main vehicles of technology knowledge transfer between urban and rural areas. As workers returned home and shared their experiences, more farmers were interested in developing similar pattern of skills and more of them joined the pool of the qualified labor force (Bramall, 2007).¹⁴ The continual supply of cheap labor force helped domestic companies to keep productivity levels high, and wages low. The continued trend of mobilization of domestic assets to suit manufacturing industries allowed domestic industries to produce internationally competitive goods with the lowest prices. Administrative government measures that turned millions of people from farmers to workers were essential for the success of the Chinese manufacturing sector.

The Beijing Consensus literature points out the difficulties of macro-level industrialization in countries with primary commodity exports, which requires state intervention to provide incentives in order to manufacturing capacity. It shares the key pillars of EOI, where the government sets the ‘wrong’ competitive prices, supplies cheap labor to where the market needs it and rewards exporters as they increase and diversify their production (Amsden, 2001). Industrialization strategy that justifies the need for strategic state intervention support the arguments presented here, because market participants in commodity-based regimes lack will, capital, or skills to branch out from

¹³ Problems linger with the *hukou* system since many unregistered peasants, referred to ‘worms’ also came to the city looking for jobs, significantly aggravating the use of the public infrastructure and the rural-urban migration also aggravated internal class differentiation between the poor and the rich. For more, please see (Koll, 2003; Howard, 2004; Zhang & Li, 2003).

¹⁴ In the specialized literature this concepts is called ‘learning by doing’. For more information, please see Nurkse, 1953; Arrow, 1962; Mokyr, 1985; Lal, 1992 and Amsden, 1999.

the vulnerable and unstable primary commodity structures into new technologically advanced industries.

Although macroeconomic state intervention is important, the Beijing Consensus says nothing about the actual practice of the reforms as an instrument to increase microeconomic competitiveness. Optimism of BCO's state intervention is undermined if we look beyond the macroeconomic view and supplement it with the analysis of relationship between bureaucracy and firms. Despite the optimistic scenario, the model is vulnerable to patrimonial practices of bureaucrats. Eclectic industrialization strategy that is based on adaptation of innovative techniques via state-owned enterprises is premised on the rule of law. Close connection, often personal links (*guanxi*, the system of favors), between state-owned enterprises and bureaucrats sets up a challenge, because support of the truly innovative industries is not guaranteed. Literature that looks at microeconomic relations between bureaucracy and firms for a main explanation of success does that. It also has pessimists and optimists.

Micro-Optimists, *Varieties of Capitalism*

The theorists who optimistically emphasize the necessity of state intervention to implement liberal industrialization come from numerous perspectives, but for the purposes of this dissertation, they are referred to as the Variety of Capitalism (VoC).¹⁵ The VoC scholars focus their analysis on firms' behaviour, which reflects government regulations and institutional practices (Hollingsworth & Boyer, 1997; Soskice, 1999).

¹⁵ The list of VoC scholars included in this definition includes political economists, such as Oliver Williamson, who evaluates the cost of making business in non-democratic countries. It also includes scholars who call themselves VoC scholars and apply the framework to the non-democratic regimes. This literature also has theorists of institutions who also analyze positive impact of government regulations. This list only includes the scholars who write about capitalism with some state intervention. It does not look at those who write about democratically liberal regimes or who address issues of crony capitalism.

VoC's analysis of firms' behaviour helps us to identify the type of policies that secure support of the intensive growth firms in the AL regimes. VoC scholars believe that the goal of building a competitive market economy will never be achieved based on the neoclassical prescriptive approach of EOI or the ISI models. , the scholars argue that regulatory practices at a local level play major role in the pace and quality of industrialization.¹⁶ They define industrialization as a set of state regulatory practices that encourage development of profitable competitive industries by sending signals to firms to advance, develop or forfeit technological innovations (Soskice, 1999). Contrary to the BCO literature, VoC scholars do not support strategic state intervention into economy. The job of the state is to retain the supremacy of market mechanisms by rewarding specific firms' behaviour.

According to VoC scholars, industrialization depends on the structure of incentives that the government is prepared to provide to competitive firms through laws and policies. The structure of incentives is called the *institutional comparative advantage*.¹⁷ Institutional comparative advantage reflects the quality of government

¹⁶ The classic examples cite Germany and the United States. Before the German government developed a research-intensive sector, it financially stimulated firms by lowering the rate of taxation, but also guaranteed support for highly skilled labour by providing long-term welfare protection against the risks of the trial and error. These regulations boosted expansion of the chemical sector and automobile industry. On the other hand, the US' financial industry sector did need protection against operational risks, because money is made or lost by hedging the risk. The sector requires lax labour regulations to keep competitive. Performance is rewarded by bonuses rather than paying for social benefits and long-term pensions. Firms respond to government regulations, thus enabling the emergence of competitive export-oriented domestic industries (Hall & Soskice, 2001).

¹⁷ The debate over which political regime is best for economic development is not well developed in the literature, because the primary thrust of research has focused on analyzing already developed liberal democracies. Development economics shows that democracy is the best regime for economic development, because a) government is accountable to its people and b) acts in the best common interest, as is defined by the population. Authoritarian regimes are unchecked and unaccountable to the people. They are said to oversupply or undersupply government intervention into economy and are generally considered unsuccessful in assessing what is needed to support competition. However, some scholars pointed out that democracy, accountable to the people, defers funds towards consumption in order to obtain support from its constituents (Bhagwati, 1982). Recent studies found no relationship between the regimes in impacting the

regulation of competitiveness¹⁸ in the strategic sectors that make industrial production profitable for the domestic firms. Specifically, industrialization that enhances firm's profitability depends on the:

- a) *industrial relations*, understood as relations between firms aimed at coordinating bargaining over wages and working conditions with their labor force;
- b) *corporate governance*, defined as a realm of financing operations to which firms turn for access to finance and in which investors seek assurances of returns on their investments; and
- c) *inter-firm relations*, defined as relationships a company forms with other enterprises, notably with suppliers and clients (Hall & Soskice, 2001, p. 7).

The primary goal of state regulation of competition is to enhance profitability in sectors where it is missing. Regulation of profitability includes a set of rules, formal or informal, that actors generally follow (Hall & Soskice, 2001, p. 9). Regulations provide firms with competitive advantages for producing goods more efficiently (Zysman, 1994). Although most of the literature compares democratic states, it is important to show that this goal can be implemented by any political regimes, so long as the microeconomic policies reflect an attempt to increase profitability of firms.

These three components, responsible for profitability, determine the type and quality of industrial production. If government provides strict control over hiring and firing policies and requires companies to pay for personnel trainings and retirement

rate of growth of total incomes (Przeworski, 2000, p. 158). Instead, poverty acts as a decisive constraint on growth (Przeworski & Limongi, 2000, p. 178). In recent years attempts to transition VoC assumptions to non-democratic regimes have been made (Esanov, Raiserm, & Buiter, 2006; Auty, 2006). Their analyses mostly concern the redistribution of rents.

¹⁸ VoC literature does not separate between market or non-market mechanisms as WCO prescriptions, which emphasize only market-based approaches or strategic state prescriptions for non-market regulations. Instead, they include heterogeneous policy prescriptions into their theoretical framework.

benefits, then firms are more likely to retain staff and invest in their qualifications. In addition, competitor firms are less likely to steal qualified personnel, preferring to train staff themselves. Under these conditions, industries that derive their profits from performance are not competitive. Performance firms, such as hedge funds, will face losses if they retain an under-performing manager due to the labor regulations, because the profits of the company depend on the constant increase of dividends. However, firms that require experience will benefit from such regulatory structure. For example, chemical industry or pharmaceutical research firms enhance their competitiveness in the controlling labor environment where they can nurture talent and provide them with necessary resources and skills.

The second component deals with the problem of financial risks, capital and investment availability. If government provides capital with small interest rates and long-term loans, then firms that require 'cheap and long' money (low interest, long term loans), such as construction companies, agricultural firms will get the competitive edge. They secure funding with minimal risk and engage in producing non-commodity industries. Without the readily available capital, firms have to minimize risk exposure and engage in industries that bring high profits in a relatively short period of time. Development of the financial industries, insurance sectors, and production of fast-moving consumer goods follow.

The third component analyzes regulations between business partners that can impede or foster collaborative relations. For example, food companies face losses if they fail to tailor production to fit demand. If demand changes from high-fiber nutrition bars to sausages, food companies need farmers to supply meat instead of grain to satisfy

growing demand. If government regulates land use and property management rights, then farmers are not able to change fields into pastures easily and provide food companies with meat for sausages. Therefore, food companies become uncompetitive and lose the profits to those rivals that operate in a freer environment. Companies that make wines will benefit from the law that provides protection and guarantees land use because grape vines take a long time to mature and require investment. Government guarantee of land use minimizes the risk of expropriation and secures competitiveness of domestic wine producers. The government carries direct responsibility for the type of industries it possesses.

Therefore, VoC literature argues that government regulations are capable of shifting the economy towards industrialized competitive market (Coates, 2005, p. 17) if the conditions to derive maximum profits for firms already exist (Hollingsworth & Boyer, 1997; Lane & Myant, 2007). Looking at domestic politics, they have observed that the authoritarian state introduces market-friendly regulations in the competitive strategic sectors, making it profitable for firms to produce specific goods (Zysman, 1994). If the firms resist incentives, then the state must intervene by making changes to laws and improving the three conditions for profitability. Since firms are rational actors, defined as ‘actors seeking to develop and exploit capacities for producing, developing and distributing goods and services profitably’ (Hall & Soskice, 2001, p. 6), they will resist complying with regulations that undermine their competitiveness and profitability. Hence, industrialization, defined as government regulation of profitability, enables scholars to have an optimistic outlook on the future of the AL regimes.

Vietnam's and Thailand's tapioca industries are examples of the importance of state microeconomic regulation of competitiveness and profitability. Vietnam has always produced and exported cash crops, but cassava, the source of tapioca, was produced primarily for domestic consumption. With the right incentive structure in place, cassava products such as ethanol, fertilizers, and food-additives could be exported abroad, turning agriculture into a competitive technologically advanced value-added industry.

Before the 1980's, labor relations in agriculture were neglected. The state ignored poor households and workers. Domestic cassava production was concentrated in the hands of small factories operated by one or sometimes two, households. The production process was simple. A few workers peeled the cassava root by hand, separated the starch by cloth filtration, allowed it to settle using gravity and dried the product in the sun (Khoa & Dieu, 2003, p. 204). Some workers used machinery; in those cases it was purchased from small entrepreneurs or constructed by the households. The average yield was small, 9-12 tons per hectare (t/ha) (Bien & Kim, 2002). Vietnamese farmers had no incentives to increase production, because the main cash crop for Thailand was tapioca and they supplied the product to everyone in the region. In contrast, Thailand's product was competitive because they had large factories with an unrivaled output, compared to Vietnamese mechanized labor. Large factories were created by investors who were attracted to geographically concentrated Thai cassava production region. In Vietnam, cassava farmers were dispersed throughout the country with only four large factories for the entire state (Kim, 2008). Vietnamese government regulations successfully addressed factors needed to make cassava sectors profitable in spite of international competition.

The three conditions of competitive profitability pointed to a triad of issues: low wages, low returns and a limited number of final buyers. In order to solve these issues, the government adopted Vietnam Cassava Research and Development Project (VNCP). VNCP found that wages accounted for roughly 60% of the costs (depending on the province) (Kim, 2006). In order to cope large expenses on wages, VNCP introduced measures to boost productivity and increase of profits by supplying farmers with 16-20 t/ha yields roots (Bien & Kim, 2002), which doubled their yield. Expanded domestic production increased financial returns and allowed workers higher wages.

In order to solve the problem of inter-firm relations, the Project paid special attention to embedding small firms into the network of consumers and suppliers. By giving loans to agricultural firms that utilized the leftovers from tapioca production, the state was able to provide additional revenue and wages to farmers. In an effort to avoid competition with the Thai products in Asia, the Project looked for alternative industrial uses for cassava. The efforts came to fruition when VNCP invited international investors with access to European and American markets. The Japanese Itochu Corporation, specializing in biofuels, brought the necessary capital of approximately \$100 million to create a fuel ethanol processing factory (Kim, 2008). The factory complied with European regulations on biofuel standards¹⁹ and now supplies Vietnamese cassava-made biofuel to the European market. In addition, agricultural firms are rewarded for diversifying the use of cassava products in other agricultural sectors. Studies showed that cassava roots and leaves are good for feeding pigs; young stems and leaves for cows; dried tapioca powder for chickens; and cassava leaves for silk worms (Bien & Kim,

¹⁹ The highest standard that Japanese managed to achieve is E10, which signifies proportion mix of 10% with regular gasoline, a mediocre quality fuel (Kim, 2008).

2002). Today, the cassava industry is thriving. The growing size of the cassava processing industry provided proof of the ability of government regulations to make uncompetitive sectors profitable.

The key to the successful economic growth of the tapioca industry in Vietnam was profitability that developed through institutional comparative advantage. Despite substantial government support, firms retained an ability to operate freely. The VoC theorizes about the effects of liberal practices by analyzing the success of policies that promote competitiveness for firms, rather than the overall macroeconomic well-being of the industry.

Although industrialization, defined as state regulation of profitability, is useful for this project, two problems remain. First, VoC pays no attention to the quality of industries that state supports. Cassava production continues with the expansion of the extensive growth firms whose growth constantly requires new inputs, such as land, labor and capital. Japanese Itochu Corporation shares the sophisticated technology of ethanol production with poor Vietnam farmers, but its growth depends on the volume of the cassava crop production. Although productivity increased when machinery was introduced into the production process, this does not negate the fact that new fields are necessary for the successful industrialization and diversification of exports away from commodity production.

Second, the VoC builds institutional comparative advantage and competition of its firms without examining the quality and motivation behind government regulations. By concentrating on competition and competitiveness, it implicitly assumes that government and firms operate under the rule of law. It assumes that government makes

laws that enhance competitiveness and that firms use law to obtain profitability and do not engage in lobbying, bribery, and informal connections with government bodies. These assumptions indicated need for the analysis of motivations behind the law-making process that looks at the relations between bureaucrats and firms.

Micro-Pessimists: *Bureaucratic Choice*

The pessimist literature on Bureaucratic Choice (BCh) shares the basic assumptions with VoC in regards to self-serving profit-seeking firms, but also takes into consideration bureaucratic interests. It starts with the assumption that bureaucrats want to be popular with their constituency,²⁰ and at the same time, obtain personal gain from adopting and administering government regulations. The BCh literature looks at cases where the rule of law is absent because officials succumb to special interests and allow them to influence political decision-making process through informal activities that promise person gain (Bhagwati, 1982).²¹ In commodity-based regimes where large companies carry strong political clout and influence, bureaucratic resistance to their pressure is difficult. Commodity-based firms undermine liberal industrialization by forcing government to adopt reforms that support their interests, rather than being directed by competitive edge of intensive growth companies. In addition, the support of non-commodity-based firms by bureaucrats is unprofitable, because officials cannot benefit

²⁰ Although in AL states officials are accountable to the ruler, rather than to constituents, this discussion is included how the incentive structure of governing bodies impedes or fosters liberal industrialization.

²¹ Bhagwati offers a typology of literature on state responses to special interest lobbying. The “puppet” government detests lobbying activities and repeats prescriptions for liberal industrialization driven by the fear of monopolies, market distortions and economic recessions (Bhagwati, *Political Economy and International Economics*, 1996, p. 14). The “self-willed” government represents a state that decides for itself about usage and application of protectionist measures, rather being driven by welfare or special interest groups. The last type is the “clearinghouse” government where government becomes a realm of negotiations and conflict resolution (Bhagwati, 1996, p. 14).

personally for instituting the reforms to their advantage. The perverted structure of incentives in the administration of the rule of law leads the BCh to take a pessimist stance.

Liberal industrialization cannot exist where reforms are initiated by special interests or where government interferes into the market.²² The literature demonstrates that firms seek revenues and tariffs by pressuring government to adopt protectionist measures. Protectionism refers to government regulations that allow firms to benefit from unproductive activities that produce income (Bhagwati, 1982, p. 989). Unproductive activities are those where firms make profits at the expense of their competitors. Two versions of this behavior are distinguished. *Revenue-seeking* activities are those activities where firms divide the profit from tariffs imposed on competitors (Srinivasan and Bhagwati, 1980).²³ *Tariff-seeking activities* signify a situation when firms seek protection through tariffs against competitors (Srinivasan, 1985).²⁴ Echoing classic literature on social change (Moore, 1966; Huntington, 2006), they argue that manufacturing industries will engage in revenue-seeking activities to improve earnings, while land owners will shield themselves from import competition in order to restore wages. Land owners will be interested in tariff-seeking activities (Findlay & Wellisz, 1992). Government, faced with the two competing interests, view the decision over introducing tariffs as an

²² The WCO literature tells the story of officials creating economic actors. Officials themselves become economic actors. BCh literature describes the opposite side of the story, when strong firms take over the political realm.

²³ The classic example describes the introduction of 'voluntary restraint on export' in the 1990's, when the United States asked Japan to temporarily reduce export of vehicles to the US market. As a result, large domestic car manufacturers such as General Motors and Ford obtained larger profits and shares of the market.

²⁴ The example of the US steel manufacturers is frequently cited (Krugman & Obstfeld, 2007). The US companies with large trade unions were losing price competition to foreign steel producers, whose cheap labor costs undermined the control of the market share by American companies. After listening to the lobbyists, US representatives accused foreign firms of dumping (predatory pricing below production costs) and banned import of steel from developing countries.

equation with a) benefits from potential tariff revenues for land owners, on one side, and b) benefit of lowering the scale and scope of tariffs to satisfy manufacturing industries. The difference between a) and b) is a 'shadow price' – a price that shows the public cost of the decision to adopt tariffs (Johnson, following Little and Mirrlees (1969); Bhagwati, 1982). In cases where the benefit from supporting the land owners exceeds the benefit from manufacturing industries, officials choose the former. This choice is especially prominent in cases where market distortions already exist and large commodity-based companies require state support.²⁵ Therefore, AL regimes cannot administer the rule of law necessary for the intensive growth firms and prefer to adopt protectionism even at the expense of industrialization.

The danger of protectionism occurs in the long-run as the intensive growth firms decline (Lal & Myint, 1996). Although the total domestic production under the tariffs may increase initially, it decreases when the extensive growth firms return to the competitive environment in the global market. This threat is especially pertinent to capital-intensive firms, such as oil extraction or agricultural firms. Once the tariffs are lifted, these firms tend to face severe problems with accumulating adequate operating capital and acquiring investments needed for growth. Without reinvesting capital, these firms lose competitiveness and disappear or survive only because of the state's life support (Findlay & Wellisz, 1992). Therefore, governments that adopt protectionism generally lose their primary extensive growth firms and have only stagnating intensive growth firms.

The BCh argues that bureaucratic interests support protectionism for the extensive growth industries, even though long-term gain lies in supporting liberalism for the benefit

²⁵ For pure economic analysis behind these arguments, please see (Bhagwati, 1982)

of the intensive growth industries. The underlying assumption of the pessimist argument of the BCh is especially relevant for commodity-based regimes where large firms seek to compensate the declining rate of competitiveness by political means. Large firms have adequate resources to pressure government officials. Most importantly, BCh literature shows economic implications of the regime that does not adhere strictly to the main pillars of the rule of law.

This section examined various definitions of industrialization and discussed the debate between pessimists and optimists. The question of whether authoritarian liberalism can be successful in implementing industrialization through market mechanisms was examined; no answer is adequate. Four definitions of industrialization presented in this literature review suffered from an analytical divide between politics and economics and from the separation between macro and micro levels of analysis. The WCO literature provides pessimistic political macroeconomic explanation for the failure of industrialization. By identifying industrialization as economic growth from export-oriented industries, it argues that AL regimes cannot industrialize due to their inability to provide macroeconomic stability and minimal state interference into economy. These factors are essential for internationally competitive domestic producers. It shows that instead of the fiscal discipline, officials engage in various rent-seeking schemes patrimonial behavior. Authoritarian regimes that enable such bureaucratic behavior undermine the necessary change of export structure away from commodity production. Industrialization is possible only if the regime is accountable to the people. Otherwise, WCO leaves no optimism for the future of the attempts for non-commodity export diversification.

According to WCO, two bureaucratic responsibilities lie at the heart of successful liberal industrialization in the AL regimes. First, bureaucrats must promote macroeconomic stability to ensure that primary economic indicators remain conducive to non-commodity industrial growth. Second, bureaucrats are encouraged to withdraw from the market and foster competition. The first responsibility is shared by the majority of scholars but the second prescription evokes debate. Strong economic growth and successful diversification of exports in authoritarian China questions the necessity of minimal state intervention. The BCO literature dismantles the second bureaucratic responsibility to say that state needs to intervene where market is missing. Only then is successful industrialization in the AL regimes possible.

Optimistic macroeconomic literature of the BCO defends the need for authoritarianism as a compensatory mechanism for 'backwardness'. These scholars argue that the economies in the developing world are plagued with underdeveloped financial sectors, lack of skilled labor, and the absence of technology (Gerschenkron, 1962; Frank, 1966). As a result, the BCO literature justifies AL state intervention as the only viable prerequisite for industrialization. Industrialization is defined as strategic state intervention into the economy, in order to increase competitiveness of the desired industrial sectors by bridging the technological divide, educating labor and providing financial support to the domestic industries (Zysman, 1993). Macro-level optimists rely on ISI, which advocates protectionism of infant industries and authoritarian channeling of inputs and resources. The state expects to support these industries until their goods become internationally competitive. Government can create and nurture domestic internationally-competitive industries.

The common sense resolution of the debate shows that the state should not interfere into non-commodity exporting industries, but should interfere when these industries are missing. Its authoritarian grip on power will be helpful in moving resources, people, and capital as necessary. The question is how to conduct such intervention if domestic firms are uncompetitive and if large extensive growth firms influence bureaucrats and seek protectionism.

The VoC literature addresses the question of competitiveness of domestic firms. It prescribes AL regimes to introduce regulations of labor, capital and inter-firm relations to boost profitability of the existing firms. However, such reforms are possible only if the AL regime strictly adheres to the rule of law and distributes capital to the intensive growth firms. Frequently, examining the market in practice shows different results.

The BCh literature shows that bureaucrats cannot administer the rule of law and they adopt protectionism in favor of the large extensive growth firms (Lal & Myint, 1996). Protectionism increases their personal welfare in the short-run and scores points among the population. However, protectionist measures undermine capital-intensive manufacturing firms, if measured over the long term. Once protectionism is removed and international competition is restored, extensive growth industries suffer from the lack of extra capital from inadequate sales, while intensive growth firms are too weak to take their place (Lal & Myint, 1996). BCh shows that government officials have an ability to stall ALI by practicing different notion of welfare, i.e. the one that undermines competition and the rule of law. ALI assumes that market best procures welfare, because it rewards people that really deserve it. Once this is done, wealth will 'trickle-down' to other economic sectors as rich people spend money and sustain small and medium-size

enterprises (SMEs). BCh shows that ALI is impossible unless incentives change, which is precisely what rulers' governing rationales are aiming to do, i.e. embed liberal mentality into patrimonial bureaucrats.

There are three key lessons learned from this review. First, macroeconomic stability is important. All AL regimes introduce fiscal and monetary discipline, policies that concentrate on low inflation, low unemployment rates and maintenance of positive trade balance. The second lesson from the review shows that the AL regimes need to distinguish between cases that require direct state intervention and cases that require indirect regulation of market mechanisms that encourage the firm to respond unhindered to changes in the market. In practice, ALI at the microeconomic level requires shifting resources from the extensive growth firms that thrive under protectionism towards intensive growth firms that need long and cheap money for their development. This shift towards industrial production can only happen a) if government provides the rule of law and shields intensive growth firms from bureaucratic rents; b) if government distributes loans to competitive firms and not to the affiliates and clients. Therefore bureaucratic disciplining requires a separate governmental apparatus that is responsible for monitoring and the enforcement of the implementation of the vision among the rest of the officials. The third lesson that the literature review provides is the lack of clarity over the choice of successful policies. It is unclear how governments coined the recipes for ALI that allowed them to diversify exports away from commodity production and towards trade of internationally competitive final goods. The new analytical framework needs to address these questions.

CHAPTER 3 A NEW ANALYTICAL FRAMEWORK FOR ALI IN THE AL REGIMES

In order to explain trajectories of liberal industrialization in the AL regimes and the role of bureaucratic resistance, this chapter introduces a theory of choice among two governing rationales of ALI, managerial and paternalistic. By looking at the structure of commodity rents and the nature of its production, this theory displays a reasoning of why managerial or paternalistic rationales are adopted. In developing this original analytical framework, the first part of the chapter operationalizes discursive and disciplinary practices of each rationale to show that each represents a logical system of thought that integrates the desired goal with everyday policies of government regulations. Each governing rationale derives logic from economic science and systematically addresses pathologies of the primary commodity production. In doing so, it supports the introduction of competition and the rule of law to make intensive growth firms internationally competitive. Such reforms result in a shortage of bureaucratic rents for patrimonial officials. The second part of this chapter develops the theory of bureaucratic resistance by looking at the nature of bureaucratic rents. It will analyze clandestine bureaucratic resistance strategies, which are neither technocratic nor autocratic, are analyzed during the process of implementing liberal industrialization at the microeconomic level. The third part synthesizes the argument by using a methodology of comparison between discursive and disciplinary practices to summarize predictions about success and failure of liberal industrialization in the AL regimes.

The Theory of Choice: Explaining Trajectories of Advanced Liberal Industrialization

The trajectory of ALI in patrimonial regimes depends on the nature of primary commodity exports, which provides both commodity rents¹, i.e. resources for sustaining competition of the intensive growth firms in the strategic industrial sectors, and bureaucratic rent², i.e. resources that undermine the rule of law and maintain the patrimonial system going. In this system, the rulers' choice over the industrialization path is driven by the desire to direct commodity rent away from extensive growth firms towards developing domestic firms that produce internationally-competitive finished goods. The former is responsible for the choice of trajectory that supports competition; the latter defines the implementation and bureaucratic resistance strategies that diminish the effectiveness of ALI. The first part of the chapter develops an analytical framework of how ALI's are chosen by the AL regime by exposing variation of governing rationales at various levels of analysis. The second part designs an analytical framework that explains variation in implementation of ALI due to the structure of bureaucratic rents and administration of the rule of law.

The transfer of commodity rents towards intensive growth firms is a goal that every ruler in the AL regime shares. This goal is innate part of the discursive practice shared by all AL regimes. The desire to turn the production process in the domestic economy into an internationally-competitive export of finished goods is a long-term

¹Rents are not divided into external versus internal rents, because although AL regimes obtain large income from leasing inputs to produce goods (supply), they also carry responsibility to distribute those incomes among the population (demand). For more detailed discussion, please see (Erosa & Cabrillana, 2008).

² Rather than defining rent as an income obtained more than the profits obtained in competitive market, this specific definition was chosen for rent that delineates the way bureaucrats and AL regimes make money. They manipulate with public property by leasing, renting, ceding control over public property into private or national companies in order to exploit the right to distribute public resource for their personal gains.

vision that the ruler(s) set for their citizens. It acts as a Telos, representing a utopian element in liberal governing rationale that lays out "the type of person, community, organization, society or even world which is to be achieved" (Dean, 1999, p. 33). Once the Telos is introduced into the public, it calls for implementation by adopting concrete policies.

Throughout the process of implementation, the ruler's desire to direct commodity rents into intensive growth industries needs to address challenges and vulnerabilities of primary commodity production. As previously identified, export revenue is vulnerable to price and demand fluctuations and causes internal economies of scale and Dutch Disease. As a result, this chapter shows that the *pace of ALI*, i.e. its incremental and controlled or rapid and hands-free government regulation, depends on international demand and price fluctuations of commodity goods in a global market. The effects of decrease of demand or boom and bust cycles on international commodity prices undercut the availability of resources for ALI in the AL regimes. Abundance of commodity rents leads to adoption of managerial governing rationale and AL regimes with scare rents will lean towards paternalistic rationale. This chapter shows that the amount of revenue from commodity rents is directly proportionate to the increase of ALI's pace.

The pace determines the overall scope and scale of the reforms and is called the Ethos here. The Ethos is a rulebook of assumptions about market regulations that the ruler(s) chooses to rely on during the ALI. Specifically, Ethos embodies the type of liberalism the ruler uses in order to achieve the status of competitive technologically-advanced market economy. In practice, Ethos describes the pace of the necessary macroeconomic changes aimed to diversify the structure of foreign trade away from raw

commodity production. Ethos of ALI represents measured, tailored and guided set of broad principles about how the market should be governed so that an AL regime moves away from export based on ‘intensive-margin’ of growth and exports more finished goods to many more trade partners. Ethos of managerial rationale treats the market as a realm of opportunities that require fast pace of industrialization to unleash tamed market forces and allow competition to take place. AL regimes with managerial Ethos introduce rapid macroeconomic changes by rebranding themselves and redesigning the governing process into one friendly to competition and efficiency. Ethos of paternalistic rationale is more cautious about the market, because it assumes that the market is a risky enterprise and the state needs to protect its citizens from the vagaries of competition by providing opportunities to its population. Their macroeconomic changes are less radical and they brand themselves as the guarantors of order and equality. Ethos codifies the sets of actions towards the liberal Telos with a sense of continuity and progress. Without Ethos, Telos remains a dream.

Another challenge to commodity rents that ALI trajectory needs to consider is the domestic structure of commodity production, because it determines the *scale of ALI*. If a country produces cotton and other economic sectors are supporting it by providing fertilizers, equipment, and processing raw materials into intermediate goods, then the introduction of competition into several sectors of the economy is dangerous, because other sectors will suffer from being potentially uncompetitive or bankrupt. Under these circumstances, the scale of ALI is directly proportional to the scale of integration of industries in domestic economies. In highly integrated economies, ALI is restricted to smaller economic sectors and derived from the Ethos of paternalistic rationale where

reforms aim to avoid risks of economic collapse and the spread of the domino effect to other industries. The least integrated economies can afford to allocate more sectors of the economy into the ALI in line with the Ethos of managerial rationale. The scale of ALI is called the Episteme, because it represents a strategy of reforms that makes the principles of Ethos implementable in practice at a macroeconomic level. In other words, Episteme contextualizes knowledge from Ethos in practical fields and issue areas. Episteme identifies the strategies of the AL regimes to diversify exports away from commodity sector. At this level AL regimes work out and introduce strategies of macroeconomic stability and export diversification.

The last challenge to commodity rents that the AL regimes need to consider is the proportion of the population engaged in producing commodity rent while AL regimes design ALI trajectory. Labor-intensive commodities, such as production of agricultural goods make people dependent on revenues from commodity sales. AL regimes need to provide or promise to provide greater benefit to population after the ALI at the microeconomic level and at the level of policy implementation. Hence, *Techne* is the realm that embodies the *scope of ALI* and represents a set of tactics that nuances implementation of the Episteme. The scope of ALI shows how AL regime distributes subsidies and incentives among population and market actions. It is the disciplining realm because it shows the actual tactics that embed liberal mentality in the governing process. *Techne* varies according to the scope of attention AL regime gives to social and welfare needs of population. The scope of ALI is reversely proportional to the amount of people involved in producing commodity rent. The more people who are engaged in producing commodity rent, the more paternalistic and protectionist AL regime becomes. These three

concerns determine variation of ALI in the AL regimes and the type of industrialization policies they choose. ALI defined in this fashion allows us to look at how AL regime conducts ALI and the reasoning behind the variation. Abundant rents allow the rulers to reform at a faster pace and accept greater losses from failures. Scarce revenues impose strict control over spending and slow the incremental pace of liberal reforms.³

The Ethos

The key question that AL regimes ask: how to nurture intensive growth firms to achieve the desired Telos? The comparison between managerial and paternalistic rationales shows a contradiction in how much AL regime should govern the market: *competition* requires less government intervention and *the rule of law* calls for stronger state participation to enforce the principles (Foucault, 2008). The answer to this question elicits two responses. Depending on the attitude towards the market, government either decides to protect its population from the destructive outcomes of economic expansion or facilitate and support market exchange. Two Ethoses are compared based on their understanding of the needs of the market actors and state responsibilities of attaining these needs.⁴

Ethos of the paternalistic rationale assumes the market is a dangerous place where consumers and producers carry the risks of losing crucial assets by making uninformed choice in the market place. If these transactions take place on a massive scale, the market is threatened with economic dominance of rich individuals who appropriate key assets and keep the rest of the people in poverty. This Ethos marks the population as the main object of government regulation and aims to provide citizens with economic means and social protection against market pathologies in order to maximize their freedom to act

³ Please see Table 2 for the comparative summary of governing rationales

⁴ This section is largely built on Michel Foucault's work (2007, 2008).

(Plant, 2004; Berlin, 2002; Nadesan, 2008). This logic echoes contemporary policy prescriptions of the American conservative think tanks, which argue that divested poor people are liabilities, because they have nothing to contribute in the market and will engage in crime, drugs and alcoholism if measures are not taken (Santorum, 2000). Ethos of paternalistic rationale enforces the threat of repression for crimes and provides individuals with something to contribute in the market place by encouraging benefits such as education and retraining, medical support, insurance, and free child care. By providing equal opportunities by giving people skills, capital and tools to participate in the market, government helps the population to engage in economic transactions and increase every person's ability to prosper. Government's responsibility is to secure the operation and maintenance of the system by deriving norms, defining the optimal conditions for the population to expand and prosper (Dean, 2010, p. 137).

The AL regime that adopts the Ethos of paternalistic rationale takes the responsibility to support the well-being of communities rather than individuals, as communities represent a collective aspiration of many individuals. Enforcement of the rule of law and order is required to protect the market and safeguard the mechanism that produces the common good for the population. Hence, such Ethos aims at protecting those without a voice and redistributing collective resources to them to ensure social justice. This function calls for a 'positive freedom,' a stance that operates from the belief that protection of individual autonomy causes one to reach the true goals, universal for all, such as, in the words of Isaiah Berlin "happiness, performance of duty, wisdom, a just society, self-fulfillment" (Berlin, 2002, p. 178-179, pp. 180-181). Paternalistic rationale

claims to ensure preconditions for choice in the market by providing the population with the positive freedoms and redistribution of wealth.

Ethos of the paternalistic rationale that aspires to protect the population from the vestiges of market forces allows the AL regime to claim that it represents a high moral order. Government protection serves as the manifestation of fairness and justice. The Ethos of paternalistic rationale celebrates comprehensive legal juridical order, which defines what is right and wrong, permitted and prohibited. Law is seen as an expression of government will (Foucault, 2008, p. 41) that supports equity and equality with a strong interventionist social policy (Foucault, 2008, p. 160). Discursive practices in this system portray obedience and hierarchy as the essential instruments of social organization. Broadly speaking, enemies of the state are those who threaten to disrupt the moral order embedded in paternalistic governing rationale.

Ethos of managerial governing rationale starts on a radically different set of assumptions about the market and its actors. By assuming that the market is a realm of opportunities, it treats the market as the finest tool for fulfilling personal goals of each individual. Ethos of managerial rationale 'sees' market actors as calculating persons who are reasonable enough to recognize the benefits of competition as a source of progress, innovation and expansion and act according to one's own will. Rather than the population, the individual desires become the main object of ALI. The state's goal is to ensure impartiality and lack of intentional coercive acts against the market and individual choices (Nadesan, 2008, p. 31), because it assumes that competition cannot be 'built' but it can only take place with less government interventions, while individuals and firms make decisions about the best allocation of resources.

Managerial Ethos does not tell people what to do. Rather the actors choose to follow the incentives proposed by regulations or forfeit those advantages. The purpose of Ethos in managerial AL regimes is to allow individuals to become fully capable market participants, because consumer choice is a vehicle for the market that sends signals to producers about what to produce and how to sell it. In order to make choices, consumers have to be free from coercion, force, imposition, threat and alienation. Expression of individual preferences acquired through shopping requires autonomy. Individual autonomy refers to an ability to be ‘a law to oneself’, a self-governing person who is accountable for one’s own decisions and activities (Minokha, 2009). Minimal state involvement in the economy defends negative freedoms for individual actors, a stance of ‘less state regulation, more freedom’ (Berlin, 2002, p. 170). This assumption,, attributes maximum productivity to people who act in self-interest and produce goods by using private property (Mises, 1997; Nozick, 1997; Smith, 2004). Government, by allowing and extending individual autonomy, enables people to engage in areas where they have natural inclinations and interests. For example, if the government’s goal is to ensure free individual participation in the market, then the state assumes that each citizen is an entrepreneur. The government’s job is to foster entrepreneurship by transferring more public properties and functions under private control.⁵ Therefore, withdrawal of the state from the economic realm allows the invisible hand of the market to take charge regardless of tight authoritarian political control.

