

The New Uzbekistan

SPECIAL REPORT BY THE CASPIAN POLICY CENTER

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The authors warmly welcome your comments at info@caspiantpolicy.org and would be glad to answer any of your questions.

Chapter 1: Introduction

The Caspian Policy Center of Washington D.C. is pleased to release its most recent study *The New Uzbekistan*, to call attention to the historic reforms taking place in this important Central Asian state. Uzbekistan was expected to emerge as the key country in the region when it gained independence following the fall of the Soviet Union in 1991. After all, this relatively large country, which is roughly the size of the state of California, had by far the largest population (about 30M) of any in the region. Uzbekistan had been favored by Moscow during the Soviet period to the extent that Tashkent was once considered the “third city” of the USSR. The Soviet Socialist Republic was relatively well-industrialized and possessed an extensive agricultural sector, though this proved to be too heavily centered on cotton with tragic results for the Aral Sea. As we now know, things did not go as anticipated for Uzbekistan.

CPC Board of Directors member Ambassador Richard Hoagland was among the first cohort of United States diplomats to serve in the newly independent Uzbekistan, 1993-1995, and he fell in love with the young country. It was incredibly beautiful with its snow-clad mountains; fertile valleys with rushing, glacier-fed, clean rivers; lush farmlands; stunning vineyards; and, especially, great historic sites of the ancient Silk Road in Samarkand, Bukhara, Khiva, and elsewhere. As a press officer in the new embassy, he met frequently with journalists and government officials and made a point to travel extensively throughout the country. But the new government assigned him an intelligence-organization “minder” who made sure to know his whereabouts at all times, and who did his best to make sure he never met with journalists, other private citizens, or even regional officials unattended. This became the problem of the newly independent Uzbekistan: it remained very, very Soviet. Its first president, Islom Karimov, had been a Soviet apparatchik and never endeavored to bring his country toward the global standards necessary to compete effectively on the world stage. In fact, he increasingly isolated Uzbekistan from its neighbors and from the world community over the years.

The U.S. under the leadership of President George H.W. Bush, acting with typical American altruism, took immediate steps to support newly independent states such as Uzbekistan and assist them in joining the world community. The U.S. recognized the independence of Uzbekistan on Christmas Day 1991. However, we see in hindsight that Washington acted with a bit of “irrational exuberance.” The U.S. government expected a smooth and relatively rapid transition to new, Western-style political and economic systems. What it neglected to take into account was that Washington had no in-depth knowledge of these brand new states and their particular histories. All had been subject to 70 years of the Soviet Empire and hundreds of years of the Russian Empire in some cases. The Western way of organizing society and government grew organically from the Renaissance, the Reformation, and the Enlightenment, its intellectual and societal foundations, whereas the Soviet and Russian Empires did not: They traced their intellectual lineage directly back to the Byzantine Empire, bypassing the modern West. Earlier Russian influences persisted in the Soviet model of a single-party state supported by a powerful

intelligence service that, at times, co-opted organized-crime structures for both political and economic purposes. Furthermore, Uzbekistan was subject to its own distinct pre-Russian history of khanates and other much older societal and governmental structures that are only now beginning to re-emerge as Soviet influence fades.

The U.S.-Uzbekistan relationship has had its ups and downs over the past quarter century. Washington dialed back its relations to little more than maintenance level after our “initial exuberance.” But then world history changed with the 9/11 attacks on the United States. Uzbekistan, with Moscow’s concurrence, almost immediately granted the United States access to its air base at Karshi-Khanabad in south-central Uzbekistan to support our military retaliation against the Taliban in Afghanistan, Operation Enduring Freedom. U.S. diplomats remember a marathon 36-hour negotiating session; Ambassador Richard Hoagland was on that negotiating team at that time as the State Department’s Director for Central Asia. When they straggled back blurry-eyed, after signing the agreement, to the Intercontinental Hotel in Tashkent, excited watchers of CNN in the hotel lobby shouted, “Look! We’re helping you bomb the Taliban!” as the U.S. air war began in Afghanistan.

