

The Economic Modernization of Uzbekistan

Mamuka Tsereteli

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Contents

Preface..... 5

Executive Summary..... 7

Introduction..... 13

Uzbekistan’s Economy, 1991-2016 15

President Mirziyoyev’s Economic Reform Strategy 24

Modernization in Action..... 32

Governance and Regulatory reforms..... 32

Small Business and Private Sector Development 36

Agriculture..... 38

New Regional Economic and Trade Policy 43

Conclusions 50

Author’s Bio..... 55

Preface

Dramatic changes have occurred in Uzbekistan during the year and a half since Shavkat Mirziyoyev's election as President. Some of these changes have come in the form of legislative acts of the Oliy Majlis, Uzbekistan's parliament. Others have taken the form of administrative orders issued by the President or his principal Ministers. At no other time since Uzbekistan's establishment as an independent state have more innovations been introduced, or with greater speed.

Since these changes are bound to affect Uzbekistan's internal economic, social, and political life, and since they directly affect Uzbekistan's ties with its regional neighbors and its relations with all the world's major powers, the Central Asia-Caucasus Institute & Silk Road Studies Program Joint Center has undertaken to document this year of innovation. As part of this effort, we are pleased to present this study by Mamuka Tsereteli, who offers a comprehensive and meticulously documented overview of new initiatives affecting Uzbekistan's economy. This *Silk Road Paper* follows a study released on Uzbekistan's foreign policy in December 2017, and studies on the country's legal and political reforms published in March 2018. All will constitute chapters in a forthcoming volume, *Uzbekistan's New Face*, to be published in the summer of 2018.

The reader may well ask how this dramatic series of initiatives will work out in actual practice. As the saying goes, "there is a big distance between the cup and the lip." Obviously, only the passage of time will enable us to reach firm conclusions on this important point. However, certain impacts of the reform agenda have already been registered in the economic realm. Others will follow. Our objective in cataloguing and presenting the

legislative acts, decrees, and executive orders that constitute the present era of reforms is to provide those interested in Uzbekistan with a base line and guide that will enable them to evaluate the on-going process of implementation as it emerges. Stated differently, it is a story of aspirations that are sweeping in their intent and far-reaching in their likely impact. It will enable friends of Uzbekistan and academic analysts in many countries to track Uzbekistan's further evolution.

Parts of this study draw on inputs from Richard Pomfret, which were also the basis for the chapter on Uzbekistan in his forthcoming book, *The Central Asian Economies in The Twenty-first Century: Paving a New Silk Road*. We are grateful to him for making these insights available to this study.

S. Frederick Starr

Chairman, CACI & SRSP Joint Center

Executive Summary

When Shavkat Mirziyoyev succeeded Islam Karimov as President of Uzbekistan, many observers expected his tenure to represent continuity rather than change. And while continuity is present in terms of the focus on independence and sovereignty of Uzbekistan, Mirziyoyev also showed a pro-active desire to improve foreign relations and initiate major economic reforms, designed to strengthen the strategic position of Uzbekistan.

Mirziyoyev inherited an economic structure left behind by his predecessor, who consistently emphasized that his approach to economic change had been based on gradualism. The Uzbek government was cautious; but it was not opposed to change. Small-scale privatization was quickly implemented after independence, based on an appeal to a tradition of family homes and small businesses. In the 1990s, the Uzbek economy benefitted from an abundance of cotton, which was relatively easy to bring to world markets at prices that were buoyant at the time. The state's marketing monopoly ensured that a substantial share of the higher cotton revenues went to the government, which, as a result, was able to maintain social services better than other Central Asian countries. By some measures, Uzbekistan was the best-performing of all Soviet successor states in the 1990s, despite its rejection of the rapid reforms recommended by International Financial Institutions: by the end of the decade it was the first Soviet successor state to regain its pre-1991 real GDP level.

However, falling cotton prices in 1996 led the government to abandon its commitment to make the currency convertible and instead introduce strict exchange controls. When global demand dipped a decade later, the government again tightened forex controls, leading to the emergence of a

substantial black market. Very much as a result of this multiple exchange rate economy, Uzbekistan also failed to further diversify its economy. Also, Uzbekistan's borders remained tightly controlled, both for reasons of security and to protect import-competing industries.

Governance inefficiency became one of the major societal challenges for growth and development in Uzbekistan, contributing to many illnesses of the Uzbek economy, including unemployment. As a result, several million migrants were forced to move abroad, primarily to Russia, in search of work. By the 2010s, Uzbekistan's social policies – once a source of pride – were perceived to be deteriorating.

Despite many shortfalls, that included lack of transparency of statistical data allowing objective assessment of economic development, Uzbekistan by the end of 2016 remained a stable country, but with the need to transform in order to meet the challenges it was facing. It was from this position of stability, but also a sense of urgency, that the newly elected president Mirziyoyev started implementing reforms. President Mirziyoyev had a very good idea where to start, since some of these reforms were designed during his tenure as Prime Minister, and they only required political will to be implemented. On October 5, 2016, Mirziyoyev signed the decree "On Additional Measures to Ensure the Accelerated Development of Entrepreneurship, the Full Protection of Private Property, and the Qualitative Improvement of the Business Environment." This initiative sent a clear signal as to his priorities: an understanding that the private sector will be the key driver for economic growth and job creation in Uzbekistan going forward.

In February 2017, Uzbekistan adopted a *2017-2021 National Development Strategy*, which identified five priority areas: 1) Reform of public administration; 2) Reform of the judiciary, strengthening the rule of law and parliamentary reform; 3) Reforms in economic development and

liberalization, focusing on modernization of Uzbek agriculture and industry and oriented towards greater competitiveness of the products and services; 4) Social reforms, based on higher incomes and better jobs, oriented on higher quality health care, education, housing etc. 5) Reforms in the security area, focusing on improvements to ensure domestic stability and balanced and constructive foreign policy with the ultimate goal of strengthening the independence and sovereignty of state.

Following this strategy, President Mirziyoyev signaled new directions in both foreign economic relations and domestic economic policy. The areas were well-chosen: the adoption of foreign exchange controls and the high costs of conducting international trade were the two outstanding flaws in the economy.

A most significant reform came in September 2017, when the Central Bank of Uzbekistan reunified Uzbekistan's exchange rates, and President Mirziyoyev promised freely floating market-determined rates for the future. Simultaneously, restrictions were lifted for legal entities and individuals to convert currency. The currency reform was followed by increased activity in foreign financial markets. This included substantial deals totaling over \$1 billion with, among other, Deutsche Bank, Commerzbank, and the EBRD.

Mirziyoyev's first year in power saw a flurry of reciprocal foreign visits that enabled the new President to establish relations with leaders of neighboring states and great economic powers. Mirziyoyev's outreach to Uzbekistan's neighbors signaled a shift in policies and priorities, and the meetings with Turkmen, Kazakh and Tajik leaders in particular highlighted connectivity, and hence Uzbekistan's reintegration into a regional economic circle. This has begun to deliver results, including new direct air connections linking Tashkent to Dushanbe and Kabul, greatly facilitating travel, as well as growing trade figures.

Uzbekistan is making progress in reforming governance and public services, taking steps that are having an impact on the lives of ordinary citizens and makes it easier for businesses to operate. As a result of those reforms, the country has moved up to 74th place in the World Bank's "Doing Business" ranking, from 87th in 2015 and from 146th in 2013.

Reform has also reached the cotton sector. The ban on child labor in cotton picking was broadened to include education and health workers, and in September 2017, the government ordered all forced labor to be sent home. Henceforth, wage increases may make cotton-picking more attractive to voluntary labor, while mechanization is also being considered. These reform policies were positively assessed by many international institutions, including the IMF and other International Financial Institutions.

Looking forward, Uzbekistan will need to work to reverse the bias against exports left over from the previous years. South Korea accomplished this in 1964 after a decade of mild import substitution, suggesting it can be done successfully. There are already positive signs: exports increased by more than 15 percent and the country signed export deals worth \$11 billion dollars in 2017.

The experience of 2017 is encouraging, but Uzbekistan's reforms are at an initial stage, and the key issue is how successful the Mirziyoyev administration will be in implementing these systemic reforms. The initial steps have yet to create free pricing and competition in fuel, because the centralized management and pricing system remains in place. This example highlights the multifaceted needs (e.g. enterprise reform and institutional change as well as price liberalization) if market mechanisms are to function well. In general, economic reform rarely yields immediate benefits, and requires some degree of patience.

The timing of Tashkent's reforms is also auspicious because of the revival of continental trade linking Europe and Asia through Central Asia. Centrally

located in the heart of Asia, Uzbekistan could serve as a transit hub for cargos coming from China, India, Pakistan, Afghanistan, and even Southeast Asian countries. China's Belt and Road Initiative is providing a major impetus to develop infrastructure in the region. Other regional initiatives also work in Uzbekistan's favor, including the launching of the Baku-Tbilisi-Kars railway, Turkmenistan's interest in this project, and the Lapis Lazuli corridor linking Central Asia with Afghanistan. With Uzbekistan an engaged participant in these processes, the prospects for the development of continental trade are greatly improved.

In sum, in about 18 months, President Mirziyoyev outlined a very ambitious reform agenda and started to implement it. He undertook a full travel and meeting schedule to restore the country's international links and, in particular, to repair Uzbekistan's fractured relations with its Central Asian neighbors. He removed a millstone around Uzbekistan's economy by unifying the exchange rate and liberalizing access to foreign exchange. Even though it is too early to draw definitive conclusions, these steps appear to have been harbingers of a shift from economic control to greater confidence in market mechanisms. An important signal that Uzbekistan is more open for business would be to complete negotiations for accession to the World Trade Organization (WTO). On March 13, 2018, the Government of Uzbekistan hosted representatives of the World Bank, Asian Development Bank, USAID and other donor organizations and discussed a detailed 34-point accession plan "Road Map" for Uzbekistan's entry into WTO, thus demonstrating a clear determination to join the rules-based international trade system.¹

With ongoing reforms, and undervalued economic assets, Uzbekistan presents an attractive opportunity for foreign direct investments. The

¹ Uzbekistan and IFIs discuss Country's Accession to WTO, UzDaily, March 14, 2018, <https://www.uzdaily.com/articles-id-43112.htm>

government is creating a set of incentives in agribusiness, energy and tourism sectors, and with a continued course of liberalization, Uzbekistan may become a magnet for the investments from different parts of the world, bringing much needed jobs, management and technological now-how, and ultimately prosperity for the citizens of Uzbekistan.

