

FROM CENTRAL PLANNING TO MARKET ECONOMY: A COMPARATIVE ANALYSIS OF ECONOMIC DEVELOPMENT IN LITHUANIA AND UZBEKISTAN

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**ARTICLE INFORMATION**

**ANNOTATION**

**ARTICLE HISTORY:**

*Received: 14.04.2026*

*Revised: 15.04.2026*

*Accepted: 16.04.2026*

**KEYWORDS:**

*economic transition; post-Soviet economies; Lithuania; Uzbekistan; market reforms; institutional development; trade openness; economic diversification; structural transformation; European Union integration; state-led development; human capital*

*This study investigates the economic transformation of Lithuania and Uzbekistan following the collapse of the Soviet Union in 1991, with a focus on their transition from centrally planned to market-based economies. Despite similar initial institutional conditions, the two countries adopted divergent reform strategies. Lithuania implemented rapid liberalization and achieved early integration into European economic structures, while Uzbekistan pursued a gradual, state-led approach, accelerating reforms only in recent years. Using a comparative analytical framework, the study examines historical context, reform trajectories, macroeconomic performance, and structural change. The study highlights that effective institutional reform, economic openness, and investment in human capital are critical determinants of sustainable development in transition economies.*

**Introduction.** The collapse of the Soviet Union in 1991 became a major turning point not only for the region but for the global economic landscape as a whole. With independence, former Soviet republics suddenly found themselves facing a difficult and unfamiliar task: rebuilding their economic systems from the ground up. They had to move away from centrally planned models—where the state controlled ownership, prices, and production—and transition toward market-based economies driven by private business, competition, and global integration.

However, this transition did not follow a single path. Each country approached reforms differently, depending on its political priorities, institutional strength, and vision for

development. As a result, the outcomes varied significantly across post-Soviet states. In this regard, Lithuania and Uzbekistan offer two particularly interesting and contrasting examples. Although both countries started with similar economic legacies after independence, their reform strategies took very different directions.

Lithuania chose a fast and decisive path, often described as “shock therapy.” The country quickly implemented liberalization, privatization, and reforms aimed at integrating into European economic structures. This strategy eventually led to Lithuania joining the European Union in 2004 and transforming into a modern, high-income, and innovation-oriented economy.

Uzbekistan, on the other hand, followed a more cautious and gradual approach. In the early years of independence, the government focused on maintaining economic stability and protecting the population from potential shocks. Key sectors remained under strong state control, and reforms were introduced step by step rather than all at once. It was only in recent years, especially after 2017, that Uzbekistan began to actively accelerate its reform process, focusing on liberalization, improving institutions, and opening up to the global economy.

Given these different development paths, comparing Lithuania and Uzbekistan allows for a deeper understanding of how economic transitions unfold in practice. This article aims to explore their historical backgrounds, reform strategies, macroeconomic performance, and structural changes. By examining indicators such as GDP growth, trade openness, and sectoral composition, it seeks to identify the key factors that influenced their economic outcomes.

Moreover, the analysis goes beyond these two countries to highlight broader lessons for other transition economies. Understanding how different reform approaches affect long-term development can help policymakers design more effective strategies—especially in balancing economic stability with structural transformation and global competitiveness.

### **Lithuania: Transition from Central Planning to a Market Economy**

Lithuania became the first republic to declare independence from the Soviet Union on March 11, 1990, marking an important step in the broader collapse of the Soviet system. Before independence, its economy operated under a centrally planned model, where key decisions on production, pricing, and resource allocation were made in Moscow. This system limited efficiency, suppressed competition, and constrained innovation [World Bank, 2002].

With independence, Lithuania faced the urgent task of not only establishing political sovereignty but also transforming its economic system. The country chose a rapid reform path, commonly referred to as “shock therapy,” aimed at quickly replacing central planning with market-based institutions. This approach was consistent with broader reform trends observed across Central and Eastern Europe in the early 1990s, where rapid liberalization and institutional restructuring were widely adopted [International Monetary Fund, 2000].

The reform process included several key measures, including the transition toward a market-based and more business-friendly environment. These reforms contributed to economic growth and improved overall economic performance, although challenges such as productivity and inequality remained. At the same time, large-scale privatization transferred state-owned enterprises into private hands, encouraging entrepreneurship and improving productivity. By the mid-1990s, much of the industrial sector had already been privatized.

Trade liberalization further supported Lithuania’s transformation by opening the economy to international markets. The removal of trade barriers and a strategic shift toward Western partners significantly increased trade flows. In parallel, financial sector reforms—such as the development of a modern banking system and the introduction of a consistent monetary policy framework—helped strengthen macroeconomic stability and attract investment [European Bank for Reconstruction and Development, 2019].

Despite these reforms, the early transition period was challenging. The economy experienced a sharp decline in output, along with high inflation and rising unemployment. Between 1991 and 1994, GDP contracted significantly as the country adjusted to new market conditions [World Bank, 2002]. However, by the late 1990s, Lithuania managed to stabilize its economy through disciplined fiscal policies and continued structural reforms.