⁵Foucault called this disciplinary practice a biopower – a technology of optimization (Nadesan, 2008, p. 5) that finds its legitimacy in the ability to maximize abilities of individuals, markets and the state (Nadesan, 2008, p. 3). For more information, please see Mitchell Dean’s ‘Governmentality’ (1999); Nikolas Rose’ “Towards a Critical Sociology of Freedom, Inaugurate Lecture, Goldsmiths College, London, May 5, 1992

The state's responsibility is to serve individuals by being a manager of the market, i.e. the one who ensures that market forces administer the growth of assets and reward individuals for their efforts. Ethos of managerial rationale endows government with the responsibility to ensure that the existing system of exchange is functional and sustainable. The managerial state treats society as an organism where the task of the government is aimed at expansion of the market by guaranteeing the circulation of people and merchandise (Foucault, 2007, pp. 51-64). Hence, this Ethos of managerial governing rationale strives for self-limiting authority where former government functions are outsourced to businesses.

Managerial Ethos advocates minimal welfare at state's expense, in order to help individuals to accumulate investment, rather than spend resources on consumption. Managerial Ethos rejects welfare practices because they hurt economic growth, create dependency, inefficiency and prevent entrepreneurship. Instead, government support of competition allows individual to be a responsible human being capable of fulfilling individual desires through market activities. Their discursive practices celebrate the personal entrepreneur who thrives in the competitive market, because only through unimpeded access to the market can individuals prosper.

Ethos of managerial rationale denies democracy and public accountability, but treats its citizens as autonomous subjects engaged in an autonomous market economy. It calls for less state interference and respects the full autonomy of the market, but sets controls and constraint on individual behavior by sending incentives to participants, creating the rules of the game, 'tweaking' behavior through 'repressions and rewards'. As a result, Ethos of managerial rationale embraces law, which becomes a norm that reflects

relative and reversible values (Dean 2010, p. 141-142) and provides multiple exceptions and choices for an individual to follow.

The logic behind the choice of Ethos is driven by the cost of two Ethoses. Specifically, the first thing to consider is the demand and price fluctuations of commodities in the international markets. For example, production of one barrel of oil in Azerbaijan costs USD17. With international prices of USD100, Azeri government and investors working in the country are getting USD83 profit simply from the price difference. Ethos of managerial rationale that celebrates competition is chosen because this more expensive version presupposes faster change characterized by the radical withdrawal of state from the market in order to nurture entrepreneurship. It is also risky since government regulations do not always lead to desired results reliably as paternalistic regulation might provide. Ethos of paternalistic rationale celebrates slow and controlled pace of reforms where government acts as the main creator of the market. AL regime wakes up the market forces by incrementally allowing people to take more risk and providing them with opportunities to participate in economic production.

However, rent abundance should not be the only factor that the regimes need to consider in making choices of the ALI. They also need to consider the scale of integration of domestic economy, which determines the Episteme that AL regimes adopt. For example, in Uzbekistan, one ton of cotton cost USD38 to produce and the government sells it for USD120. Therefore, the commodity rent is USD82, comparable to those of mineral rent. However, the entire domestic economy is dependent on agricultural rents from cotton. In Uzbekistan, the government redistributes the rent among many participants by providing subsidies to fertilizer producers, machinery operators, and

textile industries. As a result, the amount of rent available to support export diversification is minimal. Ethos identifies the pace of ALI and depends on the amount of rent. Hence, the choice of Ethos needs to be further contextualized according to other properties of commodity rents.

The Episteme

Episteme is an analytical realm that embodies a set of macroeconomic reforms. Episteme of both, paternalistic and managerial rationales share similar belief in the necessity of macroeconomic stability, but differ in their view of export diversification strategies. The former, discussed in the previous chapter as WCO literature, points to the importance of stable inflation and unemployment rates, strict fiscal discipline as the main aspects government policies during ALI. Firms need such stability in order to plan ahead and remain competitive in the international markets.

The latter, i.e. export diversification strategies, varies according to the scale of ALI. Epistemes show how many sectors of the economy governments are willing to support and develop. The choice of sectors depends on the economic properties of production of commodity rents. Different types of rents can be distributed along the continuum of the most integrated to the least integrated commodity production. This scale helps explain how governments design policies. Epistemes that choose strategic sectors of the economy for ALI and introduce incentives for internationally competitive production of finished goods follow managerial rationale. Managerial Epistemes are chosen for the least integrated economies, because these sectors are not dependent on each other and can survive on their own. Epistemes of paternalistic rationale fit the most

integrated primary commodity producers, because government cannot afford to introduce competition in many sectors and would rather start with diversifying domestic production away from commodity goods through government directives regardless of international competition.

Theoretically, a country that derives the majority of profits from agricultural rent has the most integrated domestic economy. Agricultural rent is a margin that the state appropriates from buying cash crops cheaply at home and selling them abroad for the higher international prices (Bates, 1983, Auty, 2012). If the whole country is involved in production of vanilla, such as in Madagascar, then we can assume that vanilla producers will need services that ease linkages with the suppliers of inputs for vanilla production and linkages with services that help to boost the international demand of the product, such as marketing and logistics.. The volume of vanilla production determines the well-being of the supporting industries and their growth. Hence, such governments would prefer to diversify domestic production first before intensive growth firms enter international markets. The Episteme of the paternalistic rationale calls government to introduce support to the intensive growth firms and export promotion strategies without international competition, by starting from creation of a balanced and diversified domestic industrial structure (Lauridsen, 2007).

The Import-Substitution model of industrialization is the most frequent Episteme of paternalistic rationale in agricultural AL regimes and it minimizes the ‘guessing game’ of which industry state should support. Artificial lack of appropriate goods due to high tariffs in the domestic market encourages the replacement of imported goods (Krugman & Obstfeld, 2005, p. 246). Government strategy for export diversification is based on

promotion of a domestic industrial base that initially produces goods for domestic consumption and then, with expertise and increased access to raw materials, these goods are exported. Such Episteme is convenient because the government already restricts international trade of commodities to a handful of actors in order to maximize agricultural commodity rent.

ISI shares key premises of the Ethos of paternalistic rationale and is based on these three assumptions. First, that the market, and international competition in particular, are dangerous and people need protection from them. Second, that government needs to uphold the common good and equality by maintaining a positive trade balance. An export volume that is larger than the quantity of imports leads to the increase of capital (money saved from spending on import) to be reinvested back into domestic intensive growth firms. Third, government needs to provide people with inputs, such as capital, technology, skills and knowledge in order to engage in non-commodity production. ISI expands individual autonomy by giving people tools and skills necessary for the development of intensive growth firms. Individuals have a set of positive freedoms, such as freedom for the minimal provisions of good life, which encourages them to take risks in the market place and have adequate training. Government under ISI serves as the market in places where market is missing. Hence, ISI shares the basic premises with Ethos of paternalistic rationale.

Economies that derive their profits from manufacturing rents represent the next category of commodity production. Manufacturing rent is defined as rent extracted from the monopoly control over occupation and geographical location of labor resources (Pei, 2008, Ramo, 2004). This second group is next on the scale of domestic integration, as

they are less integrated than agricultural production, but still prefer to adhere to paternalistic rationale for ALI. Manufacturing rent provides AL regimes with the abundant revenues and improved trade balance. The BCO story described in the literature review chapter points out that China obtains trade surplus as international investors operating there produce internationally competitive goods for foreign markets in special economic zones. Domestic economy is dependent on revenues from manufacturing rents, but the products rarely are available to the average Chinese consumer.

Although export is high and relatively diversified, these regimes remain dependent on the foreign technologies and innovations. In other words, although most smart phones are produced in China, it has not yet discovered the domestic breakthrough technology that will allow competition with high-tech companies in the international market. Abundant revenues allow China to tackle this dependency by supporting innovative industries, defined as inventions based on knowledge and technology that exponentially increase productivity and revolutionize the way industries operate (Economist, 2010).

The Episteme of paternalistic rationale nurtures small but powerful sector of high-tech industries that are protected from the destructive forms of international competition. At the heart of this export diversification strategy lays government support of commercial introduction of innovations produced by local gurus for the domestic market in order to avoid reliance on volatile international markets. Although these industries are not strategic for the overall well-being of Chinese economy, they represent the largest potential for making a qualitative jump from the economy of extensive to the economy of intensive growth firms.

Innovative Episteme shares key premises of the Ethos of paternalistic rationale. First, government assumes that international competition is dangerous to the nascent innovative domestic industries. It protects them by giving preferential credits and subsidies (Yang, 2010). Second, it embraces high moral ground by depicting such ALI as a necessary and important common good (Jintao, 2011). Third, government trains experts who come from ordinary backgrounds. These individuals have a set of positive freedoms that lead to being entitled to wider individual autonomy in places where scientists are given freedom to conduct international collaborations, projects and have access to cash. Hence, innovative Episteme echoes the Ethos of paternalistic rationale and the government is determined to nurture domestic knowledge for popular use in order to achieve the Telos.

The next type of commodity rent is the strategic rent, also known as geopolitical rent (Auty, 2007) understood as an extra income (mostly in foreign aid, but not remittances) states earn from countries and other actors in exchange for procuring safe-passage, stability and security (Auty, 2007). Since it is derived from the payments for strategic location, the entire economy depends on it. But since this rent brings scarce revenues, Episteme of the ALI needs to provide alternative sources of capital outside of the state. Many economic sectors can join industrialization efforts if they find themselves attractive to international investors (Frankel & Romer, 1999). As a result, the Episteme depicts international capital and investments as necessary evil to obtain much-needed diversification of the domestic economy and access to reliable incomes (Auty, 2006). States dependent on geopolitical rent are looking to attract 'market-seeking FDIs'

companies that produce final output in another location and invest in such AL regimes due to proximity of the end-markets.

According to our classification, such states prefer the Export-Oriented industrialization (EOI) strategy, which becomes the Episteme of the regimes that aim to achieve export diversification goal the fastest.⁶ States prefer to attract technology and knowledge from abroad in exchange for providing favorable conditions for export. Manufacturing industries bring financial investments into exporting sectors. The Episteme of EOI prescribes the state to conduct macroeconomic stability, high investments in human capital, stable and secure financial systems, limited price distortions, and openness to foreign technology. These measures aim to facilitate transition to the intensive growth firms in economic production. Among specific tasks, AL regimes must maintain a low wage to productivity ratio (a condition where increase in wages lags behind the productivity growth). High productivity sustains a faster rate of output growth, which attracts more investors. Higher market share of FDI provide trade surplus in the strategic state, because its exports increase above the imports (Cantwell, 2008). AL regime should ensure limited spending on consumption and watch that productivity is always higher than wage increases. If this condition is satisfied, Multinational Corporations (MNCs) reward states with the rising investments, but they are not so generous to regions with stagnant production sites (Cantwell, 1987, p. 134). EOI becomes a convenient choice for export diversification of the AL regimes.

EOI shares several premises with the managerial rationale. It turns the state into a market actor that is responsible for providing investor-friendly conditions and

⁶ The term 'industrial investor' is also used to signify 'market-seeking FDIs'. Both terms signify non-commodity, intensive growth-oriented investors. It is negatively defined vis-a-vis extensive growth commodity investors.

macroeconomic stability. AL regime is open to competition while utilizing a specific geopolitical location for export diversification purposes. Second, it withdraws itself from governing the exports, but takes up stronger domestic regulation of productivity and wage rates. In doing so, the AL regime provides negative freedoms to private investors and MNCs. Hence, the Episteme of EOI echoes key characteristics of the Ethos of managerial rationale.

The AL regimes with mineral rent represent the last and the least domestically integrated production category. Mineral rent is defined as an extra income regimes get from international investors who pay for the right to develop natural resources (Auty, 2007; Esanov, Raiserm, & Buiter, 2006). The key industrialization task for AL regimes with the mineral rent is to diversify economic structure in order to overcome incentives that make mineral export the most profitable business strategy (Auty, 2008; Auty, 2012). Two things facilitate this transition. First, the economic structure for production of mineral rent is often loose and disconnected from the overall economy, which allows government to introduce ALI in a number of economic sectors simultaneously. Second, mineral rent brings abundant returns (Goldman M. , 2008; Carmody, 2011; Auty, 2012). The AL regime installs competitive environment and encourages export of goods from the producers in non-commodity sectors, while maintaining support of extensive growth firms. As a result, regime adopts an Episteme of the *competitive advantage*. Competitive advantage is industrialization strategy where the regime provides the most productive environment for businesses working with public and private sectors creating a productive economy (Ketels, 2004).⁷ In other words, competitive advantage promises fast export

⁷ There are various definitions of the theory of competitive advantage. John Zysman and Laura Tyson (1983) analyzed the politics of Japanese industrialization as an intentional development of strategic

diversification when government together with businesses make concerted efforts to achieve optimal conditions for higher productivity of domestic industries.

Competitive advantage is a preferred mode of industrialization because it does not need large state investments in industrial sectors. Government only facilitates business interactions. Hence, its industrialization policy is freed from mineral price fluctuations and dependence of the ruler on the resources from the extensive industries. By providing a framework for such collaboration, the state as a facilitator also benefits from stronger domestic firms that grow via expansion of exports and diversify economy away from Dutch Disease. With the rise of non-mineral industries, price fluctuation will not challenge the ruler and the strategy of the dual economy might succeed. Thirdly, for the government ‘strengthening the strengths’ approach carries a stellar, intuitive path of development where industrialization happens by satisfying both domestic and international demand based on market projections and market-based demand for quality of produced goods. As a result, AL regime with mineral rent prefers Episteme of competitive advantage.

Episteme of competitive advantage shares the following premises with managerial Ethos. First, it assumes that the market is a realm of opportunities where domestic producers can excel. International competition does not destroy domestic producers, but

industries that could compete with the United States. He identifies the following strategies of competitive advantage:

The entry of Japanese firms into the US market came at the moment at which a surge of IBM purchases in the merchant market created a temporary shortage in the USA. The trade statistics show clearly that Japanese firms met that demand but also satisfied their own internal needs with import of American product. When the temporary shortage ended, the Japanese were entrenched in the America market, and as they expanded capacity they then displaced their American competitors from the Japanese market (Zysman, 1994, p. 254).

However, this dissertation uses Michael Porter’s definition of competitive advantage that stresses ability of governments to create prosperity through competitive industries by facilitating business operations of already competitive domestic firms. Government does not treat industrialization and international competition as a strategic zero-sum game. It assumes that market already supports industries that are competitive and state needs to assist them by easing export and conducting strict fiscal discipline.

creates new economic sectors and new sources of prosperity. Second, rather than concentrating on domestic consumption of competitive industries, it looks at the international trade and ALI at the expense of international demand. Third, it promises individuals no interference into their market behavior. The state vouches to provide negative freedoms to individuals, i.e. freedom from government intervention. Rising individual autonomy helps people to become entrepreneurial and open their businesses in the strategic sectors. The Episteme that undertakes ALI via international trade and competition echoes managerial rationale.

All four types of commodity rents determine (at least hypothetically until proven by case studies) variation of export diversification routes in the AL regimes. Various commodity productions can be placed on the continuum of the most to least integrated domestic economies in order to determine the scale of ALI. AL regimes with the more integrated domestic structure of commodity production are the most constrained in their abilities to introduce competition. For these regimes, the Ethos of paternalistic rationale is chosen for more controlled ALI that is oriented towards domestic consumption and common good benefit. The Episteme of managerial rationale is chosen for industrializers that have industries not dependent on each other. It allows them to devote more sectors for ALI and introduce competition in the strategic areas.

The Techne

The last variation of ALI to explain, occurs at the level of policy implementation. At this level, AL regimes introduce liberal governing rationales at the microeconomic level. Variation of microeconomic instruments of economic regulation depends on the Techne, the scope of ALI. Techne is a realm that looks at government policies that support

intensive growth firms in the specific industrial sectors, which reflects the scope of social welfare distribution of the commodity rents throughout the process of ALI.

Technique of managerial rationale supports domestic producers of internationally competitive goods by rewarding them with loans, preferential treatment and subsidies for the resulting increased volume of exports. Managerial AL regime does not spend money on welfare and protectionism, but fosters free trade and profit maximization conditions of the intensive growth firms. Echoing the Episteme of managerial rationale, countries with strategic and mineral rents are interested in designing government regulations in order to make production of internationally-competitive finished goods profitable. AL regimes with the paternalistic rationale whose Ethos assumes that market is a dangerous place prefer to conduct economic reforms through minimizing costs of the government welfare spending and incrementally allowing people integrate into provision of personal welfare through the market. They provide necessary tools for the intensive growth firms to produce internationally competitive finished goods at home. The comparison of managerial and paternalistic Technique shows that countries with agricultural rents and manufacturing rents that involve many people into production of commodity rents have more welfare-oriented scope of ALI than AL regimes with mineral or strategic rents.

In practice, the comparison between the Technique of paternalistic and managerial rationales is more nuanced if we take three key criteria for liberal governing rationale (Minokha, 2009) and compare how cost minimization and profit maximization works in practice. The policies of economic liberal regulations need to comply with the following criteria, where AL regimes:

- Ensure minimal state intervention into economy

- Support market mechanisms of resource allocations
- Intervene only to curb deviant market outcomes (Minokha, 2009).

The Techne of the paternalistic rationale reflects state policies that aim to shift control over extensive welfare infrastructure away from government properties towards private businesses in minor non-strategic industries. For example, the Chinese Ministry of Defense inherited many hotels that military personnel and their families used for vacation (The Economist, 2012). With the start of ALI, they were privatized in order to support intensive growth tourist firms that renovated the premises and attracted large number of international tourists (The Economist, 2012). Another sign of cost minimization Techne used by paternalistic AL regimes is their desire to increase the number of private actors. The rulers think that the more market actors appear in the domestic arena, the more vibrant domestic market is going to be, which will foster stronger market mechanisms of resource allocations.⁸ So if private hotel operators appear in the market, they seek or create the supporting industries, such as financial, cleaning, and transportation services. The job of the state is to allow these services once the economic sector develops, where those services are needed. In the meantime, the majority of the population will remain engaged in production of commodity rents while obtaining necessary training. Lastly, cost minimization Techne exists in the attempts of the AL regime to manage ‘deviant’ outcomes. These regimes have low tolerance to market deviations and economic risks. They prefer to have a strong grip on microeconomic policies and watch developments of their industrialization sectors closely. They cannot afford to waste scarce commodity rents. Such intervention policies are visible when the government prevents development of the intensive growth firms that produce intermediate goods. Cost minimization Techne

⁸ For example, please see (Jintao, 2011)

reflects paternalistic rationale that aims to support welfare of the general population and carefully open non-strategic economic sectors for market competition while minimizing firms' risk exposure.

Techne of the managerial rationale celebrates minimal state intervention into economy. Government prefers to allow private actors to engage in international business by destroying boundaries to international trade, such as tariffs, quotas and subsidies in order to allow private investors to sponsor industries with the largest export potential outside of commodity sales. Such disregard to the welfare provision of commodity rent producers is possible because mineral and strategic rents do not involve large portions of population in production of rent. Hence, rather than protecting people from the international competition, AL regimes are interested in introducing easy currency convertibility, easy registration of businesses and low taxes for start-up companies. These conditions allow intensive growth firms to maximize profits and investment capabilities. Another sign of managerial Techne is visible in policies that support market mechanisms of resource allocation. For example, rather than government deciding which sectors are eligible for ALI, AL regimes allow markets to decide which producers of final goods require support. In EOI and Competitive Advantage strategies, AL regimes open up their economies to international competition. In both cases, governments reward producers that export competitive finished goods by providing them with export promotion, marketing and logistics assistance. As international demand rises, profits are maximized, so that firms can engage in expansion of their production capabilities, innovate and acquire necessary technologies and skills. The last sign of profit maximization Techne used by the AL regimes with managerial rationale is their high tolerance for risks and deviant

outcomes. Such states prefer to intervene only if the market is threatening to disappear. Otherwise they allow competition, the workings of supply and demand to determine market developments. Profit maximization *Techne* reflects managerial rationale that supports the intensive growth firms by opening domestic economies to international competition and by maximizing the opportunities for its domestic actors.

Comprehensive implementation of liberal governing rationales requires special skills on the part of bureaucrats, who are required to govern minimally, constantly evaluate market performance and determine whether or not outcomes are 'deviant' or 'normal.' In devising their domestic regulatory policies, governments not only have to work with domestic imperatives, but consider conditions of international markets as an essential part of domestic economic regulation (Evans and Cerny, 2003).

Implementation of *Techne* of managerial rationale requires Technocrats, officials who have the skills of supporting and promoting competition. In practice it means that officials need to help the market to work even more efficiently (Cerny, 2005). Efficiency depends on continuing expansion of the market forces so each economic actor finds more consumers and better business partners, which helps them to increase profit margin by producing and delivering the same goods cheaper and faster. The thinking reflects the desire of governments to commodify ever more social realms into the market (Cerny 2005; Strange, 1997; Schmidt & Hersh, 2006; Dagan & Fisher, 2011). Technocrats allow managerial AL regime to 'retreat' from welfare provision and protection of the population from market forces, because for these regimes provisions of functions that could be done by the market are considered to be inefficiencies. General consensus among technocrats is that state is worse as a regulator than the market (Schmidt &

Hersh, 2006). Technocrats in the AL regimes with managerial rationales have to possess the ability to commodify social sectors and transfer the majority of welfare functions to businesses (Evans, 1997, Strange, 1997, Kearney & Merrill, 1998). Less regulation and government involvement is seen as promotion of competition and the best tool for ALI.

At the heart of competition promotion, technocrats ensure that the existing system of exchange is functional and sustainable. They evaluate cause and effect of every regulatory policy through the calculation of costs and benefits (Foucault, 2007, p. 20). In other words, every potential problem is analyzed as a misbalance of causes. If the effects of the misbalance are significant enough that they threaten stability of the system, then the state takes action by sending incentives to counter-causes that can cancel out the problem (Foucault, 2007, p. 85). Technocrats treat the market as an organism where:

The task of the government is aimed at the development of ever-wider circuits enabling, guaranteeing, and ensuring the circulation of people, merchandise, air, etc. It constantly integrates new elements of production, psychology, behavior and the approaches of producers, buyers, consumers, importers, and exporters to doing things, and seeks to integrate everything with the world market (Foucault, 2007, p. 51-64).

As a result, governance is conceived as a provision of freedom of circulation, ensuring that things are always moving in such a way that the inherent dangers of this circulation are cancelled out (Foucault 2007, p. 91). Technocracies are indirect competition promoters.

Due to the fact that technocrats prefer less interference into the market, they are reluctant to use strict enforcement methods of the Episteme of managerial rationale. They react only if the existence of the market itself is threatened. This system of oversight is called a 'fire-alarm oversight', which is a system where implementation of rules is decentralized and minimal (Moustafa, 2008 citing McCubbins et al. 1989, p. 142). The

fire-alam oversight system also supports managerial Ethos that celebrates negative freedoms of individual market actors, a stance of ‘less state regulation, more freedom’ (Berlin, 2002, p. 170). Negative liberty of the individual that thrives on competition is incompatible with positive liberties that promote ‘equality, fairness, justice or culture’ (Berlin, 2002, p. 213) at the collective level. By ensuring competition, managerial state provides citizens with economic means and maximizes their freedom to act (Plant, 2004; Berlin, 2002; Nadesan, 2008). Technocrats embrace managerial rationale, which opens up domestic markets to international competition and thereby help its intensive growth firms attract international investments, enlarge its consumer base and remain competitive.

Implementation of paternalistic Techne requires autocrats, officials with the ability to install order and the rule of law. Their primary responsibility is to ensure that the ruler’s directives are executed in the exact way that the authoritarian ruler deems appropriate. The rulers rely not only on domestic consumption as the driving force of ALI in the short-term, but design regulations with the goal to become internationally competitive over the long-term. In practice, it means that the rule of law strives for careful and balanced introduction of economic reforms while retaining social equality. In practice it means, that rather than opening up domestic markets for competition promotion, autocrats are ordered to implement risky reforms in non-strategic sectors while retaining the majority of social functions under the state. By issuing government regulations, AL rulers manage to direct ALI towards envisioned Telos of governing rationales with minimal risks and maximum certainty. In this model, the rulers present an ideal that they would like autocrats to achieve and direct all actors into realizing this ideal.

Autocrats work through the mechanisms of control and constraint defined by law. The ruler's desire for the implementation of the rule of law gives autocrats the responsibility to police all corners of the country. In creating order in the market place, autocrats improve circulation of ideas, services and commerce. Government's responsibility is to sift through economic circulation of goods and services in order to provide more domestic consumption in the short-run, and to increase trade with the outside world in the long-run (Foucault, 2007, chapter.1). The state represents the primary mechanism of power as the overseer and guarantor of order (Foucault, 2007, p. 19) and ALI. In practice it means that the autocrats execute what the rulers define as the right and wrong, permitted and prohibited thereby disciplining market actors through laws, decrees, punishments and regulations. Foucault writes:

By definition, *discipline regulates everything*. Discipline allows nothing to escape. Not only does it not allow things to run their course, its principle is that things, the smallest things, must not be abandoned to themselves. The smallest infraction of discipline must be taken up with all the more care for it being small (Foucault, 2007, p. 45).

The basic function of the system of law is to give greater definition to things that are prohibited (Foucault, 2007, chapter 2).

Since paternalistic rationale relies heavily on restrictions, it requires individual market actors to be passively obedient to government regulations. Control is managed because the punishments for disobedience are severe. Paternalistic rationale adopts *police-patrol oversight*, where the ruler personally monitors all actions of the entire bureaucracy (Moustafa, 2008 citing McCubbins et al. 1989, p. 142). Intensive growth firms are required to fulfill social needs and produce goods for common benefit. Law becomes the dominant instrument of industrialization that guides firms towards achieving the vision of the competitive high value-added domestic economy. By relying on

prohibitive laws, paternalistic AL regime ensures that its economic policies do not threaten social equality and welfare. In this system, the government analyzes its territory and population according to definite objectives and then establishes an optimal sequence of coordination and permanent control of its population (Foucault, 2007, p. 94). The key elements of this oversight system include a comprehensive legal juridical order, coupled with the tight relationship between autocrats and market actors.

The *police-patrol oversight* system also supports paternalistic Ethos. This system treats market as a realm of risks and dangerous transactions. This understanding requires AL regimes to protect their citizens from negative outcomes by directing and controlling their behavior as much as possible. The rule of law promotion also celebrates positive freedoms for individual market actors, where the state provides them with necessary tools to minimize potential losses. The police-patrol oversight system echoes paternalistic Episteme where government promotes demand for domestically produced goods by introducing protectionist measures and subsidizing promising, potentially internationally-competitive domestic producers. Autocrats seek to implement directives of the ruler verbatim and adopt key pillars of the paternalistic rationale throughout implementation of ALI by heavily restricting and controlling behavior of the intensive growth firms.

Definition of the implementation of ALI as governing rationale that operates at four levels of analysis enables researchers to identify variations and choice of industrialization policies in the AL regimes that derive their incomes from commodity rents, be it mineral, agricultural, manufacturing or rents from strategic location. The section shows that the pace of reforms defines the Ethos of ALI. The selection of Ethos depends on the demand and price fluctuations of commodities. Abundant rents allow

faster pace of reforms and adoption of the managerial Ethos. Scarce rents, on the contrary, provide limited opportunities for ALI and slower pace of reforms. These incentives lead to the selection of Ethos of paternalistic rationale. Once the typology of Ethoses is selected, Epistemes must fit the basic premises. Variation of the Epistemes reflects the scale of economic reforms and depends on the degree of the domestic integration of economic commodity production. This section shows that the Episteme of the paternalistic rationale prescribes careful introduction of ALI in limited non-strategic sectors. Such limited ALI is required because introduction of market economy on the large scale is dangerous since the domestic enterprises depend on each other and the production process cannot be disrupted. More economic sectors are eligible for ALI in the regimes with managerial rationale since their economic sectors are not interdependent. Instead, AL regimes with managerial rationale introduce export diversification strategies that promote competition. The Techne of such rationale varies according to the amount of the population engaged in production of commodity rents. The scope of Techne introduced by technocracies in managerial AL regimes is maximized because such a small number of people is involved in producing commodities. It enables regimes to promote competition by introducing state policies of profit maximization. AL regimes with the paternalistic rationale prefer minimal risks choosing policies where states carefully control market actors and provide them with opportunities for the intensive growth strategies. Despite the variation in the scope of ALI the Techne of paternalistic rationale is driven by cost-minimization, where AL regimes are looking to privatize non-essential services and products while expanding the number of market actors.

Bureaucratic Rents

ALI as governing rationale is omnipresent. It represents a compelling argument for the successful transition from production based on extensive growth firms towards intensive growth firms. Each ALI is scientifically designed and tailored to fit economic and social requirements of each AL regime. The problem is that ALI not only diverts commodity rents away from patrimonial distribution among officials, but also undermines their ability to obtain bureaucratic rents. Indeed, bureaucrats have a lot to lose in the process of industrialization. Before industrialization, they had the right to pillage businesses entrusted in their official government position. As was discussed in the literature review, bureaucrats created patrimonies and personally benefitted from extra incomes. AL governing rationale prescribes a radical change: ALI becomes the main reason for governing. It brings no lucrative contracts, personal yachts or villas – just a potential promise for better future announced by the ruler who takes all the responsibility for success. The governing rationale itself serves as the moral guide for all bureaucratic actions.

Governing rationale is inherently disciplining. Its comprehensive set of scientifically-based prescriptions does not allow officials to introduce ideas that do not follow the logic of ALI. Contrary to democratic states, where mass media and overall population act as the watch dogs of government actions, in the AL regimes technocrats and autocrats act as the main instruments of enforcement and oversight. Authoritarian structure of subordination solidifies disciplining nature of ALI even further. As a result, officials cannot openly challenge liberal governing rationale. They resist by withholding information from the superiors, misinterpreting facts in forms of hypocritical statements and secretly engaging in patrimonial practices. Resistance is hard to trace because it takes

an indirect and subversive mode of existence in the environment where ALI decreases the amount of bureaucratic rents and imposes oversight mechanisms.

The *Techne* of managerial rationale assumes a withdrawal of the state from economic intervention in order to allow market mechanisms to govern distribution of resources. For bureaucrats it means that their patrimonial practices derived from distribution of public properties and subsidies to the extensive growth firms are undermined by governing rationale that calls for ALI based on the promotion of competition rather than protectionism. Bureaucrats interested in the expansion of their rents experience curtailing of patrimonial practices and are forced to respect the autonomy of the market. *Techne* of paternalistic rationale allows officials to intervene into domestic economy, but the rules of such intervention change. Bureaucrats are required to implement the ruler's or his autocrats' directives in order to build market mechanisms and nurture competitiveness of its domestic firms. Bureaucrats must subordinate governance of their patrimonies to the commands of the ruler and execute proposed reforms. Official posts no longer remain personal domains of bureaucrats. In addition, the amount of rents decreases as the state sheds social responsibilities and conducts ALI via cost minimization strategies. Bureaucrats face decreasing responsibilities and opportunities for personal enrichment.

The section below compares specific ways of how *Techne* undermines bureaucratic rents in managerial and paternalistic rationales. Then, bureaucratic resistance is described. The key resistance strategies target three pillars of ALI's *Techne*: minimal state intervention, respect of market autonomy as a superior mechanism of resource distribution and government monitoring of market conditions for 'deviant' outcomes.

Paternalistic Techne that approaches introduction of ALI at a microeconomic level assumes that officials implement cost-minimization strategies proposed by the ruler. However, bureaucrats resist ALI by boasting personal loyalty to the ruler rather than the principles of ALI. Thriving personality cult allows officials to do two things. First, they manage to escape police-patrol oversight mechanisms of autocrats, because by claiming personal loyalty to the ruler, officials claim direct patronage of the ruler. In addition, they put responsibility for ALI on the leader sidelining the formal responsibilities of policy implementation by the specific bureaucrats. This shift of emphasis helps them to depict the ruler as the guarantor of moral order, common good and justice in society. In nearly every official speech at every kind of ceremonial event, the rulers are thanked for bringing the country independence, for their wise decisions in guiding the economy, and for restoring their nation to greatness (Adams & Rustemova, 2009; Adams, 2010). The ruler serves as a model, replication of the leadership and efforts towards liberalism (Adams & Rustemova, 2009). By revering the leader the seeming unity of power is maintained and execution of punishment in this system becomes difficult, because only the ruler can tell who is guilty. For example, during the investigations of fraud, the ruler is blamed for selecting 'bad' officials. In other cases, the ruler gets revered for liberal ideals that are implemented by 'bad' and 'disloyal' bureaucrats. In both cases only the ruler can change patrimonial officials and only the ruler can punish "bad" bureaucrats. Personality cults cover up patrimonial practices and undermine paternalistic ALI.

Under this system, three pillars of Techne are undermined in the following fashion. First, Techne of paternalistic rationale calls for officials to privatize public properties non-essential to the production of commodities. The physical properties of health resorts for

workers, and their dining facilities are privatized and written off the balance sheets of state enterprises. Such actions create opportunities for the population to start up businesses. However, patrimonial practices continue to exist throughout the establishment of fake firms that win the best bids when the state privatizes properties. Therefore, an attempt to create more market actors with capabilities to engage in the domestic production of competitive goods fails. Bureaucrats end up gaining more sources of rent and extend their clandestine network of “clients”.

Second, in line with the paternalist *Techne*, the state allocates cheap and long capital to these new businesses to expand and grow in the domestic and international markets. However, new enterprises poached by corrupt bureaucrats fail to maintain competitive production and expand since the majority of profit gains end up in bureaucratic pockets. Bureaucracy chooses to disobey the ruler by setting up intolerable conditions for firms that decide to achieve desired outcomes by formal rules. Patron-client relationship further undermines the development of institutions and implementation of formal regulation. Therefore, intensive-growth firms continue to depend on state protectionism, its subsidies and support if they want to remain in business. Scarce rents that the paternalistic rulers distribute through autocrats dissipate into economy without clear results.

Lastly, the third pillar of the paternalistic *Techne* disciplines bureaucrats into reporting deviant market developments so the rulers can make decisions and react to the appearing problem. However, bureaucrats have no incentives to report the true nature of things, because autocrats and the ruler will remove them from power. They prefer to depoliticize problems. Depoliticization is a strategy, which refers to the intentional

withholding or misreporting of information. Bureaucrats intentionally diminish the size of the problems by denying their importance. For example, rather than fixing bad roads, local officials say that the problem is not as bad as depicted. If people and firms continue to call for urgent meaningful solution, then local bureaucrats silence the most vocal critics by co-opting the leaders, threatening them with legal and administrative penalties, threatening their lives and the lives of their immediate relatives. The goal of depoliticization is to silence whistle blowing revelations of problems with Techne. Information gaps benefits local officials and guarantees security to patrimonial activities. Local bureaucrats benefit from information gaps, because they know the true nature of things and report fake statistics to autocrats who, in turn, transfer it to the ruler.

Resistance to ALI happens because the police-patrol oversight system is flawed although the political system aims to establish order and the rule of law via repressive means. In this regime, rule of law is secured by the autocrats that act as the watch dogs of patrimonial bureaucrats and have the right to repress local officials if they deviate from the prescribed policy implementation. But autocrats have no ability to discover the true nature of things because local bureaucrats are also endowed with violence and repressive mechanisms that they use against local population and the intensive-growth firms.

Threats to ALI, such as the lack of the rule of law and competition at the micro-level, impose significant challenges upon the ruler. Depoliticization prevents governments from rapidly reacting to problems. As problems grow in size and scope, bureaucrats continue to hide them, and then issues threaten the security and safety of the entire economic system. Simultaneously, personality cults impose more responsibility upon the ruler who becomes the sole agent of change and a guarantor of liberal practices.

Therefore, the ruler is forced to conduct industrialization by increasing authoritarian control by narrowing the leeway of bureaucratic interpretation of government regulations. The tight control is accompanied with the increasing punishments for violations of the rule of law. As a result, AL regimes become more authoritarian. Increased authoritarianism, when used as the primary disciplinary practice used by the AL regimes, undermines the success of industrialization. The expansion of market autonomy and the growing employment of individuals in the intensive growth firms, which serves as criteria for the success of the rule by law and liberal industrialization in general.

Managerial Techne that introduces ALI at a microeconomic level is based on the assumption that officials promote profit maximization strategies proposed by the ruler. However, similar to bureaucrats in paternalistic regimes, officials develop strong personality cults, glorifying the ruler. Cult formation helps the bureaucrats claim direct relationship to and patronage from the ruler and shift responsibility of ALI onto him. Contrary to personality cult under paternalistic ALI where the ruler is an embodiment of common good, justice and morality, officials in managerial regime depict him as the only expert capable of reaching the Telos. The rulers in managerial AL regimes possess skills of innate perception and knowledge about governing societies and markets. Only the ruler with expert knowledge can guarantee a great future for the whole country. Under these circumstances, bureaucrats in managerial regimes also revere the ruler instead of the managerial governing rationale of ALI. Since the success of ALI belongs to the ruler, the bureaucrats responsible for implementation of policies are freed from these responsibilities. They portray themselves as executors of the ruler's will. If economic problems appear, they are framed as the fault of the expertise from above and not the

result of bureaucratic (in-)actions. For such officials failure of the intensive growth firms to become successful and profitable market actors is a challenge to technocratic expertise that might have failed to consider all the essential factors.