Late 2001 to 2005 were a sort of Golden Age for U.S.-Uzbekistan relations. But an event in Andijon in Uzbekistan’s Fergana Valley helped put an end to that. Washington’s high-profile condemnation of Tashkent for the massacre of at least several hundred of what we deemed to be peaceful protesters led, in part, to Uzbekistan annulling the agreement for the U.S. use of Karshi-Khanabad in summer 2005—only “in part,” because there was another factor. Tashkent had come to learn that Kyrgyzstan was receiving rent payments from Washington for the use of its Manas International Airport for the same purpose of supporting U.S. military efforts in Afghanistan, whereas the original U.S.-Uzbekistan agreement for Karshi-Khanabad was silent on reimbursement. Tashkent logically asked to renegotiate the agreement, but then—U.S. Secretary of Defense Donald Rumsfeld would not entertain such a notion. And so, Tashkent, already irked by the U.S. condemnation of its actions at Andijon, closed U.S. access to Karshi-Khanabad, and U.S.-Uzbekistan relations went into a near deep-freeze for close to a decade.

“Finger wagging” and “naming and shaming” emerged in annual reports to Congress during the George W. Bush and Barack Obama Administrations over Uzbekistan’s well-documented problems, especially in the areas of human rights, good governance, and economic transparency. This approach was not well-received in Tashkent. However, to its credit, Tashkent never radically cooled its relations with Washington to the breaking point, primarily because Uzbekistan’s sovereignty and independence depend upon a careful balancing act of good relations among Moscow, Beijing, Washington, and Brussels.

The good news is that American diplomacy in the post-Soviet world seems once again to be moving in the direction of a version of *realpolitik* that carefully balances U.S. values and long-

term goals with a healthy dose of reality. The United States will always support Western values, but it must provide this support in an intelligent and nuanced way.

Another positive development of historic importance is that Uzbekistan is now undergoing long-awaited social and economic reforms under the leadership of President Shavkat Mirziyoyev. Furthermore, Uzbekistan feels increasingly secure in its own sovereignty and independence to look outward toward its neighbors in the region – and beyond – to identify areas of mutual interest and cooperation. Some have begun to entertain the idea that forming a regional association of states might have real value in protecting their own independence and promoting their individual prosperity. The United States should strongly promote this trend.

Again, the Caspian Policy Center is pleased to present this in-depth report, *The New Uzbekistan*. We warmly welcome your comments at info@caspiantpolicy.org and would be glad to answer any of your questions.

Chapter 2: The Karimov Era

Former President Islom Karimov dominated independent Uzbekistan's political sphere. He rose to the top of Uzbek politics just before the collapse of the Soviet Union, when Mikhail Gorbachev named him first secretary of Uzbekistan's Communist Party in 1989 and remained there as Uzbekistan's first president until his death in 2016.ⁱ He continued to run his government in the Soviet tradition throughout his tenure.

Human Rights

The National Security Services (SNB), Uzbekistan's KGB-style intelligence arm, was frequently criticized for jailing political opponents, journalists, human rights activists, and others labeled "enemies of the state." Human Rights Watch documented instances of torture and ill-treatment in many of these cases. The government often denied prisoners access to attorneys and held them past their sentences for vague "violations of prison rules." Overcrowded cells, inadequate or completely nonexistent medical care, and insufficient food and water were common.ⁱⁱ

One of the most critical examples of violation of human rights is the Andijon events of May 2005.ⁱⁱⁱ The Uzbek administration's handling of the protests received large criticism from both international governments and human rights organizations.^{iv} The Uzbekistan government describes the incident as an instance of Islamic extremism and maintains that the armed attackers were responsible for civilian casualties, though human rights organizations disagree.^v

Religion

Uzbekistan's majority Muslim population revived displays of faith following the collapse of the Soviet Union and its state-mandated atheism. President Karimov felt that religious leaders threatened his political stability and responded by creating state-run institutions governing Islamic practice—banning practice outside of them. These new laws required religious groups to register with the government. Those that did not were subject to prosecution and frequently imprisoned. Uzbek laws also restricted public speech and proselytism, censored certain religious literature, and limited how much religious material citizens could possess. To violate some of these laws could result in prison sentences of up to twenty years.