Introduction

The political succession following the death of President Islam Karimov in September, 2016, was remarkably smooth. After the interim leader declared himself insufficiently experienced and stepped aside, Shavkat Mirziyoyev, who had been Prime Minister from 2003 to 2016, assumed control and easily won a December presidential election. Many observers speculated that the regime would represent continuity rather than change. Yet, while maintaining continuity by focusing on the sovereignty and independence of Uzbekistan, President Mirziyoyev showed a pro-active desire to initiate major economic reforms. This paper reviews the first eighteen months of those initiatives. Although it is still too early to assess their implementation and long-term outcomes, all signs point to a process of serious transformation and modernization of Uzbekistan's economy.

The first years of Mirziyoyev's presidency can only be understood in the context of Uzbekistan's development since gaining independence in 1991 and the quarter-century presidency of Islam Karimov. President Karimov created the specific type of market-based economy that arose from the ashes of central planning in Uzbekistan, and determined the economic development strategy pursued by Uzbekistan during the first sixteen years of the twenty-first century.

The first section of this study identifies the main features of the economic system and strategy of Uzbekistan before the autumn of 2016, focusing on both the strengths and weaknesses of the Uzbek economy at the time. The second section highlights President Mirziyoyev's economic reform agenda. Subsequent sections detail the serious regulatory and governance reforms,

new regional and global economic policies, and reforms oriented towards increasing the competitiveness of the Uzbek economy by focusing on exports, small business development, and agriculture. These reforms strengthen the private sector and facilitate job creation, thus ultimately addressing the country's major economic and security challenge: unemployment generated by powerful demographic trends.

Because the consequences of economic reform take years to develop and must be considered in terms of long-term trends, a full assessment of the results of Mirziyoyev's economic changes will await future studies. However, the final section of this study considers the probable longer-term impact of the current reforms, focusing on the shift towards market mechanisms rather than administrative controls.

Uzbekistan's Economy, 1991-2016

By the time of the transition of power in Uzbekistan, the country enjoyed relative economic stability, with rich natural resources and strong demographic potential for the development of human capital. At the same time, overregulation, the large number of inefficiently managed state-owned enterprises, protectionism, corruption and a prevailing distrust of unregulated foreign exchange markets were major visible sources of weakness.

Islam Karimov was appointed Uzbekistan's leader in 1989 and transitioned to the presidency of independent Uzbekistan in 1991. He ruled the country as its first president for almost twenty-five years and set policies, which gradually shifted the economy from one based on Soviet style central planning to one guided to a limited extent by market principles.

President Karimov consistently emphasized that his approach to economic change was based on gradualism. The dissolution of the USSR in December 1991, and Russia's "big bang" price liberalization in January 1992, ensured that all Soviet successor states abandoned central planning. With the ruble still their common currency, they also had to free up the prices of traded goods. Uzbekistan proceeded cautiously, keeping the government's control over prices on energy and fuel, on urban transport and social services, and major farm products. When the ruble zone collapsed in 1993, Uzbekistan was caught off balance. It issued a temporary coupon currency in November of that year and introduced a permanent domestic currency only the following summer.

However cautious the Uzbek government may have been, it was not opposed to change. Small-scale privatization was quickly implemented, based on a deeply rooted tradition of family homes and small businesses. Tashkent is the largest metropolis in Central Asia, and as early as 1993 its downtown area was transformed by newly available goods. In 1994, Uzbekistan introduced macroeconomic reforms intended to control the hyperinflation that had gripped all ruble-zone economies. Uzbekistan's economy benefitted from an abundance of cotton, which enjoyed high world prices in the mid-1990s. A Moscow-centric transport system made it difficult to get this crop to new foreign markets but the state's marketing monopoly ensured that a substantial share of the accrued revenues went to the government. As a result, the Uzbek state was able to maintain social services better than other Central Asian countries.

Over the decade of the 1990s Uzbekistan was the best-performing of all Soviet successor states, despite its rejection of the rapid "shock therapy" reform recommended by the International Monetary Fund (IMF), World Bank and others. Although data on the region were imperfect, economists at the IMF confirmed that Uzbekistan's good performance was real and not a statistical artifact.² This is not to ignore or minimize the fact that the Uzbek economy went through a painful transitional recession during the 1990s. But by the end of the decade Uzbekistan was acknowledged to be the first Soviet successor state to regain its pre-1991 real gross output level.

An important reason for Uzbekistan's relatively good performance was the standard of economic administration. Tashkent had been the administrative center of both Tsarist and Soviet Central Asia. Moreover, as the hub of the

² Günther Taube and Jeromin Zettelmeyer, *Output Decline and Recovery in Uzbekistan: Past Performance and Future Prospects*, Washington DC: International Monetary Fund, IMF Working Paper WP/98/132, 1998; Jeromin Zettelmeyer, *The Uzbek Growth Puzzle*, Washington DC: International Monetary Fund, IMF Working Paper WP/98/133, 1998. For a contemporary assessment of the Uzbek model of the 1990s, see Richard Pomfret, *The Uzbek Model of Economic Development 1991-9*, *Economics of Transition*, vol. 8 no. 3, 2000, 733-48.

Soviet cotton economy, the republic had an extensive technical organization dedicated to maintaining the essential irrigation network. Indeed, during the 1990s the Ministry of Water Resources had by far the largest staff of any ministry. This is not to deny that corruption was widespread, but it was moderate in comparison with the other centrally planned former Soviet economies.³

The major misstep of the 1990s was Tashkent's reaction to falling cotton prices on the eve of the 1996 harvest. In what appears to have been a hasty decision, the government reneged on its commitment to make the currency convertible and instead introduced strict exchange controls in October 1996. The immediate consequences were minor, but the long-term effects were to be serious. Fundamentally, the decision reflected a lack of confidence in the price mechanism, and a failure to appreciate that the two most important prices in a market economy are the relative price of domestic versus foreign goods and services (the exchange rate) and the relative price of current versus future goods and services (the interest rate).

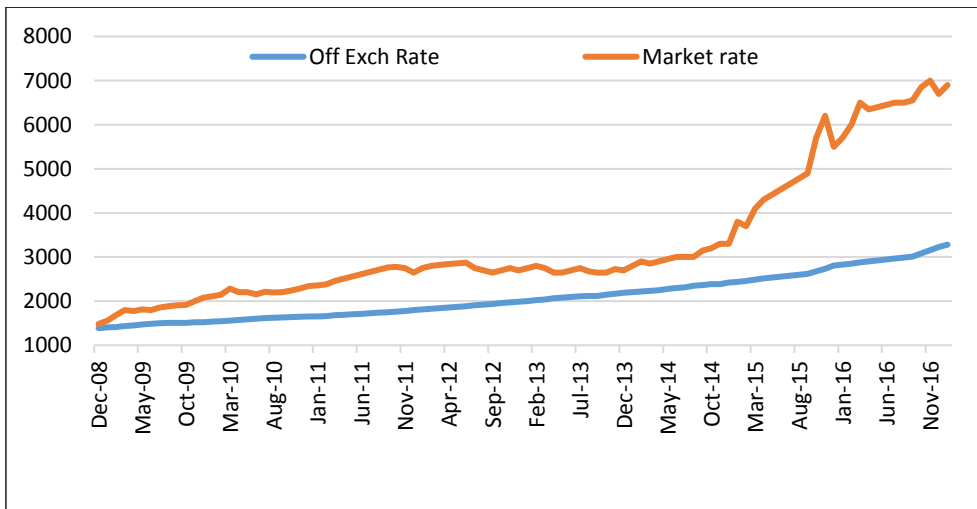
Events in the 1990s were important in establishing what came to be seen as the Uzbek economic model, which combined competent administration with a predilection for control over market mechanisms. Even before the turn of the century, many of the drawbacks of forex controls were evident to senior officials, which caused them to launch discussions on their possible termination. At the same time, many powerful people in the country benefitted from the opportunities for arbitrage and from the corruption inherent in currency controls. Moreover, rising world commodity prices alleviated pressures for change. In 2003, Uzbekistan made its currency convertible, but at the same time maintained many bureaucratic means of

³ In the EBRD's 1999 business environment and enterprise survey of over three thousand firms in twenty transition economies, Uzbekistan ranked fourth on the quality of governance, behind Hungary, Slovenia and Estonia and ahead of Poland, the Czech and Slovak Republics and all the CIS countries (reported in the EBRD *Transition Report 1999*).

limiting access to foreign currency. Nevertheless, as the economy enjoyed steady growth between 2003 and 2008, the currency black-market more or less disappeared.

The official position on economic policy continued to stress that acceptable changes must necessarily be evolutionary in character. Officials acknowledged the need for change but did little to implement reforms in practice. When global demand for most commodities dipped in 2008-9, the government tightened bureaucratic control over foreign exchange access and a substantial black market re-emerged (Figure 1). The premium was about a third between 2009 and 2014, and then blew out in 2015, suggesting renewed resort to controls as commodity prices plummeted again.

Figure 1: Exchange rate, sum/USD December 2008 – December 2016.⁴



The “Uzbek Paradox” remains today a much-debated topic. Supporters highlight the strong economic growth and diversification that occurred under “heterodox” policies, while critics question the accuracy of

⁴ Source: Ben Slay, based on Central Bank of Uzbekistan data and UNDP calculations.

Uzbekistan's GDP data and the sustainability of its pre-reform economic model.⁵

The economic growth of the first years of the twenty-first century was clearly driven by the commodity boom. The diversification out of agriculture, supported by import-substituting industrialization projects, did not promote much growth in manufacturing. As agriculture declined in importance between 2000 and 2010, rapid growth occurred in services, construction and mining, but not in manufacturing (Table 1).

*Table 1: Sectoral Composition of Value-added, Uzbekistan, 1987-2010.*⁶

	Agriculture	Mining, Utilities & Construction	Manufacturing	Public & Private Services
1987	27.6	10.3	28.0	34.1
1994	37.4	12.2	14.2	36.2
2000	34.4	13.7	9.4	42.5
2004	30.8	15.7	10.2	43.3
2010	19.5	26.4	9.0	45.1

⁵ Critics of the "miracle" include Kobil Ruziev, Dipak Ghosh and Sheila Dow, "The Uzbek Puzzle Revisited: An Analysis of Economic Performance in Uzbekistan since 1991", *Central Asian Survey*, vol. 26 no. 1, p. 7-30 and Martha Olcott, "Uzbekistan: A Decaying Dictatorship withdrawn from the West", in Robert Rotberg, ed., *Worst of the Worst: Dealing with Repressive and Rogue Nations*, Washington DC: Brookings Institution, 2007 p. 250-68. Strong supporters included Vladimir Popov, "Economic Miracle of Post-Soviet Space: Why Uzbekistan Managed to Achieve what No Other Post-Soviet State Achieved", MPRA Paper No.48723, 2013 (<http://mpra.ub.uni-muenchen.de/48723/>) and Giovanni Andrea Cornia, "Uzbekistan's Development Strategies: Past Record and Long-term Options", DISEI Working Paper no. 26, 2014, Università degli Studi di Firenze, 2014. Bogolov questioned the GDP data, and argued that the large number of Uzbeks migrating to Russia for work suggested that the miracle was a mirage. See Petr Bogolov, "An Exodus amid Tripled GDP: The Mirage of Uzbekistan's Economic Miracle", Carnegie Moscow Center, June 9, 2016. (<http://carnegie.ru/commentary/63771>)

⁶ Source: Cornia, "Uzbekistan's Development Strategies", p. 5, based on World Bank World Development Indicators.