This move helps them to escape ‘fire-alarm oversight’ and manifest personal loyalty to the ruler at the expense of technocrats that have the right to design and implement policies of market regulation. This subtle accusation of technocrats is possible because managerial Ethos assumes minimal intervention into the economy and consistent recognition that competition is the best driver of ALI. Technocrats cannot enforce regulations with repression. Their job is to introduce reforms that elicit desired results without intervening into the market. They are experts in manipulating various causes in the market but not in manipulation of various officials who obstruct introduction of ALI. By claiming that officials are personally loyal to the ruler, bureaucrats avoid punishment for dissidence. Resistance is tolerated until it reaches threatening conditions. Then the ruler personally intervenes. When this happens, government intervention is seen as the failure of the overall technocratic expertise. Only the ruler knows who is responsible and has the power to punish them, technocrats or bureaucrats alike. He is the only one with the prerogative of weeding out “bad” officials.

The resistance to managerial *Techne* challenges each of the three pillars. Profit maximization strategies are based on minimal state intervention into the market to allow flourishing competition. Patrimonial bureaucrats that have capital from bureaucratic rents re-invest it back into the economy in the form of affiliated companies and holdings. As a result, rather than competition, the domestic market is dominated by oligopolistic groups that control the entire industries. These groups, if big enough sell their products to

international markets. Although export diversification takes place, these holdings are successful because they operate under the patronage of the specific officials who create laws in favor of their needs. As a result, it is not the market, but politicians, who determine profitable industrial sectors for managerial ALI.

Second, Techne of managerial ALI assumes government support of market actors by the state to create and export internationally competitive finished goods. Technocrats identify potentially profitable enterprises after solid market research and then use project management techniques. They announce bids for construction and operation of intensive growth projects that export internationally-competitive finished goods. The bids provide winners with long and cheap loans. Patrimonial officials subvert projects by creating fake firms that win the bids and construct *Potemkin* enterprises. These enterprises will have the state of the art equipment, but they are never intended to work and pay back the loans because the management has stolen big chunk of government allocations already. The owners of these firms are interested in more government contracts rather than operation of new enterprises. Lack of repression characteristic of fire-alarm oversight allows for wasting of resources.

Third, Techne of managerial ALI assumes that officials need to intervene into the market only if deviant outcomes are observed. This pillar undermines bureaucratic rent because officials cannot impose various control checks and poach businesses. As a result, bureaucrats are keen on finding new reasons for deviance in order to justify their intervention into economy. They exaggerate problems associated with the provision of public goods, such as roads, hospitals, schools in order to get more money from the state budget, but are not interested in improvement of the problems identified. For example,

in certain regions requests for more allocations for anti-flooding measures in some regions occur annually, without the funds solicited being used for flood-prevention measures. Flooding is not fixed because it becomes the source of revenues for the officials and opportunity to expand network of their 'clients'.

Competition under this system of resistance is difficult to oversee without constant control and repression. Lax fire-alarm oversight mechanism and toothless technocrats allow patrimonial bureaucrats to thrive in the managerial ALI. Instead of the competitive economic enterprises, ALI gets subverted. Technocrats who have the power to invent the reforms are forced to rely on patrimonial bureaucrats without any ability to enforce policies in practice. Only the ruler has the ability to decide who is right or wrong, but the enforcement depends on availability of correct information. Without information, repression and control are impossible.

When only local officials possess knowledge of the true nature of things, then they are able to manipulate with information by depoliticizing problems crucial to the success of ALI and politicizing problems that are irrelevant to ALI. The flexibility of bureaucratic response is possible, because officials have access to the means of repression, whereas technocrats lack such abilities. When whistle blowers point to the ruined industrialization enterprises that used to be the pride and hope for the future, bureaucrats respond with threats and say that an enterprise is facing 'temporary difficulties'. Technocrats are aware of the problems and when they become acute, they blame particular officials rather than accepting the fact that ALI is threatened systematically by patrimonial officialdom. Acceptance of the failure results in their own uselessness, an idea that no one is prepared to accept. Contrary to the governing system

in the paternalistic AL regimes that are based on repressive autocrats and repressive bureaucrats, the managerial system is freer. Repressive bureaucrats use force to hide information under the watch of technocrats who join the chorus of ‘everything is fine,’ which is the ‘song’ sang to the ruler. Only the ruler can break the cycle of resistance.

Despite the disciplining nature of governing rationales and logical consistent implementation at every level of analysis, resistance strategies undermine the success of ALI precisely because they secretly subvert it at the microeconomic level. Lack of domestic industries capable of exporting internationally competitive finished goods destroys prospects for ALI, because no matter how well-designed Ethos and Epistemes are, they need to have the necessary actors. This section also showed that ALI based on promotion of the rule of law is undermined by bureaucratic resistance regardless of the systems level of repression. The information gap allows local bureaucrats to lie and avoid punishment from the autocrats. In doing so, they continue to undermine the rule of law and competition. Similar mechanism works in managerial AL regimes where ALI is based on the principles of competition. Technocrats rely on information from local officials to design policies of market economy. Contrary to autocrats, they do not have repressive means to discipline bureaucrats into adopting their governing rationale. As a result, local officials veil the true nature of things and provide technocrats with positive data and hide problems. When the problem erupts, the ruler must interfere and personally punish irresponsible people. In both cases industrialization works only if bureaucrats strictly accept the premises of governing rationales. The success of ALI remains uncertain no matter how much cash for industrialization the rulers have and how repressive they become.

Evaluating Uncertainty

By studying dissidence, this analytical framework evaluates the success of ALI. A high degree of differentiation between liberal discursive practices in theory and in daily practice signifies an unsuccessful attempt. If the difference between what is said and done is minimal, then the ruler managed to effectively restrict patrimonial practices in the domestic markets. Success manifests itself in the political and economic realms. In the economic realm, the difference in the structure of exports, growth of goods produced from non-commodity sectors, existence of multiple and dynamic firms that compete among each other is observed. Most importantly, AL regimes need to show a steady decrease on its reliance of commodity rents. Taxes and lack of further expansion of the extensive growth industries signifies the direction of economic growth and industrialization.

In the political realm, successful ALI should exhibit lack of popular open protest against patrimonial practices. Open protests are the most important indicators of failed ALI, because they challenge the legitimacy of the AL rulers, and by definition, their Telos. Protests show that Telos has either not materialized or that the population wants a new ruler with alternative Telos. Open protests identify if the rulers were successful in managing inherent weaknesses of governing rationales, i.e. the lack of simultaneous implementation of the rule of law and competition. The managerial rationale that conducts ALI through competition suffers from bureaucratic rents and the absence of the rule of law when it comes to dealing with bureaucrats. Protests against the Techne of managerial rationale show that the reign of AL regimes has not 'maximized the profits' of ordinary citizens. Paternalistic rationale is weak in introducing competition and giving people freedoms to become entrepreneurs. Protests in the paternalistic AL regimes signify

the failure of cost-minimization strategies. They prove that people have not been able to rip the benefits of privatization and engage in developing industries with thriving intensive growth firms. In both cases, lack of open protests shows the success of the entrenchment of liberal rationale among bureaucrats.

Another important political indicator of successful ALI is the lack of personality cults where bureaucrats pledge allegiance to the ideas, rather than to the rulers should be noticeable. Political problems introduced not by the ruler, but from local communities provide vibrant discussions. Officials are reliably persecuted for their patrimonial practices. By comparing managerial and paternalistic governing rationales with policies on the ground, the success of ALI can be evaluated.

The second part of this dissertation describes vulnerabilities of patrimonial capitalism in Kazakhstan and Uzbekistan in order to explain the need for ALI. It shows that Ethos, Episteme and Techne were selected to fit local requirements and economic structures. In the next chapter discussed the specific strategies of bureaucratic resistance.

CHAPTER 4 PATRIMONIAL CAPITALISM

[In rentier states] the revenue is very much dependent on the external demand and ability to export, which produces the outward-looking and long-term political and economic reform strategies, with inward-looking patronage-dispensing agenda of central regional and local governments

Richard Auty and Indra De Soysa, 2006, p. 148-49

In order to apply a new analytical framework to case studies and answer the question of why AL regimes evolve, a description of patrimonial capitalism is necessary. In these

two cases being investigated, the pillars of the extensive growth were set up during the Soviet Union era, where patrimonial capitalism evolved when the basic market economy principles were introduced. Soviet planners engaged the majority of population in commodity production and created large-scale enterprises that were heavily dependent on processing plants in other Soviet republics. This system of production presupposed internal economies of scale when market economy was introduced. When market economy was introduced, Kazakhstan derived its commodity rents from international investors who derived their revenues from the export of mineral wealth. Uzbekistan derived their revenues from agricultural rent by shipping cotton. Market economy brought rising volumes of commodity exports that in turn caused Dutch Disease and vulnerability to price and demand fluctuations. In the political realm the transition to market economy was accompanied with the rise of bureaucratic rents when officials organized the privatization process. This chapter shows that two regimes under investigation evolved into patrimonial capitalism within the first years of independence. The chapter begins with the discussion of commodity rents. It will shift to the discussion of bureaucratic rents in the second section.

Commodity Rents

Extensive growth industries in Central Asian states share a history of Soviet planning that left these countries with large enterprises engaged in production and initial processing of primary commodities. Uzbekistan supplied the entire Soviet Union and satellite states with cotton, whereas Kazakhstan specialized in production of minerals. Initial processing capabilities of transferring raw materials into intermediate goods, such as refining iron ore into ferroalloys or weaving cotton into yarn, retained extensive growth specialization

after the collapse of the Soviet Union. Despite basic industrial capabilities inherited by Kazakhstan and Uzbekistan, their economies remained dependent on the volume of primary commodity production. During the Soviet times extensive growth problems were neutralized because the state, not market competition distributed resources between firms. Soviet planners constructed large economic enterprises that produced the majority of output in socialist Kazakhstan and Uzbekistan and thereby determined geographically isolated large-scale commodity production.

Creation of large enterprises that impede competition in market system due to the internal economies of scale was consistent with the Soviet definition of industrialization. Industrialization was 'a process of the establishment of heavy industry that produces means of production in order to re-organize all industries and create material-technical basis of socialist society and procure extraordinary rate of economic growth' (Ziyadullaev, 1967, p. 17, my translation). This concept was derived from Lenin's idea of industrialization where 'the increase of labor productivity depends on the procurement of the material basis of large industries: development of fuel, ores, machinery and chemical industries' (Karabayev, 1969, p. 95 quoting Lenin, my translation). In other words, Soviet industrialization strategy assumed that if workers have cheap and readily available means of production, their productivity levels will increase substantially. As a result, large enterprises that produced 'means of production' were the primary sources of the Soviet extensive growth.

Soviet industrial enterprises were built based on the *principle of location*. In the Directives of the XVIII party meeting, 'new enterprises should be located close to the sources of raw material and regions of consumption in order to prevent irrational or long

transit of goods and further development of formerly backward economic regions of the USSR' (Ziyadullaev, 1967, p. 45 quoting CPSU, 1938, pp. 354-355, my translation). Expansion of large enterprises meant constant employment growth in certain geographical locations. Therefore, besides large-scale enterprises, each republic specialized in production of a particular industrial cluster (топливно-промышленный комплекс) that unified energy resources with the industrial production in a geographically restricted area and was also linked with sectors servicing the main industry.

In Uzbekistan Soviet industrialization strategy led to a countrywide focus on cotton and textile production. The acreage planted in cotton in the UzSSR increased from 2.3 million in the 1940s to 4.2 million in 1971 (Spechler, 2008, p. 18). Cotton processing industries expanded to match the increased supply. Uzbek enterprises servicing agriculture and cotton growth, included:

- UzSelMash¹ (Uzbek Agricultural Machinery) – provided agricultural equipment
- UzbekLegProm (Uzbek Textile Industry) – produced textiles and clothing
- Mubarek Gas – supplied natural gas to cotton processing enterprises
- Akhangaran Plant – supplied cement for cotton processing facilities
- UzChemProm (Uzbek Chemical Industry), including Ferghana refinery-provided gasoline and fertilizers to the cotton fields

¹ Contemporary names for these plants are used here in Russian transliteration in order to show continuity of economic structure in comparison with the Soviet industrial base. Russian transliteration is used rather than Kazakh and Uzbek versions because company names in both languages are officially recognized.

- Andijan and Palvantash oil fields – supplied 56% of oil extraction processed at Ferghana refinery for the domestic purposes
- Samarkand Mechanical plant – produced metal processing equipment for the UzSelMash.
- RadioElektronTechPribor (Radio-electric Technical Equipment) – produced copper wires and cables for the cotton processing industries.

Uzbekistan minerals and fossil fuels deposits were utilized as supplements for the cotton industry, providing workers with heating and cooking gas, and farmers with fertilizers and gasoline. Although Uzbekistan has large deposits of gold (4th largest in the world), proven uranium (7th largest in the world), molybdenum (8th), copper (10th) and natural gas (14th place) (Statistical Agency, 2010), these industries were not utilized as significant sources of government revenues.

The *principle of location* established the mineral sector profile in Kazakhstan, specializing in mineral extraction and initial metal processing. Industrial strength was based on ferrous and non-ferrous metallurgy (Chulanov, 1951, p. 78). The key enterprises that made the largest transfers to the state budget were:

- ‘Ispat-Karmet’ – produced iron ore rolling
- ‘Titanium-Magnum Oskemen plant’ – produced titanic sponge
- ‘KazZinc’ – refined zinc
- ‘KazakhMys’ – refined copper
- ‘KazChrom’, including Don plant – extracted chromium ore
- ‘ZhezkazganTsvetMet’ – produced rhenium
- ‘Yuzhpolimetall’ – produced bismuth

- 'Alluminum of Kazakhstan' – produced alumina, gallium
- 'Sokolov-Sarbay Metallurgical plant' – extracted iron ore and refined ferroalloy
- 'Zhairemskii Metallurgical plant' – manganese ores

In addition, Kazakhstan retained oil and gas (3.2% and 1.5% of the confirmed world energy reserves respectively), coal (9th largest in the world), uranium (4th largest in the world), mineral base, chemical industry, food and construction industries (Sultanov, 2005, pp. 31-44). Contrary to the Uzbekistani economy, Kazakhstani extensive growth enterprises operated independently of each other.

By 1990 Soviet industrialization strategies created specializations. Uzbekistan was the fourth largest cotton producer and the second largest cotton exporter in the world. Kazakhstan's exploration and mining industry discovered and developed mineral reserves of almost every metallic element in the chemical table.

After the collapse of the Soviet Union, the economies of Kazakhstan and Uzbekistan evolved from the state planning model into patrimonial capitalism. Patrimonial capitalism was possible due to the state's need for capital to revive economic production and escape the 'crisis of non-payments'. Crisis of nonpayment is a term that signifies a condition when the workers 'work without wages... due to the lack of budget discipline surrounding unrealistic budgets, combined with the breakdown of contractual obligations at all levels and the failure of the state agencies to enforce business laws' (Desai & Idson, 2001, p. 2). Lack of liquidity undermined the functioning of the economy, because trade was severely impeded (see Chart 1). The data shows negative imports, because Kazakhstan had no money to pay for the imported goods. Common knowledge

reports that a similar series of events happened in Uzbekistan, although the data is missing. Initial attempts to create money by printing banknotes brought negative results. High inflation (sometimes up to 10 000% a year) 'ate' the salary budgets of industrial enterprises (Desai & Idson, 2001, chapter 2) and aggravated the crisis of non-payments. For a while, the workers at the enterprises were paid with bartered goods from their former partners, because no one had money to pay for either inputs or outputs (Desai & Idson, 2001, chapter 11). Russian plants that used to take Kazakhstani iron ore and produce steel for the Kazakhstani construction sector charged local firms market prices and delivered nothing for free. With the right to seek other partners in the open market, Kazakhstani construction firms looked for the cheapest inputs leaving Russian firms with uncompetitive goods bankrupt. Severed economic ties impeded trade across the Soviet Union. Uzbekistan was not spared. During the Soviet times its cotton went to Ivanovo, a textile center located near Moscow where cotton was processed and textiles were distributed across the Soviet Union as finished goods. However, as finished goods became too expensive, Uzbekistan searched for ways to derive revenue from the domestic production.

The newly independent states faced urgent need to create money to cover government expenses, to add to funds received from taxes and foreign assistance (Pomfret, 2002, p. 35). Without resources to do so, states had two options: invite international investors with global reach and infrastructure or sell the commodities themselves. In both cases, the majority of state revenues came from commodity rents and

firm acceptance of the extensive growth². The nature of commodities determined the options of capital accumulation that the Central Asian regimes adopted.

Kazakhstan derived commodity rents from transferring property to international and local investors, who had the capital, processing capacities and global distribution capabilities to deliver mineral goods into international markets. Mineral deposits were sold to private capital. In exchange they shared profits from commodity sales in international markets. There are many reasons why private capital was employed. Kazakhstani budget had no money to sustain the basic state functions and urgently needed money. In addition, establishment of business links required time and expertise, which Kazakhstani officials did not have. Officials would have needed to approach multiple markets unrelated to each other: zinc, chromium, manganese, and iron ore among others. Private investments were preferred because domestic industrial enterprises were not interdependent; transfer of property from a chromium plant would leave zinc processing plants intact. Expansion of the extensive growth through foreign direct investment solved, or at least temporarily alleviated the need for technological upgrades. The majority of inputs were dilapidated. FDI promised free installation for upstream and downstream businesses, which provided solutions for distribution of goods. Investors also provided employment benefits to a large portion of the population. Mineral rent was a promising choice.

² Commodity exports were also preferred due to the changing international economy. When the Soviet Union collapsed, extensive growth enterprises survived not only because they were big and fundamental to the economy, but also because there was a demand for commodity goods in the international markets (Pomfret, 2001; Auty, 2006). Global economy saw additional players, such as China, Malaysia, Hong Kong, Brazil and India that needed more inputs to produce their products (Carmody, 2011). International trade made the lack of competitiveness of finished goods produced in the Soviet Union obvious (Pomfret, 2001). For Central Asian states open borders brought better quality imports in exchange for the commodity exports (Pomfret, 2001).

Assets were sold cheaply and fast. Four out of six principal enterprises in oil industry were sold for USD2.21 billion, which would have been a fraction of their worth under other circumstances; the assets of the copper industry went for USD357 million, chromium and steel industries were sold for USD33 and USD225 million respectively (Peck, 2004, p. 244). Approximately 75% of all electric power generating capacity was sold for less than USD50 million (Peck, 2004, p. 244). By 1998 Kazakhstan attracted USD1.2 billion of foreign direct investments (FDI) (Official website of the President of the Republic of Kazakhstan , 2003), with sales representing all major industries. Total rent as percentage of GDP in 2000 was high for Kazakhstan and already comprised 27.2% from oil and 1.5% from gas (Esanov, 2006, p. 43). Most importantly, government acquired a steady stream of income in addition to the one-time payments for licenses and Production Sharing Agreements. For example, in 2006 about half of the local budgets were from cash transfers from companies (KZT413 billion) and another half of these budgets was from taxes (KZT541 billion) (Ministry of Finance of the Republic of Kazakhstan, 2006). Commodity rents provided an easy solution to the government at the beginning of independence.

The Uzbekistani regime solved the liquidity problem differently. The state continued to control cotton exports. Economic interdependence of domestic economy precluded privatization schemes, as those adopted in Kazakhstan. Privatization of the industrial plants servicing cotton economy would have to supply expensive equipment to farmers without capital and indebted by 'crisis of non-payments'. In other words, privatization of a single economic sector could effectively threaten the entire economy. For example, privatization of UzChemProm (a state agency responsible for fertilizers)

would have removed subsidized (expensive) fertilizers for cotton industry from the market. Market priced fertilizer would have been prohibitively expensive. If investors stop producing fertilizers and convert into other products or sell expensive fertilizers to poor farmers at a market price, then the entire cotton industry might have been destroyed and left people without the means of existence. The heavily integrated agricultural industry of Uzbekistan required the preservation of all linkages with producers, services and consumers in order to remain operational and sustain the basic incomes among its population. Government accrued its revenue through the agricultural rent derived from the difference between international price of cotton exports and the state's maximum price for cotton in the domestic market (Akram Esanov, Martin Raiser and William Buiter, 2006, p. 46). Agricultural rent was preferred because with water scarcity and lack of export routes from the landlocked country, centralized control allowed preservation of necessary infrastructure, such as irrigation systems, infrastructure, provision of other inputs and a marketing network (Pomfret, 2006, p. 81). Agricultural rent allowed government to obtain access to capital.

Another tool that was used to solve the liquidity problem was imposition of state monopoly over export and currency trade, which allowed the regime to maximize agricultural rents. Uzbekistan restricted free trade initially to twenty-two ministries and twenty-seven associations and enterprises according to the decree adopted on January 1, 1987 (Ilkhamov, 2002). Uzbekistan also introduced multiple exchange rates and restrictions on current accounts in 1996 to ensure monopoly over cotton rents. According to an IMF report, the exchange rate was divided into three types: two official and one unofficial. The 'most official' exchange rate consisted of all foreign exchange revenues

from government transactions. Then Republican Monetary Commission decided who could have access to foreign currency and at what rate. Most revenues were allocated to service Uzbekistan's external debt. But currency was also transferred to the commercial banks that, established their own exchange rates. Before 1998, the 'commercial official' exchange rate had to be equal or below 12% of the 'most official' rate, and both were significantly lower than the market-clearing rate (Rosenberg & de Zeeuw, 2000, p. 7). As a result, the unofficial exchange rate on the black market exceeded the official rate(s) by 100-400% while the state benefited from the difference between cheap domestic exchange rate and more expensive international rates for its currency.

State control over the agricultural sector helped the regime solve several economic problems. People were provided employment and received regular salaries, even though the payments were low. It introduced new technologies into the industry enhancing cotton processing plants and satisfying people with consumer goods. It also allowed government to appropriate the difference between the cost of production and sale price of cotton. Agricultural rent provided the regime with revenues and temporarily solved unemployment, inflation and bankruptcy problems. These strategies provided the necessary lifeline for the domestic enterprises.

Both economies inherited and developed extensive growth enterprise that provided states with a stable supply of revenues for the domestic budget, solved technological drawbacks and threats of growing unemployment. Most importantly, commodity rents allowed regimes to escape the crisis of non-payments.

Patrimonial Capitalism and Internal Economies of Scale

Economies based on extensive growth do not have to be patrimonial. Australia and Canada, large producers of minerals and energy resources respectively do not suffer from bureaucratic rents. However, these countries fall outside of this research, because they do not belong to the 'developing' world and their regimes are not AL regimes. Central Asian regimes became patrimonial, because officials were responsible for the administration of commodity rents.

After the independence in Kazakhstan, property that used to belong to the Soviet People and operated by the Communist Party of the Soviet Union did not have an owner, because Soviet Union ceased to exist. In addition, elimination of labor from property management allowed former communist elites with access to everything in the country to transfer shares of the industrial sector to selected individuals or firms. When ownership rights belonged to an official (a concrete human being), revenues from sale to private investors went into personal accounts. Often, state properties were turned into 'profit-making' entities with officials serving on the Board of Directors or as associates (Matthews, 1994, p. 312). Sometimes, top managers of state enterprises nominally authorized privatization, which ended only with the changed name: a shareholding society, company or association (Matthews, 1994, p. 312), where managers were responsible for none of the costs, but were entitled to the profits. Under these conditions, official posts were lucrative and highly profitable. The first post-1987 entrepreneurs came from either nomenclature, personnel who obtained capital through privatizing public property, and parvenus who were employed in the second/grey and black market

(Matthews, 1994, p. 319).³ Among the respondents to Matthews' survey, 90% stated that bribery and corruption were essential in their private businesses (Matthews, 1994, p. 320). Privatization schemes created patrimonial capitalism.

In Kazakhstan everyone benefited from the system. Top managers had the right to determine who got what in the transfer to privatization and personally sold stakes to private capital by 'writing' the guidelines for economic reforms to suit themselves (Kotkin, 2009). The sale of natural resources was done legally, according to the law of "Denationalization and Privatization" adopted in spring 1991, by the Supreme Council of Kazakh SSR. The law "On Corruption" appeared in Kazakhstan in 1997. Before that date, corruption did not exist as a criminal offence in Kazakhstan. Rents allowed elites to remain in power (Esanov, 2006, p. 40) by redistributing resources through patronage networks, maintenance of low taxes and co-optation of opposition. In effect, Nazarbayev's authoritarian regime that usurped political authority since the Soviet times, guaranteed patrimony and security of contracts and wealth for bureaucracy. As a result, Kazakh economy was shaped into patrimonial capitalism, an economic system where a handful number of companies controlled entire industrial sectors under the tacit, licit and indispensable support of bureaucracy.

Similar support was given by international investors. By 2000, twelve companies contributed 80% of all budget revenue (Statistical Agency of the Republic of Kazakhstan, 2009). All had close pre-existing, political ties to the regime. Many of these investors either share control over enterprises with patrimonial bureaucrats and the rulers, or they provide indirect services to the regime by sponsoring pro-government political parties or

³ This survey was conducted in Russia in 1991 by the Institute of Sociology of the USSR Academy of Sciences and Moskovskie novosti newspaper (Matthews, 1994, p. 319). Although based on the Russian data, it is a reflection of similar stories across post-Soviet states.

hiring prominent international consultants. In all the cases, investors that work in the commodity sector in Kazakhstan are vitally interested in supporting the existing regime.⁴

- 'Ispat-Karmet' – production of iron ore rolling. After two weeks of negotiations, it was sold in 1995 to the ArcelorMittal group⁵, an Indian investor who is the leading producer of steel in the world. Although clear facts that illustrate patrimonial ties between investor and the regime are missing, Lakshmi Mittal secured a GBP8 million consulting service for Tony Blair in Kazakhstan (Leake & Stewart, 2011). The transaction shows that Mittal is engaged in the informal dealings with the regime and uses his clout and connections to support Nazarbayev's image.

- 'KazZinc' – production of refined zinc. In 1997 it merged with the lead-zinc Oskemen plant. The company belonged to private investor Glencore International **AG** (Switzerland) who became the main shareholder. The company has businesses in 40 countries. Glencore is famous for corruption scandals and is under investigation for tax evasion in the US. Glencore is negotiating for partial ownership in ENRC (another giant, see below). The percentage discussed is between 30% and 95% pending government approval, which will make it the largest player in the domestic market (Adilov, 2011). The regime has a formal presence in the company through the national wealth fund Samruk-Kazyna which is headed by the president's son-in-law Timur Kulibayev. Kulibayev holds over 14% of shares in the company and has control over major decisions.

⁴ This point will be elaborated in the forthcoming book chapter 'Economics of Authoritarian Persistence in Kazakhstan and Uzbekistan' in a volume edited by Michael Aleprete and Rachel Vanderhill, which was sent for external review

⁵ The company operates in 15 countries and its president is wealthier than Russian tycoon Roman Abramovich.

- 'KazakhMys' merged with 'ZhezkazganTsvetMet' – production of refined copper. It was initially privatized to the South Korean capital (specifically, Samsung). Those stakes were sold to Mr. Vladimir Kim (45.76%). The Kazakhstani government owns 14.99% of shares. KazakhMys operates 20 strip pits and mines. In 2009 the company's revenues reached 1.63 billion US dollars (Yanovskaya, 2010). The company recently had a public relations crisis when the estranged wife of the president's younger brother filed a case against her former husband for USD1billion in KazakhMys shares that Bolat Nazarbayev owned in the company. Bolat Nazarbayev was on the Board of Directors before the company was officially listed on the London Stock Exchange in 2005 (Yanovskaya, 2010). Now the president's brother serves on the supervisory council (Forbes.com, 2011). In addition, the chairman of KazakhMys Vladimir Kim sponsors pro-presidential Nur Otan political party (Global Witness Report, 2010, p. 18).

- 'Yuzhpolimetall' – production of bismuth and lead. The company reputedly had experienced financial insolvencies and plans a merger with another giant. KazakhMys has already conducted preliminary study.

- 'Eurasian Group' (Eurasian Natural Resources Corporation, PVL) – production of ferroalloy, iron ore. It later merged with 'Zhairemskii GOK' (manganese ores) and KazChrome's Don plant (chromium ore). ENRC also controls 'Alluminum of Kazakhstan' JSV (alumina, gallium, bauxites) and SSGPO iron ore plant. It is the largest producer of ferrochrome in the world, and the 10th largest producer of aluminum in the world.. The head of the ENRC group Alexander Mashkevich is a close friend of Nazarbaev and Kanat Saudabaev (State Secretary). He sponsors the Nur Otan party,

which is pro-Presidenti Nazarbaev and (before January 2012 the only party in parliament).

- National oil company 'KazMunaiGas' – production of crude oil. The company contributes 68% of the national government budget and, before December 22, 2011 was headed by Timur Kulibayev, who is President's son-in-law. Together with the president's second daughter Dinara, is one of the richest people (both take 880 place) on the planet according to Forbes (Forbes.com, 2010). Their cumulative income is 2.2 billion dollars (Forbes.com, 2010).

This exposition shows that patrimonial capitalism in Kazakhstan is guaranteed by the president and supported by the investors whose prosperity depends on the existing regime. Change of regime is risky, because the key enterprises that made the largest transfers to state budget in the Soviet times were privatized for undisclosed amounts. The same is true for oil contracts that remain classified from public view.

Lastly, rank-and-file people support the existing system because they personally benefit from guaranteed employment and relatively higher salaries compared to neighboring countries in the extensive growth industries and servicing sectors. The average salary is KZT95 000 (about \$650) as compared to USD50 in Tajikistan and USD130 in Kyrgyzstan (Ministry of Industry and New Technologies , 2011). In addition, high revenues from rents allow the regime to impose low taxes. Individual income tax is 10% (Government of the Republic of Kazakhstan, 2011). These cumulative factors make patrimonial capitalism based on extensive growth and patrimonial bureaucracy in the interests of all political forces.

In Uzbekistan patrimonial bureaucracy had direct control over economic assets, because government is the major owner of cotton-processing and cotton-servicing industries. All of the large enterprises were managed by former or future government officials loyal to the president. Officials dominated management of large national companies that ship cotton into the market. They were in charge over extensive network of subsidiaries.

- Uzpakhtasanoat, former Uzhlopkoprom (raw cotton) – national holding that consists of 99 cotton processing plants scattered around Uzbekistan organized into 13 regional join-stock companies with government holding 51% of all shares (UzPakhtaSanoat, 2011). The head of the Uzpakhtasanoat, Omonov Farkhod is on the Board of Directors of AgroBank, together with Prime Minister, Vice-Chairman of the National Bank and other heads of the national companies (AgroBank, 2011). Agrobank gets most of its revenues from the difference between state-mandated domestic price of cotton and the world price distributed into a ‘myriad of off-budget funds controlled directly by the president (Luong & Weinthal, 2010, p. 100 quoting Pomfret, 2004, p. 12).

- Uzbekengilsanoat, former UzbekLegProm (textiles and clothing) – national stock company that consists of 120 enterprises.

- UzHimProm (fertilizers) - state company formed in 2001 with 130.78billion sum of capital stock formed from the property of 43 enterprises. The former head of the national company UzHimProm serves as the vice-premier of Uzbekistan.

- UzbekNegteGas (National energy holding) - Mubarek Gas (natural gas) merged with Andijan and Palvantash oil fields (56% of Uzbekistan's oil extraction) and Ferghana refinery (Lapshina, 2007).

- UzAgroMashService holding with Samarkand Mechanical plant (ferrous equipment) - produces agricultural machinery and spare parts.

- Deputy Prime Minister, Rozukulov Ulugbek Ubaydullaevich also is a Chairman of Uzavtosanoat national company (Government of the Republic of Uzbekistan, 2011).

Patrimony at the local level is supported by cotton rents that constituted 85% (of premium) for the regime (Akerman, 2002). Regional officials benefit from faking the volume of cotton bought from farmers. Change of the regime will result in the change of the entire top management and bureaucratic apparatus. The ripple effect will be visible throughout economy; because top bureaucrats or their wives are in charge of government permissions to trade that are usually distributed among affiliated firms. The patron-client network with officials serves as a lucrative opportunity for businesses.

Patrimonialism works through charity foundations that have the right to participate in international trade and are also exempt from taxes. Such charity organizations are allowed to set up firms as financial sponsors that help them to engage in trading activities. For example, a charity organization 'Mehr Nuri' (the Ray of Light) founded by Gulnara Karimova, the president's daughter and Ambassador of the Republic of Uzbekistan to Spain and to the United Nations, participates in the microloan campaigns that distribute, over UZS 1.8billion (about USD 1million) to female entrepreneurs (New Europe Magazine, 2010). Mehr Nuri is also involved in

reconstruction of children's hospitals throughout Uzbekistan (Fondforum.uz, 2011). These organizations import inputs necessary for construction free of tax and employ foreign and local capital unrestricted by banking regulations. They always have easier access to projects and funding compared to the private businesses, which are operating outside of the patronage networks.

Regular people who are part of the patrimonial networks are also supporting the regime because almost everything related to their well-being is provided by the state. They have guaranteed employment and salaries. They can afford to pay for education and healthcare services, even if the quality of the state services remains a problem. Those who are outside of the regime and try to challenge it are brutally suppressed and even the sale of 14 kilos of cotton across the border to Kyrgyzstan results in a fine and a possible prison sentence (Fitzpatrick, 2011). The patrimonial system in Uzbekistan engages all actors into the vicious circle.

Patrimonial capitalism in both cases was characterized by two major structural impediments for ALI, commodity and bureaucratic rents. First, extensive growth industries were governed by the patrimonial bureaucracy that appeared after the collapse of the Soviet Union and managed to obtain control over the majority of public assets in the domestic economy. Officials in both states possess a wide network of clients and affiliated firms that survive in the market through the protectorate, subsidies and information asymmetry between local officials and their superiors. Officials distribute commodity rents either from cotton exports as in the case of Kazakhstan or oil and mineral exports in case of Kazakhstan. Change of government was seen as a threat to the existing patrimonial structure, because of the potential revision of the legality of the

privatization schemes. Any revisions to the original contracts or revocation of licenses and production-sharing agreements could be deadly for commodity investors, making investors vitally interested in regime's stability. In Uzbekistan government officials, who became vested economic players, were also interested in preservation of the regime. Businesses, bureaucrats and average people support or are forced to support authoritarian leadership as the only guarantor of the safety and security of their well-being. Patrimonial capitalism was based on commodity and bureaucrats rents with the large extensive growth enterprises contributing the majority of revenue to state budgets. This system of production provides no political or economic incentives for ALI.

Impeding Reasons for ALI

Although patrimonial regime largely benefits everyone it is not invincible. Large enterprises create internal economies of scale that undermine development of competition and intensive growth firms. In addition, Dutch Disease threatens patrimonial capitalist regimes with the lopsided economies that concentrate on producing primary commodities for export (Corden & Neary, 1982). Dutch Disease is even more aggravated by international price and demand fluctuations on commodities that threaten the stability of government revenues. More importantly, patrimonial bureaucrats face the declining opportunities for rent as the discovery of oil fields or more land for cotton comes to end. All of these vulnerabilities aggravate the stability of patrimonial capitalism.

We are certain that both rulers knew about pathologies of the extensive growth since the majority of the literature regarding this issue was developed by Soviet scholars (Ziyadullaev, 1967). Both of them use this term to describe post-Soviet agriculture and oil extraction (Nazarbayev, *On the Threshold of the Twenty First Century*, 2003 [1996],

p. 26). In addition, Islam Karimov was an economist by training and worked at 'Gosplan', a state planning agency for 17 years (Robertson & Roger, 2002). By the 1990's lack of water reserves prevented Uzbekistan from increasing the agricultural output of wheat, which it was then forced to import from the neighboring states in order to supply domestic demand (Economist Intelligence Unit, 1995-96). Extensive growth enterprises hit their limits. Therefore, recognition that commodity trade is lucrative in the short term and limited in the long-term could have facilitated aspirations for ALI of both leaders.

Dutch Disease

Capital-intensive industries that employ few workers provide high revenue, whereas labor-intensive industries oriented towards domestic demand like agriculture are lacking investments (Auty, 2006, p. 68). At the same time, Dutch Disease had a noticeable effect on the economy of Kazakhstan and due to the limited international trade activities was less visible in Uzbekistan. Dutch disease has two measurable effects. The first effect elaborated in the *Stolper-Samuelson theorem* shows that if the ratio of one resource to another, say, land to labor rises in producing either good, then the marginal product of labor in terms of that good increases (Krugman & Obstfeld, 2007, p. 57).⁶ When investments poured into the extensive growth enterprises, Kazakhstan started to feel the impact of the Dutch Disease and its de-industrializing nature. High mineral rents from oil exports made domestic currency stronger and export of the domestic goods uncompetitive. As import rose domestic non-energy and non-agricultural producers lost the domestic market. This type of growth is dangerous because the entire economy

⁶ This argument was published in (Rustemova, Political Economy of Central Asia: Initial Reflections on the Need for a New Approach, 2011).

depends on the income from exporting primary commodities (Auty, 2008). By the 2000's Kazakhstan produced almost nothing for export for except minerals (see Chart 2 and 3).