However, Uzbekistan's constitution protects freedom of religion and stipulates the separation of religion from the state. In some cases, the Uzbek government justified its actions on the basis of national security, saying that the groups it targeted were extremists. This prompted the UN Special Rapporteur for Freedom of Religion or Belief to label Uzbekistan's interpretation of extremism as "overly broad."^{vi} Its list of extremist organizations included twenty-two groups at the end of 2016.^{vii}

Economy

The Karimov government rejected the rapid reform model that some of its post-Soviet neighbors adopted in the early 1990s, opting for a gradual introduction of market principles. Modest small-scale privatization based on a tradition of small, family businesses comprised the extent of Uzbekistan's economic liberalization in its first decade of independence.^{viii} The country's reluctance to move towards a free market hampered its relations with international economic bodies. The International Monetary Fund (IMF) withdrew its representation from the country in 2001, as did the European Bank for Reconstruction and Development (EBRD).^{ix}

However, Uzbekistan's insistence on import-substitution policies preserved its industrial sector when many other post-Soviet states saw theirs damaged. In fact, Karimov's Uzbekistan generally outshone its neighbors after independence, becoming the first former Soviet state to regain its pre-1991 GDP.^x This success grew largely out of an abundance of cotton. The Uzbek government monopolized the industry and used its revenues for a better-maintained system of social services than most other newly independent Soviet states.

However, the profitable cotton industry was built on labor from students, some as young as seven, who were forced to work in cotton fields during harvest months. Under pressure from international boycotts, the government replaced this program with a "volunteer" system where Uzbek teachers, office workers, and even doctors would spend several weeks away from their jobs in harvest months picking cotton for roughly three cents per pound. Although the work was technically not coerced, failure to volunteer often meant being fired or arrested.^{xi}

An additional downside was that Uzbekistan became overly reliant on cotton, along with gold, oil, and gas. Together, the four resources make up 60 percent of Uzbekistan's exports.^{xii} Other vulnerabilities included a poor business climate and a large black market brought on by currency manipulation.^{xiii} Yet overall, the economy under Karimov boasted low inflation, decreasing debt, and reduced poverty.^{xiv} Uzbekistan even reported annual GDP growth rates of roughly eight percent throughout the 2000s.^{xv} However, President Mirziyoyev described these numbers as "fiction" made up by the previous administration's economists.^{xvi} In short, the Karimov economy was a mixed bag.

The Karimov Era's final days were shrouded in the same reclusiveness and mystery that defined its nearly three decades in power. The Uzbek government delayed officially announcing the passing of President Karimov in a final Soviet move reminiscent of Leonid Brezhnev's death. At first, they reported only that he had been hospitalized, even as foreign leaders publicly offered condolences on his passing and funeral arrangements were openly being made. Officials finally confirmed his death after nearly a week of rumors, marking the end of a defining period in Uzbek politics.

Chapter 3: Uzbekistan's Steps to Improve Its Image

The Mirziyoyev government laid out its formal strategy for the administration in the 2017–2021 National Development Strategy. The strategy had five overarching goals: reforming public administration, strengthening the rule of law, liberalizing the economy, implementing social reforms, and ensuring security.

Economics

Several areas of Uzbekistan's economy are moving towards the liberalization spelled out in the Mirziyoyev administration's strategy. One of the earliest points of change was currency reform. President Mirziyoyev lifted Uzbekistan's longstanding foreign-exchange controls, reunifying its exchange rates and easing restrictions on converting currency. This new approach led to deals with foreign financial entities such as Deutsche Bank, Commerzbank, and the EBRD.^{xvii}

Another step was reshaping the role of state-owned enterprises. Around 50 percent of Uzbekistan's GDP and 18 percent of its employment comes from state-owned enterprises as of August 2018.^{xviii} The Mirziyoyev government has begun to review the financial standing and effectiveness of the 25 largest of these enterprises. One of these enterprises is Uzbekistan Airways, which has long dominated Uzbekistan's commercial air services. President Mirziyoyev announced a "decision to radically reform" the airline in late December by dividing flights, airport management, and air-traffic navigation services into distinct, separately managed entities, hoping to improve their efficiency and to attract foreign investment.^{xix} Reforming state-owned enterprises has generally been accompanied by price liberalization. In 2018, Uzbekistan lifted control on bread prices in September and eased controls on energy in November.

