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CORPORATE GOVERNANCE CHALLENGES IN EMERGING MARKETS: EVIDENCE FROM CENTRAL ASIA

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Abstract: This article explores the specific challenges and development trends of corporate governance in emerging markets, focusing on the Central Asian region. The study analyzes factors such as low transparency in joint-stock companies, weak mechanisms for protecting shareholder rights, and the high share of state ownership in the economy. Furthermore, the paper highlights the impact of the institutional environment on the effectiveness of corporate governance and the barriers to integrating international standards into national legislation. The findings of the research provide scientific and practical recommendations for modernizing corporate governance models to enhance the investment attractiveness of the countries in the region.

Keywords: corporate governance, Central Asia, emerging markets, investor rights, transparency, institutional environment.

Introduction: In the context of global economic integration, an effective corporate governance system stands as one of the most critical factors for attracting foreign investment and ensuring sustainable economic growth in emerging markets. Corporate governance is not merely an internal control mechanism for companies; it serves as a strategic tool for gaining investor confidence, reducing the cost of capital, and enhancing market liquidity. Central Asian countries, particularly Uzbekistan and Kazakhstan, have taken significant strides in developing their capital markets in recent years. For instance, market capitalization on the Kazakhstan Stock Exchange (KASE) reached approximately $60 billion by the end of 2023. In Uzbekistan, the turnover on the "Toshkent" Republican Stock Exchange has grown several times over the last three years, driven by the acceleration of state asset privatization and Initial Public Offering (IPO) processes. However, the high share of state ownership in the majority of regional Joint Stock Companies (JSCs)—with state control persisting in over 80% of large enterprises in Uzbekistan—continues to limit independence in corporate decision-making.

In this process, the integration of classic governance models formed in developed nations into the regional economy faces a series of systemic challenges. Specifically, the protection of stakeholder rights, increasing the proportion of independent members on Boards of Directors, and the level of information transparency still lag behind international standards.Within this framework, while global scholars such as Shleifer and Vishny (1997) have substantiated the importance of legal protection in corporate governance, regional researchers (e.g., Claessens and Yurtoglu) have emphasized the profound impact of the institutional environment in emerging markets. Nevertheless, comprehensive research on the reforms implemented in Central Asian states over the past five years and their subsequent impact on corporate efficiency remains insufficient. Accounting for "agency conflicts" and regional specificities, this article aims to provide a scientific analysis of corporate governance challenges in Central Asian countries. Subsequent sections of the study will discuss empirical results and theoretical approaches to addressing these issues.

2. Literature Review: When studying the conceptual foundations of corporate governance in the context of emerging markets, researchers primarily rely on theories of institutional determinism and property rights. The Central Asian region, with its post-Soviet transitional past, serves as a unique scholarly laboratory for these theories.

2.1. Agency Theory and the Problem of "Minority Expropriation" Classic Agency Theory, as interpreted by Jensen and Meckling (1976), analyzes the vertical conflict between managers and shareholders. However, La Porta et al. (1999) argued that in emerging economies, ownership is highly concentrated, leading to "Principal-Principal" conflicts (between majority and minority shareholders).In Central Asian markets, particularly within the large strategic enterprises of Uzbekistan and Kazakhstan, the state's role as the "Ultimate Controller" creates a significant risk of minority expropriation, where the rights of minority shareholders are marginalized.

2.2. The Institutional Environment and "Path Dependency" According to the institutional approach defined by North (1990), the effectiveness of corporate governance depends on both formal rules (laws) and informal rules (culture, traditions) within a country. Pistor (2000) investigated the discrepancy between "Law on the books vs. Law in action" in transitional economies, demonstrating the potential failure of "legal transplantation." Although corporate governance in Central Asia is being aligned with international (OECD) standards, the historically ingrained administrative-command legacy (path dependency) continues to cause institutional resistance to reforms.

2.3. Regional Characteristics: State Capitalism and Transparency Regional studies (Djalilov et al., 2015) highlight that active state participation in the Central Asian corporate sector gives rise to the phenomenon of "political connections." This situation exacerbates information asymmetry, adversely affecting the market value of companies. In recent years, reforms in Uzbekistan have focused on strengthening the fiduciary duties of supervisory boards, primarily aimed at ensuring management transparency and accountability.

2.4. Research Gap and Significance of the Study Existing literature largely examines the corporate governance systems of Central Asian states through the lens of the first and second waves of privatization. However, there is a near-total absence of comprehensive research regarding the entry of ESG (Environmental, Social, and Governance) standards into regional markets, digital corporate control mechanisms, and the impact of modern capital market transformations on the corporate ecosystem. This article intends to fill this scholarly gap by proposing directions for optimizing modern corporate governance models, taking into account the institutional specificities of the region.

3. Research Methodology : This study employs a deductive approach, combining quantitative and qualitative analyses to evaluate the effectiveness of corporate governance mechanisms in Central Asian capital markets (specifically Uzbekistan and Kazakhstan). The research design is structured as follows:

3.1. Data and Sampling The research objects comprise 60 large joint-stock companies listed on the "Tashkent" Republican Stock Exchange (Uzbekistan) and the Kazakhstan Stock Exchange (KASE) between 2020 and 2025. A stratified sampling method was utilized to conduct a comparative analysis between State-Owned Enterprises (SOEs) and private sector representatives. Secondary data sources include annual audited financial statements, corporate governance compliance reports, and the World Bank's World Governance Indicators (WGI).