Nor did the government succeed in making the country energy self-sufficient and an exporter of natural gas. The major growth drivers were exports of copper and gold, which expanded in response to soaring world prices. The changing composition of exports shown in Table 2 was associated with shifts in the direction of trade. Gas, automobiles, and fruit and vegetables were primarily sold to Russia, whose share of Uzbekistan's exports increased from 17 percent in 2000 to 33 percent in 2010 (displacing the EU as Uzbekistan's major export market). This left Uzbekistan exposed to changes in Russian market access, especially after Russia established its Eurasian Economic Union in 2015.⁷ Meanwhile, access to the Turkmenistan-China gas pipeline (which traverses Uzbekistan) after 2009 created an opportunity for gas exports to China.

Table 2: Major Exports, Uzbekistan, 2000 and 2010, Share of Total Exports.⁸

	Cotton	Energy products	Fruit and vegetables	Precious metals	Copper	Cars	Textile products
2000	31.9	11.9	2.5	25.1	4.5	2.2	5.4
2010	13.5	25.4	9.3	23.7	4.6	4.1	5.0

The lack of diversification is connected to Uzbekistan's multiple exchange-rate regime, which either favored production for the home market or, due to uncertainty about future returns, discouraged investment and enterprise altogether. The government discouraged the holding and use of the domestic currency, which increased dollarization, in spite of it being illegal. Overall this reduced the effectiveness of monetary policy. Administrative restrictions on the amounts of cash that could be withdrawn from bank

⁷ The car exports, from the factory established by Daewoo in the 1990s and taken over by GM after Daewoo's bankruptcy, entered Russia under preferential CIS tariffs before 2015, but fell after 2015 as Russia introduced non-tariff barriers.

⁸ Source: Bahodir Ganiev and Yuliy Yusupov, "Uzbekistan: Trade Regime and Recent Trade Developments," University of Central Asia Institute of Public Policy and Administration, Working Paper no. 4, 2012, based on national statistics. Notes: (a) mostly natural gas; (b) mostly gold.

accounts and limits on foreign-exchange transactions explain the low level of development of Uzbekistan's financial sector and the limited access to credit in the country.

The retail sector had initially flourished, but the desire for control stunted its growth. Fearing with some justification that the bazaars could become hotbeds of discontent, the government imposed heavy crackdowns in the late 1990s and early 2000s, driving small-scale trading "offshore," largely to the Kyrgyz Republic's huge bazaars outside Bishkek (Dordoï) and Osh (Karasuu). Uzbek customers at these bazaars organized onward transport of goods back to Uzbekistan by paying off customs officers and others.⁹

Uzbekistan's borders were tightly controlled, both for reasons of security and to protect import-competing industries. This added to the obstacles facing would-be producers of goods for export. Quality inputs were difficult to source from abroad, and, if exportable products were produced, exchange controls limited the exporter's legal revenue. Controls also reduced Uzbekistan's opportunities for hosting transit trade. In 1991, Tashkent had been the hub of Central Asian transport, whether by air, rail, or road. A mix of domestic regulations on transit (e.g. requirements for trucks to form convoys), as well as lengthy border delays, customs regulations and charges, and poor relations with neighbors exacerbated Uzbekistan's economic isolation.

Uzbekistan's social policies had been a source of pride in the 1990s, or at least less a cause for dismay than in other post-Soviet states. Yet by the 2010s they were perceived to be deteriorating. Education and health services remained universal, but were increasingly viewed as low-prestige fields that

⁹ Bartłomiej Kaminski and Saumya Mitra: *Skeins of Silk: Borderless bazaars and border trade in Central Asia* (Washington DC, World Bank, 2010) and *Borderless Bazaars and Regional Integration in Central Asia: Emerging patterns of trade and cross-border cooperation* (World Bank: Washington DC, 2012).
Regine Spector: *Order at the Bazaar: Power and Trade in Central Asia* (Cornell University Press, 2017).

were riddled with corruption: school grades and access to medical services were traded openly. The widespread resort to patronage to fill public offices contributed to the declining quality of public services, in spite of continuous increases in the number of officials.¹⁰

The public's sense of relative equality of the 1990s gave way to a common belief that members of the elite were amassing personal fortunes. High-level corruption was seen as being most common among those with access to such new economic sectors as the media, finance, and telecommunications.¹¹

The most striking symptom of the shortcomings of the economic system was the estimated two million migrants who travelled to Russia in search of work because there were not enough jobs in Uzbekistan. This may be better than the emergence of slums or bread riots that characterized countries pursuing import-substituting industrialization in the 1950s and 1960s. However, the emigration to Russia of so many young adult males not only adversely affected Uzbekistan's rural social structure, but also left Uzbekistan vulnerable to changes in Russia's policies towards foreign workers. Furthermore, it has now been shown that the majority of Central Asians drawn to violent extremist groups are recruited in Russia and not in their home countries, adding a national security aspect to this mass migration.¹²

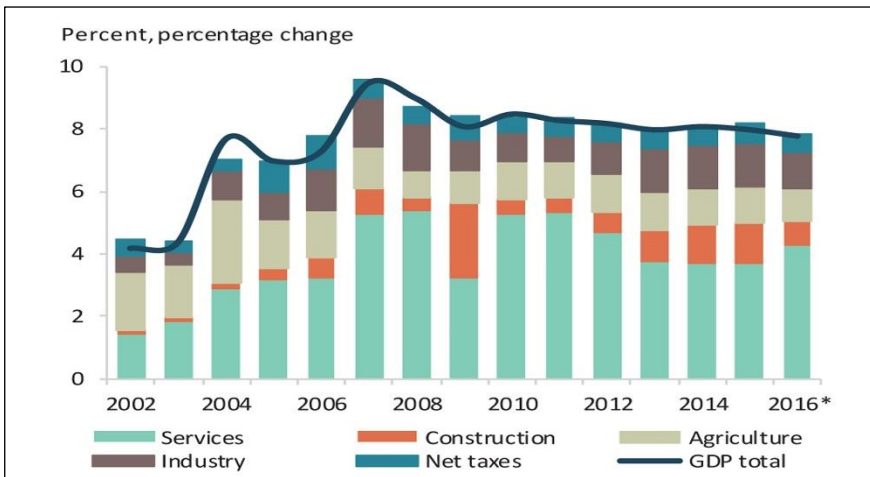
¹⁰ Perceptions of corruption were increasing; Uzbekistan ranked 153rd out of 167 in Transparency International's 2015 Corruption Perceptions Index, which is worse than 79th out of 90 in 2000 if we assume that the additional coverage tends to bring in poorer and more corrupt countries. According to Akhmed Said ("Uzbekistan at a Crossroads: Main Developments, Business Climate, and Political Risks," *Uzbekistan Initiative Papers no. 10*, Central Asia Program, Elliott School of International Affairs, The George Washington University, Washington DC, and Barcelona Centre for International Affairs, 2014, p.7), "a dramatic increase of the government bureaucracy in the past two decades has coincided with a steep decline in its capacity to effectively implement policies".

¹¹ The transnational corruption issues on a regional level are discussed in Alexander Cooley, *Dictators without Borders*, New Haven: Yale University Press: 2017.

¹² Joanna Paraszczuk, "Most Uzbeks Fighting for IS Came from Russia, Theologian Claims", RFE/RL, March 24, 2015; (<http://www.rferl.org/content/most-uzbeks-fighting-for-is-came-from-russiatheologian-claims/26918165.html>) Noah Tucker, Central Asian Involvement in the Conflict in Syria and Iraq: Drivers and Responses, USAID and MDI, 2015.

Despite these problems and shortcomings, clearly downplayed by the lack of objective statistical data, the key positive legacies of the more than two decades of President Karimov’s rule were clearly observed: the preservation of sovereignty and the overall maintenance of stability. The status of the Uzbek economy by the end of 2016 presented an opportunity for the new leader, Shavkat Mirziyoyev, to launch a new wave of reforms from a position of relative strength and security, and not in response to crisis. This, more than anything else, augured well for their possible success.

Figure 2. Real GDP Growth and Contributions to Real GDP Growth.¹³



Sources: Uzbekistan Official Statistics

https://www.usaid.gov/sites/default/files/documents/1866/CVE_CentralAsiansSyriaIraq.pdf; Ryskeldi Satke and Marta Ter, "Are Central Asian migrants in Russia a recruiting ground for Islamic State?" European Council on Foreign Relations, July 27, 2015.

¹³ World Bank Group, "Migration and Mobility", Europe and Central Asia Economic Update, October 2017.

(<https://openknowledge.worldbank.org/bitstream/handle/10986/28534/9781464812194.pdf?sequence=4&isAllowed=y>)

President Mirziyoyev's Economic Reform Strategy

President Mirziyoyev inherited a relatively stable economic system that he knew intimately and understood without illusions, having served as Prime Minister of Uzbekistan since 2003 until the death of President Karimov. In this capacity, he had designed many reform policies, including a number that were promised but not implemented under the previous leadership, but which were to be implemented following Mirziyoyev's election as president. The most important among these were the currency reform implemented in September, 2017. While pointing toward more thoroughgoing reforms to come, Mirziyoyev from the outset defended his changes as urgently needed steps in order to protect Uzbekistan's sovereignty, independence, economic viability, and social development.

The reform agenda in the economic sphere, just as in other spheres, has been comprehensive and very ambitious, and well-articulated in multiple public statements of the president and governmental documents. In February, 2017, Uzbekistan adopted a thoroughly crafted reform manifesto: *2017-2021 National Development Strategy* (hereafter, "The Strategy"). The Strategy identified five priority areas: reform of public administration; reform of the judiciary and strengthening the rule of law; economic development and liberalization; the social area; and security and foreign policy.¹⁴

In terms of economic development and liberalization, the Strategy includes five priority directions. The first is a further strengthening of macroeconomic stability and the maintenance of high rates of economic

¹⁴ "Uzbekistan's Development Strategy for 2017-2021 has been adopted following public consultation," *Tashkent Times*, February 8, 2017.

growth. The second is to increase the competitiveness of the national economy by deepening structural reforms, and by modernizing and diversifying its leading industries. The third is the modernization and intensive development of agriculture. The fourth is the continuation of institutional and structural reforms aimed at reducing the state's presence in the economy, further strengthening the protection of rights and private property, and stimulating the development of small business and private entrepreneurship. The fifth is the comprehensive and balanced social and economic development of regions, districts and cities.¹⁵

Some of the priorities set in the development and reform strategy started to be implemented in 2017, and have begun to deliver results. Among the most significant elements of reforms that are already being implemented are the liberalization of the foreign exchange market, improvements in the quality and transparency of economic data, focus on job creation, by reduction or elimination of unnecessary regulations, including licenses required for doing business in many fields. In addition, practical steps have been taken to bring about greater openness to foreign trade and economic relationships.