Modernizing agriculture, especially in the dominant cotton industry, has also been a priority. President Karimov's ban on child labor in cotton fields was at first extended to include education and healthcare workers. Soon after, the government ended the practice of forced labor entirely. The planned next step is increased mechanization of the cotton industry and other agricultural endeavors.

Finally, perhaps the most ambitious area of reform is in the digital sector. President Mirziyoyev called on his government to design a National Concept of Digital Economy in his address to Parliament late last year. The program, which he termed "Uzbekistan Digital – 2030," would be a plan to upgrade all of Uzbekistan's economic sectors with new digital technologies, a move he projects will increase Uzbek GDP by 30 percent. Uzbekistan's newly formed Economic Council on Implementation of the Road Map for Reforms of Uzbekistan for 2019–2021 is now tasked with implementing Uzbekistan Digital – 2030.

Diplomacy

Many of Uzbekistan's economic reforms were undertaken with an eye towards increased regional and global economic connectivity. These goals are reflected in Uzbekistan's new diplomatic initiatives that seek "open, mutually beneficial, and constructive foreign policy."^{xx} This objective marks a massive shift in tone from Karimov's isolationism.

Uzbekistan's primary focus has been on repairing relations with its neighbors, primarily through President Mirziyoyev's international visits. His first official trip as President was to Turkmenistan in early March 2017, followed just weeks later by a visit to Kazakhstan. He made two more trips to the country in the next three months. Next was Kyrgyzstan, where he traveled in September, and then Tajikistan the following March. The only bordering country President Mirziyoyev has yet to visit is Afghanistan. However, Uzbekistan is still playing a leading role in diplomatic engagement there. The country plans to help construct the Mazar-i-Sharif-Herat railway and host the Eighth Regional Economic Cooperation Conference on Afghanistan (RECCA VIII) later this year.

A common emphasis in each of President Mirziyoyev's visits was increased cooperation on energy, trade, and transportation, reflecting his commitment to regional connectivity. This often led to immediate, tangible benefits, such as the resumption of commercial flights between Uzbekistan and Tajikistan^{xxi} and the resolution of Uzbekistan's border dispute with Kazakhstan.

Continued work on building closer regional ties is already underway. Uzbekistan is still working to demarcate its borders with Turkmenistan and Kyrgyzstan. It is substantially loosening its visa requirements: entering 2019, nearly all Europeans are able to travel to the country visa-free for 30 days. Uzbekistan and Kazakhstan are working together to introduce a new "Silk Road Visa" that would allow people with a visa from either country to travel to both.

Positive regional relations are especially important for Uzbekistan, the only Central Asian country to share borders with all the other Central Asian states. However, Islom Karimov's difficult personal relations with neighboring presidents often hampered positive exchanges. President Mirziyoyev's visits were the first since the early 2000s in several cases. This flurry of official visits and agreements has been a clear and welcome effort to rehabilitate Uzbekistan's image among its neighbors.

Human Rights

Many of the judicial reforms undertaken in the National Development Strategy focus on improving the court proceedings and detention practices that the international community had criticized in the past. One of the most notable measures has been the introduction of video surveillance in detention centers to address the problem of torture. These new measures are significant in that they publicly acknowledge the existence of a torture problem in Uzbekistan's judicial system, while taking measures to improve the situation, both of which the Karimov

government avoided doing. Uzbekistan's Minister of Justice Ruslanbek Davletov told media that "torture is prohibited by our laws, but there were problems with administering this law in conformity with international standards."^{xxii} Video surveillance was designed to help those enforcement problems. He added that along with surveillance there is now a "special procedure" to investigate torture allegations and that "many people" have already taken advantage of it.^{xxiii}