The second effect of Dutch Disease elaborated in the Rybzscinski's theorem shows economic effect of movement of inputs even if the prices remain the same, the increase in the economy's supply of land leads to a fall in the output of labor-intensive goods, because an increase in the supply of land expands production possibilities disproportionately in the direction of food production, while an increase in the supply of labor expands them disproportionately in the direction of manufacturing production (Krugman & Obstfeld, 2006, p. 59). Thus an economy with a high ratio of land to labor is relatively better at producing food than an economy with a low ratio of land to labor.

In Kazakhstan this effect was aggravated by the discovery of oil reserves that contain at least 500 million barrels of oil. The three largest oil fields were sold/leased to foreign consortiums: *Karachaganak* located near the city Oral and operated by ENI (former Agip) and BG Group together with Chervon and Lukoil. *Kashagan* located near Atyrau city is operated by seven companies, including ENI, Shell, Total, KazMunayGas, ConocoPhillips and Inpex. Tengiz. The largest producing oil field is operated by Chevron, ExxonMobile, KazMunayGas, and LukArco. According to the IMF Report on Kazakhstan, the oil and gas sector attracted the most investment accounting for around US\$ 1 billion per annum (UNESCAP, 2003, p. 102), which

concentrated in the oil and gas sector which so far has accounted for 69 per cent of the cumulative total of US\$ 12 billion over the 1993-2001 period. In 2001, 81 per cent of all FDI was in the oil and gas sector. Ferrous metallurgy accounted for 20 per cent of cumulative FDI in the period 1993-1999. Energy, non-ferrous metallurgy and food processing have attracted 3.7, 3.8 and 3.4 per cent respectively. Investment in the services sectors continues to be low (International Monetary Fund, 2004, p. 106).

Increased investments created a lopsided economic structure with the extensive growth industries and undermined development of other sectors. Kazakhstani economy became entrenched in the extensive growth and lost its Soviet manufacturing capacities. Stolper-Samuelson and Rybzscinski effects produced a lopsided economic structure that provided the Kazakhstani regime with access to commodity rents from allocations of international investors, but set a dangerous trend and unsustainable growth pattern.

This story with commodity rents was not new for Uzbekistan. Tight policies controlling international trade helped the regime to continue to export cotton and control Dutch Disease (see Chart 5). The regime simply prohibited or restricted movement of factors in the economy. Fixed exchange rate prevented the rise of prices among Uzbekistani domestic producers and alleviated the impact of commodity boom on manufacturing. Agriculture brought the most returns.

Strong government intervention kept people continuously employed in the fields. Officially, only 39% of people were engaged in agriculture, but Uzbekistan employed school children, starting at 10 years old and undergraduate students for two to three months every year (Radio Free Europe/Radio Liberty, 2011). The Uzbekistani regime controlled the movement of labor. Labor movement was restricted by prohibiting free migration within the country without a residency permit for each specific location ('propiska') (Spechler, 2008). In addition, lack of access to capital prevented people from engaging in alternative industries (Surveys, 2009). This policy reversed the growth of land allocations from 65% to 63%, which was reflected in one percent decline from 40 to 38% of the labor force in agriculture (World Bank Group, 2003).⁷ By keeping the

⁷ The official data is not reliable since it showed a decline in agriculture employment without a corresponding increase of labor in industry or services.

currency exchange rate fixed and by controlling the movement of other factors of production, Uzbekistani regime effectively prevented the spread of the Dutch Disease.

Commodity rents made Kazakhstan vulnerable to Dutch Disease. Kazakhstan was not effective in managing it. The majority of manufacturing capacities were lost, which resulted in the country shifting into the role of a raw material supplier. Uzbekistan was a raw material supplier and policies to curb the Disease were introduced early.

Price and Demand Fluctuations

The second vulnerability of the extensive growth enterprises is related to the change of international commodity prices and demand fluctuations. Kazakhstan, as a mineral exporter was more sensitive to price fluctuations: Uzbekistan faced stronger threats to its cotton production due to the decreasing demand for cotton.

In particular, patrimonial capitalism in Uzbekistan faces the *adding-up problem*, which evolves when negative trends in the supply and demand of exporting primary goods come together. Uzbekistan loses money when the market is saturated with cotton and the demand could not grow anymore. It is a problem because international demand for cotton is inelastic, i.e. even in good years buyers will not buy more cotton than they can process. Uzbekistan also loses money, its producers increase production of commodities due to the technological advances. When two effects are added, then as producers supply more cotton into the market, the prices of cotton fall without respective increasing demand. Uzbekistan will be unable to extract enough revenue from cotton commodity exports, due to the relatively stable demand for cotton in the short-run regardless of the growth of overall income among importers (Pomfret, 2006). This trend

also signified that Uzbekistan had limited economic growth opportunities, because an increase in cotton revenue requires an increase in the volume of production, rather than an increase in productivity. As mentioned above, expansion of the cotton fields into new territories with limited access to water proved to be unsustainable for Uzbekistan.

Besides inelastic demand, the country's negative economic trend is accelerated by technological advances by developed countries that cause smaller consumption of primary commodities in the long run. In other words, as buyers substitute primary commodities for a relatively more efficient/cheaper product and as sellers use technology in order to improve extraction and delivery of goods to the international markets, increased international supplies drive the prices down (Grynberg, 2008).⁸ All commodity dependent countries are subject to the potential difficulties of the 'adding-up problem' – when they cannot achieve high export growth (Grynberg, 2008, p. 10).

The problem of declining demand could have been temporarily alleviated if Karimov's regime had been able to increase productivity. However, due to the dilapidated infrastructure of the extensive growth enterprises, this was not possible. Cotton rents that are distributed among many participants in the industry provide small revenues and result in a shortage of investment capital. As the regime continues to extract rents from exporting cotton abroad (Pomfret, 2009), two problems dominate. First, there is an urgent need for modernization of old equipment and introduction of production efficiency. Most production utilized Soviet technology that was associated with low efficiency. Technological efficiency can be measured with the Incremental Capital

⁸ The debate about long-term declining prices is settled. The argument discusses the scale of the technological lag. Prebisch and Singer in two separate works started the debate using UN data. Later, economists conducted various statistical modeling (for more please see Grynberg, 2008). Today the numbers of the declining trends of what? range between -0.6 to -2.3 per annum (Grynberg, 2008).

Output Ratio (ICOR). ICOR identifies the number of units of investment needed to generate one unit of additional income each year in the future (Jenkins, 2007). The ICOR of 3-4, as a ratio of the change in new net investment to the change in GDP (Jenkins, 2007), is normal for the well-functioning market economy. Soviet ICOR in the 1975-85s was 15, which reflects immense inefficiencies (Pomfret, 2002, p. 27). Uzbekistan continues to operate Soviet infrastructure (Meliantsev, 2004). As a result, the majority of Uzbek most significant enterprises had high level of amortization (depreciation) over 40% on average (see Table 3). With this statistics, increase of rents from the increase of volume of production is impossible.

In addition, state budgets of both, Uzbekistan and Kazakhstan are vulnerable to international price fluctuations (see Chart 5). But contrary to Uzbekistan that derives its commodity rents from renewable resource, Kazakhstan's commodity rents come from depleted sources. In practice, it means that Kazakhstan is vulnerable to the 'resource curse' (Sachs & Warner, 2001) or the 'paradox of plenty' (Karl, 1999). The former term refers to the fact that economic growth in oil-dependent state is reversely proportionate to the amount of mineral wealth that the country possesses (Sachs & Warner, 2001). Since extraction leaves fewer resources in the soil, forces states and companies to inject the money into the wells and acquire modern equipment in order to retain the same rate of productivity. The money does not 'trickle down' to other economic sectors that are unrelated to oil and other natural resources but remain within narrowly specialized extractive industries.

The 'paradox of the plenty' term popularized by Terry Lynn Karl who argues that most oil-exporting countries "tend to bear a striking resemblance to each other in state

capacities and macroeconomic performance, despite differences in types of political regimes, cultures, geostrategic locations, and the like"(Karl, 1999). In the developing countries that derive their revenue from oil, development of alternative industries is difficult because oil states are prone to "negative externalities" due to the highly volatile oil prices (Barnett & Ossowski, 2002). During the oil boom, population puts pressure on the state to spend large oil revenues. In an economy with underdeveloped local production, most of spending goes abroad as payments for imported goods. As a result of high revenues among the population, the market becomes saturated with luxury goods and inflation interferes with savings that could potentially boost development of the alternative industries. On the other hand, during the fall of the oil prices, government has to sustain its commitments and spending level and financing development of alternative industries out of public money, which leads to the increased borrowing at the promise of future returns. Kazakhstan, for example, owes 7.7% of its GDP as government debt to international private investors (Reuters, 2012). The 'paradox of the plenty' signifies the inability of these regimes to manage wealth consistently regardless of oil prices.

Sensitivity of Kazakhstan and Uzbekistan to price and demand fluctuations in the international markets posed significant challenges to the patrimonial regime and stability of the authoritarian rule, because fluctuations threatened stable acquisitions of commodity rents by both regimes.

The Split

Dominance of government officials in the economic sphere undermines business development, because officials are in charge of enforcing restrictions on international trade to suit extensive growth enterprises to maximize commodity rent. However,

extensive growth was affected by limitation such as: shortage of water supplies, old technological base that required urgent modernization and the large amount of land and population necessary to produce cotton. These factors added urgency to the establishment of ALI. If Karimov's regime wanted to rule after 2000, a year of new elections, he had to diversify exports away from agricultural commodities.

The Kazakhstani regime faced similar incentives. Its extractive industries are not labor-intensive. Only 2.7% of the total population is employed in the mining industry, although it brought the majority of revenues and undermined development of the alternative economic sectors (International Monetary Fund, 2004, p. 8). Under these conditions, if oil ends, the entire population will go back to 'herding the cattle'.

As a result, we can summarize economic outcomes of growth in Kazakhstan and Uzbekistan. It is characterized by: (i) the loss of competitiveness in the non-resource traded sector; (ii) the relatively high volatility of world commodity prices; (iii) the negative effect of 'rent-seeking' behavior on institutions, governance, and political processes, which may be exacerbated by the dominance of extractive industries (International Monetary Fund, 2004).

Bureaucrats, on the other hand, thrived under patrimonial capitalism and started to accumulate enough wealth that they used to challenge the power of the rulers. Two cases were especially prominent. In Kazakhstan, former Prime Minister Akezhan Kazhegeldin (1994-1997) began political campaign against President Nazarbayev by sponsoring the Republican People's party of Kazakhstan in hopes to oust Nazarbayev in the 1999 elections. Kazhegeldin accumulated wealth during privatization process of massive oil fields in Kazakhstan. The amount of money is staggering and involved American lawyers

and prominent oil executives into the scheme. During the sale of Tengiz, one of the largest fields in the world at that time, Mobile Oil paid USD51 million fees for contract negotiation to an American lawyer, Mr. Giffen. Giffen transferred it to Swiss and British Virgin Islands accounts controlled by Kazhegeldin and Nazarbayev (Stodghill, 2006). Kazhegeldin poured the money back into Kazakhstani economy and started to take over the entire industries under his control or control of his affiliates making millions more from trade of fertilizers (Stodghill, 2006). By 1998 being an unruly figure and fearing persecution Kazhegeldin fled to Switzerland, while Nazarbayev ordered investigation into his economic activities (US Congress, 2000). Kazhegeldin affair took place simultaneously with the first trial of Mr. Mukhtar Ablyazov, who accumulated wealth during privatization process and also sponsored political party and Mr. Galymzhan Zhakiyanov, a Mayor of Pavlodar city who openly went against Nazarbayev by publishing accusatory letter in local media (Eurasianet.org, 2002). The power of Nazarbayev's regime was shaking.

Similar challenges dominated in Uzbekistan. Karimov faced challenges from three political groups: Adolat (Fairness), Birlik (Unity) and Forum for Democratic Forces (FDF). Adolat movement was strong in the Fergana Valley and ran by Tohir Yuldashev and Juma Namangani (Dubnov, 2010, p. 123). They kept urging Karimov to declare Uzbekistan an Islamic state.⁹ Birlik was never allowed to register as a political party and remained as a social movement (Morozova, 2005, p. 135). By December 1991 elections Birlik split and Mohammad Solih, presidential candidate from Erk (the fall-out of Birlik) obtained 12% of the popular votes (Morozova, 2005, p. 135). However, the head of the

⁹ Later these individuals will form Islamic Movement of Uzbekistan that played and still plays an important role in Afghanistan despite the fact that two individuals are dead already.

FDF Mr. Shakhrrullo Mirsaidov presented the most severe challenge. Mirsaidov served as Prime Minister of the Uzbek SSR backed up by the former Soviet apparatchiks. In October 1991, two months before the December 1991 elections, 200 out of 500 members of the Uzbek Supreme Soviet asked Karimov to resign and voiced their support for Mirsaidov (Brown J. , 1996, p. 283). Political challenge to Karimov's policies came from the Parliament. Wide popularity of political parties and former Soviet officials that represented regional interests prevented Karimov to have full control over the parliament or install pro-presidential parliamentarians (Ilkhamov, 2004, p. 161). By nominating representatives, each region was able to guarantee the veto laws that ran against their interests. Specifically, lack of effective control over cotton production enabled officials to steal cotton and report lower numbers of harvest (Robertson & Roger, 2002). The excess was sold abroad enriching a small group of people. When Karimov won the 1991 elections, he had to maintain power.

The rulers felt vulnerable to economic outcomes of the extensive growth and to political challenges of the patrimony that bit their former patrons. Authoritarianism in both states began with drastic reshuffling of the domestic elites and governing officials. In 1995 Nazarbayev's regime introduced referendum that extended his rule till 2000 and introduced a new constitution.¹⁰ The new constitution broke a strong independent

¹⁰ After securing the victory, the President with the assistance of Erzhan Utembayev, Deputy Prime Minister consolidated bureaucracy. He decreased the number of ministries from 19 to 12 in 1998, quartered the size of Cabinet of Ministers Administration and reduced the number of ministries from 20 to 14 (Cummings, 2005, p. 27). In 1997 the number of regions was also reduced from 19 to 14 cutting 5000 state employees under the pretext of saving KZT0.5 billion (Cummings, 2005, p. 27). With the consolidated bureaucracy Nazarbayev called for early elections in 1999 after adopting a new electoral law that extended presidential terms from 5 to 7 years, removed the maximum age of 65 years old for a president at the time of elections, and introduced 7% instead of 10% threshold of people's support to get a seat in the Parliament (Cummings, 2005, p. 28).

unicameral parliament into a weaker bicameral structure with a smaller number of deputies and allows the president to appoint 20% of the higher chamber's Senate members (Constitution of the Republic of Kazakhstan, 1995). It also adopted a novice form of a presidential republic, where the presidential power is not restricted by the checks and balances of the judicial or legislative branches. The President has power over all other branches of the government. Constitutionally, the states purpose is 'to ensure by his [President's] arbitration concerted functioning of all branches of state power and responsibility of the institutions of power before the people' (Constitution of the Republic of Kazakhstan, article 40(3)).

Similarly, Islam Karimov, the President of Uzbekistan also conducted undemocratic reforms by 1995. Karimov consolidated his power by appointing personally loyal people into the bureaucracy (Spechler, 2008, pp. 29-31). The 1992 Uzbekistani constitution already gave large powers to the President such as the right to appoint ministers, judges, all local administrators and the Head of the Central Bank. He also had the right to impose emergency measures and dissolve the parliament. By 1993 all local governors were replaced by Karimov (Luong P. J., 2002, chapter 4). The replacements had no personal ties in the appointed regions since they came from other parts of the country. In 1995 Karimov extended his presidential term until 2000 through public referendum 'with 99.6% voter turnout and 99.3% of 'yes' vote' (UNPAN, 1998, p. 636). Growing authoritarianism substantially increased the power of both rulers and decreased the role of bureaucrats, but the political system of governance remained highly unstable.

This chapter showed that patrimonial capitalism involves economic, political and social actors into a tight system mutually dependent on each other. Both regimes suffer from the pathologies of the extensive growth. Regimes that obtain rents from private investments suffer from Dutch Disease and challenge the ruler's well-being despite the fact the private investors continue to provide formal and informal benefits to the political regime and employ local population. In the second case, Uzbekistan's regime agglomerated large enterprises in order to sustain the cotton industry. Since the state retained ownership of public property, officials restructured unprofitable enterprises and maintained employment, while personally benefitting from distribution of resources among their clients. However, scarce revenues from agricultural rent undermine well-being of the ruler due to the inability to increase productivity by changing dilapidated infrastructure in the short-run and the adding-up problem in the long-run. In both cases, economic actors are interested in preservation of political authority, which guarantees them stability, subsidies and access to resources.¹¹ The resulting patrimonial capitalist system facilitated authoritarianism with both, leaving the population and businesses dependent on revenues guaranteed by the political regime. However, the patrimonial capitalism faced a challenge from the top officials who accumulated enough capital and ambition to challenge the rulers. Liberal industrialization was a convenient option for the rulers because it promised to diversify economy away from the extensive growth industries and shift resources towards intensive growth firms thereby challenging the power of bureaucrats.

¹¹ This idea is further developed in Rustemova 2012 in Aleprete, 2012

CHAPTER 5 THE WORKINGS OF MANAGERIAL AND PATERNALISTIC

RATIONALES IN KAZAKHSTAN AND UZBEKISTAN

History has demonstrated time and time again that economic development and political development must go forward together, must be symbiotic, like a violin and a viola playing a string duet (Nazarbayev, 1998)

The rulers' aspirations for ALI allowed these two regimes to solidify their authoritarian grip on power and undermine the influence of powerful domestic bureaucrats. In exchange, the burden of the economic transition was placed on the regime. In both regimes, the choice to transition to ALI justified 'necessary authoritarianism', because ALI needed leaders who understood the process.¹ The goal of economic changes was compelling. Both regimes promised to create a market economy with domestic enterprises producing internationally competitive finished goods (Nazarbayev, 1997, Karimov, 1997). Despite similar promise, the pace of economic reforms was different. The Ethos was chosen based on the amount of commodity rents. Abundant oil revenues allowed Nazarbayev's regime to adopt the managerial rationale with its pro-competition policies. Scarce revenues from agricultural rents forced Karimov's regime to stick to paternalistic rationale. As for Epistemes, they depended on the scale of interdependence of domestic industries. Three parts of governing rationale aimed to redirect/discipline

¹ There is a growing research on this topic where the shift to 'necessity' justifies authoritarian scope of power because the state obtains an opportunity to mobilize resources and conduct extraordinary measures. This research has theoretical roots in the works of Hannah Arendt (Arendt, 1958; Arendt, 1963) and Giorgio Agamben (Agamben, 1998), being applied to politics of Central Asia (Frigerio, 2011). Both scholars point out that the sovereign state always carries supreme authority that is based on violence. Agamben claimed that the utter undemocratic nature of any state is visible in the 'state of exception', when social conditions call the state to take action beyond law by acting in an emergency format. By moving into the space beyond law, state privatizes public space by dictating the sole interpretation of political actions. In the state of emergency criticism is precluded, because the state depicts these actions as 'necessary' (Frigerio, 2011). Claim for the necessary compliance undermines freedom and turns population into a stock of lamb lead by the sovereign shepherd. Similar trajectories take place in the authoritarian regimes that claim that ALI is a strategic goal that necessitates lack of democracy and ultimate support of the state.

bureaucrats away from supporting extensive growth enterprises in exchange for bureaucratic rents.

The first section describes the ultimate goal of ALI, the Telos common to both regimes. Then the chapter outlines the Ethos and particularities of paternalistic and managerial rationales in two states. The third section describes the Episteme of industrialization strategies that aim to inspire intensive growth. The workings of paternalistic and managerial rationales in Uzbekistan and Kazakhstan are compared.

The Telos

Both leaders, Karimov and Nazarbayev elaborated the Telos in 1996-1997 right after they extended their right to power. Each of them published a book with the similar title ‘On the Threshold of the Twenty-First Century’ (Karimov, 1996; Nazarbayev 1996). In each book the regime promised to turn Kazakhstan and Uzbekistan into democratic and economically liberal states at an undefined date in the future. The goal, the Telos, by definition is a utopian goal that was promoted under the slogan ‘economy first, politics second’. The goal of reaching economic liberalism effectively meant a temporary halt on democracy. In practice it meant that AL regimes took the responsibility to protect Telos from possible threats via undemocratic means.

The construct of the ‘economy first, politics second’ was possible because both leaders found a flaw in democracy that impeded economic development and required strong visionary leader to reach the Telos.

Karimov defined democracy as a goal ‘capable of providing adequate living standards for its people and of protecting their rights and freedoms’ (Karimov I. , 1998, p. 1). Uzbekistani democratic Telos celebrates universal principles of freedom,

subordination of the minority to the majority, election of the state and the accountability to the electorate (Karimov, 2004). In this democracy, politics is determined by the middle class who acts as responsible property owner interested in shaping domestic economy according to their interests (Karimov, 1998, p. 120).

Export of democracy was the major challenge that Karimov had identified. Democracies need to consider ‘ethnic, national, religious, social and historical peculiarities that can help to build not only democratic, but a just democratic society’ (Karimov I., 2004). Otherwise, the Uzbekistani ruler expected grave consequences (Uzbek Leader Slams Export of Democracy, 2005). Specifically, the Uzbek government identifies two major flaws in the ‘unjust’ version of democracy: lack of physical security and social protection. In 1992 Karimov wrote, “Our goal is... to create such a structure which would allow securing economic and political independence [for] Uzbekistan” (Karimov, 1998, translation by Laura Adams). He repeated the thought several years later by emphasizing the fact that many countries had democratic constitutions, but were in fact ruled by offensive people. According to Karimov, liberal democracy creates the following evils that are not compatible with Uzbek national spirituality and values:

1. Individualism, that penetrates into people’s minds and uses conscious and subconscious mechanisms of their psychology to trade in the bazaars instead of ‘seeking learning and obtaining high professional skills’, especially for young people.
2. Nihilism and egoism bordering on cruelty that appears due to the low level of education and surrounding environment (Karimov I. , 1998, p. 113).

Therefore, Karimov's Telos was linked to the 'social orientation towards the market economy and the renaissance of national identity, culture and spirituality' (Karimov, 1998, p. vii). Authoritarianism was necessary in order to transition Uzbek society to a better future keeping society safe from the injustices of the transition period. By 1995 he firmly shared the idea 'economy first, democracy second', because democracy produces inequality (Karimov I. , 2004).

Kazakhstan's definition of democracy was based on the existence of civil society and government institutions that operate in the diversified market system free from interventionist government regulations (Nazarbayev, *On the Threshold of the Twenty First Century*, 2003 [1996], p. 115). Civil society is a society 'in which enterprising and intelligent people would prosper and achieve their goals' (Nazarbayev, 2008, p. 11). His Telos implied the existence of individuals capable of providing for themselves in the market. Rather than promising justice, Nazarbayev's regime promised wealth.²

Nazarbayev's regime identified populism of several bureaucratic leaders as a major threat. Populist leaders are 'revolutionary romantics' that go against traditionalism and conservatism (Nazarbayev, *On the Threshold of the Twenty First Century*, 2003 [1996], p. 121). He wrote: 'I am sure in one thing: populism in power is as dangerous as populism among those who belong to opposition.' (p. 123). Instead he proposed political stability as a major condition of Telos. Political stability was a necessary precondition for economic reforms that requires patience and understanding of sacrifices and temporary inconveniences. Nazarbayev brings up examples of inter-ethnic and inter-religious conflicts inspired by 'populists'.

² This argument was first introduced in (Adams & Rustemova, *Mass Spectacle and Styles of Governmentality in Kazakhstan and Uzbekistan*, 2009)

Nazarbayev's justification for power accused democracy in being unable to cope with instability (Rustemova, 2011). According to his logic, democratic change of government causes instability that follows every time a new regime takes power (Nazarbayev, *Independence of Kazakhstan: Lessons of History and Modernity*, 2003 [1996], p. 207). Democracy challenges the very efficiency of governing process during transition period (Nazarbayev, 2003 [1996], p. 207). Efficient government is the one that has an opportunity and space to introduce complicated economic reforms. Nazarbayev wrote that his goal is to 'provide evolution of full-fledged national market constructed on the new technological, structural and institutional basis' (Nazarbayev, *Strategy of Independence*, 2003, p. 96). To this day Nazarbayev openly declares his allegiance to Lee Kwan Yew's statement that 'political stability is what matters most... In Asian societies discipline and order are more important than democracy, which has to develop over time (Nazarbayev, 2008, p. 26).' Nazarbayev changed Yew's saying to 'economy first, politics second' (Nazarbayev, 2008, p. 26).

Telos is left intentionally vague so various policies can be interpreted as part of the logical continuous sequence of reforms towards competitive market economy. 'Economy first' statement signifies that the rulers' main goal while in power is the revival of the economy. When the goal is reached they can step aside and give up power.³ Until then, ruler had the power to implement the reforms protecting society from instability (as in Kazakhstan) and inequality (as in Uzbekistan). By prioritizing economic

³ Although this topic requires a separate research, it is interesting to notice that The Telos was left intentionally vague because it allowed AL regimes to have a space to maneuver. Just like the cult of Communism that emphasized or silenced some trends (please see Katarina Clark, Golomschtock) when it was politically convenient, so did the description of Telos. Usually the regime used Telos to promote successes in economic reforms (see Karimov's and Nazarbayev's annual addresses to the people), but at times, they also play a role in discrediting political liberal opposition (see Rustemova, DGAP, 2011). For personality cults as bureaucratic resistance strategies that rely on some of this literature, please see Chapter 7.

development over the political realm, key fundamentals of governing rationale were introduced. In practice, such definition of Telos meant that patrimonial bureaucracy had to embrace governing rationales if they wanted to remain in office and introduce competition and the rule of law.

The Ethos

The Ethos of the AL regimes identifies specific approaches to Telos. It nuances elements that need to exist before Telos is possible. The main question of how to create competitive market economy elicits two results. First, Ethos of managerial rationale fosters competition and presents it as the main purpose of governing. Second, Ethos of the paternalistic rationale pursues competition incrementally through strict adherence to the rule of law. The choice of Ethos depends on the amount of commodity rent available to the ruler. Commodity rents determine how much risk the rulers can take in designing governing rationales of ALI. Bureaucrats in each state were required to share rulers' idea of the market, the object of governance and the main tools of achieving it.

Governing rationale of ALI was declared in 1997 when Nazarbayev's regime issued a ground-breaking program 'Kazakhstan-2030'. The program outlined a detailed vision of economic, infrastructural, and human developments. Seven goals were identified that were necessary to reach the Telos with mineral resources providing the 'key' to prosperity through industrialization and 'smart and patriotic government' (Nazarbayev, Kazakhstan-2030, 1997, p. 5 and 10). Two out of seven program goals deal with issues of ALI⁴ and deserve special attention: a) the goal on economic growth based

⁴ The list of seven goals consists of the following priorities: national security, stability and consolidation of society, economic growth based on open market economy, health, education and well-being of Kazakhstani citizens, energy resources, infrastructure and professional government (Nazarbayev, Kazakhstan-2030, 1997, pp. 12-13).

on open market economy with high level of foreign investments and internal savings (Nazarbayev, Kazakhstan-2030, 1997, p. 13); b) the last goal on professional government that consists of the new breed of bureaucratic managers who are devoted to the strategic goals set up in the program (Nazarbayev, Kazakhstan-2030, 1997, p. 13). Two goals in 'Kazakhstan-2030' constitute the core of the managerial Ethos and address proposed distribution of commodity and bureaucratic rents by building market competition.

It was easy for Kazakhstan to declare competition-first Ethos because its budget was filled with foreign direct investments and oil rents (see Chart 6). By 1997 the country absorbed USD1bn of foreign investments a year (World Bank, 2009). In addition, half of budget revenues came from commodity rents rather than taxes or other sources of capital (International Monetary Fund, 2004). Kazakhstan also had revenues from extra taxes of the extractive industries that operate in addition to the Income and Capital Gain taxes. For example, Kazakhstan has Mineral Extraction Tax, Excess Profit Tax, signature bonus, commercial discovery bonus and historic costs. In addition to that, Kazakhstan has export tariff that doubled to USD40 per ton since 2011 (Reuters, 2011). With these revenues, Kazakhstani economy is heavily dependent on exports of natural resources, especially oil that accounts 25% of GDP, 60% of total exports and 40% of total budget revenues (Reuters, 2011).

Much was expected from building market economy based on the competition. The regime declared that 'Kazakhstan's competitiveness must bring spiritual as well as material prosperity to our nation' (Nazarbayev, The Kazakhstan Way, 2008, p. 28). It encouraged every citizen to take care of their own skills, because the country's competitiveness was measured as a total sum of competitiveness of each citizen (p. 28).

The regime promised to see the effort of each individual in the growth of overall prosperity and the scale of economic development (p. 29). Competitiveness became a solidifying national idea that everyone could benefit from if they put an effort.⁵

The idea of individual responsibility to maintain competitiveness in the market has several normative implications. First, it defined the market as a realm of opportunities. Second, it assumed that all individuals can be entrepreneurs. Third, it defined the purpose of governing in terms of efficiency in governing the market. These three key principles constitute the pillars of managerial governing rationale.

According to program 'Kazakhstan-2030', access to the markets of 2 billion people presented opportunities for Kazakhstan, rather than a threat (Nazarbayev, 1997, priority 1). In this market, Kazakhstan definitely has something to offer. Specifically, Nazarbayev's regime envisioned exchange of commodities for acquisitions of modern technologies and expertise. In his speech Nazarbayev is clear about the role of the market:

Sustainable economic growth can help to procure diversification of production. During the process of intense competition... out products, except for raw materials, are uncompetitive in international markets, and we are falling towards heavy industries with raw material production, whereas all of the civilized and developing world goes in opposite direction... If free market will be truly free, it will create new enterprises in our country. Our task is to attract investors in strategic industries (Nazarbayev, Kazakhstan-2030, 1997).

This interpretation of the market is based on strict respect of the market autonomy. Under these circumstances, market is seen as a neutral and natural, apolitical and ahistorical institution (Chaudhry, 1993, p. 246). When firms compete, they tailor to the demands by lowering prices and increasing the quality of their goods. Only the market, not the state can decide on 'strategic' industries that Kazakhstan can develop through international

⁵ Nazarbayev himself noted that competitiveness should become Kazakhstan's national idea (Kazakhstan Today, 2007). Some research is done to trace definition and purpose of competition (Adams & Rustemova, 2009).

trade and competition. Since the market acquires normative characteristics in managerial AL regimes, the rapid pace of the reforms is dictated.⁶ The sooner freedom to market exchange is granted, the faster Telos is achieved. As a result, Nazarbayev's regime proposed to liberalize domestic economy in order to tap into the 2 billion people market.

Managerial Ethos does not assume that the Telos occurs independently after the government releases control over markets. On the contrary, government needs to provide conditions for ALI that shift the economy away from commodity rents towards diversified market economy⁷.

International experience of industrialization exhibits the necessity of the particular sequence of the reforms that decreases the share of agricultural goods, extractive industries in Gross National Product and increases the share of processing industries, especially based on research and development with high value-added returns and services (Nazarbayev, Kazakhstan-2030, 1997).

In order to procure the shift, government vouched to support individual entrepreneurs capable of creating and inventing internationally competitive products. According to this logic, genuine competitive industries are possible only if individuals have freedom to engage in various ventures and explore the markets.

Respect of individual freedom to decide on the type of projects and industries each entrepreneur should engage in becomes the key principle of the state regulation.

⁶ The pace of ALI should be distinguished from the commonly referred pace of price liberalization that happened right after the collapse of the Soviet Union. The latter is sometimes called the 'shock therapy' to signify a situation when the post-Soviet state no longer controlled the prices in order to inspire incentives among market producers to compete among each other and increase productivity. Once government released the control of prices, it also had to adopt currency convertibility, which introduced sky-rocketing inflation and eliminated most of lifetime savings of population (Marangos, 2003). Without currency convertibility efficient production was impossible (Akimov & Dollery, 2008). Government had the choice of enterprise reform or privatization. Patrimonial capitalism was created because government chose the latter. ALI aims to 'correct' the path by introducing the former.

⁷ For the comparison of regulatory practices in the globalized world, please see Evans, 1997; Cerny, 1997; 2008 and 2009; Strange, 1996 and 1997; Amsden, 2001.

Article 29 of the law “On Entrepreneurship” states that government control is reserved only to

...guarantee safety of products manufactured and sold by a subject of private entrepreneurship for life and health of people, protection of their property, environmental safety, national security of the Republic of Kazakhstan, warning about deceptive practices, saving natural and energy resources, enhancement of competitive strength of the national products (Republic of Kazakhstan)

The Ethos of managerial rationale assumes that Kazakhstani society should be made of people who are ‘responsible, healthy, energetic and well-educated human beings ready to succeed in market economy speaking equally well in Kazakh, Russian, and English (Nazarbayev, Kazakhstan-2030, 1997, p. 11). It requested each individual to adopt discipline and frugality, because an entrepreneur is a risk-taking individual who, in order to succeed in a competitive environment must be self-disciplined, accountable and have a plan for sustainability. These entrepreneurial individuals increase the general competitiveness in the country. By helping themselves they contribute to the overall wealth of the nation.

Government support of the responsible and well-educated people needs to be efficient. Officials had to reconsider their previous roles. An interesting example of managerial Ethos is described in the New Industrial Development Strategy adopted in 2001, which stipulates that the unemployed, families with dependent children and unwed mothers with children, retirees, and physically and mentally challenged ‘*reduce the efficiency of the social policy*’ (Strategy, p. 3). By outlining social strata of people who ‘reduce efficiency of social policy’, government also sends a signal for people to be

responsible parents and strengthen family institution.⁸ In return, government prioritizes *‘creation of economic conditions for the able-bodied population that generate incomes, which generate higher level of social consumption’* (Strategy, p. 4). The decreasing welfare costs are justified, because:

The most effective social policy has been and remains the policy of sustainable employment... In this connection, the policy of social support should be focused within the frameworks determined not by “the needs of social layers” but by “the training of capable citizens to enter the workforce”. The state system of citizens’ support should be constructed to stimulate their retraining and learning new profession (Nazarbayev, 2006).

In contrast to the previous Soviet authoritarian rule, managerial rationale treated unemployment as a positive phenomenon, because an army of unemployed supply permanent pool of cheap labor – condition vitally necessary for competition. Inequality becomes essential to the successful functioning of the market, while at the same time, competition becomes as a source of progress, innovation and expansion. The example of welfare policy in managerial AL regime shows that government’s job is to secure the optimal conditions for the population to expand and prosper (Dean, 2010, p. 137). In doing so, government officials were invited to design efficient policies towards protection of private property, guarantees of freedom for private entrepreneurship, which are fundamental for a functioning market economy.

The Ethos of managerial rationale depicts patrimonial bureaucrats as the main threat to market competition and competitiveness of market actors. Kazakhstan-2030 program called to ban authoritarian and patrimonial bureaucratic practices, such as interference and control of everything, informal decision-making practices, nepotism,

⁸ In 2008 government introduced a lump payment of over USD200 per child born in Kazakhstan in addition to raising monthly remunerations from USD45 (KZT5,790) to USD55 dollars (KZT7,525) per child (Nazarbayev, New Kazakhstan in a New World, 2008).

corruption and lack of collective responsibility bred from the Soviet regime (Nazarbayev, Kazakhstan-2030, 1997, p. 8). It linked the problem of patrimonialism to the bureaucratic mentality that understood 'government' as deciding for the people. Instead, the program disciplined officials into adopting new responsibility: 'to form conditions, where free citizens and private sector can undertake effective measures for themselves and their families' (Nazarbayev, Kazakhstan-2030, 1997, p. 7). As a result, the program provided bureaucrats with the responsibility to implement strategic goals and priorities (Nazarbayev, Kazakhstan-2030, 1997, p. 3) and procured a new system of monitoring and evaluation of government bodies based on strategic planning, control and accountability (Nazarbayev, Kazakhstan-2030, 1997, p. 4). The shift from patrimonial practices required new type of officials.

New system of professional government was characterized by the following principles:

- New government had to be compact concentrating on several vital functions with powerful ministers being personally responsible for the implementation of the vision.
- New government had to operate based on intergovernmental coordination and strategies shifting more responsibility to private actors.
- New government assumed merit-based hiring system and declared intolerance to corruption (Nazarbayev, 1997, p. 18).

In this context, the old Soviet economic system is depicted as unfree and uncompetitive precisely because it undermined individual autonomy and freedoms to conduct their lives

according to own principles and desires (Nazarbayev, Kazakhstan-2030, 1997, p. 5). New system was based on strict and disciplined professional bureaucratic body.

By concentrating on competition administered by professional bureaucracy, managerial rationale proposed a radical economic shift from the commodity production through market regulation as the fastest way to achieve the Telos. It assumed that competition eliminates bureaucratic rent, because a new type of bureaucracy takes the place of Soviet apparatchiks.