The President and his government introduced multiple legislative and regulatory initiatives designed to modernize the Uzbek economy, with the key emphasis on private sector development. While still acting President, on October 5, 2016, Mirziyoyev signed the decree "On Additional Measures to Ensure the Accelerated Development of Entrepreneurship, the Full Protection of Private Property, and the Qualitative Improvement of the Business Environment." This initiative sent a clear signal as to his priorities.

Several other significant legislative and regulatory initiatives were taken in those early months. In the area of taxation, a presidential decree was issued in July 2017, "On Measures to Radically Improve Tax Administration, and

¹⁵ Ibid.

to Increase the Collection of Taxes and Other Mandatory Contributions."¹⁶ This was followed by a package of legislative amendments focusing on tax and budget policies for 2018.¹⁷ This package initiated reorganization of tax collection and introduced a monitoring system designed to be friendlier to tax-payers. A further presidential decree of February 16, 2018, directed government agencies to focus their efforts on comprehensive tax reform to simplify administration and reduce the overall tax burden on companies.¹⁸

In September 2017, the President issued a decree on "Priority Measures for the Liberalization of Currency Policy", which made the national currency fully convertible.¹⁹ Later that same month, a presidential Resolution "On Measures to Further Streamline the Foreign Economic Activity of the Republic of Uzbekistan" sharply reduced customs duties on more than 8,000 categories of imported goods. This included zero rates of customs payments for 3,550 items and a modest excise tax for 1,122 items. The average customs rate for imported goods was now established as 6.45 percent.²⁰

Along the same lines, a June 21, 2017, decree "On Measures to Further Support Domestic Exporting Organizations and Improve Foreign Economic Activities" sought to remove artificial restrictions on foreign trade, including by abolishing Uzagroexport's monopoly on the export of agricultural products beginning on July 1, 2017, and by allowing all businesses to engage in exporting.²¹ In a related move, more than 30

¹⁶ "Uzbekistan Reforming its Tax System," *Trend News Agency*, July 22, 2017. (<https://en.trend.az/casia/uzbekistan/2778851.html>)

¹⁷ The law was entitled "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Adoption of the Basic Directions of the Tax and Budget Policy for 2018."

¹⁸ "The President Ordered to Radically Improve the Tax Legislation", *Uzbekistan Daily*, February 16, 2018, <http://ut.uz/en/opinion/the-president-ordered-to-radically-improve-the-tax-legislation/>

¹⁹ "President of Uzbekistan Signs Decree on Liberalization of Monetary Policy", *UzDaily*, September 3, 2017, <https://www.uzdaily.com/articles-id-40695.htm>

²⁰ Resolution of the President of Uzbekistan "About Measures for Further Streamlining of the Foreign Economic Activity of the Republic of Uzbekistan", CIS Legislation, September 29, 2017, <https://cis-legislation.com/document.fwx?rgn=101296>

²¹ "Uzagroexport's Monopoly for Export of Fruit and Vegetable Products Canceled",

regulatory acts were passed to reduce barriers in the tourism sector, including a Resolution of August 16, 2017, "On Priority Measures for the Development of Tourism in 2018-2019."²²

These and other measures set reform priorities and provided governmental entities with immediate action plans. These policies are already beginning to bring positive results in the form of growing exports, increased foreign direct investments, and an increasing number of new jobs. Trade turnover with foreign countries increased by over 11 percent in 2017, with exports growing by 15.4 percent and imports by 7.2 percent;²³ more than 336,000 new jobs were created by the end of 2017.²⁴

These positive trends were duly noted in the Statement issued at the conclusion of an IMF Staff Visit to Uzbekistan on November 16, 2017.²⁵ The IMF commended the authorities' continued efforts to adopt a more effective macroeconomic stabilization framework and to improve the economy's investment climate, in line with the priorities of the President's development strategy. The statement also stressed that the liberalization of the foreign exchange market had been a significant first step, and was expected to be followed by the liberalization of most prices, the restructuring of state-owned enterprises, and the removal of remaining bottlenecks to international trade and foreign direct investment.

<http://www.uzbekistan.de/en/nachrichten/nachrichten/uzagroexports-monopoly-export-fruit-and-vegetable-products-canceled>

²² "Measures to Develop Tourism in 2018-2019 Adopted in Uzbekistan", *UzDaily*, August 17, 2017, <https://www.uzdaily.com/articles-id-40491.htm>

²³ "Summary of 2017 in foreign trade policy of the Republic of Uzbekistan", *Embassy of Uzbekistan*, January 26, 2018. (<http://www.uzbekembassy.in/summary-of-2017-in-foreign-trade-policy-of-the-republic-of-uzbekistan/>)

²⁴ Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Parliament, Oliy Majlis, December 22, 2017 <http://www.ut.uz/en/politics/for-the-first-time-in-the-history-of-our-country-the-president-of-the-republic-of-uzbekistan-shavkat/>

²⁵ "Statement at the Conclusion of an IMF Staff Visit to Uzbekistan", November 16, 2017, (<https://www.imf.org/en/News/Articles/2017/11/16/pr17444-statement-at-the-conclusion-of-an-imf-staff-visit-to-uzbekistan>)

The mission congratulated Uzbekistan on having taken, “the first concrete steps toward improving the quality and transparency of economic statistics. A new consumer price index measure, aligned with international standards, will be used to measure inflation from February, 2018, onward. Uzbekistan has also progressed toward joining the IMF’s enhanced General Data Dissemination System (E-GDDS).”²⁶

In the follow up Staff Concluding Statement on March 14, 2018, the IMF mission to Uzbekistan stated that “Uzbekistan has embarked—with great determination—on reforms to address the country’s most pressing challenges, foremost the lack of jobs”, and emphasized one more time that “The authorities jump-started economic reforms by liberalizing the foreign exchange (FX) market.”²⁷ According to the statement, about 500,000 new job seekers continue to enter the labor market each year, presenting both a challenge and opportunity for the authorities, who: are keenly aware that if job creation does not catch up with the country’s bulging labor supply, this would entail continued high unemployment and labor migration, especially in rural areas, and rising dissatisfaction”.²⁸ Positive economic outlook for 2018-2019, communicated in the statement, will serve as a favorable condition for attracting attention to Uzbekistan by the global investment community.

The establishment of the office of Ombudsman to protect the interests of domestic and foreign businesses, and the creation of partnerships with the multilateral development banks, are two of many changes that may foreshadow significant improvements in governance that should positively affect economic development. Early moves against corruption and poor administration focused on the demotion or removal of figures who were

²⁶ Ibid

²⁷ Uzbekistan: Staff Concluding Statement of the 2018 Article IV Mission, <http://www.imf.org/en/News/Articles/2018/03/14/ms031418-uzbekistan-staff-concluding-statement-of-the-2018-article-iv-mission>

²⁸ Ibid

perceived as being corrupt. But as detailed in Mjuša Sever's *Silk Road Paper*, the effort to modernize the economy goes beyond correcting widely-known pathologies. Notable further efforts include measures to ensure that officials at the local level are responsive to their constituents and the swift removal of a number of officials who failed to meet this new requirement.²⁹

Personnel changes at the regional and national level could be interpreted as replacing an older generation of policymakers and officials with members of a younger generation who are more comfortable in a modern market economy.

By far the most significant measure of economic reform came on September 5, 2017, when the Central Bank of Uzbekistan reunified Uzbekistan's exchange rates and President Mirziyoyev promised freely floating market-determined rates thereafter. The sum immediately dropped from the official USD rate of 4,210 to 8,100, and the black market disappeared. If rigorously implemented over the long-term, a unified and market-determined exchange rate will remove the single largest obstacle to the efficient operation of a market-based economy in Uzbekistan.

Simultaneously, restrictions that prevented legal entities and individuals from converting currency were lifted. For the first-time individual entrepreneurs and farmers in Uzbekistan were allowed to withdraw foreign currency from their bank accounts. Legal entities can purchase foreign currency in banks to cover such international transactions as the import of goods, workers, and services, the repatriation of profits, the repayment of loans, travel expenses, and other non-trade transfers. Individuals can now buy foreign currency transferred to them with plastic payment cards, but banks accept currency for sending abroad only in cash. The same cards can be used abroad without restrictions. On December 1, 2017, Uzbekistan's

²⁹ Mjuša Sever, *Judicial and Governance Reforms in Mirziyoyev's Uzbekistan*, Washington/Stockholm: CACI & SRSP Silk Road Paper, March 2018, p. 41-43. (<http://silkroadstudies.org/publications/silkroad-papers-and-monographs/item/132821>)

banks launched a service for transferring money abroad. Family members of persons who are studying or being treated abroad need only present the national currency, which the bank will automatically accept, convert into foreign currency, and send abroad.

The currency reform was followed by increased activity in foreign financial markets and with international financial institutions (IFIs). During the visit of an Uzbekistan governmental delegation led by Prime Minister Abdullah Aripov to Germany on November 14-17, 2017, Uzbekistan's National Bank for Foreign Economic Activity reached loan agreements with leading German banks in the amount of 950 million euros, the largest, at 500 million euros, being with Deutsche Bank to support large-scale investment projects in Uzbekistan. Also signed at this time were agreements with Commerzbank worth 350 million euros and with AKA Bank worth 100 million euros.³⁰ Earlier, the National Bank of Uzbekistan signed agreements with the European Bank for Reconstruction and Development (EBRD) for a \$100 million line of credit for small business projects,³¹ with Russia's Gazprombank to finance investment projects worth \$153 million, and with Turkey's Türk Eximbank for \$44 million of export credit.

The Asian Development Bank (ADB) and World Bank lead the list of IFIs that have positively evaluated Uzbekistan's reform agenda and translated that approval into concrete agreements. In March 2017, ADB's President Takehiko Nakao paid an official visit to Uzbekistan on March 3, 2017, at the

³⁰ Announcements of new German foreign investment projects in Uzbekistan such as VW-MAN investing in 2018-19 in facilities to produce Amarok pick-up trucks and intercity MAN-Lion coaches may reflect a more optimistic view of Uzbekistan's economic prospects. However, this project builds on an existing joint venture that produces MAN trucks in Samarkand, and may have happened without the change in president. Peugeot is also constructing facilities to begin production of cars and minibuses after December 2018.