Along the same lines, Uzbekistan introduced a new administrative court system that allows citizens to sue state bodies, a development Minister Davletov calls "unseen before in Uzbekistan's state history."^{xxiv} These new courts are part of an initiative to increase citizens' access to the justice sector in general by constructing more physical courts and hiring additional judges.^{xxv} As a result of many of these initiatives, judicial independence has vastly improved, with many more cases ending in acquittals or terminations in preliminary investigations.^{xxvi} President Mirziyoyev pardoned 2,700 convicts in December 2017, in honor of Uzbekistan's Constitution Day. This was the largest release of prisoners in the country's history.^{xxvii}

Religious restrictions have also been relaxed under Mirziyoyev. His administration removed 16,000 names from a security watch list of potential religious extremists in 2017 and lifted regulations on public prayer and youth in mosques.^{xxviii} It also opened a prayer room in Tashkent airport and announced plans to open more in train stations.^{xxix} These steps point to an effort to repair relations with Uzbekistan's domestic religious community. However, these plans, like all others in the human rights sphere, diplomatic, and economic arenas, are done with an eye to foreign perceptions of the country. Uzbekistan has been regarded as an isolationist state for a long time, a reputation Mirziyoyev is clearly hoping to change. Repairing Uzbekistan's national image is one of many ways the current President is trying to enhance his country's role on the world stage.

Chapter 4: Uzbek Assistance to its Neighbor Afghanistan

Uzbekistan's recent political and economic engagement with its neighbors in Central Asia has especially focused on Afghanistan, which shares a border stretching just under 100 miles. Afghan-Uzbek relations had been focused on security and containing the spread of radical terrorism in the region prior to Uzbek elections in 2016. The Islamic Movement of Uzbekistan (which also sought to bring down the secular government in Uzbekistan) was of particular concern in both nations, as it joined the Taliban to create an Islamic caliphate across Central Asia.

The border between the countries was one of the most heavily fortified borders in the region, even in the world. The border was closed after the Taliban overtook Kabul, causing previous Uzbek president Karimov's refusal to recognize the Taliban's legitimacy. Even when the Taliban were removed from Kabul and a new government came into power in Afghanistan, the border remained closed; however, the Uzbek change of administration in 2016 has been cause for a positive shift in bilateral relations.

Uzbekistan has now opened several check points (one between Termez and Hairetan) along the border in 2018, by which travel and trade take place. The administration has also started expanding its bilateral relations portfolio with Afghanistan, to include economic, educational, and political areas as it moves to develop its Central Asian counterpart as more than just a security partner.

Starting early 2017, Uzbekistan offered the central government of Afghanistan and the Taliban a venue to negotiate a political peace process, and Uzbekistan finds many reasons to facilitate that dialogue, since instability in Afghanistan indeed can have spillover effects in Central Asia and beyond. During his speech at the Commonwealth of Independent States (CIS) summit in 2018, President Mirziyoyev concentrated his remarks upon uncertainties involving the worsening security situation in Afghanistan—calling for stronger collaboration to remedy the problem to prevent its potential repercussions in Central Asia. ^{xxx}

A 2017 multinational conference in Tashkent, which was dedicated to Afghanistan's stability and security, was indeed what led to recent framework agreements between the Afghan government and the Taliban. Prior to that conference, Afghan President Ashraf Ghani visited Uzbekistan and signed over 20 agreements on various areas of economy and trade, which led to over \$500 million worth of contracts between private and public companies of each nation. Following these contracts, the Afghanistan-Uzbekistan Chamber of Commerce was opened to facilitate closer trade relations.

Uzbekistan also embarked on establishing and developing transit routes, electricity connectivity, agricultural links, and higher education collaboration with Afghanistan. It launched regular flights by Uzbek airlines between the two capitals (Kabul and Tashkent) that has now become the key linkage between Afghanistan and its Central Asian neighbors. These positive steps by Uzbekistan created significant opportunities for landlocked Afghanistan. During his web conference at the Johns Hopkins University in Washington DC,^{xxxii} President Ghani highlighted the importance of connecting with Central Asia and stressed that it has now become a key objective for the Afghan government to develop export and transit routes via the Caspian Sea. The Andijan railway now connects Afghanistan with China via Uzbekistan, and the first Chinese train reached Afghanistan in 2017. Additionally, Uzbekistan decided to provide \$500 million to finance a \$1.8 billion railway construction between Mazari-i-Sharif and Herat. The country also launched professional training and education programs that included short-term courses for Afghan government professionals that are key to the capacity development of the Afghan government's institutions.