The program that specified implementation of Telos in practice was introduced by Islam Karimov in his book 'The Basic Principles of Socio-Political and Economic Development of Uzbekistan' (Karimov I. , 1996). In this book Karimov identified firm adherence to the paternalistic rationale of ALI based on the principles of the rule of law. He substantiated his argument with the description of global trade and international system that cause economic inequality between developing and developed world. Indeed, Karimov had many reasons to dislike international trade. He was not only a Soviet economist with the 17 years of work experience in the main planning body of the Communist Party, but also because 34% of cotton revenues had to be provided to trade companies, customs, financial institutions, and the transportation networks (Djanibekov, Rudenko, Lamers, & Bobojonov, 2010p. 10-11). Uzbekistani state had 66% of the international market price on cotton to distribute among its domestic producers (Rudenko, Lamers, and Grote 2009). The thought is substantiated by Karimov's discourse. The growing tensions between two global blocks cause ideological intolerance and conflict (Karimov, 1996). If Uzbekistan wants to achieve the Telos and turn itself into industrial economy capable of using new technologies, then it needs to promote an 'ideology of the

‘superiority of law’ based on the principles of peaceful co-existence, respect of sovereignty, desire to cooperate, and tolerance of different views’ (Karimov I. , 1996, p. 42). In this book Karimov argued for the non-applicability of Western political systems based on the separation of powers and defended the need for the superiority of the executive branch as a premise for “fulfillment of laws, protection of freedoms and implementation of political and economic reforms” (Karimov I., 1996, p. 40). By defining rule of law as the main principle of Ethos, Karimov was able to retain strong control over the pace of ALI.

Indeed, slow pace of ALI was chosen because Uzbekistan did not have much revenue from cotton commodity rents. Its export-import dynamics show that by 1996 Uzbekistan imported much more than it could actually afford (see 76). ALI was necessary and vital for the regime if it wanted to remain in power. However, scarce commodity rents did not allow introduction of competition. Competitive production of cotton could have increased efficiency, but also allowed regional officials to appropriate the majority of cotton rents and decrease financial transfers to state budget. Strong regional power players threatened to topple Karimov so they could continue to thrive on rents from the extensive growth enterprises. The call for the rule of law identified regional clans, corrupt and criminal officials as the major threats to the Telos. Incremental controlled pace of ALI was politically more preferable, because it declared a war to disloyal officials. Order and the rule of law are necessary for the successful transition from the extensive growth towards intensive growth industries.

The ‘rule of law’-first approach that defended slow pace of ALI acquired normative characteristics. Slow and orderly transition was depicted as a necessary

measure to achieve Telos in an equitable fashion. Discursive practices of the paternalistic regime defined the purpose of political authority as a moral arbiter that propagates ideas of social justice and collective good.⁹ The path to Telos presents insurmountable challenges that require unity and concerted efforts of population. A call for unity before the common threats juxtaposes present reality as an unfair phenomenon, which state is permitted to change and make the justice come true. As a result, AL regime perceived its purpose in acting as a father to its population by protecting them from the vagaries of the market economy and risks associated with economic transactions. State perceived itself not a policeman of the market, but a 'guardian of collective identity', which represents what all of the individuals have in common (Vogel, 1996, p. 38). As a result, Uzbekistani Ethos of the paternalistic rationale frequently evokes ideas of a family bond, deep trust and loyalty towards the government (Vogel, 1996, p. 39) with the regime acting as a father. Karimov writes:

In many appearances I call all young citizens of our country as my sons and daughters expressing them my belief and affection. Certainly, each child has his parents and relatives. No doubt, they wish that their child grows healthy and smart, obtains the modern knowledge and profession, establishes himself in the life, and if necessary, they stand ready to fully dedicate themselves to them. But being a leader of this country, along with each parent I consider myself responsible for the achievement of these noble goals and aspirations and I never renounce this high duty (Karimov, 2007)

Paternalistic Ethos of ALI influences the way Karimov's regime defines the market, responsibilities of its participants and government functions. All of the components are designed to support and attain the Telos in a fair manner.

For Karimov's Ethos market is a dangerous place that undermines national security. Market principles of competition force people to take risks that they are not

⁹ These ideas were first developed in (Adams & Rustemova, Mass Spectacle and Styles of Governmentality in Kazakhstan and Uzbekistan, 2009)

prepared to bear and live with consequences (Karimov I. , 1998, p. 91). Income inequality causes grave social ills, such as nihilism, individualism, international terrorism, religious extremism, drug addiction, lumpenization and social unrest and only spirituality and culture can amend these negative outcomes (Karimov, 1998). If inequality is the primary evil of the transition process then the government has to take measures to prevent it from happening by acquiring not only new modes of production but also by ‘helping’ people to adjust to the new conditions. Contrary to the Ethos of managerial rationale that treats competition as an end in itself, paternalistic Ethos assumes that competition is a source of evil that can be treated only by the strong morally superior regime that protects the people. Karimov writes:

Of no less importance is the task to make our economy, and in particular our consumer market, less vulnerable to external destabilizing factors. Did it meet the interests of the nation, when in spite of our favorable natural and climatic environment we actually had to import all our sugar, baby food, grain, meat, cooking oil, dairy products, potatoes? (Karimov I., 1998, p. 124)

Development of the market required control and incremental release of it once citizens learn the risks of it.

Paternalistic rationale adopted by Karimov’s regime presupposed achievement of industrialization through the provision of market skills and tools to the people. In-depth interviews conducted with eight government officials and 13 representatives of international NGO sector who work in constant contact with them reflect paternalistic Ethos. Interviews show that security is the most important function of the state. Second, four officials mentioned that government is responsible for the protection of the ‘identity of inhabitants’ (Interviewees #40, 48, 49, 53, 2011). Another important purpose of the government reflected paternalistic rationale: six of the participants mentioned that

government has to provide basic needs of its citizens. Officials thought that their main responsibility is to provide food, shelter, justice and resources. They prided themselves with statistics achieved by their offices. Only three interviewees who worked for international organization mentioned protection of the human rights and freedoms. My interviews go against research done at the parliament of the Republic of Uzbekistan where 90 per cent of deputies in the parliament thought that the 'primary task of deputies is to allocate national resources to the regions' (Luong, 2004, p. 57). The Ethos of these citizens reflects competitive marathon for resources rather than unity of the state, its goals and aspirations. In addition, 88% of deputies pointed that regional belonging served as the main basis for coalitions (Luong, 2004, p. 58).¹⁰ The comparison between interviews shows government officials treat social protection and provision of welfare as the main reason for the existence of their office. In Uzbekistan, the Ethos is inherently linked to social equality and state protects "interests for all layers of the population" (Press Service of the President of the Republic of Uzbekistan , 2008).

The function of social equality and security gives Karimov's regime large scope of actions. Government sees its priorities as:

- to continue the constitutional reforms aimed at further democratization of state power and governance, continue the reforms on consolidating independence and liberalization of judicial system;
- the guarantees of the human and citizen rights in the information sphere, ensuring freedom of choice and improving the electoral legislation;
- further expansion and strengthening of rights and authorities of the non-state non-profit organizations, public structures and citizens' self-governance bodies, in particular, mahalla, which are set to become in practice the most important factors of protection of democratic values and lawful interests of people, as well as establishment of a civil society (Karimov, 2007).

¹⁰ Alisher Ilkhamov portrayed the battle over cotton revenue between regional elites in Uzbekistan and Karimov's regime explaining the dynamics between frequent sacking of hokims and very successful election of regional deputies to the parliament in order to counteract Karimov's power (in Luong, 2002, chapter. 4). Similar argument was made by (Robertson & Roger, 2002)

Creation of the intensive growth industries presupposed expansion of individual abilities of people with private property and economic protection to help them succeed in the market economy. Such state presupposed strong order and the rule of law for the sake of common interests of national community.

The main tool of government intervention is the law. Reliance on law as a source of prohibited and permitted behavior serves as a major tool to create competitive markets. Contrary to managerial rationale where citizens are asked to turn themselves into entrepreneurs, Karimov's regime asks his citizens to abide by the law. Obedience to the moral law signifies the level of maturity and intellect for the regime.

The level of societal development is not only measured by the degree of economic and social welfare, but is measured by the level of spiritual maturity of the people and the development of democratic and humanitarian institutions in the country. The principle of «power in justice, knowledge and intellect» is offered here to be vitally important to keep and strengthen civil and international mutual understanding, so that peace and stability become firmly established in the country (Karimov I. , We will build our future with our own hands, 1999)

Once regime occupies the highest moral position in society, its rules and regulations also become the embodiment of justice. In practice, administration of justice meant fair allocation of commodity rents between various actors with state acting in common interests.

In order to achieve fair distribution of commodity rents, Karimov's regime needed strong loyal officials capable of preventing patrimonial practices, which destroy the achievement of Telos. Unfortunately, these officials did not manage to discipline bureaucrats and entrench liberal governing rationale. In the domestic realm Karimov openly identified existence of the regional clans and bureaucratic corruption as the main threats to the bright future. His regime proposed a vision of the state free from patrimonial practices that supported partisan interests of the 'community of people linked

by blood or kinship links' (Karimov, 1998, p. 59). Bureaucrats had to accept new identity. Uzbekistan was depicted as united into 'one people, one large expanded family' (p. 60). This unification was necessary to achieve economic and political security, because only the concerted efforts of various regions could produce economic self-sufficiency and enhance well-being of every member of the nation.

Another domestic challenge to the Telos was corruption. Corruption corroded social justice by rewarding people who do not deserve it. Corrupt officials 'undermine the moral basis of society, disorient the civic standing of its members' said Karimov (p. 53). Old officials were seen as potentially irrelevant on the grand scheme of the future. Their primary responsibility was to help people to become property owners and give way to new people in the political arena (Karimov, 1998). Patrimonial officials undermine the very fabric of the paternalistic Ethos – the rule of law. By subverting the law these people also subvert morality and justice proclaimed by the state. If these two principles are undermined, then people no longer abide by the law and comply with the government regulations. The essence of the regime is undermined.

The Episteme

Two AL regimes address specific strategies of transition in their Epistemes. Epistemes show the scale of ALI and refer to macroeconomic challenges necessary for export diversification. The scale of ALI depends on the scale of the interdependence of domestic economy on commodity sector. Epistemes of Kazakhstan and Uzbekistan shed light on the rationale behind macroeconomic changes.

The key industrialization task for managerial Kazakhstan is to diversify economic structure in order to overcome incentives that make mineral export the most profitable

business strategy. Lack of the interdependent economic structure helped Kazakhstani regime to introduce competition in various economic sectors simultaneously. The regime did not risk much by opening up domestic market to international competition, because extensive growth firms continued to supply it with revenues. By 1997 domestic economy was lopsided. The share of construction industries was 4.2% to GDP, communications gave 1.4%, agriculture together with forestry and fishery constituted 11.5% of GDP (Agency on Statistics of the Republic of Kazakhstan, 2001, p. 186). Mining (component that consists of extraction of crude oil and gas, mining of ferrous and non-ferrous metals) thrived. Mining constituted 26% of GDP with 45% profitability rate in 2000 (Agency on Statistics of the Republic of Kazakhstan, 2001, p. 384). Production of high value-added finished goods faced the reversed effect. Food industry and textiles experienced 0.4 and 0.1% of profitability. Chemical industry showed -22% profitability rate and manufacture of machinery -1.6% (p. 384). Disparate industrial structure allowed Kazakhstan to introduce wide scale of economic reforms that were aimed to reverse negative trends and make non-commodity industries competitive.

In doing so, AL regime had to design a strategy that would shift production away from commodity rents and minimize impact of bureaucratic rents. Episteme of the *competitive advantage* fit well with the desired goals. It promised three things: a) leverage the country's natural resource base; b) evolution of a vibrant private sector; c) build-up of management and institutional capacity of Kazakhstani government (J.E. Austin Associates, 2004). The first promise depends on the productivity rates of domestic producers. Government cannot afford to impose high productivity rates by force. It can only reward businesses with growing export capacity indirectly, with, for example,

smaller taxes. Competitiveness is measured by productivity rate of all inputs (J.E. Austin Associates, 2004), which is essential to the intensive growth firms. By supporting linkages between firms across economic sectors, the second goal can be achieved. Competitive advantage is industrialization strategy where regime provides the most productive environment for businesses working with public and private sectors creating productive economy (Ketels, 2004). By denying government officials an opportunity to decide on the competitive industries, bureaucratic rent is minimized. Competitive advantage falls within the logic of the Ethos by building competition first.

Competitive advantage is further nuanced when it comes to designing macroeconomic changes. Competitive advantage adopted as the Episteme of managerial regime relies on the theory of economic clusters (Porter, 1990, p. 86). Clusters are “critical masses in one place of linked industries and institutions--from suppliers to universities to government agencies--that enjoy unusual competitive success in a particular field” (Porter, 1998). In other words, competitive advantage promotes an idea that government needs to support successful intensive growth firms through helping them with marketing and export. As these firms grow, adjacent industries are affected and improve their profitability. Competitive advantage promises development of the entire industrial sectors from scratch if the government sets correct conditions. The foundational philosophy of clusters consists of the following assumptions:

- there is always be specialization in a limited number of economic fields in which a country excels;

- the capacity of the government system is always limited, both in terms of budgets but maybe more importantly in terms of the attention key individuals and institutions can spend on selected issues;
- it is prudent for government to focus its attention on the clusters that are likely to have a bigger impact on national prosperity;
- Good cluster policy means identifying and addressing the specific barriers that hinder companies at a given location to achieve higher levels of productivity and innovation;
- Cluster policy is defined by its objective – increasing the contribution the cluster can make to national prosperity by enabling higher levels of productivity and more sophisticated competition within the cluster – not by the policy tools it uses;
- Good cluster-based economic policy is the combination of two elements: Efforts to mobilize the high economic potential of core clusters, and efforts that improve the conditions for high productivity across the entire economy (Ketels, 2004).

AL regimes have to facilitate collaboration between internationally competitive firms in the core industry and the supporting sector in order to create sustainable foundation for a capacity to innovate and upgrade production and productivity through market means.

This is how this mechanism works:

Once a cluster forms, the whole group of industries becomes mutually supporting. Benefits flow forward, backward, and horizontally. Aggressive rivalry in one industry spreads to others in the cluster, through spin-offs, through the exercise of bargaining power, and through diversification by established companies. Entry from other industries within the cluster spurs upgrading by stimulating diversity in R&D approaches and facilitating the introduction of new strategies and skills.

Through the conduits of suppliers or customers who have contact with multiple competitors, information flows freely and innovations diffuse rapidly. Interconnections within the cluster, often unanticipated, lead to perceptions of new ways of competing and new opportunities (Porter, *The Competitive Advantage of Nations*, 1990, p. 86).

Government becomes only one out of many actors in the industry who brings all of the interested parties together in order to set up common goals, identify common problems and create common vision for future development (Interviewee #3, 2011). Officials had to be disciplined, because they cannot impose informal fees and/or guarantee subsidies, or political protection against competition. Instead, the status of the officials was even lower than the regular participants, since government had to 'serve' the participants and try to consolidate their positions in international realm (Interviewee #5, 2011). In case such dialogue takes place, clusters promise bright future.

In order to build clusters, Nazarbayev's regime invited international consultants who identified seven industrial sectors with the best potential for economic diversification and export. The screening process went through three stages. Initially, productivity rates from over 55 000 enterprises in each region of Kazakhstan were studied in detail (Government of the Republic of Kazakhstan, 2005). Then, based on indicators of competition and demand for non-commodity goods in the external market, consultants selected 25 industries (JE Austin Associates, 2004). During the last stage industries with the largest share of exports were identified and seven industries were selected, which were tourism, transport logistics, construction materials, food processing, textiles and metallurgy (Interviewee #7, 2011; J.E. Austin Associates, 2004).

In order to implement macroeconomic changes, Nazarbayev's regime adopted an Innovative Industrial Development Strategy 2003-2015. The Strategy was designed

policies and institutions according to the “Diamond of National Advantage” model patented by Harvard professor, Michael Porter (Porter, 1990, p. 141). Diamond consists of four pillars of increased productivity. The *factor conditions* represent a nation’s position in factors of production, such as labor and infrastructure necessary to compete in a given industry. Government of Kazakhstan required officials to maintain ‘average annual growth rate of processing industries within the range of 8-8.4%; at least three times gains in labor productivity by 2015 against 2000; and 2-fold reduction of power-intensity of GDP’ (Government of Kazakhstan, 2003).

In order to deal with this issue, Nazarbayev’s regime created institutions, such as Kazakhstan Development Fund (for full list, see Table 4) that supports innovative industries that are too risky for the second-tier banks. Kazakhstan Investments Fund provides financial support to private initiatives outside of the primary commodity sectors. The second component that increases productivity is the *demand conditions* that depict the nature of home-market demand for the industry’s product or service. The Strategy supported ‘introduction of incentives to establish science-intensive high-tech export-oriented enterprises; [and] diversification of export potential of the country in favor of products and services with high value added; transition to world standards of quality (Government of Kazakhstan, 2003). By stimulating international demand, AL regime could increase productivity of domestic intensive growth firms. In order to comply with this goal, government created Export Insurance Corporation that insures domestic exporters of manufacturing industries against political risks. In addition, KazNex, the National Agency for Exports and Investments was created to stimulate ‘internationalization’ of Kazakhstani business. The third component of the ‘Diamond’

called for support of the *related and supporting industries* that represent the presence or absence of the national supplier industries and other related industries that are internationally competitive (Porter, *The Competitive Advantage of Nations*, 1990, p. 579). In order to fulfill this requirement, multiple and diverse SMEs were necessary. Government supported SMEs through the Fund for Development of Entrepreneurship, which is established to help local businesses to obtain competitive technologies. Lastly, in order to enhance *firm strategy, structure and rivalry*, which is based on the conditions of how companies are created, organized, and managed, government of Kazakhstan promoted ‘cultivation of business-friendly environment; establishment of institutional settings to stimulate private sector, encourage competitive edge and strive for greater value added’ (Government of Kazakhstan, 2003). In order to help businesses managing this realm, Kazakhstan Contract Agency was established. It had to provide highly professional modern services to local companies and international investors regulating their relations through contracts. This agency minimized bureaucratic intervention into extensive growth firms and allowed local and international partners to have security and nurture trust in their relations.

All development institutions in Kazakhstan were designed as corporations, hired professionals with degrees from foreign institutions and operated by foreign consultants and business people. Each institution requires presence of independent directors on Board of Directors and is subject to independent audit. All of the institutions were directly subordinated to the control of the government with Prime Minister providing an oversight.¹¹ Government’s role is to serve as a catalyst and challenger that encourages

¹¹ The Board of Directors also includes Zhanar Aitzhanova, Minister of Economic Development and Trade; Aset Isekeshev, Minister of Industry and Trade; Bolat Zhamishev, Minister of Finance; Sauat Mynbayev,

companies to raise their aspirations and move to higher levels of competitive performance without the government actually being involved directly in production processes (Porter, 1990, p. 87). Diamond guarantees AL regime to escape from the traps of commodity production in which

Competitive Advantage promised the regime an easy route for export diversification and a way to increase firms' productivity rates. Competition was seen as the main tool of the ALI. Government role is in managing. ALI was centered on new institutions that could facilitate international trade and help industrial clusters help themselves in the competitive economic sectors.

Uzbekistani Episteme was the direct opposite of Kazakhstan. Instead of competitive advantage, it premised its Episteme on mercantilism and instead of clusters, it promoted ISI. This choice of options can be explained by the highly integrated structure of Uzbekistani economy that is tailored to service agriculture.

Integrated economic structure preserved commodity rents. The margin from cotton rents is large. Today government pays UZS150 per kilo to local cotton producers (Fitzpatrick, 2011), whereas international price of cotton is USD2 per kilogram or UZS3 582. In 2011 government obtained USD550 million in cotton revenues (Radio Free Europe, 2011). All of the revenue was appropriated by the state, because Uzbekistan's cotton industry employed 39% of the labor force (The World Bank Group, 2000) with the rest of the economy servicing it. Each enterprise in Uzbekistan belongs to a regulating

Minister of Energy and Natural Resources; Alexandr Mirchev, Independent Director; Richard Evans, Independent Director; Gulzhan Moldazhanova, Independent Director; Kairat Kelimbetov, Head of Prime Minister's Office and Chairman of the Fund (JSC National Welfare Fund "Samruk-Kazyna", 2011).

body that controls the entire industries.¹² Extensive growth industries represented by large-scale enterprises undermined domestic competition after independence. Small firms could not compete with giant producers or access capital necessary to explore new fields and build processing infrastructure.

In addition, trade restrictions prevent development of export-oriented industries. The Uzbek government acts as the full or majority shareholder in half of all SMEs which account for most employment in the sector (Surveys, Uzbekistan: Country Profile 2009, 2009). SMEs suffer from high taxes that benefit local farms and state-owned enterprises. As a result of state restrictions on trade, private firms rely on government support. The firms have no incentives to interest in nurturing relations with their suppliers (backward linkage) and consumers (forward linkage). Lack of incentives among firms to create internationally competitive goods prevents the existence of local firms outside of state support. So the Episteme of the paternalistic rationale had to include policies of ALI with state being the main economic actor. Mercantilism and ISI were chosen as strategic options.

Mercantilism is an approach to international trade that treats export-import transactions as a zero-sum game for its participants. In other words, mercantilism assumes that money is power and when it travels outside of state borders power is lost. Power in the mercantilist state depends on wealth and self-sufficiency that can be procured only if the state approaches trade through the prism of national security. Security of the state depends on positive trade balance. This industrialization strategy cannot be based on competition. It prescribes protectionist path of raising exports over imports to keep the wealth (currency) at home. Industrialization depends on government

¹² See chapter 4 for the description of the national holdings in Uzbekistan. Also, please see (Abbott, 2002)

policies. Government's job is to create artificial shortage of consumer goods in the domestic markets to make production of these goods profitable at home. As industries develop they satisfy domestic demand and export their goods abroad. Rising exports allow regimes access to cash and industrialization. According to this logic, protectionist measures guarantee creation of intensive growth industries before they open up to trade (Chzhen, 1996). With the lack of domestic investments, state becomes the crucial economic actor of economic development endowed with the responsibility to support infant industries and subsidize promising enterprises.

Mercantilism was chosen because consumer markets are more secure. Their source of economic growth stems not from constant innovation and competition, but rather from the substitution of imported goods by domestic products. If people eat potatoes, then domestic potato producers stay in business and thrive. Government's job is to ensure that main consumer products are produced domestically. Karimov remembers the vulnerabilities of the 1990s, when the government could not procure the basic needs of its citizens:

We had to import even such elementary everyday items as matches and salt. That is why supplying the Republic with necessary goods, primarily through our own production, is an issue of both economic and political importance (Karimov, 1998, p. 124).

Provision of basic needs echoes paternalistic Ethos of Uzbekistani regime. The desire for self-sufficiency presupposes government support of technologically advanced internationally competitive domestic firms that can satisfy any domestic demand. In order to do this, protectionist state acting as a father to its nation sets the goal of self-sufficiency, which allows AL regime to heavily interfere into the market and curb negative outcomes of competition.

Mercantilism does not negate competition entirely. Macroeconomic principles of export diversification require the presence of competition, but the Uzbekistani government is committed to creating 'organized competitive markets in each industry' (Rasulev, 2005). In practice, government restricts international trade by imposing high tariffs on similar imported products. Then it sets the prices within the specific parameters that make production of goods profitable. In doing so, government does not control the specific price, but sets the corridor of price differentiation for each product sold in the domestic market. a signal is sent to producers. if they shift their production process to new industries, they will be rewarded with larger profit margins (Chzhen, 1996). Rising profitability changes the structure of the market and market participants move into specific industrial blocks and away from commodity production (Rasulev, 2005). As multiple market participants compete between themselves for market shares, their productivity rate increases. Price corridor guarantees productivity increase and maximum satisfaction of domestic demand. Domestic demand stabilizes the prices (Chzhen, 1996, p. 91). As industries grow, they export more high value-added finished goods into international markets and alleviate dependence on commodity rents.

Intensive growth enterprises that are capital-intensive and require wide distribution networks, such as car industries, are set through partnerships between the state and multinational corporations. Partnerships thrive on protectionism and lack of competitors that AL regime procured through high tariffs.

The possession of modern technology and modern industrial management will be mediated through the creation of joint international ventures. To strengthen exports and to find markets for our best products in the face of severe competition, we need partners in reliable and strong foreign firms (Karimov, 1998, p. 124).

Karimov's regime formed joint ventures with Daewoo, General Motors car companies that set up their plants in Uzbekistan. Companies were attracted by 100% tariff on imported vehicles and cheap labor in Uzbekistan (Global Trade Alert, 2010). By 1996 Daewoo produced three low cost models that were also exported abroad (UzDaewooAvto, 2006). In addition, in line with mercantilist desire for self-sufficiency, government set up joint ventures producing spare parts with Isuzu Corporation (Japan) and various South Korean companies that set up production of seats, fuel tanks, glass and car lights and many other products (for more information, please visit www.uzAvtoSanoat.uz). Together more than 30 joint ventures were set up just in the car sector alone.

Besides technologically-advanced car industry, the 'reliable foreign partners' were invited to come to:

- Gold-mining
- Power engineering
- Cotton processing and textile industry
- Processing of vegetables and fruits
- Transport and communication
- Tourism
- Financial and monetary institutions
- Environmental protection (National Bank for Foreign Economic Activities, 2001).

Each of these industries requires investment in the supporting infrastructure, services, distribution networks and taxes. In exchange Karimov's regime guaranteed protectionist measures.

Episteme of Uzbekistani AL regime that derives main assumptions from mercantilism and import-substitution model of development can be summarized in the following principles:

- a) Provision of welfare and social well-being
- b) Macroeconomic reforms that promote optimal levels of employment
- c) Economic regulations that foster production efficiency
- d) Guarantee of freedom for market actors to make choices in the market
- e) Preservation of dominant government role in distribution of investments to procure solid welfare guarantees
- f) Strong welfare policies for vulnerable social groups, such as children, retirees, impaired people and youth (Rasulev, 2005).

The desire to maintain welfare and use international investments to set up internationally competitive domestic firms informs instruments that it used to promote the goal.

In practice, this model is characterized by state ownership of major industries and tight control over fiscal and monetary policies, making large segments of the population dependent on the government's financial allocations. In order to sustain its economy, the government created a State Property Management Committee (Goskomimuschestvo), an organization that is responsible for "the provision of development and support of private entrepreneurship in the republic" (Portal of the State Authority, 2008). It is vested with a number of functions, including: 1) attracting foreign investment; 2) improving corporate governance; 3) monitoring the activity of management companies; and 4) developing the stock exchange market (Portal of the State Authority, 2008).

Being responsible to the Cabinet of Ministers, which approves the list of economic entities for sale, the Committee acts as a seller of state property and sets sale prices for those entities. In other words, this Committee has a complex task at hand – it is responsible for building a market economy by means of a dominant and controlling state in which the state takes the place of the “invisible hand” of the market. As a result, throughout the privatization process, an entity changed owner without altering the nature of the system. For example, in 2006 the Committee signed 22 contracts with investors who privatized 596 national entities (State Property Committee of the Republic of Uzbekistan, 2007). Only two of those investors were local. Government bodies prefer to deal with large foreign entities, which allows for the quick transfer of property and budget revenue. This transfer is a safe act for the Uzbek government, because after the sale, the same Committee is responsible for overseeing the activities of foreign investors. In this way the state retains supervision and control over sold entities.

In releasing control over marginal economic sectors government carefully evaluates negative outcomes and tailors laws to regulate the proposed reforms. Looking through the Uzbek government portal one can find a catalogue of laws that have to be altered by a set date and a list of government bodies responsible for those alterations. For example, the Central Bank together with the Ministry of Economy and Ministry of Finance were responsible for altering the Law on Consumer Crediting, which was due by July 2005. The list goes on for six additional pages. Another more recent example comes from the commentary on the presidential decree entitled “On Efforts to Deepen Privatization Processes and Active Attraction of Foreign Investments in 2007-2010” (State Property Management Committee, 2008). There the Uzbek government is charged

with the privatization of 994 non-industrial entities by 2010 and 363 entities in the following industries: chemicals, electro-technology, construction, and energy-fuel (State Property Management Committee, 2007). This document does not specify if these entities have been profitable or sustainable – numbers are what remain important.

Uzbekistan's Episteme is derived from the 'rule of law'-first approach to ALI. It provides the regime with wide instruments of economic intervention for the sake of raising technologically-advanced intensive growth firms that are capable of diversifying exports. Two primary policies are adopted: enticing price controls for the domestic producers and joint-venture partnerships with state as a partner for foreign investors. In both times success of the enterprises went along the protectionist measures, restricted trade and high tariffs on imported goods.

This chapter described the Telos of the AL regimes and compared their respective Ethoses and Epistemes. Managerial Ethos of governing rationale in Kazakhstan required rapid expansion of individual freedoms and curtailed control of state over society. Managerial Ethos called the government to promote competition (Nazarbayev, 1998). Competition-first was chosen because of the abundant rents that the government continued to receive from mineral rents. The purpose of governing changed significantly from the state power understood as domination and omnipresent control to power defined as 'productivity and competitiveness of its economy' (Nazarbayev, 1998). Paternalistic Ethos curtailed with scarce commodity rents proposed incremental approach to ALI based on the rule of law rather than competition. Law allowed regime to retain equity and social welfare during the transition. It enabled the regime to occupy high moral ground free from the criticism and elicit compliance among general population.

Ethos of managerial and paternalistic rationales established a set of general principles that were grounded in strategies of the Epistemes. Epistemes show the type of macro- and microeconomic policies that transform economy based on commodity rents. They also provide details of how the regime prevents intensive growth firms from paying bureaucratic rents. This chapter shows that Epistemes determine the scale of macroeconomic reforms and depend heavily on the scale of integration of domestic economy. Uzbekistan selected secondary, non-strategic industries for market regulation and created institutions that oversaw privatization process. Kazakhstan created new institutions to help its domestic companies to compete in international markets. Lack of integrated economic structure allowed Kazakhstan to introduce competitive advantage theory by organizing industries in clusters. Successful implementation of these policies promised desired macroeconomic transitions.

CHAPTER 6 THE TECHNE: TECHNOCRACIES AND AUTOCRACIES

Techne represents the crucial part of governing rationale, because it is the realm where implementation of ALI happens in practice. Success of ALI is almost guaranteed by looking at the Ethos and Epistemes. Their logical, scientific explanations provide a compelling argument for the choice of managerial rationale in Kazakhstan and paternalistic rationale in Uzbekistan. Techne component shows attempts of the AL regimes in mediating violations of the rule of law that undermine competition and the rule of law at a micro-level. This chapter shows how new types of bureaucrats endowed with powers to conduct envisioned micro-economic transition from the extensive to intensive growth firms institute an oversight system to monitor patrimonial practices. The

chapter illustrates specific policies of cost minimization (in Uzbekistan) and profit-maximization (in Kazakhstan) to show how ALI is intended to work.

In order to manage governing rationale, the two AL regimes drafted specialized bureaucratic bodies. Consistent with the managerial Ethos that calls for a new set of government officials with knowledge about how to govern the market, Kazakhstan operated with two sets of bureaucrats. The first set, patrimonial bureaucrats worked in traditional commodity extraction sectors and managed extensive growth enterprises. The second set of strategic areas was controlled by the Technocrats who conducted ‘fire-alarm oversight’. In Uzbekistan, a country with scarce commodity rents, Karimov’s regime relied on personally loyal officials, Autocrats who are responsible for the ‘police-patrol oversight’ mechanism. The difference in the bureaucracies and oversight mechanisms between the two states reflects the structure of their domestic economies. Since a large proportion of the population is engaged in production of cotton in Uzbekistan, the introduction of countrywide economic reforms is difficult. Government prefers to introduce ALI through cost-minimization strategies. In Kazakhstan, the population is more widely distributed across economic sectors, which allows the regime to support intensive growth firms without considering individual’s welfare. As a result, government spends money on profit maximization strategies of the intensive growth firms in non-commodity sectors.

Technocrats

Two primary Ministries are responsible for introduction of competitive advantage and manage the impact of commodity and bureaucratic rents for the intensive growth firms. The Ministry of Economic Affairs and Budget Planning (since April 2011 is a Ministry of

Economic Development and Trade) is responsible for microeconomic reforms that increase profit maximization for the extensive growth firms in the strategic sectors. The Ministry of Industry and Trade (since April 2011 Ministry of Industry and New Technologies) is responsible for monitoring competitiveness and dealing with bureaucratic rent.¹

Technocrats have several key differences from the ex-Soviet apparatchiks. First, they think that the state should provide freedom and competition to allow intensive growth industries to step in. This belief is fostered by foreign education degrees in business, management, public administration and finance, which is a requirement for the entry positions at these Ministries. In addition, almost all of the participants were university graduates when the Soviet Union collapsed so they are free from the patrimonial practices and business affiliations established by their older counterparts. My in-depth interviews with 32 mid-level professionals who work or previously worked in these institutions showed that all of them compared state governing in the ideal sense to a corporation drawing parallels with government being top management and people being share holders that assess provision of public goods.²

Managerial rationale was also visible in their responses to the question on the instruments that government should use. Management instruments mentioned by most participants included: introduction of positive externalities (12 people), availability of cheap and long money (6 people), ensured ability to practice individual rights and

¹ Please note that the name and profile of the Ministry should not include this function as part of the ALI, but the fact that government recognizes bureaucratic rent as the major threat to governing rationale supports the case of this dissertation. It also shows that Kazakhstani AL regime does not trust law-enforcement bodies that turned themselves into main claimants of bureaucratic rents.

² The question was “in your personal opinion, what is the purpose of the state?”

freedoms (14 people). They also mentioned the necessity of result-based management so people could assess the quality of public services provided by the state (18 people). One interviewee responded more philosophically and openly stated that the Weberian notion of state is obsolete and instead, he defined government as a natural monopoly that solves collective action problem for public goods (Interviewee #11, 2011). Echoing Mancur Olson, my interviewee noted that individual provision of public goods, like sponsoring a soldier or protecting a kilometer of border is not efficient, therefore, the state has to step in to provide public goods. He said: ‘by doing that [administering public goods on behalf of the community], the state decreases opportunity costs for each of us so we can spend our time and efforts on more efficient industries that reflect individual inclinations’ (Interviewee #11, 2011). Nazarbayev’s technocracy is made of people who share managerial rationale and are ready to implement industrialization based on promotion of competition and to sustain the ‘invisible hand’ through sending the right incentives to society and the market (Nazarbayev, *The Kazakhstan Way*, 2008).

New officials who came to lead the posts were young people, with background in mathematics, educated in the West and united by the shared belief in market regulation. Second, they relied on indirect principles of regulations in the strategic industries that included export promotion support, increase of competitiveness and profitability. They claimed that individuals, under the right conditions, are entrepreneurs and government had to provide those conditions (Interviewee #4, 2011).

Microeconomic changes and support of the intensive growth firms is relegated upon the Ministry of Economic Development and Trade, which was headed by Mr. Kairat Kelimbetov (currently directed by Ms. Zhanar Aitzhannova) and four Vice-

Ministers. The purpose of the Ministry is to ‘achieve qualitative threefold growth of the Kazakh economy by 2020 against the level of 2009’ (Electronic Government of the Republic of Kazakhstan, 2011). Two primary goals are specified: a) Improvement of competitiveness and economic modernization and b) creation of the effective public sector (Electronic Government of the Republic of Kazakhstan, 2011). Both goals require specific expertise and knowledge about how to regulate market in order to inspire competition.

Technocrats usually have Masters Degrees from foreign institutions especially in Business Administration. In this Ministry, Kelimbetov is without an MBA degree, but with extensive international exposure. His graduate degree is from the Edmund Walsh School of Foreign Service program at Georgetown University. His Executive Secretary, Dina Shazhenova has an MBA and comes from the Ministry of Economic Affairs and Budget Planning (Government of the Republic of Kazakhstan, 2011). The second Vice-Minister Marat Kusainov also worked at the same ministry and has a degree in Public Administration (Government of the Republic of Kazakhstan, 2011). Third Vice-Minister Timur Suleimonov is an MBA graduate from Maryland University with work experience in the private business at Ernst and Young (Government of the Republic of Kazakhstan, 2011). Abai Iskandirov obtained his education from Oxford Brookes University with the Master’s degree in International Law and International Management (Government of the Republic of Kazakhstan, 2011). The fourth Vice-Minister is Madina Abylkasymova with Harvard degree in ‘Public Administration’. Current Minister of Economic Development and Trade Ms. Zhanar Aitzhanova has an executive MBA degree from Harvard University. Business degrees allow officials to understand the needs of the intensive-

growth firms and implement market reforms based on the principles of economic liberalism.

In designing reforms they largely follow profit maximization strategies, because clusters form spontaneously when the right conditions are present. Technocrats set those conditions that make the increase of production profitable. The profit-maximization *Technique* of managerial rationale is based on the three principles of economic liberalism discussed in Chapter Three. First, government increased profits with minimal state intervention. Second, government uses market instruments to deal with economic problems, because markets are superior to state regulations. Third, government regulation addresses only deviant outcomes that are severe enough and threaten the existence of domestic market. Profit-maximization strategies are inherently against state provision of welfare. They call the state to become market actor driven by efficiency, competition and profits.