³¹ On October 23, 2017, the EBRD approved a \$10 million loan to private fruit juice company Agromir. The next day in a letter to President Mirziyoyev EBRD President Suma Chakrabati described this as "an important milestone in the 'new beginning' in relations between Uzbekistan and the EBRD"; reported in *The Tashkent Times*, October 24, 2017. Two EBRD Vice-Presidents visited Tashkent in November 2017, and opened an EBRD office during their visit.

conclusion of which he signed loan agreements in the fields of water supply, road construction, small business development, and agriculture.³² The value of these loans is \$573 million. Meanwhile, for the year 2017 alone the World Bank approved investment projects in Uzbekistan valued at more than \$1 billion.³³

³² ADB President Visits Uzbekistan to Strengthen Partnership, Signs 4 Loan Agreements, ADB, March 3, 2017, <https://www.adb.org/news/adb-president-visits-uzbekistan-strengthen-partnership-signs-4-new-loan-agreements>

³³ World Bank, <http://www.worldbank.org/en/country/uzbekistan/projects/all>

Modernization in Action

The success of Uzbekistan's massive effort to modernize its economy will depend significantly on reforms occurring concurrently in the sphere of governance. Prominent among these are the effort to cut back corruption, reduce the regulatory and bureaucratic burden on businesses and individual citizens, and to establish the rule of law. All of these are inter-related. Thus, a reduction of bureaucratic controls on businesses will limit opportunities for official corruption and open the way for a more-law-based regimen. Small and medium size enterprises and private agricultural producers will be the first to benefit from any new wave of regulatory, governance, and legal reforms.

Governance and Regulatory reforms

Deregulation, decentralization, and optimization of the role and functions of the government are key elements of any successful economic reforms in Uzbekistan. In his address to the Oliy Majlis on December 22, 2017, President Mirziyoyev focused on the main outcomes of the past year and the priorities for economic and social development in 2018 and beyond.³⁴ It is significant that this was the first time that Uzbekistan's president had given such an address before the combined houses of parliament. The President reminded the audience of major economic reforms that had been achieved in 2017, noting specifically the transformation of the foreign exchange regime and improved regional economic relations. However, at

³⁴ Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Parliament, Oliy Majlis, December 22, 2017 <http://www.ut.uz/en/politics/for-the-first-time-in-the-history-of-our-country-the-president-of-the-republic-of-uzbekistan-shavkat/>

several points in his speech he noted that most of these initiatives had come from the new administration and not from the legislators seated before him. Knowing that legislators could have direct knowledge of the actual problems citizens face when trying to start or develop businesses, he strongly urged members of parliament to be more active in initiating legislation that is responsive to citizens' needs. Indeed, the first half of the address focused on improving the functioning of the state institutions, establishing the rule of law, and strengthening the rights and freedoms of citizens, not least in the economy.

The presidential address followed the structure of the Development Strategy document for 2017-2022, and focused above all on economic liberalization and development. Mirziyoyev emphasized that reform in governance and law, as well as social advancements, would be impossible without a vigorous and sustainable economic life. With this in mind he focused on stringent measures to rectify some of the acknowledged weaknesses in the economy.

One area he emphasized was the over-centralization of functions and powers of the state. According to President Mirziyoyev,

At present there are 64 types of licenses, of which 21 are issued by the Cabinet of Ministers and 40 by other central authorities. Only three of these licenses refer to the power of regional administrations, and only one to district mayor's office. The same applies to permitting documents as well. Out of 220 documents related to the issuance of permits, only 11 may be obtained at the city or district level. To obtain the remaining 209, it is necessary to apply to national level and regional authorities.³⁵

The President highlighted the complexity of customs procedures, which create significant obstacles for trade. He quoted a World Bank report that

³⁵ Ibid

ranked Uzbekistan 175th among 190 countries in processing export-import documentation. He lamented that, “The same customs procedure that takes one hour for clearance in Belgium takes an entire month in our country,” and stressed the need to reduce regulation and to facilitate trade by introducing green channels at border crossings in 2018 and by emphasizing risk assessment rather than inept controls.³⁶

In reforming governance, Mirziyoyev has given priority to delegating power to local and regional leaders who are in a position to foster economic development and promote investments. As part of the reform, he introduced at city, district, and regional levels a new official with the title of, “Deputy Governor (*Khokim*) or Mayor for Attracting Investment.” At the same time, the new Administration has increased the responsibility of territorial bodies for developing budgets, taxation, and the creation of financial reserves. In general, local authorities have gained more power over their own budgets and responsibility for their management. In the same spirit, a newly created local entity, the Public Service Agency under the Ministry of Justice, will help businesses and citizens navigate the new legal environment.

To some extent these reforms in Uzbekistan follow the positive experience of similar reforms of governmental services elsewhere in Central Asia and the Caucasus. This current appeared first in Georgia, and subsequently found receptive ground in both Azerbaijan and Kazakhstan. The simplification of licensing and permitting, and the streamlining of public services not only save citizens much time but also help reduce corruption in the state agencies by reducing the interface between state and citizen and increasing its transparency. As in Uzbekistan, new technologies and citizen engagement have facilitated the process of reform in all three of these countries.

³⁶ Ibid

During Mr. Mirziyoyev's Prime Ministership, Uzbekistan undertook these decentralizing administrative reforms to improve the business environment. The World Bank took notice of these changes and named Uzbekistan a top reformer in both 2012 and 2015 and a "top improver" in 2017. The World Bank's press release noted that "with five major business reforms during the past year, the country carried out the most reforms in the Europe and Central Asia region."³⁷ As a result, it moved up to 74th place in the rankings, from 87th in 2015.³⁸ Reforms implemented by Uzbekistan's government are described in detail on the World Bank web page, dedicated to the progress of Uzbekistan in this direction.³⁹

Despite this significant progress, Uzbekistan still has a long way to go in the improvement of governance and reduction of corruption. The strategy wisely focuses on the elimination of certain governmental regulations, the elimination of certain licenses and permits, and the reduction of the overall burden of governance on businesses and citizens. If successfully implemented, this should reduce opportunities for corruption in the area of public services. To address corruption in law enforcement, the health care system, and education, will require great political will. However, the experience to date suggests that with sufficient determination and persistence on the part of the government, corruption can be reduced or eliminated in these areas as well.

³⁷ World Bank, "Uzbekistan is a Global Top Improver for Third Time as Reform Agenda Continues: Doing Business Report", November 1, 2017. <http://www.worldbank.org/en/news/press-release/2017/11/01/uzbekistan-is-a-global-top-improver-for-third-time-as-reform-agenda-continues-doing-business-report>

³⁸ "Doing Business 2018." (<http://www.doingbusiness.org/data/exploreconomies/uzbekistan>)

³⁹ "Uzbekistan is a Global top Improver for Third Time as Reform Agenda Continues: Doing Business Report", The World Bank, November 1, 2017, <http://www.worldbank.org/en/news/press-release/2017/11/01/uzbekistan-is-a-global-top-improver-for-third-time-as-reform-agenda-continues-doing-business-report>

Small Business and Private Sector Development

Since the first years of independence the small business sector has played a significant role in the Uzbek economy. Indeed, President Karimov considered it to be a priority area of economic development. To a greater extent than in any other area of the economy the reforms currently underway are a continuation of past “best practices.” Since the start of the new millennium, small businesses and entrepreneurs have played an increasingly important role in sustaining the country's high rates of economic growth, constantly increasing their contribution to Uzbekistan's GDP growth. They grew from 30 percent of GDP at the start of the millennium to more than 50 percent of GDP by the end of 2011,⁴⁰ and to 56.9 percent by 2016. Over the same period their share of industrial production grew from 12.9 to 38.9 percent, their share of exports rose from 10.2 to 26.9 percent, and their share of total employment expanded from 49.7 to 78 percent.⁴¹

Nearly three out of every four employed persons in Uzbekistan work in small businesses, and more than 60 percent of those jobs are in rural areas. Thus, the development of small businesses is important both to the country's economy and security. The Uzbek government has a solid appreciation of the role of small businesses in the creation of new jobs. In fact, this is a top priority in the government's reform agenda. To this end, President Mirziyoyev as early as October, 2016, signed a decree "On Additional Measures to Ensure Accelerated Development of

⁴⁰ Remarks by ADB Vice President Xiaoyu Zhao, International Conference on "The Role and Importance of Small Business and Entrepreneurship in the Implementation of the Socioeconomic Policy in Uzbekistan", September 14, 2012, Tashkent, Uzbekistan, Asian Development Bank, <https://www.adb.org/news/speeches/international-conference-role-and-importance-small-business-and-entrepreneurship>

⁴¹ "Share of small businesses in Uzbekistan's GDP reaches 56.9% in 2016", *Uzdaily*, February 27, 2017, (<https://www.uzdaily.com/articles-id-38558.htm>)

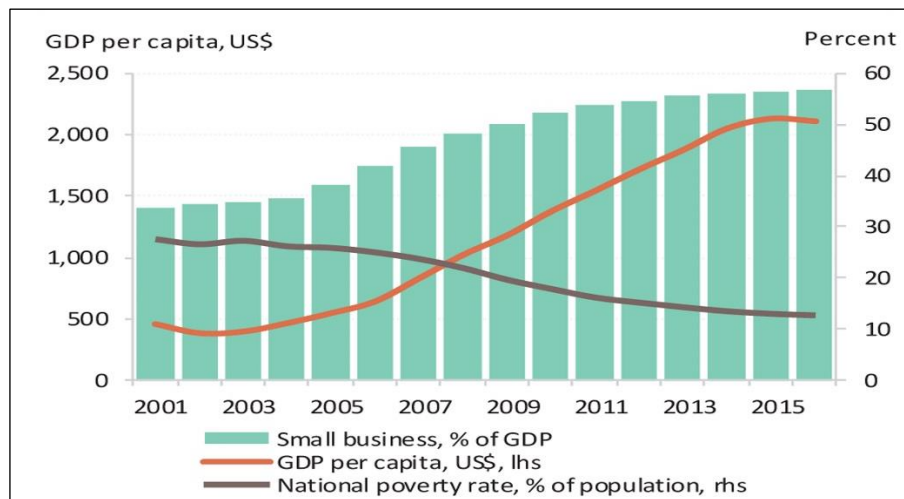
Entrepreneurial Activities, Full Protection of Private Property, and Qualitative Improvement of the Business Environment."⁴²

This decree, which simplified the process of establishing new businesses and obtaining permits, complements the reform and modernization of banking mechanisms and activities. Those measures seek to prevent administrative interference in the activities of commercial banks, including their credit policies. Such international financial institutions as the Asian Development Bank, the European Bank for Reconstruction and Development, the Islamic Development Bank, and the German Development Bank also consider the simplification of lending procedures for small business to be an important priority, and are prepared to provide lines of credit and technical assistance to commercial banks in Uzbekistan in order to upgrade and expand their lending to small businesses. As noted above, EBRD alone provided the National Bank of Uzbekistan with a \$100 million line of credit for small business projects. The access to capital by start-ups and small and medium size enterprises will be one of the key drivers for overall economic growth and job creation.