A major milestone in Lithuania’s development was its accession to the European Union in 2004. This required aligning national institutions, regulations, and economic policies with EU standards. In return, Lithuania gained access to European markets, structural funds, and increased foreign direct investment, all of which contributed to faster economic growth [European Commission, 2015].

Lithuania’s macroeconomic performance reflects the success of these reforms. By 2024, its GDP is estimated at around \$80–85 billion, with GDP per capita reaching approximately \$28,000–30,000, placing it among high-income countries. Between 2010 and 2023, the economy grew at an average annual rate of about 3%, demonstrating stability and resilience [Eurostat, 2024].

Another defining feature of Lithuania’s economy is its high level of trade openness. Exports account for more than 80% of GDP, indicating strong integration into global value chains. Over time, the structure of exports has shifted toward more advanced products, including machinery, chemicals, and technology-related services.

At the same time, the economy has become more diversified, with significant contributions from manufacturing, logistics, and high-value services. In recent years, Lithuania has also emerged as a fintech hub in Europe, supported by a favorable regulatory environment and active investment promotion. Institutions such as Invest Lithuania have played an important role in attracting foreign investment and encouraging innovation.

Overall, Lithuania’s experience shows that rapid liberalization, strong institutions, and integration into the global economy can significantly accelerate the transition from a centrally planned system to a modern, competitive, and innovation-driven economy.

### **Uzbekistan: Gradual Reform and Economic Transformation**

Following independence in 1991, Uzbekistan adopted a gradual and strongly state-led approach to economic transition. Unlike several post-Soviet countries that implemented rapid liberalization and privatization, Uzbekistan focused on maintaining macroeconomic stability, social order, and state control over key sectors. As a result, the government retained a dominant role in areas such as energy, agriculture, banking, and large industrial enterprises. State-owned companies and public investment continued to shape the economy for many years .

This strategy helped the country avoid the sharp economic declines and social disruptions experienced in several transition economies during the 1990s. However, it also slowed the development of a competitive private sector and delayed deeper integration into global markets. For an extended period, exchange controls, trade restrictions, and administrative interventions limited external openness. A significant shift occurred after 2017, when Uzbekistan began to liberalize its economy more actively. As a result, the level of openness increased considerably, reflected in a substantial rise in the trade-to-GDP ratio. Recent data further highlight the country’s strong economic performance. According to preliminary estimates, in January–December 2025, Uzbekistan’s gross domestic product (GDP) reached 1,849.7 trillion sums and grew by 7.7% in real terms compared to the same period in 2024. [ 8. p 1]

A major turning point in Uzbekistan’s economic development came in 2017 under Shavkat Mirziyoyev, when the country launched a new phase of market-oriented reforms. One of the most significant steps was foreign-exchange liberalization, including the unification of official and parallel exchange rates and the removal of currency restrictions. These measures reduced distortions in the currency market and improved conditions for trade, investment, and private sector activity [International Monetary Fund, 2024].

The reform agenda also included tax policy changes aimed at improving the business environment, such as simplifying the tax system and reducing the overall tax burden. Trade policy reforms further strengthened Uzbekistan’s integration into the global economy, contributing to increased trade flows and a gradual shift toward a more outward-oriented development model [World Bank, 2019].

Institutional reform has also become an important priority in recent years. Efforts have increasingly focused on restructuring state-owned enterprises, improving public financial management, and enhancing transparency. While challenges remain, these reforms are essential for improving efficiency and reducing fiscal risks.

Recent macroeconomic indicators confirm Uzbekistan’s strong growth performance. GDP growth remained high in recent years, supported by domestic demand and ongoing reforms, positioning the country among the faster-growing economies in the region [Asian Development Bank, 2026].

At the same time, the structure of the economy still reflects a significant reliance on natural resources, particularly gold and natural gas. Although gradual diversification is taking place—especially in manufacturing and services—the transition toward a more complex economic structure is still ongoing.

Digital transformation is also emerging as a key component of Uzbekistan’s development strategy. Initiatives such as IT Park Uzbekistan support the expansion of the IT sector and export-oriented services, contributing to innovation and long-term competitiveness.

Overall, Uzbekistan’s economic trajectory can be divided into two main phases: an initial period of cautious, state-led transition focused on stability, and a more recent phase characterized by liberalization, increased openness, and structural reform. Continued progress will depend on deeper private-sector development, institutional strengthening, and sustained diversification.

**In conclusion,** Lithuania and Uzbekistan represent two distinct approaches to economic transition. Lithuania’s rapid liberalization and integration into global markets enabled faster development of a high-income, diversified economy. In contrast, Uzbekistan’s gradual, state-led strategy ensured stability but slowed structural transformation, although recent reforms signal a shift toward a more open model.

The comparison highlights that there is no single path to successful transition. Economic outcomes depend on the balance between reform speed, institutional capacity, and policy consistency. While Lithuania demonstrates the benefits of rapid reform, Uzbekistan’s experience underscores the importance of stability and adaptation to national conditions.

Overall, both cases provide valuable insights for transition economies, emphasizing the role of institutions, openness, and structural reform in achieving sustainable development.

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