During the implementation of clusters, the principle of minimal state intervention put state in a different role. Rather than being a source of change, state served as a facilitator between various competitive firms in specific clusters. State as facilitator is looking to find consensus and foster cooperation among competing firms to expand their exporting capacity. One interviewee, closely involved in the process, described the facilitation process as 'leadership' (Interviewee #5, 2011). The state took the role of the leader in extracting main problems that companies and supporting industries deemed important. In order to do that, all economic actors were divided in mixed groups so that core companies sit together with representatives of supporting industries. Then each group was asked to outline five most pertinent problems that their industry faces. When

all problems were on the board, state representatives (facilitators) asked each participant to rank them from 1 to 5 with 1 being the most pertinent problem. Then facilitators outlined five most important problems shared by all and listened to the possible ways of solving them.

This Techne of implementation of competitive advantage builds the entire development strategy based on the choice of individual firms to undertake actions that could increase their own profitability by cooperating with others. During the cluster meetings none of the firms, no matter how big and important, had an ability to impose own solutions or decisions (Interviewee #5, 2011). Instead, their representatives were forced to seek support of other industries in order to promote a policy vitally important for their firms. Cluster meetings synthesized cooperation and competition among firms within industries, thereby exposing opportunities that mutual cooperation could bring, only if rival companies form associations. Associations have stronger voice and can participate in drafting laws in the Parliament, lobby favorable domestic and international policies if everybody in the industry is involved. Active political position based on the partnership of firms that compete in the open market guarantees to increase profitability for all of the actors involved in production process.

Second, government attempted to maximize profits by helping intensive growth firms to tap into international markets. Once domestic firms connect to global trade, they are able to attract more customers and improve their competitiveness. Government provided incentives for firms to obtain international certificates on the domestically produced goods. Technocrats decided that all national companies are required to obtain certificates from the International Standard Organization (ISO). ISO certified that a

company adopts quality management system that ensures quality of products served to the international customers (ISO, 2010). ISO campaign not only expanded the market for the domestic firms, but also introduced efficient management in those enterprises that increased profits (Interviewee #4, 2011). In return, government was able to reduce the number of audits that ensured the quality of goods produced. Instead, market was the superior instrument of resource distribution (KazNex, 2010). It rewarded competitive firms and punished those who failed. Shifted oversight function from government to the market forced firms to improve customer satisfaction ratings. In addition, this strategy spread to the supporting sectors, because private firms that serviced national companies were also encouraged to apply for ISO certificate and streamline their business practices according to organization's prescriptions. ISO allowed smaller companies to get into international markets and increase their export potential (KazNex, 2010). By 'socializing' domestic firms into the rules of international markets, technocrats gave them opportunities to maximize their profits.

The last liberal principle of liberal governing required the state to intervene when economic outcomes are deviant enough to threaten the entire market economy. Rather than constantly being on the look-out, technocrats introduced intensive growth firms that were ideal types of ALI. They called them '30 Corporate Leaders' (KazInform, 2007). These firms showed every market actor of how they should be. Leadership title was given to firms that managed to export the most competitive products. If the target of export growth is achieved, firms can apply for equity loans with government serving as a minor equity investor (partial owner with no more than 25% of shares) and continue to increase productivity and profits. Technocrats supported only promising breakthrough projects in

the non-extractive sectors and only if they promise to offer competitive products in the international market (Marston-Nicholson & Delaney, 2008). '30 Corporate Leaders' went through the stringent health check. Project finance specialists evaluated potential of international demand for the domestic goods and then gave prescriptions to government investors on project viability. By 2011 86 projects rather than 30 were chosen as 'Corporate Leaders' that utilized USD 56 billion (KazInform, 2011). Each of the enterprises produces innovative or competitive goods, which are expected to increase export share three-fold by 2015. Industrialization based on fostering competition through setting incentives for profit maximization strategies of export-oriented firms was chosen by the regime in Kazakhstan as the outcome of technocrats who share strong managerial rationale.

However, patrimonial capitalism represents a serious threat to ALI based on the introduction of competition. In order to isolate influence of patrimonial officials, Nazarbayev shifted the watch-dog functions to a different Ministry. Ministry of Industry and Trade, now is the Ministry of Industry and New Technologies is endowed with tasks to oversee 'competitiveness monitoring and corruption counteraction' (Ministry of Industry and New Technologies, 2011). In approaching these tasks Ministry designed detailed indicators of competitiveness in business and technologies. For example, companies need to have labor productivity of USD 21 900 to be eligible for the subsidies. In total, the list of indicators consists of 14 components (Ministry of Industry and New Technologies, 2011). Technocrats believe that this system of indicators provides the most effective and measurable control over intensive growth firms.

The second component of ‘corruption counteraction’ deals with bureaucratic rent. MINT is responsible for anti-corruption measures by decreasing the amount of procedures necessary to conduct businesses. The logic of these measures is based on the assumption that transparent electronic technologies that minimize personal interaction between individuals and government officials are able to solve corruption problems in Kazakhstan. MINT proposes to decrease the number of goods eligible for licensing and to introduce internet banking (Ministry of Industry and New Technologies, 2011). In addition, strict control over revenue allocations by government officials and their direct relatives is suggested. In 2014 each government official will be responsible for filing an electronic version of income tax declarations.

The technocratic thinking is at the base of oversight mechanism. Moustafa (2008) calls this system as ‘fire-alarm oversight’, because government reacts only if the numbers show deviant outcomes. By attempting to procure minimal state interference, government monitors situation through indicators, rather than substantive research of the systemic problems. The example of fire-alarm oversight is visible in the MINT’s anti-corruption methods. These methods share the basic premises of economic liberalism. Anti-corruption measures are designed to minimize state intervention into the market economy. Electronic filing of the forms saves time and money. It diminishes opportunity costs for entrepreneurs who otherwise are obligated to stand in narrow corridors of government buildings wasting hours to obtain necessary documents and spend time and resources circumventing red tape. In addition, it treats corruption as an economic problem that has potential solutions that can be activated by implanting the right incentives into the system. Proliferation of internet services and internet banking is likely to eliminate corruption

because of no demand for government services. Superiority of market mechanisms undermines opportunities for bureaucratic rent. Lastly, the anti-corruption program is written from the perspective that some corruption is 'normal' and government should intervene only when the deviant outcomes threaten to topple the market. Deviant outcomes that compel technocrats to intervene are:

- Growing share of black market in the economy
- Decrease of investment climate
- Increase of costs on government projects
- Decrease of economic efficiency
- Lost support from the civil society (Ministry of Industry and New Technologies, 2011).

All indicators show success of ALI and success of managerial rationale and that the success depends on competition. Government intervenes only if data in those five indicators shows a negative trend. Such technocratic thinking implemented in practice by a group of officials with shared mentality negates the possibility of the mistake in policies. Technocrats live in the world of self-fulfilling prophecies, where numbers show the necessary trends and inform technocratic actions. The next chapter shows how patrimonial bureaucrats use it for their own advantage.

Autocrats

Contrary to technocratic management, paternalistic Uzbekistan required officials to be loyal to the president and capable of implementing orders, rather than expertise of independent managers. In May 2003 Karimov signed a law that reduced the number of bureaucrats by 30% (DESA2005; DPADM, 2004) and introduced new system of

bureaucratic assessment. Top government officials were allowed to question employees on 'politics, the economy, legislation and other subjects' after which the commission assigns three grades: positive, negative or condition with the 3-6 months of probationary period (United Nations, 2011). In order to pass the assessment, government officials had to be aware and supportive of presidential initiatives. As a result, people with different thinking were removed from the system and Karimov received a unified body of loyal autocrats.

From there on, the governance in Uzbekistan is divided between Kaimov who sets out the main directions and autocrats who implement them. As a result, Karimov's rule is based on campaigns to tackle a particular realm of problems and set expected results and directions. Once the ruler's aspirations are publically declared, all government bodies begin to ensure that the problems surrounding the issue are eliminated. An aspiration is usually declared in Presidential Annual addresses to the people, where he announces "A Year of" something and accompanying governmental action plan. Each Annual Presidential Address takes a significant problem and positions them as the morally worthy goals to reach. Starting in 1997, when the government announced "the Year of Human Interests", each year a new goal was proposed by the regime:

- 1998 The year of Family
- 1999 The year of Women
- 2000 The year of Healthy Generation
- 2001 The year of Mothers and Children
- 2002 The year of Honoring the Elderly
- 2003 The year of prosperous Makhalla

- 2004 The year of Kindness and Charity
- 2005 The year of Health
- 2006 The year of Medical Workers
- 2007 The year of Social Protection
- 2008 The year of Youth
- 2009 The year of Rural Development
- 2010 The year of Harmoniously Developed Generation
- 2011 Year of Small Businesses and Private Entrepreneurship³

These campaigns are components of Karimov's Ethos of being the father of the nation. The problems in each social category are politicized rather than routinely executed by bureaucrats and make officials personally responsible for the implementation. For example, in his Report on Socio-Economic Development of Uzbekistan, he ordered

Ministry of Finance (Azimov), State Property Commission (Askarov), and Center for Coordination and Control over Securities Markets (Yunusmanov) responsible to develop and introduce a strategy of development of securities market, aimed to support competitiveness... in 2 months... (Karimov, 2004).

In order to achieve these goals, members of the government operate their respective ministries and state agencies as personal domains in exchange for full compliance with presidential regulations. For example, Prime Minister Shavkat Mirziyoev personally ordered city mayors and tax inspectors to ensure that the price of meat in the market does not exceed 3 500 sums (when the actual price was 5 500) (Ferghana.ru, 2007).⁴ Mirziyoev's management techniques of 'manual steering' suit the autocratic rule of

³ This argument was developed in Laura Adams and Assel Rustemova, "Mass Spectacle and Styles of Governmentality in Kazakhstan and Uzbekistan," *Europe-Asia Studies*, September 2009, 61(7): 1249-76

⁴ When Mirziyoev went to the market to check the prices, sellers displayed 3 500 but actually sold the meat for 5 500 (Ferghana.ru, 2007).

paternalistic regime, because his 'brusque orders are carried out, without questions and fast' (Kislov, 2008). Mirziyoev is personally responsible for the agro-industrial complex. His task is to conduct industrialization in the least harmful way to the agricultural sector. He has close ties with people from Presidential Administration, such as Khaidarov and Ismailov who make decisions over presidential agenda and staff. Mirziyoev's Minister of the External Economic Affairs, Investments and Trade Elyor Ganiyev is a long-time devoted autocrat with previous job experience as Minister of Foreign Affairs. Similar things can be said about Rustam Azimov, the First Deputy Prime Minister. Azimov has an extensive work experience as a Minister of Economy, Minister of Finance. Autocratic government is made of personally loyal officials who in turn hire their personally loyal officials and the whole system is based on the strict informal accountability.

Key agencies responsible for ALI are *State Property Management Committee* and *State Committee on Demonopolization, Support of Competitiveness and Entrepreneurship*. Both agencies are staffed with people who are able to introduce the rule of law and order into economic system. Mirziyoev's team members have skills to control spending and discipline of other officials into strict compliance. For example, Umar Turdiyev who is the acting Chair of the Demonopolization Committee comes from the Presidential Administration and has proven track record of loyalty to the President. He has held this post since 2003. His Deputy, Abdisammat Khimmatov builds competition with the investigative skills acquired during the service at the national auditing authority. Similar 'statistical control' skills are shared by Akhtam Daliev who is a Deputy Chairman of the State Property Management Committee. He has a degree in Mathematics and Management, but has no work experience in business. He 'knows'

business management from working at the Committee since Mirziyoev was appointed in 2003. The selection of the officials is perfect for the imposition of strict implementation of Karimov's orders.

Just like in Kazakhstan, two agencies are responsible for industrialization process. The State Property Management Committee is responsible for privatization of former government properties into private hands and the Demonopolization Committee is responsible for 'establishment of legal bases for market economy (State Committee on Demonopolization and Development of Competition, 2011). Control over most of privatization efforts concentrates in the hands of State Property Management Committee, an organization that is responsible for "the provision of development and support of private entrepreneurship in the republic" (State Property Management Committee, 2008). Two institutions approach construction of the market economy incrementally. The execute Karimov's orders in the selected number of industries, because the majority of people is still engaged in production of cotton rents and cannot be disturbed by rapid economic changes. But although the scope of ALI is smaller, AL regime still aims to curtail economic dependency on commodity rents and patrimonial bureaucratic rents-seeking practices. Both pathologies of the extensive growth firms are dealt with cost minimization strategies rather than maximization of profits. Cost-optimization efforts are not driven by market research, sustainability or efficiency. Social justice and welfare of population is the main criterion for the decisions (Karimov, 2002). Government attempts to reduce the spending of its extensive growth national holdings on auxiliary services and takes up the function of welfare provision upon government shoulders. As costs for the extensive growth holdings are minimized through privatization process, private market

actors in non-commodity industries begin to appear. For example, the commentary on the presidential decree entitled “On Efforts to Deepen Privatization Processes and Active Attraction of Foreign Investments in 2007-2010” (State Property Management Committee, 2008) shows that the Uzbek government is charged with the privatization of 994 non-industrial entities by 2010 and 363 entities in the following industries: chemicals, electro-technology, construction, and energy-fuel (State Property Management Committee, 2008). Government success of industrialization was measured by the amount of properties taken off the state balance sheet without violating principles of social justice and welfare.

The strategy of cost-optimization is to shed ‘toxic’ assets to private hands leaving the most efficient and promising enterprises under the state management falls within the liberal principles of governing. Privatization minimizes state interference into economy. In 2007 Uzbekistan began to privatize assets that were not directly involved in production. In order to do so, state classified properties into three groups depending on the asset attractiveness to private businesses. Assets of professional unions, social welfare assets that were not directly involved in production process, but remained on the balance of state budget were tendered first with state selling more than 80% of all shares. The list includes saunas, tea houses, cafeterias, bread-making factories, and camping stations of national companies, to name a few (№ IIII-672 Decree of the President of Uzbekistan, 2007). Banks and technological plants, on the contrary, were hardly privatized with only 0.3% of government shares tendered (№ IIII-672 Decree of the President of Uzbekistan, 2007). The second group of assets was to be privatized only with an obligation to modernize enterprises and produce competitive goods (№ IIII-672 Decree of the

President of Uzbekistan, 2007, Supplement 2). Investors in cotton processing and energy extraction enterprises, in dire need of modernization, were given a larger share of ownership, such as 26% of regional cotton processing plants. The third group of assets involved everything in between with state selling anywhere from 20-70% of all shares. Such careful and tailored privatization process allows regime to have strict control over market development.

The second principle of liberal government, assumption of market superiority over state distribution is executed by the State Property Management Committee. It was formed by Presidential Decree № IIII-335 in 2006 as the main vehicle of industrialization. The Committee is vested with a number of functions, including: 1) attracting foreign investment; 2) improving corporate governance; 3) monitoring the activity of management companies; and 4) developing the stock exchange market (Portal of the State Authority, 2008). The Committee is a powerful body because it has authority to set sale prices for state properties and to sell it. Its strategy is to privatize entities to large investors and create large private actors. For example, in 2006 the Committee signed 22 contracts with investors who privatized 596 national entities (Portal of the Government of Uzbekistan , 2008). Only two of those investors were local. Government bodies prefer to deal with large foreign entities, which allows for the quick transfer of property and budget revenue. This transfer is a safe act for the Uzbek government, because after the sale, the same Committee is responsible for overseeing the activities of foreign investors. In this way the state retains supervision and control over sold entities.

Supervision over patrimonial bureaucrats belongs to the Demonopolization Committee, which is directly accountable to the First Deputy Minister Rustam Azimov.

The purpose of the agency is to ‘provide population with goods and services of highest quality and lowest prices’ (State Demonopolization Committee, 2011). It is done so through the strict implementation of the rule of law. Formally, Demonopolization Committee is responsible for the utility charges, price-management and price control, tariffs and breaking down monopolies (President of the Republic of Uzbekistan , 2010). In practice, the Committee curbs bureaucratic poaching of businesses by introducing a personal responsibility of government officials for the behavior of their subordinates (Karimov, Decree #3619 on Further Enhancement of Measures of Legal Protection of Entrepreneurial Subjects , 2005). The Committee checks if the prices and tariffs were properly collected, if the revenue is transferred and not stolen. In addition, it ‘protected entrepreneurial subjects’ from bureaucratic rents by decreasing required declaration of imported goods from 250 to 170 items to ease foreign trade and transactions (State Committee on Demonopolization and Development of Competition, 2011). Such cost-minimization strategies for the intensive growth firms allow them to save capital and invest it back into production process.

Besides efforts to free domestic enterprises from burdening social welfare, and reduce opportunities for the bureaucratic rents, government also fosters support of technologically advanced firms⁵ by forming joint ventures with foreign direct investors who are willing to participate in the strategic sectors of economic development. Government attracts investors by freeing them from taxes (both Income Tax and VAT were lifted) and lifting mandatory requirement to provide social infrastructure and care of

⁵ Not all contemporary structuralist scholars would advocate ISI over Export Oriented Industrialization due to the pure performance of Latin America in comparison with South East Asia, but the normative stance of controlling unemployment over inflation prevails in ISI approach.

uncompetitive enterprises. Investors are also freed from paying arrears inherited from the previous owners (№ IIII-672 Decree of the President of Uzbekistan, 2007).

In addition, government picks projects for joint development with foreign investors. For example, UzbekLegProm is looking for foreign investors to conduct 106 modernization projects with total volume of USD1.678 billion mostly at the expense of the Reconstruction and Development Fund (Uzdaily.com, 2010). UzhimProm is conducting a USD1.79 billion modernization project for 2009-2014. Financing is procured through foreign investments and loans (USD1.4 billion), Fund of reconstruction and development (USD374 million), own funds USD196.7 million and loans from Uzbek banks – USD53.3 million (Azizov, 2010). RadioElektronTechPribor – (copper wires and cables) – since 2003 is national stock company endowed with the responsibility to create new efficient technologies, introduction of energy-efficient technologies and attraction of FDI (Uzeltehsanoat, 2010).

The Techne of paternalistic rationale operates through law and government regulations that determine the scope of the reforms, the type of industries and enterprises eligible for privatization and sale. These policies are inherently linked to the desire of export diversification away from cotton. Government uses cotton and gold sales to invest money into import-substituting industries and joint ventures with international investors. At present Uzbek earnings from the export of cotton are lower than the earnings from gas and gold sales, but more than 50% of total cropland is allocated to cotton production (Djanibekov, Rudenko, Lamers, & Bobojonov, 2010, p. 3-4). Government regulates cotton sector heavily by setting up production targets, the size and locations of the fields, and target of overall output (Djanibekov, Rudenko, Lamers, & Bobojonov, 2010). In

return, costs of farmers are optimized, because Uzbek government pays the farmer stable income to put him through the calendar year and subsidizes 37% of irrigation costs, tax reimbursements and credit postponement (Djanibekov, Rudenko, Lamers, & Bobojonov, 2010, p. 5). In 2003 the price per ton of cotton in Uzbekistan was USD200. Agricultural rent is extracted if we compare the prices in Kazakhstan (USD550 per ton) and Kyrgyzstan (USD450 per ton) (Pomfret, 2008). Under these circumstances, officials in two Committees and staff of the Prime Minister's office have wide array of functions, including oversight. By being personally responsible for the successful implementation of ALI, Autocrats are invested in executing compliance. The wide range of functions and responsibilities, coupled with the vague distinction between formal and informal functions imposes 'police-patrol oversight' mechanism upon both political and economic actors.

The example of such oversight is visible in how Karimov's regime promotes ALI in technologically-intensive sphere. The state prefers to deal with multiple large companies with full production cycles, because it provides security against monopoly of the domestic market by foreign firm. By inviting large Korean chaebols that produce everything in the car industry, Uzbekistan was able to create multiple joint-stock companies operated by one or two international investors who compete among themselves in the domestic markets. Presently, it is Korean Daewoo and American General Motors.⁶ Both companies operate in a joint venture between UzAvtoSanoat (state-owned national company), which consists of 20 enterprises and 11 joint ventures (Uzavtosanoat, 2009). These investors obtain subsidies and are shielded by up to 100% tariff on imports of similar products (Global Trade Alert, 2010). As a result, Uzbekistani

⁶ Uzbekistan was the 10th largest market for GM in 2010 (General Motors, 2011).

domestic market is saturated with locally produced cars, but operates under monopolistic competition. People have an ability to buy one out of only 12 car models. In these project the state acts as both, the partner and the enforcer of national interests and the ideals of social justice.

Autocrats believe that their intervention into production of cotton and participation of the state in joint ventures procures ALI. However, they do not 'see' the possibility that the entire system of subordination based on the personal loyalty of the subordinates may become a monster that destroys intensive growth firms and covers up violations of law and order through highly repressive methods.

This chapter showed that two regimes steered their industrialization projects towards provision of competition, as in the case of Kazakhstan and provision of equality and social justice through the rule of law, as in the case of Uzbekistan. Two industrialization paths evoke opposing modes of transition but aim to create competitive economy by disciplining officials and introducing friendly regulations to the intensive growth firms. Uzbekistan's *Techné* of cost-optimization comes from the paternalistic Ethos that advocates establishment of market economy through state engagement and the rule of law. Its rationale is vested in the Import-Substitution Industrialization strategy, which aims to optimize the costs of economic development by carefully improving the quality of goods for domestic consumption in order to export them to the international markets. Kazakhstan's *Techné* of profit maximization strategies is derived from the managerial Ethos that adopts export-oriented development based on the promotion of competition and competitive advantage. As profits rise, companies obtain extra capital to invest further in production of export-oriented goods thereby improving Kazakhstan's

terms of trade and expanding economic growth. Two governing rationales present a coherent approach to ALI that officials could easily adopt. However, they undermine production of commodity and bureaucratic rents for the officials and evoke resistance.

The next chapter sheds light on whether ALI is possible under a thriving bureaucratic resistance. It shows mechanisms that are used by officials to evaluate the success of ALI in the AL regimes.

CHAPTER 7 THE THEORY OF BUREAUCRATIC RESISTANCE

The main question that was left to answer is whether it is possible to discipline the bureaucrat by current oversight mechanisms? Or to paraphrase the question whether ALI that needs the rule of law and competition is possible under the bureaucratic resistance? In order to answer these questions, deficiencies of oversight mechanisms need to be illustrated and then, resistance mechanisms outlined. Resistance is analyzed as dissidence of conduct because officials subvert it by practice the norms and regulations of competition and rule of law promotion into disguised system of patrimonial capitalism.

Deficiencies of Oversight Mechanisms

The two systems of oversight are intended to provide a clear picture of the success of governing rationales in practice. Technocratic ‘fire-alarm oversight’ system is based on sophisticated monitoring and an evaluation arrangement where a change in one indicator shows potential problems in other areas in measurable fashion. Numbers serve as a guide for actions and minimize the impact of the subjective interference of people vested with power. They also show the quality of governance system and areas of weakness. Technocrats are responsible for tracking these indicators and adjusting the system to correct negative impacts.

There are two primary weaknesses with bureaucratic disciplining in this system. First, reliance on numbers creates the problem of ‘information asymmetry’ or ‘moral hazard’, when reliable information belongs to only one party in business relations (Krugman & Obstfeld, 2007, p. 591). Since bureaucrats report the basic data, they have control over reported data, which may differ from the true state of things. As a result, only bureaucrats possess knowledge of how ALI is implemented. In Kazakhstan the ‘fire-alarm oversight’ system does not have mechanisms to substantiate bureaucratic reporting with alternative sources. They rely on what is given to them by the subordinate bureaucracy. In Uzbekistan, the ‘police-patrol oversight’ system also does not have mechanisms of alternative reporting because autocrats trust their hand-picked subordinates based on personal perceptions that they feel guarantees trust between subordinates and their superiors.

The second problem that is caused by moral hazard stems from the nature of political subordination between bureaucrats and technocrats or autocrats. Reliance on patrimonial bureaucrats for policy implementation undermines the disciplining effect of governing rationale. In implementing the reforms, technocrats have to rely on patrimonial bureaucracy that is responsible for the enforcement of laws, distribution of subsidies, etc. Technocrats send specific conditions that each project needs to fit, while bureaucrats are left with interpreting the suitable candidates for subsidies. Technocrats do not have enforcement mechanisms that help them support internationally-competitive domestic intensive growth enterprises. However, law enforcement and justice systems are corrupt and support those who pay the most for favorable decisions (Hug, 2010). Autocrats trust their subordinates with solving problems because they assume that personally loyal

bureaucrats meticulously follow them. However, when a bureaucrat fails to conduct appropriate changes, the supervisor looks incapable. In this situation both officials are threatened with the loss of their position. Thus, bureaucrats are interested in covering failures with disinformation and denial of their existence or significance before the ruler. The cover ups continue until the chain reaches an autocrat who executes personal responsibilities of president Karimov.

Due to the problem of the moral hazard, bureaucrats obtain a superior position in the implementation of ALI, but their position is not immune. They are still dependent on the ruler who can easily divest them from power, put in prison or send into exile if their actions openly counteract the pillars of governing rationale. So they are interested in professing public loyalty to the ruler to minimize the chances of purging. They are engaged in developing ruler's thriving personality cult. Second, they are interested in extending their patrimonial networks. ALI presents a lucrative opportunity for personal enrichment. Third, bureaucrats have the power to frame data as they deem it fit. They can interpret it as an important problem that requires government actions or interpret it as not important by depoliticizing the significance of it. Neither oversight mechanism can deal with these resistance strategies.

Personality Cults

Patrimonial officials benefit from rulers being seen as the principal agents of change and anti-corruption even if some of them suffer from public humiliation. Strong personality cults of Karimov and Nazarbayev allow bureaucrats to express their immense loyalty to

the leader and gain more trust while shedding responsibility for the reforms from their institutions upon the ruler. As Laura Adams puts it:

In such a cult, for example, a skeptic will blame Karimov for everything from bad roads to low salaries, while a true believer retorts that the president is being shielded from the truth by his toadies and if he only knew how bad life was for his people, he would most certainly do something about it. Both the skeptic and the true believer are taken in by the cult's tendency to portray the leader as omnipotent, and thus deserving of all praise or blame if the president is the root of all good, the ultimate authority, how can he not be to blame when something goes wrong? (Adams & Rustemova, 2009, p. 1270).

The circular logic for good and bad allows officials to hide underneath the limelight in good times and separate themselves from bad decisions in bad times. The ruler is depicted as god-like carrying sole responsibility for achievement of Telos by the regime. In academic literature this process is called 'sacredization' of leadership (Clark, 2000) (Groys, 1990; Stites, 1990). Sacredization is a discursive move that endows leaders with exceptional, almost-super human abilities. His identity becomes mythologized and exaggerated and celebration of these qualities is ritualized (Clark, 2000). Mythology and exaggeration of the ruler work through narratives. Narratives are accompanied with rituals. The discursive practices of governing rationale are counteracted by the narratives of the leader whose extraordinary qualities created the blessings of ALI. Bureaucrats produce stories of the ruler where the author tries to merge with the leader, to crawl inside the leader's individuality, embrace his past and present, and then put this experiment on paper for other people to feel. These stories can never be objective. They already carry the seed of myth, because all the successes are framed as personal achievements, as a victory against the evil forces, as a situation where the vision, creativity, love, and care prevailed. Mythical narrative about the ruler is created through

empathy (Dobrenko, 1993), which refers to ‘the imaginative projection of a subjective state into an object so that the object appears to be infused with it’ (Merriam-Webster Dictionary, 2012). Empathy makes these stories credible, because they are written from the third-person account who is watching the leader up and close, and who is ‘reading’ his mind. Sacredization of leadership shifts government institutions from any responsibilities for ALI. ALI becomes the personal project of the visionary ruler. The cult of the ruler makes the ruler the primary subject of cult and its own creator (Dobrenko, 1993).

Besides mass production of narratives, sacredization of leadership is ritualized. Rulers are endowed with proxies that people have to worship. Proxies are symbols that are closely associated with the rulers, but exist outside of them (Adams & Rustemova, 2009). Contrary to personality cults that are based on personality of the leader (such as Saparmurad Niyazov in Turkmenistan), bureaucracy in the AL regimes picks a proxy that they are able to worship regardless of day-to-day policies that rulers undertake. Proxies are objects of admiration that cannot be criticized (Adams & Rustemova, 2009), because they are beautiful (Laszczkowski, 2010). ALI’s policies may be popular or unpopular, but a ritual that worships a proxy closely associated with the president makes the rulers also exempt from criticism. For example, how can one criticize Nazarbayev if Astana, (the modern, showcase capital of Kazakhstan that Nazarbayev personally designed and ordered to be built from scratch in the past decade) shows that he is a visionary ruler? Public worship of proxies also allows bureaucrats to trace the progress of ALI to personal qualities of the rulers.

In Kazakhstan sacredization of leadership works through the proliferation of myths and exaggerated narratives about the exceptional qualities of President Nazarbayev. Nazarbayev is depicted as a Visionary Modernizer. These qualities were acquired as a result of his difficult life in rural Ush-Konyr, a village near Almaty. The official story is that Nazarbayev faced immense suffering from the discriminatory Soviet system and as a result, was unable to matriculate into the university with his first attempt (Lillis, 2011). A movie documenting the president's life is available to the public. Poets created a 111-page ode praising the President (Arymbekov, 2010). People publish fairy tales for children where the president is the main character (Leonard, 2011). Besides local authors, foreign authors are also engaged in the production of the president's personality cult. Jonathan Aitken, former MP of the British Parliament and the author of Nixon's biography, published two books, President 'Nazarbayev and the Making of Kazakhstan' (Aitken, 2009) and 'Kazakhstan: Surprises and Stereotypes after 20 Years of Independence' (Aitken, 2012). In his narrative Aitken uses the empathy techniques that make the leader sacred. He writes:

A good place to enter the mindset of Nazarbayev in his role as creator-of-chief of Astana is Baiterek, a ninety-seven meter tower sprouting from the heart of the central boulevard. Originally sketched out in the President's own hand, it is a modernistic representation of the three of life, Baiterek, at whose apex stands a glass sphere and a gold ball portraying the Kazakh national myth of a golden egg laid by the legendary bird, Samruk (Aitken, Kazakhstan: Surprises and Stereotypes after 20 Years of Independence, 2012, p. 105).

Nazarbayev is presented as a master-mind behind all goodness that has happened in Kazakhstan. By equating his genius with particular grand architectural objects in Astana, the President becomes personified in these objects diverting attention away from other

contributors to the success of the object. The other contributors are regulated to the role of mere executors of the President's exceptional will.

Astana itself becomes the proxy for Nazarbayev's cult of personality. It feeds into his depiction as a Visionary Modernizer. Astana is a symbol that confirms the abilities of the ruler. It is modern, grand and beautiful. Many architectural sites were commissioned to renowned architects. For example, the 'Pyramid' was built by British architect Sir Norman Foster to signify three periods of Kazakhstan's independence. One-third of the building is located underground to depict past tensions and difficulties. The middle part represents our present and the future is topped by the blue shining top to represent the future. Besides that, Astana hosts Khan Shatyr, a shopping mall located on the territory of four football stadiums(!) covered with weather-resistant polyethylene, which provides climate controlled environment and hosts swimming pools, malls, movie theaters and figure-skating rink. The sand to pool facilities was brought from Seychelles Islands (Interview #13, 2011). Astana is depicted as magical, post-modern and a symbol of Telos.

The symbol of Astana is also linked to the celebratory ritual that involves all people in Kazakhstan, because it is a national holiday. Astana's birthday coincides with President's birthday, July 6th and puts lavish celebrations, festivities and cultural events. Each of the festivities garner presidential personality cult. For example, the 10th anniversary of the founding of Kazakhstan's new capital, Astana, took place on July 6th, 2008 was accompanied with Nazarbaev's writings and slogans such as "Independence created Astana, Astana develops independence", and official documents proclaimed the political, spiritual and philosophical meaning of Astana as a symbol of rebirth, renewal and independence that embodied the hopes and dreams of all Kazakhstanis (Astana

Akimat, 2008).¹ State television paired a documentary film about this history of Astana with biographical documentary about Nazarbayev, further cementing the association of the president with the nation's premier symbol of its future-oriented model of economic prosperity.² Under the aesthetic proxy, Nazarbayev's domination and power becomes unquestionable and preempts any political contestation against his rule. Elaborate personality cult makes government officials look humble and insignificant at the scale of the president. They send good reports about what is done broadcasted live via national television, but they silence the true nature of things.

The quality of state service is reflected in the titles that politicians give to Nazarbayev. In 2000 parliament introduced the law 'On the First President of the Republic of Kazakhstan – the Leader of the Nation (Government of the Republic of Kazakhstan, 2000) that took the limits from running for presidency due to the 'immense contribution towards development of sovereign Kazakhstan as a democratic, secular, legal and social state' (Government of the Republic of Kazakhstan, 2000, article 1). Article 3 of the law guarantees inviolability of bank secrets and bank accounts of the First President and members of his family (Government of the Republic of Kazakhstan, 2000). In 2010 Parliament proposed to call the leader exclusively by the title 'Elbasy', the Leader of the Nation in recognition of his extraordinary achievements. 'The world recognizes a nation through great leaders and Kazakhstani nation received global acknowledgement because of the president Nazarbayev.... A nation that has a son like Nazarbayev will never live in poverty" said Rozakul Khalmuradov, Mazhilis Deputy (Nur.kz, 2010). The bill confirmed presidential full immunity from persecution, arrest,

¹ This point has been developed in Adams& Rustemova, 2009

² For more information, please see (Adams & Rustemova, 2009)

search warrants, administrative or criminal proceedings during and after the presidency, but was vetoed by the president (Khabar News Agency, 2010). Besides these elaborate narratives and titles, in nearly every official speech at every kind of ceremonial event, the president is thanked for bringing progress and for the wise decisions in guiding the economy. President becomes a savior whose personality is sacred and his qualities are exceptional.

The discussion showed that personality cult in Kazakhstan plays two major roles. First, it circumscribes the scope of criticism away from the President. Second, it attributes success to the personal leadership of the ruler and diverts attention away from institutions.

In Uzbekistan personality cult of president Karimov is not so visible. There is a stark contrast between the amount of posters with Nazarbayev's pictures in Kazakhstan and lack of Karimov's face in public sphere. Possibly, this is so because of the governing style of Islam Karimov. Karimov gives specific orders and responsibilities to each person in his autocratic team and specific dates when he expects to get the results. Nonetheless, officials develop personality cult of Karimov based on his image of a Savior and Independence Protector. Autocrats implement ALI by relying heavily on personally loyal bureaucrats that consist of law-enforcement bodies. Law-enforcement implements ALI by relying on the threat of repression. Bureaucrats legitimate the use of violence as a necessity that is allowed personally by the president. As they extort bureaucratic rents from the competitive domestic firms, officials frame these practices as if they were directly ordered by the President. Since no one is able to check their validity, local bureaucrats benefit from ruling as they please (Adams & Rustemova, 2009). They cover up patrimonialism by celebrating a proxy that sets Karimov as a ruthless, but fair leader.

The character of Amir Timur, whose style of governing is equated to the brutal but fair rule, serves as a proxy for Karimov's regime (Bissenova, 2007; Adams & Rustemova, 2009; Adams L. , 2010). The image is vested in the past, in re-creation of the Empire of Amir Timur that lasted from 14-15th centuries and included territories of the contemporary Eastern Anatolia, Caucasus, Kazakhstan, Turkmenistan, Kyrgyzstan, Tajikistan, Pakistan, Afghanistan, Iran and Iraq. Alisher Ilkhamov describes it in the following way:

The sequence of historical events is fabled by them [designers of the nationhood mythologies] in a teleological, Hegelian-like manner, with the present or forthcoming resurgence of the nation regarded as the natural culmination of native history. Schematically the paradigm of the teleological representation can be circumscribed with the triad: the golden age – ordeals – a new golden age, or the expected advent of great future (Ilkhamov, 2005, p. 92).

Amir Timur is a convenient symbol because his governing style was fruitful and he achieved what is considered to be the 'Golden Age' of Uzbekistan. Amir Timur conquered India in 1398; he inherited all of the lands of the Golden Horde in 1391, which included Moscow that is now in Russia and parts of Ukraine. He also controlled Afghanistan and most part of Iran (Yakovlev, 2007, pp. 8-9). Just like Amir Timur, Karimov is depicted as a savior of the nation, a guarantor of independence and security (Hegarty, 1995; Manz, 2002).

Another popular myth about Timur is related to his decision-making. Timur is depicted as a pious Muslim, who made decisions through his premonitions and the advice of fortune-tellers. He frequently saw dreams about his future. For example, one time Amir Timur dreamt that a ray of the sun was approaching his head from the East and as soon as it landed, it died. Fortune-tellers interpreted it as a possible attack of his rival Tokhtamysh who, because of the death of the sun's ray, was destined to lose in the battle

(Yakovlev, 2007, p. 80). Their predictions came true. The purpose of these stories shows that great leaders do not have to rely on experts or councilors. Karimov is depicted as a naturally talented leader who takes care of common goods and carries responsibility for his nation (Karimov, 1996). The president carries the sole responsibility for everything that occurs in the country and requires the full support of the population in this difficult task. Consequently, the population is asked to comply with bureaucratic regulations even if they may contradict individual self-interest (Trevisani, 2010).