By the end of 2017 over 90 percent of Uzbek enterprises were under private or corporate ownership and were accounting for more than 80 percent of industrial output. All wholesale and retail trade and services are now owned and operated by the private sector, which produces one third of all industrial products and gives rise to more than half of all GDP growth.

⁴² "On additional measures to ensure the accelerated development of entrepreneurial activity, comprehensive protection of private property and substantial improvement of business climate", uza.uz, October 7, 2016. (<http://uza.uz/en/documents/on-additional-measures-to-ensure-the-accelerated-development-07-10-2016>)

Figure 3. Poverty, GDP per capita, and Small Business Development⁴³



These trends suggest that private enterprise will increasingly be the driver of the job creation and the expansion of production that are central to the government's economic agenda. The state must now gradually privatize large state-owned enterprises, expand competitiveness and liberalize the pricing of energy. Further expansion of the private sector growth and the development of small and medium enterprises will not only strengthen the economy and increase its international competitiveness but will generate the new jobs that will raise the well-being of the population at large.

Agriculture

Uzbekistan has excellent conditions for the development of agriculture, including land, water, favorable climatic conditions, and skilled human

⁴³ Sources: National poverty line is minimum food consumption equivalent to 2,100 calories per person per day and it does not include non-food items. Note: Poverty is national data, as lack of access to microdata meant the World Bank could not verify/validate official figures after 2003. See World Bank Group, "Migration and Mobility", Europe and Central Asia Economic Update, October 2017. (<https://openknowledge.worldbank.org/bitstream/handle/10986/28534/9781464812194.pdf?sequence=4&isAllowed=y>)

resources. The World Bank confirms that agricultural output has been robust since 2003, with average annual growth rates of 6.5 percent. To be sure, the role of agriculture in Uzbekistan's GDP has steadily dropped, from 28.8 percent of the total in 2003 to 16.8 percent in 2015. However, this decline was due not to a drop in agricultural production, but to faster growth in other sectors of the economy. Agriculture still sustains 27 percent of the employed population, making it the single largest sector in terms of employee numbers; obviously, it is of crucial importance across Uzbekistan's large rural regions. Moreover, between 2003 and 2014 the number of people employed in agriculture increased by almost 15 percent.⁴⁴

Uzbekistan's great challenge, like that of other new states that were formerly part of the USSR, is to overcome the Soviet legacy. Communist planners in Moscow, like tsarist bureaucrats before them, assigned Uzbekistan the role of cotton producer. Even today Uzbekistan is the world's fifth exporter of cotton. The environmental consequences of cotton monoculture are well known, and go far beyond the Aral Sea disaster.⁴⁵ Uzbek leaders have been acutely aware of the problem. Speaking in 2014, Islam Karimov noted that "in Soviet times, agriculture in Uzbekistan was targeted exclusively on cotton production, so the soil grew poorer decade by decade, and was poisoned with chemicals; crop rotation did not exist ... the first and foremost task after achieving independence was to diversify agricultural crops, revitalize the soil, and modernize the agricultural sector."⁴⁶ A further consequence of the Soviet era's one-sided focus on cotton is that Uzbekistan

⁴⁴ World Bank, "Systematic Country Diagnostic for Uzbekistan," May 20, 2016. (<http://documents.worldbank.org/curated/en/304791468184434621/pdf/106454-REVISED-PUBLIC-SecM2016-0167-1.pdf>)

⁴⁵ Iskandar Abdullaev, Mark Giordano and Aziz Rasulov, "Cotton in Uzbekistan: Water and Welfare", in Deniz Kandiyoti, ed., *The Cotton Sector in Central Asia: Economic Policy and Development Challenges*, London: SOAS, 2005

⁴⁶ "FAO top executive sees Uzbekistan food conference as key to boost agricultural production", Food And Agriculture Organization of the United Nations, June 6, 2014. (<http://www.fao.org/director-general/newsroom/news/detail/en/c/234098/>)

did not produce enough grain to feed its population. During the first years after independence it had no choice but to import annually five million tons to supplement its meagre half million tons of domestic production.⁴⁷

From the outset, the government of independent Uzbekistan focused successfully on the expansion of domestic grain production. As a result, the United Nations' Food and Agriculture Organization reported that in the first decade and a half of independence Uzbekistan increased the area allocated for grain production by 200 percent.⁴⁸ The country now produces over eight million tons of grains, mainly wheat, with rapidly increasing yields.⁴⁹ The problem, as noted above, is that cotton provided, and still provides, important income for Uzbekistan's cash-strapped economy and remains a major factor in all economic planning there. This calls for a measured transition to a more diversified agricultural economy, and not a reckless crash program.

The World Bank has noted that Uzbekistan's cotton production has remained stagnant since 2008, while the value of its wheat crop has increased rapidly. During the past decade the ratio of wheat prices to cotton prices has also shifted in favor of wheat. Cotton now accounts for only 9 percent of total exports. As this happened, the priority shifted from cotton to ensuring self-sufficiency in wheat production.⁵⁰ The government has also encouraged the expansion of horticulture, which now accounts for about 18 percent of arable land. This growth has occurred mainly on land formerly used for growing cotton. The World Bank estimates that fruits and vegetables now account for 50 percent of the value of all crops and over 35

⁴⁷ Stanislav Zhukov, "Central Asia: Development under Conditions of Globalization", in Boris Rumer, ed., *Central Asia: Gathering Storm?*, Armonk: M.E. Sharpe, 2002, pp. 333-375. UNDP, *Food Security in Uzbekistan*, Tashkent, 2010, p. 32.

⁴⁸ FAO, *Regional Overview of Food Insecurity: Europe and Central Asia*, 2015.

⁴⁹ Chris Lyddon, "Focus on Uzbekistan", *World-Grain.com*, July 14, 2015. (<http://www.world-grain.com/Departments/Country-Focus/Country-Focus-Home/Focus-on-Uzbekistan-2015.aspx?cck=1>)

⁵⁰ World Bank, "Systematic Country Diagnostic for Uzbekistan."

percent of the value of all agricultural exports. Interestingly, horticulture is significantly more remunerative for farmers than either wheat or cotton.⁵¹

By 2017, Uzbekistan exported fruits and vegetables to 43 countries. The value of these exports increased by 38 percent in 2016 and by more than 50 percent in 2017.⁵² However, Uzbekistan is far from fully realizing its potential in international markets. Further expansion will require meeting the stringent quality and food safety requirements of the major foreign markets, as well as addressing logistical and organizational challenges, notably storage. Similarly, the potential for improvements in the cotton sector is also considerable. Yields are only 35-50 percent of those of other producing countries, reflecting inadequate fertilizers, irrigation, and sub-standard seeds. Looking ahead, Uzbekistan can benefit greatly from local cotton spinning, expanded canning and processing industries, and from privately owned and managed marketing, distribution, and storage companies. Agribusiness has the potential to increase Uzbekistan's exports, expand employment, and contribute to more balanced regional development.

Against this background, it is no accident that an entire section of the Strategic Development Strategy of Uzbekistan for 2017-2022 is focused on agriculture. Among the stated goals are: to deepen structural reforms; to ensure food security; to increase exports; to reduce cotton acreage; to invest in modern processing, storage, distribution, and marketing; and to restore the quality of land and mitigate risks arising from environmental changes.

A significant element of the present agricultural reforms has been to allow textile factories to buy raw cotton directly from farmers, without the intermediary "Uzpakhtasanoat," the former Soviet state monopoly in

⁵¹ Ibid.

⁵² "Uzbekistan Increases its Horticultural Exports", *Eurofresh-distribution.com*, January 24, 2017. (<https://www.eurofresh-distribution.com/news/uzbekistan-increases-its-horticultural-exports>)

charge of all sales of cotton fibers.⁵³ In his address to the parliament, President Mirziyoyev excoriated the inefficiency of the existing system and spoke favorably of successful pilot programs to create cotton-textile clusters in the Navoi, Bukhara, and Syrdarya regions.⁵⁴

The President argued, further, that the US \$1.5-2 billion value of annual fruit and vegetable exports is only 10 percent of the country's potential. The only way to raise production and export is to improve the overall efficiency of agriculture. Only private investment will be able to develop necessary infrastructure. Only private agribusiness firms have the potential to lower production costs and shift the current focus from the production of raw crops into higher value-added products through technology-based production. This change of focus, he argued, will generate income for producers and create jobs in textile and agro-foods in local and regional markets. With much of the male labor force working abroad, many farms are now managed by women; growth of the agro-food industry will expand job opportunities for women in rural areas.

An example of these new trends is that in September 2017, Uztrade (a subordinate organization of Uzbekistan's Ministry of Foreign Trade) opened a trading house in New York and began for the first time to export melons to the U.S.⁵⁵ In November, the EBRD's announced a \$10 million loan to JV Agromir Juice, the Bank's first agribusiness project in Uzbekistan in a decade. The country's largest juice manufacturer will use these funds to construct a modern warehouse equipped with an automated management

⁵³ "Shavkat Mirziyoyev signs decree allowing textile firms to purchase cotton straight from farmers", *Tashkent Times*, December 15, 2017. (<http://tashkenttimes.uz/economy/1815>)

⁵⁴ Kamila Aliyeva, "Uzbekistan Reforms its Cotton, Textile Industries", *Azernews*, December 15, 2017. (<https://www.azernews.az/region/124018.html>)

⁵⁵ "Uzbekistan Exports First Fresh Melons to the US", *Ferghana News*, October 25, 2017. (<http://enews.fergananews.com/news.php?id=3558&mode=snews>)

system.⁵⁶ These examples confirm that the potential for further development of the agricultural sector is considerable.

New Regional Economic and Trade Policy

A greater openness to trade, foreign economic relationships, and international investments is an important component of President Mirziyoyev's reform agenda. His understanding of the main weaknesses of the Uzbek economy in this area has led him to focus on restructuring export-import regulations, on streamlining of procedures, and on reducing administrative requirements.