Unfortunately, the fight against the Taliban and other radicals in Afghanistan can be called a "stalemate" state at best; some reports suggest over 175 Afghan police and soldiers are killed weekly.^{xxxiii} Washington has reacted by encouraging the active engagement of Central Asian countries, especially Uzbekistan, given the fact that almost 70 percent of oil supply to Afghanistan comes from Uzbekistan, where the nation was key for the Northern Distribution Network during the height of U.S. and NATO mission activities in Afghanistan.

The United States has continued to become more actively involved in its bilateral relations with Uzbekistan. Following President Mirziyoyev's visit to Kabul, the United States recognized Uzbek efforts and dispatched Senior Deputy Assistant to the U.S. President, Lisa Curtis, to visit the nation. Mirziyoyev was also among the first from the region to be invited to the White House and was thanked for his efforts to reform Uzbekistan, and for its recent role in achieving sustainable peace in Afghanistan in the future. He managed to sign over \$5 billion worth of contracts and trade agreements with the United States that will expand the American-Uzbek economic-relations portfolio.

On top of critical security and political matters, Uzbekistan and Afghanistan share a common culture, religion, and ethnic groups; thus, strategic relations are mutually beneficial. Uzbekistan will maintain its keen interest in stabilizing Afghanistan, given that all multinational efforts to defeat the Taliban and other radicals have not succeeded. Mirziyoyev also hopes to integrate Afghanistan economically as it continues to worry about its neighbor's security situation. President Mirziyoyev previously said, "Afghanistan's security is Uzbekistan's security."^{xxxiii} Countries like Uzbekistan can be a role model that is secular, successful, and stable.

Chapter 5: International Outlook

Responses from International Organizations

The European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) has welcomed Uzbekistan's reforms with renewed engagement in the country. Investment declined significantly in the later periods of the Karimov regime, but has skyrocketed in the last two years. Today, the EBRD has a net cumulative investment of €06 million (around \$1 billion) in the country with eleven active projects there.

The EBRD's "Uzbekistan Country Strategy" lays out three priorities: enhanced competitiveness from a stronger private sector, more green energy and resource solutions, and increased regional cooperation and integration. These goals broadly align with the Uzbek government's "Strategy of Actions in Five Priority Areas for the Development of Uzbekistan," a plan which the EBRD called a "comprehensive program of reform."^{xxxiv}

The body has also spoken favorably of the Mirziyoyev government in general, under which they say the "pace of improvement has accelerated significantly."^{xxxv} However, it also took note of several potential obstacles. The EBRD pointed out that elections, civil society, rule of law, and civil rights are all improving, but from a "low base." Sustainable economic growth and liberalization will remain elusive without continued growth in these areas. The EBRD also cautioned that, while it is optimistic about the government's stated plans and ambitions, Uzbekistan's economic health will depend on the strategy's implementation over the next few years

Cotton Campaign

The Cotton Campaign is a coalition of human rights, labor, investor, and business organizations focused on the issue of forced labor during Uzbekistan's and Turkmenistan's cotton harvests.^{xxxvi}



Fig. 1: EBRD investment activities in Uzbekistan

Source: EBRD. *Uzbekistan Country Strategy 2018-2023*

The group found “encouraging signs of progress” spurred by a “commitment to reform at the highest levels of the government” after monitoring Uzbekistan’s 2018 cotton harvest, which concluded in early December.^{xxxvii} However, the Coalition said they had still found instances of “large-scale, government-implemented forced labor,” despite these positive developments. The Uzbek-German Forum for Human Rights (UGF,) a collaborator with the Cotton Campaign, reported that at the start of the season, there was little to no forced mobilization.^{xxxviii} Its findings were corroborated by the International Labor Organization (ILO,) which claimed 93% of Uzbek cotton labor was voluntary.^{xxxix} However, the UGF’s assessments grew dimmer as the season proceeded. Local administrators began receiving harvest quotas from central authorities, and in turn instituted labor quotas on local organizations, thereby dictating how many employees they needed to send to the fields.