The last component of the sacredization of leadership requires practice of ritual. Amir Timur's birthday is widely celebrated. Laura Adams describes the 660th anniversary celebrations since the birth of Amir Timur in 1996. This birthday resulted in lavish celebrations, publication of a book of good government practices and the promotion of the image that he was the patron of the arts, caretaker of the people and a pious Muslim (Adams L. , 2010, p. 147). On another occasion, officials improvised and linked Timur to Nauryz, a national holiday of nature's rebirth; they also depicted him as a chief of the Silk Road pageant during the 1996 festivities of Independence Day. People are forced to participate in these celebrations and the concert that accompanies the celebration is broadcasted live on all channels countrywide. The ritual of celebrating a symbol that is identified with Karimov makes everyone, directly or indirectly participate in the production of personality cult.

The ritual of participation is important to bureaucrats, because it elicits compliance from population. Lisa Wedeen's framework (Wedeen, 1999, 2008) whose ethnographic study on Syria and Yemen treats discourse as knowledge embedded in daily practices. She finds that population in the authoritarian regime does not believe in legends

produced by the regime, however, regime continues to produce them. She explains continued production of personality cults by treating personality cults as devices of power that discipline and induce citizens into obedience and complicity. Symbolism and spectacles in the daily life set guidelines for public speeches and behavior. Wedeen's ideas allow us to trace discursive instruments of power with subtle capabilities of disciplining the citizens into a mode of behavior convenient to the regime. In the attempt to discipline the people, officials spend around USD1.5 million for a 90-minute spectacle engaging 20 000 participants (Adams & Rustemova, 2009). They want everybody to realize their participation in celebrations of president's personality.

Under these circumstances, it is difficult to critique Karimov, because his proxy is framed in moral terms. By implication, Karimov, as a disciple of Amir Timur is visionary and fair. In contrast to Nazarbaev's cult of the savvy manager who is striving for a future where prosperity is an end in itself, Karimov's cult draws on past models of good governance emphasizing patronage and a worldly spirituality in which prosperity is not an end in itself, but rather a means to cultural achievement. Karimov's policies are compared to Amir Timur, and share the motto "Where the law reigns, there is freedom" (Islam Karimov, 1998, p. 169). Critique of Islam Karimov's policies effectively means standing against morality, freedom and social justice promoted by the regime.

Both personality cults of Visionary Modernizer or Independence Protector endow the rulers with the responsibility for everything. Karimov is not only responsible for economic shift from the extensive growth to intensive one, but is expected to provide cultural rebirth to population of Uzbekistan. Similarly, Nazarbayev is expected to create modernity in every corner of the country – to turn the entire Kazakhstan into Astana.

Framed with moral and aesthetic language, personality cults shift the politics away from contestation. Indeed, if one wants to critique immense spending for the construction projects in a country whose population lacks universal access to clean drinking water, the response is ‘it will get there, we need to start with something’ (Interviewee #49, 2011). Astana is no longer about the cost, especially the opportunity costs, but an aesthetic project immeasurable by money. It is a symbol. Karimov’s personality cult derived from Amir Timur works in a similar way. One cannot critique Karimov for allowing cronies to rule the country, because Karimov simply ‘does not know’ (Interviewee #52, 2011). Only if benevolent dictator knew he would certainly solve the problem. Both logics shift the responsibility for the reforms from bureaucrats upon the ruler. It is difficult to resist personality cults, because officials engaged in reproduction do it in public and themselves become public figures, while the rulers lack true information from the field. The rulers carry personal responsibility in information vacuum expected to do everything.

Depoliticization³

In order to cope with the political claims that expose officials in the illegal practices, bureaucrats adopt depoliticization technique. Depoliticization is a strategy that denies the essence of politics as an expression and management of various social interests. In other words, when social claims are mobilized due to specific problems and call for the change of government practices, officials do their best to frame them as irrelevant, void of reason. Depoliticization strategies differ in both regimes.

In Kazakhstan officials refuse to ‘see’ the problem and interpret ‘deviant’ problems in the market as ‘normal’ side effects of the grand industrial change.

³ Some of the ideas of this chapter appeared in various publications. Please see Adams & Rustemova, 2009; Rustemova, 2011).

Depoliticization becomes an intentional shift of the public attention from political matters to private issues (Linz, 2000, pp. 261-64). By promoting success of the chosen economic model, officials frame any problems with commodity or bureaucratic rents as a matter of personal individual bureaucratic irresponsibility. Therefore, any problem could be solved once addressed by the competent bureaucracy.

This tactic was confirmed by the interviewee # 7 who worked as a mid-level official at one of the developmental institutions. Her task was to frame big economic problems as ‘normal’ ones and if it was not possible, to minimize the size of problems reporting that government is taking certain measures to solve them.

My office was responsible for collection and analysis of information, both open and classified, and presented them in the good light (*в нужном свете*). If things were too bad, we’d describe them to say that the ‘following measures are undertaken for it to be solved’. My formal job description differed, of course! (Laughed) (Interviewee #7, 2011).

Officials who engage in depoliticization frame problems in highly professional and technocratic language of expertise, which precludes contestation and collective anti-government campaigns, because it shifts the rhetoric into abstract theoretical terms. Average people cannot tell what happens with the national currency if the National Bank increases an interest rate. Only when the banks offer loans with higher interest rates, then they notice. to successfully critique the government, people have to understand economic knowledge in order to propose alternatives and to pinpoint the mistakes of every official within the chain of bureaucratic command. For example, if oppositional political parties decide to accuse the existing regime in corruption, their claim is portrayed as exaggerated, because the government provides their own statistics and interpretation of the problem. For the bureaucrats, the political system is always fine except for some corrupt officials that conduct atrocious practices infringing on the rights of these

particular people. Bureaucrats take up particular and specific problems posed by the opposition and report successful resolution by punishing specific officials.

As a result, bureaucrats in Kazakhstan work in teams staffed by people who are trusted with such assignments. Their expertise is wasted on framing events in the friendly fashion. In return, professionals obtain benefits and corporate working environment. The same interviewee mentioned that

It is almost impossible to join the team via Human Resources or advertised job description, because you need to be trusted and people should be confident in your skills. A friend who invited me was personally responsible for me... It was a pleasure to work in a team, because of job security and teamwork. You know that you will not be fired and even if you lose your job, they will help you to find a new place. I also liked the informal environment between directors and young educated managers... The work remuneration was very fair. Directors usually decided on bonuses and they were not stingy. If you worked well, your work is be valued (Interviewee #7, 2011).

The fire-alarm oversight system cannot deal with depoliticization, because there are no instruments of tracking such bureaucratic practices. By dressing reports into technocratic language, bureaucrats prevent delay solution of the nascent problem until it is too late and the president intervenes.

The affair with the third largest bank in Kazakhstan, BTA, serves as a good example of depoliticization. During the construction boom in 2005-2008 BTA borrowed cheap, but short money abroad. It hoped to pay back the loans quickly from the growing real estate demand. However, the international financial crisis put the bank in a precarious position. Investors wanted their money back and the bank was short on liquidity. The government of Kazakhstan bought 75.1% of shares and become a temporary owner of the bank National Company Samruk-Kazyna (JSC National Welfare Fund "Samruk-Kazyna", 2011). Technocrats took over the bank and the former Chairman

of the national bank, Mr. Anvar Saidenov became its CEO. Negotiations were conducted and BTA's debt was restructured and investors were given back 10 cents for each dollar they had invested (Askarov, 2012).

In the meantime, the former owner of BTA, Mr. Mukhtar Ablyazov took most of the capital from BTA to Moscow and London and invested it in real estate projects (Askarov, 2012). BTA burdened with debt was again short on liquidity, although it continued to operate. International investors grew weary, but the bureaucrats told them that solvency is imminent, as soon as BTA properties in Russia and other countries were returned (Askarov, 2012). In the meantime, everyone on the Creditor's Committee resigned (Gizitdinov, 2012). In January 2012 BTA was again unable to service the debt. Bureaucrats reported that the bank was forming a second Creditor's Committee and they were optimistic based on forthcoming negotiations on debt restructuring (Askarov, 2012). As the new statistics appeared, technocrats realized that BTA was in dire shape and proposed the government to issue a law 'On Restoring Competitiveness of Domestic Enterprises'. According to the law, investors were prohibited from taking their shares back until the enterprise becomes solvent again (Grata Law Firm, 2012). Investors were given the right to participate in the process of nominating Competitiveness Manager, but they were forced to wait until the bank is solvent to collect. BTA serves as a good example of depoliticization, because it shows that bureaucrats failed to report statistics that reflected the true nature of the circumstances to the government, which precluded a timely or appropriate response. Mukhtar Ablyazov escaped persecution for mismanagement and transferred billions of Tenge to locations outside of Kazakhstani jurisdiction. Only when the bank failed to service its debts (read: when the fire alarm was

set off), then the government noticed and intervened by radically changing the rules of the game.

In Uzbekistan, the nature of depoliticization is different. Paternalistic rationale depicts the government as a representation of morality. Uzbekistan's bureaucracy perceives its role as an ultimate moral authority. Single interpretation of morality precludes open contestation and replaces politics with moral claims. The state's takeover of the moral realm precludes citizens' disagreement, contestation, or effective participation in the political setting, because those who challenge the state not only question the leader, but also question the whole morality of the governing authority.

Contrary to Kazakhstan, Uzbek bureaucrats attribute successful industrialization to the concerted efforts of all people. They promote an ideal of the nation united under same goals rather than being a divided entity. Officials portray their jobs as morally superior, because they 'help' people to 'adjust' to market conditions by interfering and regulating major aspects of social life. Progress of ALI is evaluated through the careful outline of the increasing individual well-being. Failure to do so in specific cases is attributed to the specific government officials who are deemed immoral individuals undermining overall social progress.

Depoliticization techniques based on presenting government as a highly moral institution precludes open expression of social grievances. Alternative stories, problems and interests are kept under the tight lid. Depoliticization strategies that treat whistleblowing as an immoral practice help officials to escape punishment. It creates an Orwellian space of 'no language, no thoughts', where the silencing of problems creates a space of political serenity and impression that politics is undisturbed by challenges.

The shelled space that secures officials from criticism fosters bureaucratic inefficiencies. Inefficiencies are weaved into public administration structure. Officials are not accountable to the people, but only to their superior. All of the government personnel are evaluated based on the personal recommendation letters of their superiors. The remnant of the Soviet practice is stripped from the 'political party affiliation' criterion, but other things remain. Superiors need to reflect on personal qualities of their employees, and evaluate their 'moral qualities', 'humanism' and 'lack of selfishness' (Interviewee #51, 2011). These criteria fit well with the presidential description of the ideal government official:

The qualities of the true state official (Russian: *rukovoditel'*) are seen in the attitude to people, satisfaction of their needs in kind and caring manner... He needs to be strict, demanding... and fair... being able to engage people behind common goals. The true state official have to know more than others and think of the potential problems of tomorrow. In order to nurture these qualities officials need to perfect themselves... and if needed, sacrifice their own life on the path of serving people (Karimov I. , 2002, pp. 233-236).

As a result, officials pretend to work hard over long hours to give impression that they are implementing the orders of their bosses without thinking of the quality of this implementation. One of the interviewee joked: 'if the President leaves office at 8pm, then Prime Minister leaves at 9pm and when it comes down to the lowest person in hierarchy they just live at work' (Interviewee #49, 2011). Inefficiencies preclude implementation of the reforms and government continues its 'business as usual'.

Karimov's autocrats react to inefficiencies by supplying the president with data that depicts government officials in the negative light. Karimov visits these places and fires them. But before that he publically outlines the potential of every city or a region and scolds bureaucrats for failing to do their job. For example, during his visit to Navoi

Region in 2002 he fired Mr. Dilov from Governor position, because his presidential administration discovered that during his office, Dilov paid farmers 10 times less money for cotton than they delivered to the state (Karimov I. , *Care for People and Thinking Ahead is an Obligation of Every State Official*, 2002, p. 364). He installed new (read personally loyal) heads of farmers in every region. Karimov states that in two years 95% of government officials changes in Khatyrchin region; 70% in Kyzyltepe region; and 62% in Navbahor region (Karimov I. , *Care for People and Thinking Ahead is an Obligation of Every State Official*, 2002, p. 372). The newly appointed Governor is charged with new tasks according to the guidelines outlined by the President.

This example shows that autocracies are keen on exercising 'police-patrol oversight' and they meticulously collect the data to make a valid case for the president. The president deals with depoliticization by frequently firing the governors (*hokims*). Good reports and statistics hide Potemkin implementation and help officials to get subsidies from the Center. Karimov attempts to fight patrimonialism by sacking the *hokims* (see Table 5).

However, this system of oversight does not change the quality of the bureaucracy. A New governor will install similar practices, because the worst that they expect is to be fired from their job. In addition, this system of governing is not sustainable. As recent examples of revolutions in the Middle East and North Africa show, years of suppression and denial of problems spark immense protests involving thousands of people who were tired of being neglected.

In both cases depoliticization denies the nature of political realm as a compromise of the decisions adopted in the collective interests to satisfy grievances. In order to fight

with depoliticization, the rulers have three options. First, they can change the political structure away from the authoritarian rule and transfer more responsibility to government institutions. However, there is no guarantee that the regimes will survive, because when the patrimonial structure is challenged, the rulers might lose their power. Second, both rulers can install moles throughout the government to collect information. This tactic is possible in Kazakhstan, a country with the abundant rents, but is difficult to implement because technocrats work in teams based on loyalty. It is impossible in Uzbekistan due to scarce revenues and where personal loyalty to supervisors serves as the main criteria in the hiring process. The third option of repression is the most convenient tool to deal with depoliticization. Growing repression and public chastise expose violations and make the ruler seem fair and just, but it does not address systematic pathologies that cause hiding of information.

Dissident Patrimonial Practices

In Kazakhstan, a country with the abundant mineral rent, things are looking good for patrimonial bureaucrat who administers extensive growth industries, because extensive growth industries seek to reward officials with bribes in exchange for state protection and economic subsidies. Since extensive growth is characterized by the internal economies of scale. The bribes for a patronage from these companies are large and reflect importance of their contribution to local and state budget (nearly 75% of total earnings according to Forbes-Kazakhstan, 2011). The fundamental challenge to bureaucracy in the AL regimes stems from the need to respect the autonomy of the market by fostering competition. In practice it means that bureaucrats have to voluntarily give up their monopoly decision-

making rights and incomes that accompany decisions to administer extensive growth industries. Officials end up with fewer rights to conduct quality controls, to audit firms, to issue permissions and certificates – activities that bring them incomes, because they are asked to scale back their involvement into economy. Patrimonial bureaucrats attempt to expand their influence in the intensive growth industries by acquiring resources that are diverted to these industries.

Patrimonial officials become economic vehicles of the intensive growth. Their affiliated companies have capital and ‘expertise’ in negotiating mutually beneficial contracts. Rather than keeping these firms weak, officials are interested in making them strong, but dependent on government subsidies and regulations. Intensive growth industries remain unsustainable when companies lose their patrons. As economic sectors of the intensive growth industries are dominated by network of affiliated firms technocrats fail to support competition even if they do everything in accordance with economic science. Participation of patrimonial bureaucrats in the industrialization process becomes possible because career promotion in most ministries depends on the amount of money officials are able to extract from their posts and share with the superiors (Interviewees #4, 9, 18, 19). Bureaucrats are forced to be skilled enough to scoop large bribes from the thriving intensive growth firms if they want to obtain higher position. Career promotion depends on buying the right to create businesses and then manage them by pillaging enterprises so they remain barely functional. The bribes obtained from racketeering businesses are shared with the rest of the people in hierarchy. The bribe that ‘buys’ a blind eye of bureaucratic boss is called ‘partial share of profits’ (*otkat*, which literally means *roll-over*). Allegedly, most of the seats in the government are bought and

sold. Even favorable decision of the Supreme Court has a price - USD 30-40 000 (Central Asian News Service, 2011; Interfax-Kazakhstan, 2011 citing a report by the Association of Social Scientists and Political Analysts in Kazakhstan) depending on the case. Interview sources confirmed that generally *otkat* ranges from 10-15% of the transaction revenue (Interviewee #7, 2011). Consistency of economic profits guarantees their job security, making *otkats* proportionally smaller than single bribes but regular.

Otkat aggravates patrimonialism forcing officials to spread the empire of the affiliated companies even further in order to remain in power (for more, please see Perlman and Gleason, 2005). The spread of bureaucratic empires into intensive growth industries presents the biggest political challenge to ALI that requires competition. A merger between patrimonial bureaucracy and technocrats is visible at the newly formed Ministry of Industry and New Technologies. Despite the visionary technocrat who heads the Ministry, his deputies are patrimonial bureaucrats. Albert Rau, the First Deputy Minister is embroiled in the corruptions scandal during his reign as a Chairman of the National Company *Sary-Arka* and as a regional Mayor of Akmola Region. The purpose of Sary-Arka Company was to create a food belt around the capital Astana in order to provide food self-sufficiency for the growing city. The idea reflected managerial Ethos: Sary-Arka had to create food belt with private partnerships, where national company loaned money for the equipment, fertilizers and storage facilities directly to the farmers. The farmers were supposed to pay it back from the future harvest. Instead, officials provided loans to the affiliated farmers who took the money and produced nothing. They faked storage facilities, faked purchases of the equipment and Sary-Arka officials signed off on these. In the following year Sary-Arka gave the same farmers money for the same

purposes and similar story happened (Astana TV, 2011). Today, Albert Rau is responsible for ALI. Technocracies evolve into racketeering bureaucrats. The perverted technocratic structure is a result of the system that rewards *otkat*, rather than management techniques. Search for *otkat* makes them susceptible to integration with patrimonial bureaucrats who siphon state money to the affiliated firms.

However, loose government control provides more opportunities for small and medium-size enterprises in industries with ‘smaller than the state’ profit-margin. Competition in SMEs remains because government officials do not have an appetite for the little fish. As a result, corruption index is much lower in Kazakhstan, which signifies less corruption. However, since calculations measure the perception, rather than the actual scale of corruption, the extent of graft remains unclear. Loose government regulations represented by the system of ‘fire-alarm oversight’, where government reacts to the really serious problems, allows officials to steal resources in large proportions until the problem is big enough for the ruler to step in and save it. In the meantime, the ruler hopes that at least something gets done. Alternatively, the ruler can repress both technocrats and patrimonial bureaucrats for the undisciplined behavior. The former attitude is not productive and risky, since it extends patrimony to the intensive growth sectors and undermines longevity of the ruler. The latter approach provides better political prospects. However, the rise of repression and the curtailing of bureaucratic empires provoked the spread patrimonial tentacles into the SME sectors (Toxanova, 2007). In managerial regimes competition is stalled by patrimonial networks of firms directly affiliated with the officials. They hold the majority of assets and prevent truly competitive firms from entering the market. In addition, officials siphon the money under

the pretext of ‘supporting intensive growth businesses’. The prospects of ALI in the SME sectors are in question without radical administrative reform.

In Uzbekistan despite the fact that paternalistic Ethos treats ALI as a matter of national security filled with the desire for justice and equality, Uzbekistan remains 177th most corrupt country in the world out of 183 (Transparency International, 2011). Its corruption perception index is located in the same neighborhood with Somalia and Afghanistan. Omnipresent corruption is possible precisely because of the authoritarian nature of the regime. Autocrats drafted from the pool of personally loyal bureaucrats are endowed with much power to discipline others. In theory this hiring principle ensures fast implementation of orders, and, most importantly, the rule of law. However, in practice, it turns into a system where abuse by the law-enforcement and inspective bodies flourish contributing to the widespread perception about corruption.

The rule of law is violated by the refusal of the government to give up parts of commodity rents and relax international trade requirements. The logical consequence of trade restrictions is the thriving black market that sustains the majority of bureaucratic rents. The primary extortion techniques used by the patrimonial bureaucrats revolve around bribes and ownership-sharing. The former tool is frequently applied to small-size enterprises and the latter tool is used for the medium-size businesses. Perpetual corruption undermines the rule of law and stifles intensive growth industries.

Due to the fact that export is restricted for the majority of private companies, intensive growth industries grow in the shadow economy. According to the interviewee who worked in the Ministry of Economic Affairs until 2008 shadow economy accounted for 35-40% of the official sector (Interviewee #50, 2011), which is roughly equivalent to

Schneider's calculations that estimate percent of shadow economy of the official GDP in 2007 to 39.9% (Schneider, 2009). Bureaucrats in Uzbekistan are not interested in spreading the empire of affiliated businesses in small-size enterprises, because they already control large most profitable enterprises. Instead, small-size businesses suffer from the customs administration, tax police and various health and fire-safety inspectors who benefit from informality.

Customs administration reserves the right to expropriate cargo if importers do not comply fully with their requirements. In practice it means that only personally affiliated firms or those who pay the bribes can do business in Uzbekistan. Otherwise, the cargo is sold on the spot at nominal prices (Interviewee #49, whose relatives smuggle flour from Kazakhstan). The proceeds are not recorded and go directly into the pockets of custom officers. The scenario is applicable to private citizens, when crossing the borders. Excessive customs declaration requires a relationship with local 'helpers' who for a fee complete the declaration 'correctly'. For example, the service, where local specific knowledge is necessary, includes 'never say that your items are new or say how much they truly cost, they will take a 25% tax fee. The author had personal experience with this service in 2009 during a preliminary research trip to Tashkent. Officials have strict regulations about gold and books. Each person should have less than five gold items with cumulative weight of less than 30 grams. Books published outside of Uzbekistan are required to pass through the expertise. All of these requirements force people to give bribes rather than fight for changing institutions.

Fifty six percent of firms admitted that bribes are necessary to do business in Uzbekistan (Surveys, Uzbekistan: Country Profile 2009, p. 4). Extortionist authorities

that are entitled to provide order and the rule of law kill businesses. SMEs remain small to avoid predatory state practices keeping the size of the firms low in order to survive (Richard Auty and Indra De Soysa, 2006, p. 141). Only 1% of firms have international certificate (Surveys, Uzbekistan: Country Profile 2009, 2009, p. 4) compared to 11% in Kazakhstan (Surveys, Kazakshtan: Country Profile 2009, 2009, p. 12). Most of them are oriented at the domestic market, which is reflected in numbers: only 2% of firms export abroad (Surveys, Uzbekistan: Country Profile 2009, 2009, p. 3). Domestic orientation also prevents firms from acquiring technological innovations and communications. Only 7% of firms maintain a website (Surveys, Uzbekistan: Country Profile 2009, p. 4). Interviews pointed out that legal enterprise in the open market is unprofitable in Uzbekistan due to the high taxes and high transaction costs. Those who take risks are operating in the gray/black market and deal with the illegal transfer of good through the borders supplying the market with the fast moving consumer goods, like flour, coal, oil and gasoline. The smuggled goods benefit everyone: consumers, 'traders' and government officials. Only bribes make this business possible.

Small firms provide economic diversification, but not industrialization. Entrepreneurs are engaged in shuttle-trade or produce basic consumer goods, which do not coincide with the vision of production of high value-added internationally competitive products. The majority of population, divested of the ability for private enterprise, prefers to work for the state-owned enterprises that provide small income, but stability and job security rather than take a risk operating in a semi-legal framework with high taxes and uncertainty over revenues. Bureaucratic structure that suppose to ease individual ability to participate in the market by providing population with necessary

tools, skills and knowledge turns into a penalizing machine that creates disorder and lack of ALI.

Medium businesses suffer from a different problem – ownership-sharing with the officials. In Uzbekistan financing is provided by the state (Surveys, Uzbekistan: Country Profile 2009, 2009), because of the underdeveloped financial markets in the country. Less than 15% of firms in the country have access to loans from the banks (Surveys, Uzbekistan: Country Profile 2009, 2009). Ninety two percent of the domestic firms are funded by the domestic sources (Surveys, Uzbekistan: Country Profile 2009, 2009, p. 3). Uzbek government is the full or majority shareholder in half of all SMEs which account for most employment in the sector (Surveys, Uzbekistan: Country Profile 2009, 2009). Absence of funds and credit agencies outside of government institutions further exacerbates the development of alternative capital-intensive industries, like financial, technological services forcing firms to remain small on average employing 24 people with 50% of the firms having 10 or fewer employees (Surveys, Uzbekistan: Country Profile 2009, 2009, p. 2). Successful firms are those that are under the ‘roof’, the protectorate of a big and important government official (Interveiwee #52, 2011).

Zeromax scandal is the most prominent scandal that exhibits ownership-sharing practice. Muradil (Miridal) Jlalalov, acting president of the Swiss-registered conglomerate, started with small export-import operations and logistics of transporting oil from Kazakhstan to UzbekNefteGas (Purnell, 2005). After allegedly acquiring patronage of Gulnara Karimova, president’s daughter, the company turned into a major domestic player. It hired ‘Fifth Millennium Networks’ logistics firm that provided services on Northern Distribution Network to the US government (Kuchera, 2010). It also

acquired 16% of stocks in Oxus Gold after making a controversial investment in British-owned Newmont's Amantaytau Goldfields project (Rasulov, 2011; Open Society Institute, 2011). Zeromax held shares from seven oil and gas companies and sports (Open Society Institute, 2011). Owned by Karimova, the company was able to obtain the best assets.

Wikileaks described Gulnara Karimova as 'the queen of thieves' (Orozobekova, 2010). Her domain of ownership included numerous restaurants and clubs in Tashkent (Purnell, 2004). Local interviewees confirmed that (Interviewee 22, 26). Karimova's insatiable appetite for assets left no incentives for the intensive growth firms to grow. Businesses were almost automatically expropriated once they reached a certain size. The Zeromax Company did not survive. The company was disbanded and its acting president was questioned in 2010 after its assets were seized by the state and the main employees arrested on tax evasion charges. the reason behind this disfavor has not been revealed. The scandal illustrates how economic opportunities are open to individuals and firms affiliated with the elites in comparison with private competitive businesses.

There are two options left for the ruler to deal with this problem. First, the ruler can conduct administrative reform and change bureaucratic system into a merit-based governing authority staffed by professional individuals. Or he can conduct even more repressive oversight and instill fear for patrimonial practices. The latter option is risky, because it challenges his patrimony. Scarce rents spent on additional repression may break the budget and undermine his ability to provide social welfare. The latter option is more convenient. Karimov's regime uses repression against dissident patrimonial practices. For example, in November 2011 Karimov dismissed and arrested Rovshan

Mukhiddinov a former adviser to the president responsible for coordination of the security agencies; Tursunkhon Khudoibergenov the emergency minister; Muhiddin Kiyomov, Uzbekistan's deputy chief prosecutor (Fitzpatrick, 2011). Deputy Prime Minister Botir Hojaev and Regional Mayor of Ferghana were also dismissed (Fitzpatrick, 2011). Government shake-up at the local and regional levels allows Karimov to keep close check on the officials making sure that they do not grow extensive local clientele. Repression is the main instrument of dealing with patrimony.

Evaluating the Results

In order to evaluate the success of governing rationales, it is necessary to go back to basics. The success of ALI is measured by comparison between discursive and disciplinary practices. If the regime does what it says, then we can say that the degree of differentiation between two realms is small and ALI is relatively successful. Since industrialization promises disciplined bureaucracy and increase of export of domestically-produced internationally-competitive goods then the criteria for evaluation are derived from the premises. We should not expect to find:

- a) Growth of commodity exports or expansion of the extensive growth industries
- b) Growing repression and flourishing personality cults
- c) Open confrontation and civic disobedience against the AL regimes.

If industrialization is successful, export of primary commodities should be substituted by the domestic goods produced by international competitive enterprises. On economic side, in case of Kazakhstan, growth of exports in the specific industries chosen through the theory of competitive advantage should rise. Seven industrial clusters should appear in

food processing, metallurgy, construction materials, furniture, oil and gas equipment, textiles, transport and logistics, and investment and banking (Nazarov, 2005). The growth of seven industrial clusters should not coincide with the growth of the extensive industries. Economic indicators of the successful industrialization on Uzbekistan must follow similar pattern. Cotton exports should decrease and allow room for export of the intensive growth industries. Specific attention should be paid to the export of automobile sector and the rise of home appliances exports. The rise of exports should not coincide with the development of new extensive growth industries for industrialization to be real.

In the political realm, bureaucratic compliance is measured by the degree of social tension. When the regime increases repression of patrimonial bureaucrats, whether or not dissidence disappears is difficult to discern. The Presence of well-attended social protests against the regime signifies that bureaucratic disciplining has failed. Protests appear to be more violent in Uzbekistan, since the system punishes political expressions. Analysis of social protest is an effective criterion for measuring the degree between what is promised by rulers and which of these promises are accomplished for the people.

At first sight economic picture of Kazakhstan signifies positive developments. Kazakhstani exports have been steadily growing in total volume from KZT20 billion in 2004 to KZT71 billion in 2008 (KazNex, 2010). But total growth compared to global oil prices shows that in 2008 the world recorded the highest energy prices, when a barrel of oil was sold for over USD150. A careful breakdown of industries is required. Separate data of primary commodity exports and intensive growth industries shows that Kazakhstan remains heavily dependent on mineral resources. The purple bars show in 2008 export of primary commodities exceeded export of manufacturing goods by 150%.

The dynamics is staggering because just four years before that the difference between two groups of exports was 100% (see Chart 8 and 9).

The growth of oil exports could be potentially compensated by the growing output in cluster industries. The data shows that food processing has been the fastest growing industry in the sector manifesting successful introduction of clusters in practice. Its output grew six times in four years (KazNex, 2010). Textile industry performed the worst and actually declined from KZT40 billion to KZT 25billion (KazNex, 2010). The decline was not associated with low international demand or prices. On the contrary, the international prices rose from 67.7 to 137 points (data is converted into logarithmic equation for comparability)⁴. Economic data provides incentives for the textile industry to develop. Lack of development signifies political intervention. Possibly, textile industry was never meant to be developed in minds of patrimonial bureaucrats.

Another pillar of Kazakhstani industrialization strategy was investment and banking. The Almaty Financial Center was designed to attract major banks. Almaty was destined to be a financial hub for regional operations in the Eurasia. The project failed after 2008 when financial crisis created liquidity problem and toppled the construction industries and the banking sector. After the crisis, BTA Bank had 76% of state ownership, Alliance Bank had 78%, and Kazkommertsbank shared 21.2% of shares with Samruk-Kazyna, Halyk Bank already belonged to the presidential family and the second daughter Dinara and her husband Timur Kulibaev hold 41.8% of issued bonds (Forbes: Kazakhstan, 2011). In the meantime, construction industries collapsed leaving people without housing with large loans that they borrowed from second tier banks as

⁴ Due to price variation of textile products, we cannot measure them separately. Instead, we can calculate common trend of variation for all goods by conducting multivariate regression with logarithmic functions.

condominium owners. Potentially, these banks may revive their activities, but they are unlikely to become the engines of financial clusters since the majority of their assets belong to patrimonial bureaucrats with no incentives to become competitive while patronage remains.

Out of the original seven clusters, four remaining clusters need to be analyzed: metallurgy, furniture, oil and gas equipment, transport and logistics. Metallurgical and oil and gas equipment clusters are potentially promising. Today they comprise more than 20% share of exports (Kokkozova, 2011). Both industries are based on clustering and are supported by the international investors who could decrease expenses by buying local equipment. Kazakhstan offers businesses a raw material base, infrastructure and a special economic zone in the Atyrau region (Invest in Kazakhstan, 2011). Mining sector receives similar benefits/incentives and has already attracted investors, such as Arcelor Mittal from the Eurasian Group that already owns extensive growth industries in the country (Invest in Kazakhstan, 2011). Participation of the extensive growth industries in liberal industrialization makes Kazakhstani economy vulnerable to the complete control by large enterprises over domestic economic production. altering the influence of patrimonial capitalism is more difficult after the economic link between extensive and intensive growth industries is established.

Two other industries, furniture and transport and logistics have been taken away from the priority goals. Government took responsibility for infrastructure outside of the private realm. It builds roads, pipelines and communication hubs using public resources. This economic review shows that the industrialization process in Kazakhstan besides food processing sector is likely to depend on funding from the extensive growth firms.

Extensive growth firms determine the type of enterprises they want to find. Most frequently, these enterprises create intermediate goods, rather than finished products.⁵ Extraction industries remain the main driving forces behind economic growth. This industry accounts for KZT2.6 trillion, which is a fortune compared to textiles that produced goods worth KZT10 billion (Informatsionno-Analiticheskii Vestnik, 2012). If the merger between extensive growth firms and innovative intensive growth enterprises happens, then the political merger between technocrats and economic tycoons will be complete. Kazakhstan will remain a raw material supplier producing steel instead of the iron ore.

Industrialization processes in Uzbekistan show positive dynamics. Import-substitution created automobile sector, retained and expanded airplane and machine construction, textiles, food processing, metallurgy, natural gas and oil processing. Uzbekistan managed to diversify its economy. Services and consumer goods productions are the drivers in the domestic economy (see Chart 10).

ALI requires that domestic products are competitive abroad. Therefore, it is important to look at the structure of export (see Chart 11). Careful analysis of the data shows that Uzbekistan's industrialization strategy was beneficial for the machinery and equipment industries. Their export share grew from benign in 2002 to USD 650million in 2006. Export of the machinery thrives due to protectionist policies and tax free regimes that attracted foreign investors, such as Daewoo and General Motors. Two companies opened subsidiary plants and began to produce cars for the domestic markets. Today Uzbekistan is GM's tenth largest market. Although the products are cheap ranging from

⁵ For example, reports on Industrialization Program for 2011-2014 show that metallurgy output increased to KZT457.5 billion, whereas a truly intensive growth firms in pharmaceuticals managed to produce good worth KZT6 billion (Informatsionno-Analiticheskii Vestnik, 2012).

USD6 400 to USD24 000 (Uznews.net, 2011), Uzbek cars fail international competition and are exported only to Ukraine, Kazakhstan, Belarus, Azerbaijan, Russia, and Turkmenistan (Uznews.net, 2011). Recently, Ukraine blocked Uzbek exports, which prompted observers to predict the crisis of the Uzbek automobile industry (Uznews.net, 2011). Nonetheless, it is still a positive start.

Worrying indicators are evident from the analysis of the extensive growth industries. First, although Uzbekistan continues to produce cotton, energy and mineral exports have tripled in just five years. These actions show that Uzbekistan is diversifying the sources of rents moving from agricultural to mineral rent. In Uzbekistan the regime allowed investors (mainly from Malaysia and South Korea) to have access to natural resources in exchange for mineral rent. This trend will continue. The list of investment opportunities includes oil and gas industries, textile industry, food industry, construction materials and metallurgy (UNDP: Uzbekistan, 2009). These priorities will further entrench Uzbekistan in the extensive growth industries and undermine the goal of ALI. In the long-run this transition makes Uzbekistan vulnerable to the pathologies of the AL regimes, as demonstrated by Kazakhstan. On the other hand, extra income may be spent on highly innovative industrial projects. But this requires strong discipline and frugality on part of bureaucrats.

Another worrying trend is the growing share of cotton fiber in the structure of export. Export of cotton increased by 30% (see the Graph on the Structure of Export) . Agricultural rent expanded from non-industrial economic diversification, when Uzbek government began to export foodstuffs. Cotton exports increased together with other extensive growth industries, such as export of fruits and vegetables.

The dynamics show that unless Uzbekistan changes its economic strategy and depends on agricultural rent, the market will not develop. Economic analysis of basic indicators shows that industrialization strategies are ineffective in shifting exports away from primary commodities. Similar problem persists in Kazakhstan where extensive growth firms invest heavily into intensive growth industries. The economic merger is difficult to break once established and a more repressive regime might be necessary in order to industrialize. Analysis of economic trends predicts more repression in both regimes which sabotages the industrialization process. The future depends on the political activities of people engaged in open confrontation with the government asking for change of patrimonial practices. If they succeed, the regime will be required to change incentives in the bureaucratic structure. If people fail, then the two regimes will continue to deprive domestic markets from competition and the rule of law.

Open Protest

Another political indicator of failing ALI is the growing expression of open protests. Each governing rationale proposed by the rulers promises people an achievement of Telos. In case of Uzbekistan it is ALI based on ideals of social justice. In case of Kazakhstan it is ALI based on ideas of entrepreneurship and wealth. Protests, as collective actions express deep public frustrations that the promises have not been implemented. Protest participants challenge the permanence and security of rulers' positions by declaring that rulers no longer have a *cart blanche* regarding the use of power and government authority.

In particular, in the AL regimes protests go against bureaucratic rent-seeking. In Uzbekistan protesters are united by common suffering from the unjust decisions of

bureaucrats who transfer public properties into private hands in the unjust, patrimonial fashion. The groups protest against high degree of differentiation between the words of politicians and their practice. They show that the high moral order of paternalistic regime does not exist in practice and undermined by bureaucrats who pillage businesses and interpret rules to their personal advantage. Ordinary people see that the promises of the regime to control implementation of ALI were disguising ways for the immense enrichment of the private few. Instead of moving towards more competitive production, people see no such opportunities, because less economic spheres remain profitable and secure. Studies of protests participants' claims show that the entire political system needs to change and every bureaucrat has to go.