Some of the trends that emerged during 2017 are noteworthy. At a press conference on December 27, 2017, Deputy Minister of Foreign Trade Sahib Saifnazarov reported that Uzbekistan's exports had grown by 15 percent in 2017, and that the country had signed export contracts worth US \$11 billion during meetings with representatives of over 60 states and international organizations. He added that Uzbekistan had already begun delivering products under some of these contracts.⁵⁷ He also stressed that the "Concept for the Development of Exports for 2018-2022," committed Uzbekistan to increasing the volume of exports by 2022 to US\$30 billion, double the 2017 figure. Uzbekistan also committed to restart the long-stalled negotiations for membership in the World Trade Organization membership in 2018.⁵⁸

Other presidential decrees have instituted new policies for registering and licensing firms involved with foreign trade. These eliminate prepayment requirements, relax contract requirements, establish a single time period for

⁵⁶ Anton Usov, "EBRD in US\$ 10 million loan to Uzbekistan's Agromir", EBRD, November 9, 2017. (<http://www.ebrd.com/news/2017/ebrd-in-us-10-million-loan-to-uzbekistans-agromir.html>)

⁵⁷ Uzbekistan plans to increase exports' volume to \$30 bln by 2022, UZDaily, <https://www.uzdaily.com/articles-id-42156.htm>

⁵⁸ "Talks on Uzbekistan's accession to WTO to begin in 2018," *Azernews*, February 26, 2018. (<https://www.azernews.az/region/125623.html>)

currency repatriation, eliminate the requirement to obtain permission to re-export goods, and give export-import traders more flexibility.⁵⁹ As noted above, these reforms now allow private Uzbek firms to sell agricultural products directly to foreign buyers.

As part of his new emphasis on foreign trade and investment, President Mirziyoyev has assigned economic policy a central place in his overall diplomatic efforts. Richard Weitz's *Silk Road Paper* on Uzbekistan's changing foreign policy points out that during his first months in office Mirziyoyev hosted numerous working visits from leaders of neighboring states and paid state visits to Turkmenistan, Kazakhstan, Russia, and China.⁶⁰ All of this diplomatic activity has had a strong economic focus. In March 2017, Mirziyoyev and Turkmen President Gurbanguly Berdimuhamedov signed an agreement on strategic cooperation and discussed joint initiatives in energy, security, and transport, including the proposed Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan (TUTAP) project to deliver electricity from Central Asia to South Asia.⁶¹ The Beijing visit highlighted China's economic importance for Uzbekistan, as well as Uzbekistan's interest in China's Belt and Road Initiative.⁶²

Meetings in Turkmenistan and Kazakhstan highlighted connectivity, and hence Uzbekistan's reintegration into regional and continental economic life. In their March 2017 meeting at the Turkmen-Uzbek border, Presidents Berdymukhamedov and Mirziyoyev opened rail and road bridges across

⁵⁹ Gulnur Bekmukhanbetova and Curtis Masters, "Steps to Liberalize Uzbekistan's Export-Import Regime", *Global Compliance News*, December 8, 2017. (<https://globalcompliancencnews.com/uzbekistan-export-import-regime-20171208/#page=1>)

⁶⁰ Richard Weitz, *Uzbekistan's New Foreign Policy: Change and Continuity Under the New Leadership*, Washington & Stockholm: CACI-SRSP Silk Road Paper, January 2018. (<http://www.silkroadstudies.org/resources/pdf/SilkRoadPapers/1801Weitz.pdf>)

⁶¹ Catherine Putz, "Uzbek President Makes First Official Trip Abroad to Turkmenistan," *The Diplomat*, March 2017, <https://thediplomat.com/2017/03/uzbek-president-makes-first-official-trip-abroad-to-turkmenistan/>.

⁶² "Uzbekistan: President's China Trip Yields Giant Results", *EurasiaNet*, May 16, 2017. (<https://eurasianet.org/s/uzbekistan-presidents-china-trip-yields-giant-rewards>)

the Amu Darya River. In Astana in March, Presidents Nazarbayev and Mirziyoyev announced the first scheduled high-speed passenger rail service between Tashkent and Almaty, and in July the direct Tashkent-Samarkand road passing through Kazakhstan was re-opened. The words and symbolism of these events attested to the economic reintegration of Central Asia. To be sure, Mirziyoyev and Nazarbayev issued warnings to upstream nations that any water projects must follow international norms in recognizing the rights of downstream nations. Nevertheless, Mirziyoyev extended an early welcome to Kyrgyz President Atambayev in Tashkent, and made a state visit to Bishkek in September, 2017; both countries value cooperation with China and seek China's support for a rail link from Kashgar through Osh and the Ferghana Valley to Tashkent, and thence to Afghanistan.

As for Tajikistan, long the most contentious of Uzbekistan's bilateral relations, in April 2017, Uzbekistan Airways resumed Tashkent-Dushanbe flights after a quarter-century hiatus, and in March 9-10, 2018, President Mirziyoyev paid a state visit to Tajikistan, significantly boosting the bilateral political and economic relationship. Mirziyoyev's administration took a softer line on bilateral water and energy disputes with Tajikistan and Kyrgyzstan, and discussions are underway with both countries about mutually beneficial joint projects, including the development of energy and transportation infrastructures and measures to encourage bilateral trade.⁶³

Indeed, the new tone of Uzbekistan's economic relations with its Central Asian neighbors that is already observable is a major achievement of Uzbekistan's new foreign policy. As Mirziyoyev puts it, "Uzbekistan is a supporter of resolving existing differences and strengthening mutual trust.

⁶³ "Uzbek president's visit expected to result in signing of more than twenty cooperation documents", News.tj, February 21, 2018. (<http://news.tj/en/news/tajikistan/politics/20180221/uzbek-presidents-visit-expected-to-result-in-signing-of-more-than-twenty-cooperation-documents>); Tajikistan and Uzbekistan Learn How to Be Friends Again, EurasiaNet, March 12, 2018, <https://eurasianet.org/s/tajikistan-and-uzbekistan-learn-to-be-friends-again>

It is precisely on the basis of the principles of good-neighborliness and mutually beneficial partnership that the states of the region will be able to realize their potential in the trade-economic, transport-communication, cultural-humanitarian areas, security and stability issues."⁶⁴

President Mirziyoyev has also identified deepening ties with Afghanistan as a major part of his regional agenda. During President Ashraf Ghani's first presidential visit to Uzbekistan in December 2017, the two governments signed 20 bilateral cooperation agreements regarding trade, transportation, communications, education, and other spheres. Additionally, Uzbek and Afghan businesses signed some \$500 million worth of contracts.⁶⁵ They also agreed to extend the existing Hairatan–Mazar-i-Sharif railway to the Afghan cities of Sheberghan, Maymana, and Herat.⁶⁶ Furthermore, the two governments authorized direct flights between Kabul and Tashkent.⁶⁷

The first direct flight from Kabul to Tashkent, in November 2017, took an hour and a half. Previously, passengers from Kabul had to travel to Tashkent via Istanbul or Dubai, which required from seventeen to thirty-two hours. The twice-weekly schedule is designed to connect with flights to Europe, as well as with flights to Samarkand, Bukhara and Urgench. And to Mazar-e-Sharif and Herat in Afghanistan. In November, 2017, as part of the Regional Economic Cooperation Conference on Afghanistan,

⁶⁴ Shavkat Mirziyoyev, "Opening remarks by Shavkat Mirziyoyev at Central Asia: Shared Past and Common Future, Cooperation for Sustainable Development and Mutual Prosperity conference," (opening remarks, Samarkand, November 11, 2017), *The Tashkent Times*, <http://tashkenttimes.uz/national/1670-opening-remarks-by-shavkat-mirziyoyev-at-central-asia-one-past-and-a-common-future-cooperation-for-sustainable-development-and-mutual-prosperity-conference>.

⁶⁵ "Documents have been signed," Press Service of the President of the Republic of Uzbekistan, December 5, 2017, <http://president.uz/en/lists/view/1315>.

⁶⁶ "Uzbekistan, Seeking Sea Access, Signs Railway Deal with Afghanistan," RFE/RL, December 6, 2017, <https://www.rferl.org/a/uzbekistan-seeaking-sea-access-signs-railway-deal-afghanistan-hairatan-mazar-e-sharif/28899419.html>.

⁶⁷ "Afghan Plane Lands in Tashkent to Start Regular Direct Flights," RFE/RL, November 29, 2017, <https://www.rferl.org/a/afghanistan-uzbekistan-direct-flights-kam-air/28886184.html>.

Uzbekistan committed to build a new electricity line to the Afghan province of Baghlan. This important project will transmit up to 1,000 megawatts to Afghanistan, almost as much as the country presently receives from Uzbekistan, Iran, Turkmenistan, and Tajikistan combined.⁶⁸

It is already clear that regional economic relations will play a special role in Uzbekistan's strategy of increasing openness and facilitating trade, investments, and transport. In his year-end address to the Oliy Majlis, President Mirziyoyev announced that Central Asia would henceforth be the main priority in Uzbekistan's foreign policy, and promised further measures to improve regional connectivity and economic ties through improved hard and soft infrastructure.⁶⁹

This extensive diplomatic effort has brought about the emergence of new dynamics in Uzbekistan's foreign economic relations, and has already led to increased trade with other Central Asian countries. Overall trade turnover with foreign countries increased by over 11 percent in 2017, as exports grew by 15.4 percent and imports by 7.2 percent. Volumes of trade with all major foreign trade partners grew considerably: an increase of 16.8 percent with China, 16.1 percent with Russia, 51.6 percent with Kyrgyzstan, 20 percent with Tajikistan, 15 percent with Afghanistan, 27 percent with South Korea, and 31 percent with Turkey.⁷⁰

In order to reap the full benefit of increased economic engagement with the global and regional economies, Uzbekistan will have to significantly upgrade both its hard and soft transportation as well as its logistical infrastructure. President Mirziyoyev noted to the Oliy Majlis that many

⁶⁸ Kamila Aliyeva, "Uzbekistan to stretch another power line to Afghanistan," *AzerNews*, November 30, 2017, <https://www.azernews.az/region/123125.html>.

⁶⁹ Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Parliament, Oliy Majlis, December 22, 2017 <http://www.ut.uz/en/politics/for-the-first-time-in-the-history-of-our-country-the-president-of-the-republic-of-uzbekistan-shavkat/>

⁷⁰ "Summary of 2017 in foreign trade policy of the Republic of Uzbekistan", *Embassy of Uzbekistan*, January 26, 2018. (<http://www.uzbekembassy.in/summary-of-2017-in-foreign-trade-policy-of-the-republic-of-uzbekistan/>)

exports utilize routes through Kazakhstan and especially through the “Saryagash” station, but that the process of transshipment through that station is very inefficient. Major problems there include a lack of electric locomotives and out-of-date terminal facilities, which cause long and costly delays. In order to improve efficiency here and along other slow corridors, the President called diversifying routes and for competition among them. To this end the President announced his plan to come to agreements with Turkmenistan, Iran, Kazakhstan, Russia, Azerbaijan and Georgia. By February 2018, Georgia had granted to Uzbekistan a 50 percent discount on transit cargo through its territory.⁷¹

The ongoing process of simplifying the visa regime for foreign citizens is among the proactive steps Uzbekistan has taken to open the country to trade. On February 5, 2018, President Mirziyoyev signed a decree “On Additional Organizational Measures to Create Favorable Conditions for the Development of the Potential for Tourism of the Republic of Uzbekistan.”⁷² The decree ordered that citizens of Israel, Indonesia, South Korea, Malaysia, Singapore, Turkey and Japan could now visit Uzbekistan without visas for a period of 30 days. It also simplified the procedure for issuing tourist visas for citizens of 39 additional states, including the United States and EU member countries.