Regional and district authorities are subject to punishment for not meeting harvest quotas. The UGF reported on one instance in October, when five district heads had their salaries suspended for two months and the police chief and prosecutor were fired for falling short of their required cotton and labor numbers. These actions were meted out a day after President Mirziyoyev visited the area to monitor its cotton harvest.^{xl}

Overall, the Cotton Campaign expressed pleasure, but not satisfaction, with Uzbekistan’s progress in decreasing forced labor in its cotton harvests. Its report on the latest season quoted Judy Gearhart, Executive Director of the International Labor Rights Forum, and founding member of the Cotton Campaign, as saying “forced labor will not be eliminated as long as the quota system for both cotton and field labor remains intact.”^{xli} Thus, the Campaign is reluctant to declare victory over forced labor in Uzbekistan, but sees progress.

International Monetary Fund

The International Monetary Fund (IMF)’s Executive Board praised Uzbekistan’s “comprehensive reform program to open and liberalize the economy, stimulate job creation, and promote inclusive growth” after a bilateral discussion with Uzbekistan in May.^{xlii} In particular, they lauded the government’s decision to liberalize the foreign-exchange market, which it calls the “most significant” reform from the Mirziyoyev administration.^{xliii} However, they also advised that Uzbekistan should proceed cautiously in its foreign-exchange market. The high levels of foreign-exchange reserves in Uzbekistan represent “significant opportunity costs” for the Uzbek economy, while any rapid reform could create uncertainty and volatility.^{xliv}

These criticisms were echoed in the IMF’s assessment of Uzbekistan as a whole: Too much change too quickly could shock the economy and have adverse effects. External issues, such as lower demands for trading partners, increased regional conflict, and lower commodity export prices could also threaten Uzbekistan’s reform trajectory.

Box 1. Risk Assessment Matrix				
Risk	Description	Likelihood/ Timeframe	Possible impact (if realised) / Transmission Channels	Policy Advice
External Risks and Spillovers				
Slowdown in Main Trading Partners (e.g. China, Russia)	A downturn in trading partners import demand (e.g. due to a sharp tightening of global financial conditions)	Low/ Medium Short to Medium-term	Medium Reduction of Uzbekistan's exports, remittances from Uzbekistan migrant workers, or FDI inflow could significantly slow growth and job creation as aggregate demand contracts.	Ease the monetary stance, including by allowing the exchange to adjust on line with market conditions Ease fiscal policy, allowing automatic fiscal stabilizers to operate
Lower Commodity Export Prices (e.g. gold, natural gas, or cotton)	While prices for gold, natural gas, and cotton are projected to be higher over the next two years, a global slowdown could lead to marketly lower prices for commodity exports.	Medium Short-term	Medium in 2017, Uzbekistan's gold, natural gas, and cotton exports were 7.4 and 1 percent of GDP, respectively. Lower terms of trade could worsen current account, slow growth, and contribute to investment uncertainty.	Allow the nominal exchange rate to adjust to external shocks to reduce the impact on growth and maintain competitiveness. Continue structural reforms to diversify exports.
Increased Regional Conflict or Security Risks	Protracted or escalating conflicts outside Uzbekistan could disrupt regional trade, tourism, or foreign investment.	Low Short to Medium-term	Low Heightened conflict or security risks could trigger external imbalance and slow growth and job creation aggregate supply contracts.	Use Uzbekistan's external buffers temporarily. Assure investors that Uzbekistan will maintain consistent policies. Allow automatic fiscal stabilizers to operate and exchange rate to adjust.

Fig. 2 External Risks to Uzbekistan's Economy.

Source: International Monetary Fund. *Republic of Uzbekistan 2018 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for the Republic of Uzbekistan*. 2018. IMF Country Report No. 18/117

The report noted that both GDP and employment growth had declined in the last five years, while inflation rose. These figures are projected to remain steady in the near future. However, the IMF also predicts an increase in external investments and imports because of Mirziyoyev's new policies that might be sufficient to offset weaknesses in other areas. It also spoke highly of Uzbekistan's fiscal policies and financial stability.