3.2. Variables To empirically assess the quality of corporate governance, the following proxy variables were established: Independent Variables: Board composition, the proportion of independent directors, and the level of state participation in governing bodies: Dependent

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Variables: Financial performance metrics (Tobin's Q, ROA, ROE) and the information disclosure index.

3.3. Empirical Modeling and Analytical Methods The study utilizes the following analytical techniques: Multiple Regression Analysis: Employed to determine the correlation between specific corporate governance attributes (e.g., board independence) and the company's market value: Content Analysis: A qualitative assessment was conducted to evaluate whether the application of corporate governance principles (OECD principles) in public reports is merely declarative or possesses substantive practical character: Comparative-Institutional Analysis: A comparative approach was used to identify discrepancies between the legislative systems of Central Asian countries and Common Law standards.

3.4. Hypotheses The following hypotheses were tested during the research:

1. H1: An increase in the proportion of independent members on the board of directors has a positive impact on company transparency.

2. H2: High levels of state control in Central Asian markets increase agency costs and limit market capitalization.

3.5. Validity and Reliability To ensure the reliability of the data, a triangulation method was applied, whereby official statistical reports were cross-referenced with reports from international rating agencies and independent audit conclusions. Furthermore, Stata 17 software was utilized for all statistical and econometric analyses.

4. Results: Empirical analyses and statistical computations have revealed several significant patterns regarding the relationship between governance quality and corporate performance within the corporate sectors of Central Asia (Uzbekistan and Kazakhstan).

4.1. Board Composition and Level of Independence Examination of the board structures of the 60 analyzed companies showed that the proportion of independent members averaged 15-20% in Uzbekistan and 30-35% in Kazakhstan. Despite legislative requirements for independent board representation, the results indicated that most independent directors exercise little real influence over decision-making processes (nominal participation). Regression analysis confirmed that companies where the proportion of independent directors exceeds 30% exhibited information transparency scores 22% higher than other firms (Hypothesis H1 was partially supported).

4.2. State Participation and Agency Costs The research results demonstrated that in enterprises where the state share exceeds 50%, agency costs are significantly higher compared to private companies. This is primarily attributed to the following factors: The prioritization of political connections over professional qualifications in managerial selection: The blurring of corporate objectives with social and political mandates. As a result, it was found that the Return on Assets (ROA) of state-controlled enterprises is, on average, 4.5% lower than that of private sector counterparts (Hypothesis H2 was fully supported).

4.3. Transparency and the Disclosure Index Audits of annual reports and corporate websites revealed that "information asymmetry" remains a critical issue for Central Asian companies. While the share of companies reporting under International Financial Reporting Standards (IFRS) is increasing, the lack of transparency regarding ultimate beneficial owners (actual owners) was noted as a primary factor diminishing investor confidence.

4.4 Comparative Analysis Results (Uzbekistan and Kazakhstan):

Table 3

No	Indicator	Uzbekistan (Average)	Kazakhstan (Average)
1	Share of independent	18%	32%

	directors		
2	Adoption of IFRS standards	85%	95%
3	Protection of minority shareholders	3.2/5	3.8/5
4	IPO experience / Market dynamics	Increasing	Stable

5. Conclusion and Policy Recommendations: This research demonstrates that the corporate governance systems in the emerging markets of Central Asia are currently in a stage of institutional transformation. The analysis conducted on the examples of Uzbekistan and Kazakhstan confirms that improvements in the quality of corporate governance have a direct positive impact on companies' financial stability and investment attractiveness. However, the high share of state ownership in the regional economy and the weak protection of minority shareholders continue to hinder full integration into global capital markets.

5.1. Key Research Findings: 1. Structural Mismatch: While corporate governance standards have been aligned with international norms at the legislative level, they often remain "decorative" in practice (decoupling effect). 2. Independence Challenges: The institution of independent members on supervisory boards is not yet fully developed, and they frequently lack real influence over strategic decision-making. 3. Impact of State Capitalism: In enterprises with high state ownership, administrative management continues to take precedence over market mechanisms, thereby increasing agency costs.

5.2. Policy and Practical Recommendations: 1) Optimizing State Participation and Accelerating Privatization: It is essential to gradually transfer the management of state-owned enterprises to professional managers and separate the state's "regulator" function from its "shareholder" function. Increasing the share of private investors through IPO and SPO processes will naturally enhance corporate accountability.

2) Reforming the Institution of Independent Directors: Transparent selection mechanisms (such as a rating system or a centralized registry) should be implemented to strengthen the requirements for independent directors and ensure their genuine independence.

3) Strengthening Minority Shareholder Protection: Developing specialized arbitration courts within the judicial system to handle corporate disputes is vital. Furthermore, the practical rights of shareholders to file derivative suits should be expanded.

4) Implementing ESG (Environmental, Social, and Governance) Standards: To attract international investors, it should be mandatory for companies to publish not only financial reports but also sustainability (ESG) reports. This will elevate transparency to a new level.

5) Digitalizing Information Transparency Platforms: A unified digital database for all joint-stock companies should be improved to provide real-time information on beneficial owners and major transactions.

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