Tourism, which can attract foreign investment, create jobs, and generate income, has been designated a strategic priority in Uzbekistan’s economic development. In December 2016, the President issued a decree, “On Measures for Ensuring Accelerated Development of the Tourism Industry of the Republic of Uzbekistan,” which named tourism as a strategic sector

⁷¹ “Georgia grants Uzbekistan discount on transit of all types of cargo via railway”, Trend News Agency, February 25, 2018. (<https://en.trend.az/casia/uzbekistan/2865531.html>)

⁷² “Uzbekistan introduces visa-free regime for citizens of 7 countries”, Embassy of Uzbekistan to the United States, February 5, 2018. (<http://www.uzbekistan.org/news/archive/9808>)

of the economy, and set up a State Committee for the Development of Tourism.⁷³

The government has expressed interest in public-private partnerships with domestic and foreign investors, and has allocated parcels of land for the development of hotels in the main tourist destinations, including Bukhara.⁷⁴ Steps are also underway to simplify the procedures for investors seeking to obtain land, as well as for the development of architectural projects relating to tourism. As President Mirziyoyev noted on February 22, 2018, however, “the huge potential of Uzbekistan in the sphere of tourism has not been used effectively and fully for many years.”⁷⁵ The legacy of Soviet era practices in the field of tourism and the unfortunately primitive “restoration” of many historic sites, combined with the government’s inexperience in this area, present formidable challenges. But with the right approach and the engagement of relevant international experts, this sector holds promise of becoming a significant driver of economic development in Uzbekistan.

Going forward, a comprehensive tourism development strategy, as well as other sectoral development strategies, could help Uzbekistan to direct scarce resources towards priority areas, in order to maximize economic development and job creation opportunities for the country. Public-private partnerships could be a good and efficient instrument for the attraction of foreign direct investments in those priority areas.

⁷³ Ministry of Foreign Affairs of the Republic of Uzbekistan, “Issues of Further Development of Tourism Are Discussed”, Press Release, October 4, 2017. (<https://mfa.uz/en/press/news/2017/10/12658/?print=Y>)

⁷⁴ “В Бухаре инвесторам предлагают 35 земельных участков под строительство гостиниц”, *Kommersant.uz*, February 2, 2018, <http://kommersant.uz/news/v-buhare-investoram-predlagayut-35-zemelnyh-uchastkov-pod-stroitelstvo-gostinits>

⁷⁵ “Uzbekistan: Presidents Sets New Tasks for Tourism Industry”, *Times of Central Asia*, February 26, 2018. (<https://www.timesca.com/index.php/news/19402-uzbekistan-president-sets-new-tasks-for-tourism-industry>)

Conclusions

At the beginning of 2018, the economic signals from Uzbekistan were positive. Especially noteworthy have been the government's positive approach to regional economic cooperation, international engagement, the currency reform, and the initiation of internal regulatory reforms. The government even appeared to be cutting back regulated pricing, most notably that of gasoline. However, the initial steps in this sensitive area have not created free pricing and competition in fuel because the centralized system of pricing and management remains in place. This simple example highlights the multifaceted issues that must be addressed simultaneously if market mechanisms are to function well. Patience is called for, for such fundamental economic reforms as Uzbekistan has launched rarely yield immediate benefits.

Foreign investments in Uzbekistan more than doubled during 2017. At a roundtable held on November 8, 2017, the Chairman of the Committee for Investments, Azim Ahmedkhadjayev, stated that year-to-date foreign investment had reached \$4.2 billion, of which \$3.7 billion consisted of foreign direct investment.⁷⁶ Let it be noted that between 2011 and 2016, foreign investment in Uzbekistan had decreased from \$3.3 billion to \$1.9 billion, a drop of 40 percent!

An important step that would signal that Uzbekistan is more open for business would be to (during 2018) complete the negotiations for accession to the World Trade Organization (WTO). President Mirziyoyev himself

⁷⁶ "Uzbekistan's foreign investments inflow at \$4.2 billion YTD - investments committee chief," *The Tashkent Times*, November 9, 2017.

called for this in his year-end Presidential Address, and with good reason. In 1994, Uzbekistan had been the first Central Asian country to apply for WTO membership. Uzbekistan presented its Memorandum on the country's foreign trade regime to the WTO Secretariat in 1998. A Working Party was set up in 2002 and held several meetings thereafter, but these ceased in 2005. The government could revive the accession process fairly quickly, as Kazakhstan did before its WTO accession was completed in 2015, although some of the ensuing negotiations will have to be pursued with great care.⁷⁷ On March 13, 2018, the Government of Uzbekistan hosted representatives of the World Bank, Asian Development Bank, USAID and other donor organizations and discussed a detailed 34-point accession plan "Road Map" for Uzbekistan's entry into WTO, thus demonstrating clear determination to join rules-based international trade system.⁷⁸

The change in Uzbekistan's presidency coincided with a novel window of opportunity. In 1992, Uzbekistan Airways' slogan that "Tashkent was the Crossroads of Asia seemed slightly ludicrous, as Central Asia had not been central to Europe, Asia, or anything between for nearly half a millennium. In the 2010s, however, East Asia and Europe are being reconnected by train tracks and major highways that pass through Central Asia. By 2017, the Chongqing–Duisburg train service was regularly operating five days a week (planned to be daily in 2018, and taking twelve days instead of the sixteen days in 2011), while services on many routes between Europe and China were weekly or to order. These corridors currently pass through Kazakhstan

⁷⁷ Uzbekistan can learn lessons from the accessions of neighboring Tajikistan in 2013 and Kazakhstan in 2015, as well as from the longer experience of the Kyrgyz Republic which acceded in 1998. For example, on intellectual property rights, Uzbekistan should seek exemption from TRIPS commitments on public health grounds in order to retain access to imported generic medications. United Nations Development Programme, *Trade and Human Development*, Central Asia Human Development Series, United Nations Development Programme Regional Bureau for Europe and the Commonwealth of Independent States, Bratislava, 2014, p. 21. (<http://www.undp.org/content/dam/rbec/docs/Central%20Asia%20Trade%20and%20Human%20Development%20English.pdf>).

⁷⁸ Uzbekistan and IFIs discuss Country's Accession to WTO, *UzDaily*, March 14, 2018. (<https://www.uzdaily.com/articles-id-43112.htm>)

and Russia, yielding large transit fees for both countries. However, Uzbekistan has worked out feasible plans that would bring major transport corridors through its territory as well, including an important route from Kashgar through the Ferghana Valley to Afghanistan, Turkmenistan, the Caspian, and Europe. Interestingly for Uzbekistan, Chinese maps of the Belt and Road Initiative show a similar main corridor leading south of the Caspian Sea, passing through Uzbekistan, Turkmenistan, Iran and Turkey rather than through Russia and Belarus.

These alternatives are the more promising because both China and Europe would seek to avoid reliance on a single route and to prevent potential hold-ups imposed by any single country along that route. The trans-Caspian link from Turkmenistan to Azerbaijan, and so via the Baku-Tbilisi-Kars Railway to the new rail tunnel under the Bosphorus reinforces the potential of competing transportation options between Asia and Europe via Uzbekistan.⁷⁹ Indeed, a main impediment is not infrastructure, but bureaucratic delays at the borders, which are relatively easy to correct if the political will to do so is there.⁸⁰ Meanwhile, Uzbekistan Air and international carriers from Korea, India, Germany, Turkey, Japan, and China have all identified Tashkent as a major hub for east-west air transport, including freight.

Proposed steps to reduce customs duties and excise taxes will reduce the high cost of doing business with Uzbekistan and hence better position Uzbekistan to benefit from improved Eurasian connectivity. However,

⁷⁹ The opening of the Baku-Tbilisi-Kars railway in October 2017 presents additional opportunities, especially viewed against the improvement of relations between Azerbaijan and Turkmenistan. Uzbekistan's interest was indicated by Prime Minister Abdulla Aripov's participation in the opening ceremony. Connection to the BTK railway through Turkmenistan will be improved by completion of the Navoi-Turkmenbashi railway project (Fuaed Shahbazov, "Baku-Tbilisi-Kars Railway to Become Central Asia's Gateway to Europe," *Central Asia-Caucasus Analyst*, December 7, 2017).

⁸⁰ There are precedents for long-distance rail freight involving Uzbekistan. GM's former Daewoo car factory still obtains components from South Korea, mostly on bespoke train services for containers via Lianyungang. High-speed passenger service operates between Tashkent and Samarkand and is being introduced between Tashkent and Almaty.

much more is needed in order to switch from a one-sided emphasis on border controls to one that is based on prudent risk management. Specific measures that will have to be instituted include regular risk assessments, the introduction of single windows and green channels for rapid border-crossing, and the removal of petty red tape and regulation. Such changes are entirely compatible with the protection of national security, and will facilitate all forms of international trade, whether by rail, road or air.

More generally, Uzbekistan's long-term economic prospects will depend on the extent to which President Miziyoyev and his government are able to implement his election call for a transition from "a strong state to a robust civil society" and, in this connection, the priority areas identified in the *2017-2021 National Development Strategy* and restated by the president in his year-end Address. However, as we have observed earlier, legal and judicial reforms take time.⁸¹ Despite the government's attempts to promote more active citizen involvement, it will take time and strong continuous commitment from the leadership to allow an independent civil society to emerge and contribute significantly to the growth of the national economy.

The obstacles that remain along the path to economic transformation are formidable, but this review of Mr. Mirziyoyev's first 18 months as leader of Uzbekistan gives reason for optimism. Many litmus tests can be devised and applied during the coming period. But above all, further progress along the economic path that Uzbekistan has chosen will depend on strong and honest leadership, the commitment to reform of thousands of officials and private businessmen, and the completeness and accuracy of information available to ordinary citizens about the progress of transformation in their country. While many questions remain about the future direction of Uzbekistan's

⁸¹ However, the president's condemnation of torture and other forms of intimidation of citizens may, like the ending of forced labor for cotton-harvesting, have a positive impact on the country's external image with economic implications for foreign investment or for boycotts of goods made with Uzbek cotton.

economic reforms, it cannot be denied that significant and even dramatic shifts have already occurred, and that these have in turn energized both the internal process of change and also stimulated the emergence of a new regionalism that has the potential to transform all Central Asia.

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