In Kazakhstan, open protests challenge Nazarbayev's promise of creating wealth through entrepreneurship and competitive market. Bureaucratic rent undermines competition, because officials impose high rents and control more industrial sectors. In this system, the law-enforcement bodies that supposed to install rule of law and enforce contracts become the worst corrupt bodies. Lack of the rule of law undermines profit maximization strategies, because officials distribute resources not to the profitable firms, but among the affiliates and at the expense of the truly competitive enterprises. Therefore, the law-enforcement bodies become the key target of open protests in Kazakhstan, because they do not act in the proper, expected fashion. Protests are usually violent, because authoritarian nature of the regime precludes existence of genuine political parties that could channel grievances peacefully. Therefore, public protest is not institutionalized and is organized by the informal organizations and groups.

Informal groups that mobilize population and conduct the most violent activities are radical Islamist sects. They provide open resistance against the authorities because religion teaches them to stand for the truth and justice despite repression and fear. Rather than striving for ALI, radical Islamist groups call for the divine political authority of the Islamic Khalifat. In order to deal with them, the rulers must alter the nature of AL regimes and become repressive, rather than benevolently authoritarian or allow protests to gain legitimacy, thereby altering the nature of the political system towards neopluralism, a political system where privileged interest groups dominate the policy-making process (Cerny, 2010).

In Uzbekistan, two radical groups openly challenged Karimov's rule, Islamic Movement of Uzbekistan (IMU) and Hizb-ut-Tahrir. Both believe that the principles of faith and religion are relevant to statecraft (Haqqani, 2004, p. 33). They advocate creation of the Islamic caliphate, governing where political authority belongs to the spiritual head of Islam in Uzbekistan. They claim that contemporary Uzbekistan is dominated by the unjust and corrupt leadership of Islam Karimov argues that only Caliphate brings Muslims from *jahiliya* (ignorance) and *takfir* (condemnation of unbelief of fellow Muslims) to the righteous and moral society (Haqqani, 2004, p. 33). Hizb-ut-Tahrir openly states its objectives as: "to continue its *dawa* (proselytizing) without interference, to overthrow governments, establish the Caliphate, and apply Islam (Siddiqui, 2004, p. 8)." Uzbek opposition is not interested in a market-oriented type of governing, establishment of a truly democratic 'western' society, but presents an alternative foundation for morality, truth and order – a prerogative that now belongs to the state.

Therefore, counter-hegemonic discourse criticizes governmental policies in order to replace it with what they deem fairer, just and morally appropriate.

Karimov's most brutal methods of dealing with Islamic opposition were widely documented (Sharipov, 2004; Human Rights Watch, 2005; International Crisis Group, 2005).⁶ People have been missing, arrested, burnt and boiled alive, because political opposition is a security risk for him.⁷ The recent data claims that around 7 000-10 000 people are arrested on religious charges (Murray, 2010). Under such circumstances, Hizb-ut-Tahrir serves as a vehicle for dissatisfaction with the existing order among unemployed youth (Khalid, 2007, p. 163). According to statistics, 82% of those arrested in 2000 for distributing leaflets were people younger than 36 years old and mostly unemployed (Khalid, 2007, p. 162). The battle over morality, truth and order presents a zero-sum game situation: whichever side wins the legitimacy will have an unrestrained public support.

Open protest in Kazakhstan is growing (Niyazbekov, 2012). Violence against bureaucrats and law-enforcement bodies is also conducted by the militant Islamist groups, which conducted their first terrorist act in May 2011 in Aktobe against Committee of National Security (CNB, remnant of KGB). CNB offices suffered from the explosions in two more times since summer 2011. Growing militant resistance is the main sign for the failed economic reforms. People, disenchanted with the promise see large degrees of differentiation between what is said and done. The fact that most of

⁶ For more information, please see Hooman Peimani, "Failed Transition, Bleak Future? War and Instability in Central Asia and the Caucasus", London: Praeger, 2002; David Lewis, "The Temptations of Tyranny in Central Asia," New York: Columbia University Press, 2008; Adeeb Khalid, "Islam After Communism: Religion and Politics in Central Asia," Los Angeles: University of California Press, 2007.

⁷ In 1999 Uzbek Official Security Services allegedly killed the Chairman of Birlik's Namangan City branch and an activist Birlik's Andijan region. Chairman of Birlik's Kashkardarya Region was killed at the Tashkent Police department jail in July 2001. For more please see (Khalid, 2007), chapter 6.

violent resistance happens in oil-rich Western provinces signifies dissatisfaction with the living conditions of the majority of people.

Besides militants, there is a growing worker's movement. In 2011 Kazakhstan experienced the longest strike in its history, cumulating when 2000 oil workers were brutally suppressed on December 16, 2011. The workers demanded equal treatment and salary increases on par with the foreign counterparts that do similar work and get higher pay (Leonard, 2011). Their efforts were supported by the coal miners and other oil workers in the neighboring regions (BBC News Asia, 2011). Rather than the government addressing the problem, the Kazakhstani regime treated it as a labor dispute to be resolved by the workers and their employer. They refused to become involved, hoping that the strike would dissipate. However, 16 people were killed by the local police and the event makes the growing social tensions behind the regime unmistakable.

The discussion on open protests also supports pessimistic conclusion for the success of ALI, because rather than embracing protests as signals for problematic implementation of governing rationales, AL leaders see them as challenges to their authority. Hence, societies in AL regimes are in a predicament, when more protests bring more repressions. Specifically, regime with paternalistic rationale has low tolerance of any opposition, especially the one that questions the validity of goals and strategies taken by the ruler. By raising these issues, opposition brings up alternative, even more morally righteous, goals and strategies with the potential to mobilize population. In countries with managerial rationale the possibility of mass open protests is lower, because political opposition is disqualified by the regime's claim to build democracy. Nonetheless, existence of an open protest serves as a good indicator of the failed practice of governing

rationales in the AL states. Their economic indicators show the rise of the extensive growth industries, which locks their specialization of the primary commodity producers. Their dependency on rent aggravates further entrenchment of the patrimony. As a result, patrimonial capitalism remains.

This chapter illustrated how bureaucrats resist oversight mechanisms and showed how resistance strategies of the officials impede competition and the rule of law. Three primary modes of dissidence discussed in this chapter explain the failure of governing rationales in both regimes. First, disciplining fails because officials in both countries continue to employ patrimonialism and remain highly corrupt. Bureaucrats undermine ALI by engaging in patron-client relationships. In addition, hierarchical bureaucratic structure, characterized by police-patrol oversight, turns into systematic abuse of businesses by law-enforcement and inspective bodies. Two policies promise the solution to the problem. Paternalistic AL regime can conduct administrative reform and radically alter the principles of subordination away from authoritarian subordination or conduct more repressions and more oversight over bureaucratic activities.

Officials in Kazakhstan undermine ALI that promotes freedom and competition by affiliating themselves with the extensive growth industries that supply capital to the affiliated intensive growth firms that get state subsidies. Genuine intensive growth industries suffer from lack of fair competition, because affiliated firms almost always win in the political venue. In addition, the loose structure characterized by fire-alarm oversight allows officials to steal huge quantities of resources, only stopping when problems are huge and cannot be hidden and only the ruler's radical interference can save it. The ruler can allow the system to exist hoping that patrimonial bureaucrats will be

interested in supporting intensive growth firms if they own them or repress bureaucrats for the undisciplined behavior.

Effective repression requires local knowledge to trace the success of industrialization reforms. Officials in both regimes effectively hide information by depoliticizing problems. Depoliticization undermines the ability of the regime to ‘see’ and address ‘deviant’ problems. Officials in Kazakhstan deny the significance of the problems brought out in public and blame specific people for graft if a social political claim gains traction. Officials in Uzbekistan suppress negative information by framing it as an immoral challenge to the authority of the ruler, who is keeping tight control over the public. In order to counter this tactic the ruler needs to change the political structure, which is highly unlikely or have trusted moles in government institutions to discipline officials for lies. Third, the ruler can employ repression and punish officials for failure and irresponsibility.

Officials in both regimes live in constant fear of surveillance and repression. So they engage in developing rulers’ personality cults. By increasing the authority of the ruler, bureaucrats exaggerate the responsibilities of the ruler and shed responsibility for the reforms. The ‘Big’ ruler is depicted as omnipresent and god-like, single-handedly carrying personal responsibility for ALI. Bureaucrats portray Nazarbayev as a Visionary Modernizer, who is the leader of the nation, and a genius of science. The proxy that serves as a symbol of his mastery is Astana – a capital of Kazakhstan since 1997. In Uzbekistan bureaucrats portray Karimov as Independence Protector who ensures break-away from the Soviet practices. The proxy for Karimov’s mastery is replicated in the symbol of Amir Timur, a 14th century ruler whose empire stretched from India and

Russia to Persia and Western China. In the meantime the regime still relies on cotton production and cost-optimization. The personality cults shift the burden of industrialization upon the rulers' shoulders by depicting both rulers as agents of history whose prowess makes the difference. It is difficult to curb such resistance. Two options include a) to sideline and disempower the most open contributors to the cult; b) to introduce and popularize stronger accountability of the specific individuals. Uzbekistan took the latter option and Kazakhstan adopted the former. In both instances the ruler remains the key agent of change whose power is undermined by bureaucratic apparatus. Urgent development of intensive growth firms is necessary to escape the trap of personality cult. Regardless of the scenario, AL regimes are unstable. In the pursuit of ALI, they need to change political system into more neopluralist or more repressive authoritarian in order to curb bureaucratic resistance.

CONCLUSION

Authoritarian Liberal regimes emerged after the end of the Cold War as distinct forms of political regimes that are characterized by the desire to create advanced liberal industrialization (ALI). ALI entailed a radical shift in the economic production process, away from export of commodities and towards a market economy where domestic firms produce internationally-competitive finished goods. Three conditions are necessary for the shift. First, it is important to ensure macroeconomic stability and policies that diversify exports away from non-commodity sales. Economists identify such policies as a shift from the intensive-margin of export growth towards the extensive-margin of export growth. In other words, the shift moves away from the export of commodities to small

numbers of partners and moves towards the export of a variety of goods to many partners. Second, it is important to install two necessary components of market economy, competition and the rule of law, at a microeconomic level. Economists identify these sets of policies as a shift of production away from the extensive to intensive growth firms. Third, bureaucracy needs disciplinary oversight in ensuring the implementation of micro- and macroeconomic reforms.

This dissertation poses two basic questions. First, why AL regimes evolve (chapters 3 and 4) and whether their attempt to conduct advanced liberal industrialization can be successful (chapters 6 and 7). The review of the literature review revealed that alternative attempts to answer the questions are inadequate because they provide only a partial understanding of why ALI has been successful in some states and failed in others. In this debate, the literature is divided along political and economic explanations and along the micro and macroeconomic lines. Macro-level explanations that share the premises of the Washington Consensus are pessimistic about the success of the authoritarian regimes in creating ALI. These explanations concentrate on the rent-seeking practices within authoritarian regimes (Auty, 2006; Acemoglu & Robinson, 2008). They show that governments are rent-seekers who poach businesses by acting in a patrimonial fashion (Robinson, 2009). During the preparatory research for this paper, the author realized that bureaucrats are rent-seeking and must be involved in the analysis that determines the success of ALI. This perspective has not been previously been examined or reported in the literature. Another macro-level explanation that was useful in constructing an analytical framework elicited the argument state's involvement into economy is necessary in countries where markets are missing. Inspired by China's

success,, the Beijing Consensus literature shows that the AL regimes need to supplement a weak market mechanisms by providing firms with capital, labor and other inputs (Gerschenkron, 1962; Ramo, 2004). The Consensus showed that state involvement is not always negative. ALI needs the compensatory involvement the of state into economy as is effective when monitoring and intervention are done appropriately. The key question that the macro-level explanations left unanswered is how to regulate in a way that enables markets to develop and curb patrimonial practices simultaneously.

In order to gain a nuanced understanding of state involvement, review of the micro-level explanations of ALI was necessary. However, the literature exhibited lack of consensus over what are the elements of effective government practices. The VoC literature shows that governments need to encourage installation of market conditions that make strategic industrial sectors profitable. ALI depends on the ‘competitive institutional advantage’ that helps states to evaluate incentives and choose which type of businesses to support (Hall & Soskice, 2001). Any industrial sector can be developed if profitability conditions are in place. However, the Bureaucratic Choice literature pinpointed that instead of setting profitability, governments are engaged in protectionism, because it benefits domestic producers in the short run, but shields them from competition (Bhagwati, 1982). When the subsidies are lifted, companies become bankrupt.

This research provides a doorway to escape this confusion. The patrimonial literature claim that in commodity-based regimes the bureaucracy is not interested in ALI because bureaucrats thrive on commodity rents and bureaucratic rents is accepted. The mechanisms of rent-extraction are relatively well-covered in the literature (Auty, 2007;

Bates, 1983). Rent-extraction is created from manipulations with public property, where bureaucrats decide who gets what in exchange for personal rewards. Commodity rents facilitate the creation of patrimonial capitalism, a system where officials become dominant economic actors and change rules and political procedures as they see fit. In this economy, there is private property. Businesspeople produce goods for profit. Economic and political actors are restricted to roles that are separated by formal law. But all of this is a myth, in actual practice.

In practice, decisions are made according to the informal processes where political figures are not accountable to the people and only report to the superior officers within the bureaucratic hierarchy. The majority of the average populace does not participate in the decision-making process, but benefit from the steady employment, low taxes, and regular salaries paid by the extensive growth industries that export primary commodities abroad. Bureaucrats thrive on bureaucratic rent. Bribes and corruption help officials to acquire capital and broaden the network of 'clients,' i.e. affiliated firms that operate under specific officials' patronage. Besides bureaucrats, everyone benefits from this economic and political system: the ruler is gifted the most revenue from the extensive growth industries and becomes rich; and people are provided with the ability to satisfy their basic needs. As a result, bureaucracies in the AL regimes that export commodities are perpetually interested in extending commodity exports and production. However, the confusion remains, because it is not clear why AL regimes develop and if a different economic system is possible.

This dissertation makes two contributions to academic literature. First, it shows that AL regimes occur due to the split between the rulers and bureaucracy. The rulers are

interested in ALI in order to escape the vulnerabilities of the extensive growth enterprises, i.e. firms that grow through increasing inputs, not productivity and efficiency. In order to discuss this premise, this dissertation shows that extensive growth suffers from three crucial pathologies: Dutch Disease, price and demand fluctuations and internal economies of scale. Constant expansion of the volume of production that characterizes extensive growth industries leads to the Dutch Disease, which is an economic pathology of the extensive growth firms that leads to deindustrialization. Large profit margins attract the best labor, the cheapest capital, and the most lucrative pieces of land, because everyone wants to take advantage of the primary commodity bonanza. Non-commodity industries suffer because they traditionally pay less than in extensive growth industry and therefore cannot attract the best labor. As a result, the country loses non-commodity businesses. Its economy becomes lopsided. In addition, primary commodities are highly susceptible to price and demand fluctuations, which undermine the ability of the ruler to procure stability of his patrimony and the provision of basic needs. Lastly, authoritarian regimes that export commodities depend on large extensive growth firms dominating entire industries that pay high taxes and employ the majority of people. Internal economies of scale appear in such states, because only large diversified firms can survive in the volatile markets. These firms can temporarily compensate for the loss of profit in a percentage of its business sectors while sustaining overall stability. Frequently, the state provides 'bail out' funds during the bust cycle, because these firms are so big that if they fail, the economy of the entire country is adversely affected.. Three fundamental challenges threaten the position of the ruler, resulting from the unpredictable stream of rents and the decreasing returns from commodity exports. The rulers see that primary

commodity exports bring economic instabilities and create lopsided economies with commodity sectors developing to the detriment of manufacturing industries and intensive-growth firms. Pathologies of the extensive growth, such as the Dutch Disease, internal economies of scale, and international price and demand fluctuations, present a serious threat to the rulers. If they want to stay in power, the structure of the economy needs to change. The ruler's political interests are not longer consistent with the economic interests of the bureaucracy. Bureaucrats are not ready to lose their patrimonial empires because the ruler wants them to respect market autonomy and transition to ALI. After all, what is the advantage of this shift for the bureaucrat? Bureaucrats resist by manipulating local information, keeping the ruler unaware of the true nature of things. Managing this split is at the heart of the successfulness of the transition to AL regimes.

This distinction helped the author to challenge two conventional myths about authoritarian regimes that aspire to build competitive market economy via politically authoritarian means. First, ALI does not have to be accompanied by political liberalism or democracy. Economic liberalism is possible under an authoritarian regime, if the ruler disciplines bureaucracy to comply with orders regarding the ALI. AL regimes show, at least hypothetically, that if a strong ruler successfully controls bureaucrats by sharing resources and has funds to subsidize competitiveness and productivity of the intensive growth industries, ALI could take place.

Another myth that this project challenges is that even the most ardent dictators can become fervent supporters of market regulation. The rulers, driven by the political split over economic resources, selfishly choose the idea that guarantees their stay in power. They turn authoritarian regimes into AL regimes. These regimes synthesize

economic liberalism and political authoritarianism, where liberalism signifies the desired principles of bureaucratic activities in the economy, which authoritarian rulers enforce.

The new analytical framework presented here, that theorizes implementation of ALI within the bureaucratic resistance, represents the second academic contribution to understanding the political economy of the authoritarian regimes. Developed in chapter three, it starts with outlining what events trigger the desire to transition to ALI, and then presents the reasoning that clarifies the necessity of an integrated analysis of the implementation of ALI. The term governing rationale is reinterpreted and introduced into the literature as an analytical tool for explaining the process of implementation of ALI. Governing rationale embodies the type of thinking that the rulers want patrimonial bureaucrats to adopt to guide their policies while governing the market. Rulers force bureaucrats to justify most of their actions as friendly to market economy. In designing a theory of bureaucratic disciplining, this dissertation heuristically applied Michel Foucault's notions of 'governmentality' and 'dissidence,' which are considered incredible tools for uncovering how ALI is implemented in practice. For Foucault, governmentality signified a change in the mentality of governing in 17th and 18th century Europe, when concerns over the best ways of governing the market began to appear. As a result, state-society relations changed from sovereign rule over subordinate subjects to government rule over free entrepreneurial individuals (Foucault, 2007). Foucault's political transformation reflects a similar problematique of the AL regimes. The history of governmentality in Europe varied. Foucault pointed to the inherent tension between the two components of market economy, the rule of law and competition. Competition requires withdrawal of the state from the market, whereas the rule of law requires a

stronger presence of the state in the market. Two transition paths were distinguished. Regimes have a choice of whether to engage in building competition before the rule of law or to attempt to create the rule of law and then competition. The second Foucauldian term that this dissertation uses as a basic building block is called 'dissidence'. Dissidence is equated with subversive clandestine practices that oppose the prescribed order. Foucault compared these actions to participation in secret sects, where members are united by shared values and practices. This term illuminates the analysis of the secret dissident practices of bureaucratic resistance under authoritarian rule.

Although extremely useful, Foucault outlines the concepts without theorizing about the differences of two transition paths or tracing their application in practice. He also does not specify how dissidence of political actors might manifest. This dissertation fills that gap by developing a theory of ALI implementation in authoritarian regimes during the attempt to transition towards competitive market economy in spite of bureaucratic resistance.

The key components of governing rationale that is modeled on 'governmentality' is developed and applied in the second part of the dissertation. Using Foucault framework as a base, governing rationale is divided into several parts in order to show how bureaucratic disciplining works in practice. Study of governing rationale requires careful tracing of the distinctions between Telos, Ethos, Episteme and Techne in two cases, Kazakhstan and Uzbekistan. Two regimes were chosen, because they are endowed with different commodities, but suffer from similar pathologies of the extensive growth firms. In addition, both rulers announced the goal of ALI to justify their undemocratic stay in power. Third, their bureaucracies subvert implementation of governing rationale by

engaging in similar patterns of resistance, although the rulers are implementing of ALI differently. The Telos of ALI describes market as the best mechanism to satisfy the majority of individual desires. Creation of a competitive domestic market that produces finished goods for export presents a future where reality coincides with the desired vision of what is deemed fair and righteous. The Telos is ALI.

AL regimes complement this goal by an appropriate Ethos. The Ethos depends on the amount of resources the ruler has available from commodity rents. Abundant rents provide a faster pace for the reforms and the rulers are able to introduce competition before the rule of law. Countries with scarce rents prefer to conduct slower, more controlled ALI, and choose the rule of law first and competition second because establishing a competitive market requires an initial infusion of funds. The former style of ALI is called the Ethos of managerial rationale, whereas the latter is called the Ethos of the paternalistic rationale. The AL Ethos identifies the basic values of transitioning to ALI. AL regimes with managerial rationale value entrepreneurial individuals capable of building competitive market. The rulers are interested in increasing the freedoms of individual citizens, enabling people to establish careers in areas chosen from their own interests, and inclinations. AL regimes with paternalistic rationale value equality and common good. The rulers are interested in building ALI based on the principles of a socially-oriented welfare state that protects the interests of everyone.

In Kazakhstan, managerial ALI was chosen because oil provides abundant rents to the regime. High returns foster the introduction of competition, because the AL regime could afford the higher possibility of risks created by the faster pace of reforms. In Uzbekistan, paternalistic rationale was chosen, because revenues from cotton were

relatively low. Shortage of funding made the ruler careful and he chose to institute reforms slowly. Rule of law promises ordered implementation of ALI via incremental and controlled introduction of the reforms. These two states demonstrate how ALI varies in scope and scale of governing rationales.

AL regimes that have an integrated domestic economy cannot afford to introduce competition in many economic sectors simultaneous and the scale of the reforms is smaller. AL regimes with independent industries have a wider scale of reforms and many more industries participate in ALI. Kazakhstan chose competitive advantage that builds economic industrial clusters to foster competition. Uzbekistan chose mercantilism and ISI to create competitive domestic industries before attempting international competitiveness. The scale is the Episteme of ALI.

The last component of ALI is *Techné*, which is the primary target of bureaucratic resistance. *Techné* identifies the scope of ALI and depends on the number of businesses engaged in producing commodity rents. A large population requires AL regimes to share commodity rents in order to sustain individuals' livelihoods in a welfare-oriented state. The scope of ALI is smaller, if more people depend on commodity rents. The *Techné* of managerial rationale seeks to curb welfare in exchange for promotion of entrepreneurship. Citizens are invited to participate in the markets and fulfill a destiny of their own choosing. Negative liberties (understood as 'freedom from') guide the population into being responsible for their own well-being while engaging in market activities. The *Techné* of the paternalistic rationale assumes that people need protection from the market and only by providing people with equal opportunities to participate in

the market, can everyone can fully benefit from ALI. *Techne* defines routine bureaucratic activities and disciplines bureaucrats into adopting the principles of governing rationale.

Specifically, the realm of *Techne* disciplines bureaucrats into promoting ALI via cost-optimization in Uzbekistan and profit-maximization strategies in Kazakhstan. Both regimes require officials to respect the following principles of liberalism: a) they must support minimal intervention into market economy; b) they must assume that market is a superior mechanism of resource distribution; c) they need to deal with deviant outcomes and intervene only if the market is not functioning and on the verge of collapse. AL regimes hire technocrats and autocrats to oversee the process of ALI. ALI in countries with managerial governing rationale is introduced by the technocrats who conduct ‘fire-alarm oversight’ over its implementation. Technocrats trace the progress of ALI by looking at indicators and numbers informally provided by bureaucrats. This lax oversight mechanism gives patrimonial officials an option of tweaking local data as they see it fit. The system of oversight cannot deal with the problem of ‘moral hazard.’ Only local officials know the true nature of things, but by reporting fake numbers they are able to continue their patrimonial practices. Similarly, the problem of moral hazard is visible in Uzbekistan, although autocrats are much more active in the domestic market, which provides rulers with more accurate information. Their oversight mechanism is called ‘police-patrol oversight’ because autocrats implement ALI as a matter of national security. However, autocrats are unable to deal with patrimonial bureaucrats, because their superiors cover up patrimonial practices. Instead of the rule of law, these officials have the right to intervene into economy for patrimonial gain. AL regimes suffer from

inadequate oversight mechanisms that extend patrimonial capitalism even further into economy. Patrimonialism becomes disguised as ALI.

The last chapter shows the strengths of the new analytical model. The ruler's failed attempt to discipline the bureaucracy is discussed. The analytical framework identifies three primary dimensions of resistance: covert patrimonialism, depoliticization and personality cults. Autonomy of the market is undermined by the existence of loyal businesses. Problems remain hidden, because officials are afraid to recognize their mistakes. As problems grow in size and scope, the lies and fake signs of progress proliferate. In addition, personality cults are developed by patrimonial bureaucrats in order to shift responsibility for ALI problems onto the ruler. Personality cults make the ruler responsible for the success of industrialization projects, while bureaucrats are accountable for nothing. By showing that industrialization is a whim of the enlightened dictator, officials act as executors of the authorities that claim to have no power over decisions. In case the problems become public, despite depoliticization efforts, they successfully blame the ruler while siding with popular expectations, because the ruler takes the sole responsibility for the success or failure of industrialization. In order to cope with dissidence, the rulers must prevent moral hazard and check for data accuracy in bureaucrats' reports. In addition, they must repress and publically scold officials if open protests or other problems are uncovered. Repression, although helpful in the short-run, exacerbates dissidence. The regimes become unstable and unsuccessful in implementing ALI. The last chapter proves this point by evaluating the differences between the governing rationale in theory and in practice.

Failure of governing rationale is measured by growing number of open protests and an increase in the number of extensive growth firms. Instead of the share of exports from intensive growth firms and vibrant small and medium-size businesses increasing, officials face open and violent challenge from the population. Open protests are the best indicators of failed ALI because they challenge the rulers' main justification for staying in power. The future of political economy benefits from the heuristic application of Foucault in the analysis of industrialization patterns of the AL regimes because it enables us to move the nexus of attention away from state-society relations and analyze politics of economic industrialization as a struggle over distribution of commodity and bureaucratic rents between the ruler and bureaucracy. Implementation of ALI defined as governing rationale transforms the way people look at the AL regimes. It goes beyond bifurcated economic and political explanations of ALI, while carefully outlining the synthesis between politics and economics in industrialization process. The conclusion about the failure or success of the implementation of ALI defined as governing rationale is never pre-determined for the specific set of countries. The models can change as relative power of the ruler or access to resources change. The dynamism of the model comes from the analytical separation between discursive and disciplinary practices. By comparing at what is said and what is done, we are able to evaluate degrees of differentiation between desired practice and reality. If discursive practices paint the grand picture of how abundant resources are utilized for the common benefit, then by comparing the verbal picture to actions in practice, the power of resistance of patrimonial bureaucrats is more accurately shown.

One of the most surprising elements of this framework is the theoretical extensions and possibilities. This study raises several theoretical issues that are of broader interests to students of the AL regimes. This dissertation focuses on three sets of issues: a) the relationship between the Ethos and the nation-building within the AL regimes; b) the forecast of the future of ALI across the world in countries such as China and Russia; c) the possibilities of democratization and its aftermath.

This dissertation offers new insights into the type of nation AL regimes want to construct. In particular, the author found that managerial rationale fosters the ‘strength in diversity’ model of multiculturalism (Adams & Rustemova, 2009; Laszczkowski, 2010). Diversity is embraced and celebrated in public occasions as the foundation for successful market economy. People with different skills and values enrich the quality of markets by bringing a wider variety of products and services. In support of this assumption, Kazakhstan adopted an institution of the Assembly of Peoples of Kazakhstan headed by the President of Kazakhstan as the representative body of all ethnicities in Kazakhstan. Ethnic diversity theoretically serves as the foundation for entrepreneurship and is a foundation for trade, interdependence, tolerance and compatibility. The ‘strength in diversity’ slogan reflects the Ethos of ALI. Kazakhstani managerial regime treats each individual as an autonomous person who thrives in the free market. Self-interest of these diverse individuals helps to increase the exchange between them, making everyone rich. The Assembly of the Peoples of Kazakhstan also shows that government does not define ethnic principles, but individuals engage in creating social organizations as they deem appropriate and necessary. Nazarbayev’s regime recognizes them as a legitimate consultative body. Managerial Ethos informs policies in areas outside of ALI.

In Uzbekistan, the principle of nation-building echoes the pillars of paternalistic rationale. Karimov's regime promotes the idea of 'strength in unity.' According to this principle, each individual is invited to support the goal of industrialization and comply with the existing regulations, even if this idea violates ethnic cultural practices. As Tajiks and other minorities strive for recognition, their claims are suppressed as immoral, followed with accusations of treason and disloyalty to the entire nation of Uzbekistan.

Strong imposition of national unity reflects paternalistic Ethos, where the AL regime defends the common good of all the people, their equality, justice and welfare. The state prefers to define the population as a malleable and compliant mass of people, ready to serve the moralistic government. Ethos shows that, in exchange for compliance, people receive care from the state and the state acts as the leader of the transformation into a greater future.

These findings have clear policy implications. AL regimes do not cross specific boundaries. For example, paternalistic AL regime does not adopt policies that withdraw state intervention in order to give the population freedom to become entrepreneurs. On the contrary, entrepreneurs are nurtured by re-training them, giving people education and loans, while maximally controlling the process. If development organizations working in Uzbekistan want to assist Uzbek citizens in market promotion, they must consider the governing rationales of the regime. Although the immediate impact of such assistance to NGO's might be limited, the support of the authoritarian regimes allows better results.

Several areas for further research for these and other AL regimes are evident from the conclusions provided by this dissertation. A detailed comparative analysis of Russia and China has been started. The politics of these countries are important to understand,

not only because of their global economic significance, but also because of the nature of commodities they sell. Chinese AL regimes that are endowed with cheap labor, produce manufactured goods. Manufacturing is successful only if the production process responds to the peculiarities of consumer demands. Nonetheless, countries with labor endowment have been identified as the most successful in meeting market demand. Abundant rents enable these regimes to introduce innovative industrial sectors based on optimization of the existing technologies for large domestic markets with lower purchasing power. Cheap cars and medical equipment produced in these regimes increase the standards of living rather than eliciting dependence on welfare and state subsidies. The Russian industrialization path is dependent on oil like Kazakhstan, but its oil revenues are divided between more people and redistributed to the ‘depressive regions,’ which the Russian government cannot afford to lose because of their strategic importance. For example, Far East and the Caucasus constitute problematic zones that Russia cannot afford to keep, but losing these territories might cause massive cessation of other federal subjects (in total 89) and change Russia as we know it. The subsidized regions are not likely to produce competitive products in the foreseeable future. State subsidies are necessary in the Caucasus, Far East and Siberia. Therefore, Russian Episteme is different and more welfare-oriented. Preliminary research found that Russian export diversification strategies are based on expansive regional initiatives. Russia undertakes ISI in the strategic sectors, while allowing its domestic companies to have access to a larger market, circumscribed by the common economic space between Kazakhstan and Belarus. Internal dynamics of Russian economy result in variation of ALI, which the new analytical framework is able to explain.

This research also found paradoxes in the relationship between paternalistic authoritarian regimes and democratization. The moralistic stance taken by the AL regime circumscribes the scope of political freedom away from open argument, or even discussion, of political issues, and moves them into the realm of morality (Schumpeter, 1976 [1942]). As a result, if opposition groups want to challenge AL regimes, the arguments must be presented in moral language and emphasize the need for justice. The claims for justice carry strong normative prescriptions about how society should be and what it should look like. Often, these moral claims are introduced at the expense of individual autonomy and individual rights to choose values and lifestyles. As a result, one authoritarian Ethos is changed for another authoritarian Ethos.

Recent events, called the Arab Spring, illustrate the paradox of democratization in the AL regimes: democratic public protests did not bring liberals to power, but did bring radical Islamist groups. In Egypt, the Muslim Brotherhood and Salafists together, obtained more than 50% of total votes. In Tunisia, En-Nahda, an Islamist party dominated the elections. In Algeria, the Movement for the Society of Peace, a political party that is aligned with the Muslim Brotherhood, poses a formidable challenge in the upcoming parliamentary elections. The curious thing is that during the elections these radical groups called themselves democratic (in Egypt, the Muslim Brotherhood called themselves a 'Democratic Alliance for Egypt') and came to power via democratic means. Further studies need to explore this dynamic.

This research highlights a possibility that ousted authoritarian regimes in the Middle East and North Africa (MENA) create serious threats to their leadership power by banning and persecuting religious opposition parties without supporting liberal

democratic forces. Central Asian states that persecute religious groups without strengthening liberal opposition find themselves in a situation where democratization brings radical Islamist groups to power. Islamist return to power is possible because liberal democratic opposition cannot provide substantive goods promised by a morally righteous regime and cannot counter its opposition, because liberal democrats concentrate on political and civil rights, not on socio-economic rights. Separation of two sets of rights allows authoritarian rulers depict democracy as a pathological regime that cannot cope with poverty, inequality and insecurity. Under these circumstances liberal opposition is seen as weak because it is based on the promotion of procedural justice - the rule of law, where law regulates the procedures or methods of relating in human relations, not the type of relationships. Democracy provides minimal state interference into the personal realm of each individual because of the assumption that more individual autonomy requires less state interference. By definition, liberal opposition in the paternalistic AL regimes cannot promise socio-economic rights and they lose popularity. Further research is necessary to determine whether paternalistic authoritarian rulers create non-democratic opposition.

This study focuses on AL regimes during the post Cold War era. This analytical framework does not explain authoritarian industrialization attempts across the world or throughout history. On the contrary, by selecting contemporary cases, this work speaks to the models of ALI in the present-day globalized system. It surveys components of ALI by studying how the rulers introduce rule of law and competition into the system of patrimonial capitalism and divert commodity and bureaucratic rents. This original

analytical framework provides insights into conditions that define failed or successful implementation of ALI.

It is probably no coincidence that this framework cannot explain the industrialization process in states that lack commodity resources. Lack of commodities serves as both a blessing and a curse. Some countries experienced abject poverty while being ruled by a dictator, such as occurred in Malawi before 1994, under the rule of Hastings Banda. Other countries, such as Hong Kong and Taiwan, managed to succeed in industrialization despite lack of resources. Another category that requires separate research includes the failed states, which are not AL regimes, even though some of them share the patrimonial structure. When protracted internal conflict within the elite structure or between the state and the people occurs, the government fails. Failed states cannot provide basic state functions and ALI in particular. AL regimes are commodity-based exporters that differ from countries without primary resources.

AL regimes are contemporary models of development. However, as bureaucratic resistance takes over the AL regimes, it may loosen the rulers' constraints and create new possibilities for the authoritarian rule – possibly liberal or not.

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ASSEL RUSTEMOVA

e-mail: asselek@yahoo.com

Born in Shymkent, Kazakhstan on June 24, 1979

Education

Rutgers University

Ph.D. Candidate, Division of Global Affairs
2012

Newark, NJ, USA
September 2008-May

- Dissertation Chair Dr. Philip Cerny
- US Department of State E. Muskie Fellow (till May 2009)
- Cumulative GPA: 4.00

New School University of Social Research

Ph.D. student, Department of Politics

New York, USA
September 2005-May 2008

- US Department of State E. Muskie Fellow.
- Examination Fields: Comparative Politics and Political Theory

School of International Service, American University

Master of Arts in International Affairs

Washington, D.C., USA
August 2001-May 2003

- Cumulative GPA: 3.7/4.0
- Recipient of full scholarship from Kazakhstan government for academic excellence

Kazakhstan's State National University

Bachelor of Arts in International Relations (Graduated with Honors)

Almaty, Kazakhstan
1996-2001

Research/Work Experience

Kazakh Institute of Management, Economics and Strategic Planning

Senior Lecturer

Almaty, Kazakhstan
Fall 2003 – Present

- Designed and taught 'Developmental Studies: Selective Models', 'Petropolitics', 'Oil Politics and Policies', 'Understanding Global Crisis', 'Globalization: Current Issues', 'Russian Foreign Policy', 'Comparative Foreign Policy' classes

Rutgers University

Instructor

Newark, NJ, USA
Fall 2009-Spring 2010

- Designed and taught 'Introduction to Comparative Politics', 'Political Sociology' courses.

United Nations, Department of Political Affairs,

Focal Point for Democracy and the Rule of Law

Research Assistant/Intern, full-time

New York, NY, USA
April-August 2007

- Drafted Secretary-General's Report on New or Restored Democracies
- Compiled consolidated report on the rule of law activities of the Department
- Prepared two papers with presentations for Dr. Tapio Kanninen published by the Club of Rome

Selected Publications

- **Article** (2011), 'Political Economy of Central Asia: Initial Reflections on the Need for a New Approach', *Journal of Eurasian Studies*, January 2011, 2:19-30
- **Book chapter** (2011) 'Beyond Democratic Theory: Exploring Authoritarianisms in Central Asia', appeared in the edited volume by Peter Drulak, David Bosold and Nikolas Hynes "Democratization and Security in Central and Eastern Europe and the Post-Soviet States", Berlin: Nomos, October 2011
- **Article** (together with Adams, Laura L.) (2009) 'Mass Spectacle and Styles of Governmentality in Kazakhstan and Uzbekistan', *Europe-Asia Studies*, 61:7, 1249 — 1276