World Bank

The World Bank responded to the Mirziyoyev Presidency's announced plans by revising its planned engagement in Uzbekistan. The World Bank's "Country Partnership Framework (CPF) for Fiscal Years 2016–20" presented a strategy tailored to a gradual reform process. In June

2018, following a Performance and Learning Review (PLR) of the strategy, the World Bank devised three new focus areas for deeper, more rapid engagement in the country: a sustainable transformation to a market economy, reform of state institutions and citizen engagement, and investments in people.^{xlv}

The World Bank has supported Uzbekistan's efforts to reform its aviation sector by signing a Reimbursable Advisory Services agreement with the government. The Bank's International Finance Corporation (IFC) has invested in the financial, textile, and other sectors under six separate projects. Most are designed to privatize state-owned enterprises, transform the cotton sector, diversify the financial market, and enhance public-private partnerships.

Like the IMF, the World Bank made note of high inflation, high unemployment, and slowed GDP growth in Uzbekistan. They also added that the trade balance was showing a slight deficit. Unlike the IMF, the World Bank downplayed the risk of external stability due to high foreign exchange reserves.

Chapter 6: Policy Recommendations

The United States should:

- Offer an enhanced U.S. strategic partnership to Uzbekistan, contingent on President Mirziyoyev continuing to pursue his policies of openness in the region, economic and financial-sector reforms, and respect for international standards of human rights.
- Schedule regular high-level State Department visits (above the level of Assistant Secretary) to Tashkent as a visible symbol of the newly-enhanced relationship.
- Enhance the current C5+1 structure, in which the U.S. Secretary of State meets annually with the Foreign Ministers of the Central Asian states. The current once-a-year meeting of the C5+1 is symbolic and welcomed by the regional states, but it is not adequate. It is important to note that Russia does not comprehend why the Central Asian states respect the C5+1 and advises them not to cooperate. Senior officials from the National Security Council and from other relevant Departments, including State, Defense, and Commerce should make regular high-level (and highly visible) visits to Tashkent and to the other four Central Asian capitals to follow this annual top-level meeting.
- Enhance U.S. economic assistance to Uzbekistan that will aid in diversifying its economy, especially in the agriculture, manufacturing, and services sectors. Pay specific attention to fostering entrepreneurship, including in the small and medium enterprise sector, as well as to assistance to mechanize the cotton harvest to ensure Uzbekistan continues to move away from “forced labor.”
- Focus policy on how the new U.S. International Development Finance Corporation (replacing OPIC) with its initial \$60 billion budget will make the United States a stronger player in Uzbekistan and help reinforce the country’s economic reform and growth as well as U.S. commercial and investment ties with the countries. Specifically, China’s Asian International Investment Bank (for development purposes) and its BRI (for strategic purposes) do not fully adhere to international standards and can leave recipient countries overly debt-ridden, as has already occurred in Malaysia, Djibouti, Sri Lanka, and elsewhere.
- Openly declare that Washington does not recognize Moscow’s assertion of a “special sphere of influence” in the now-independent former Soviet republics, including in Central Asia.

- Follow a policy of enlightened realpolitik in the bilateral U.S.-Uzbekistan relationship that ensures all U.S. national interests are balanced. Specifically, the public “naming and shaming” and “finger wagging” common during the past decade about human rights violations -- an essential element of U.S. values that we project throughout the world - should generally take place behind closed doors. This tactic has been proven to lead to more positive results.
- Enhance U.S. economic assistance to encourage Uzbekistan-Afghanistan collaboration and connectivity. Diplomatically support Uzbekistan’s desire to play a helpful role in Afghanistan’s political reconciliation, ensuring the full integration of Afghanistan into Central Asia.
- The United States should schedule a trade mission to Uzbekistan to boost commerce between the two countries and look to work with the Uzbek side to have delegations of business people visit from Uzbekistan to learn about U.S. companies and technologies.

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