A Quarter-Century Pursuit of Independence: Politics of Trade, Energy, and Economic Development in Uzbekistan

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Abstract

After the collapse of the Soviet Union, Uzbekistan chose an original path of economic development policy. Known as the Uzbek model, these policies helped the Uzbek economy survive at least two economic crises over the last two decades. In terms of various macroeconomic indicators, the Uzbek economy outperformed similar countries. This paper divides the post-independence economic policies of the Uzbek leadership into three periods according to various definitive characteristics, and argues that the original path of the Uzbek model has been one of the key factors for the performance of the Uzbek economy. Over the last 25 years, the main motivation behind the occasional changes in the political and economic preferences of the Uzbek leadership has been the pursuit of independence.In its quarter century of economic policies, Uzbekistan's economy has achieved considerable success and has had various opportunities. It is a matter of policy choices to translate this promising outlook into solid and sustainable economic growth.

Key Words

Uzbekistan, Economy, Political Economy, Central Asia, Uzbek Model.

Introduction

This paper is a political economic assessment of Uzbekistan's 25-year pursuit of independence (*mustaqillik*). For some scholars, independent Uzbekistan has pursued a balancing and independent economic and foreign policy refraining successfully from traditional imperial bondages.[1] On the other hand, somescholars classify the policies of independent Uzbekistan as being inconsistent or unpredictable;[2] see the path of economic reforms as cautious and volatile,[3] and emphasize the lack of reforms in Uzbek politics and economy.[4]The analysis in this paper suggests that the original Uzbek path of independence and the Uzbek model have close relations with its economic policy and economic achievements despite several shocks in the quarter century since independence.

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This paper scrutinizes the political economy of the independent Uzbekistan in three periods, each with their own definitive characteristics, some of which exhibit repeating patterns.[5] The first period, the initial 10 years of independence from end-1991 to 2001, is a period of economic independence that came to an end with the Russian and Asian crises. The second periodlasted another 10 years between 2002 and 2011during which Uzbekistani authorities aimed at opening the country and its economy to the world.At the end of this second era the devastating impacts of the 2008-10 global economic crisis on the world economy and politics deepened. And the current period since 2011seems to bea promising new era for the Uzbek economy, despite various signs ofeconomic and political turbulences and uncertainty.

The paper is organized as follows: The following section examines the emergence of Uzbekistan as an independent economy both before and after the Soviet era, and the subsequent sections analyze the three periods of the Uzbek economy, in respective order.

From Cotton Economy to Independence

The people of today's Uzbekistan are the forbearers of the sedentary culture in Central Asia, practicing agriculture since ancient times. In Fergana, the first irrigated agriculture appeared in the second millennium BC, around Chust and Dalverzin, on the piedmonts or deltas of smaller rivers with seasonal streams. The usage of the great streams of the Amu Darya and the Syr Darya became possible after the development of irrigation technologies in the first millennium BC.[6] The most rapid growth in economic activity and irrigated agriculture occurred between 300 BC and 400 AD when small canals facilitated water distribution, andone of the largest settlements of the timewas founded near Marhamad city in Fergana. Cotton harvest has been an ancient practice in the region made possible through sophisticated irrigation works. Europeans have been familiar with Central Asian cotton since the 18th century at the latest, mostly from the mythical narratives of travelers.[7]

In the 1860s, when Russians first appeared as a political power in Central Asia, they observed people of the Fergana and Zeravshan valleys applying irrigated agricultural methodsanc cultivating cotton.[8] The Turkestan cotton had to wait until the outbreak of the American Civil War for gaining a foothold in the Russian market.Before the American Civil War, Russians were already familiar withTurkestan cotton, but did not prefer importing it[9] because of its "low productivity and quality."[10] After the American Civil War, with the growing demand from Russia, cotton cultivation in Turkestan increased about 20 times over three decades.[11] During the Great War, the importance of the scarce Turkestan cotton peaked and its price increased, but the government interfered in the prices, which led to discontent, even triggering a revolt.[12]

After 1917, the successive Soviet governments concentrated on increasing cotton production for the aim of self-sufficiency in the textile industry, a targetwhich was achieved almost entirely by 1933.[13] During the planned economy era, the cotton harvest became increasingly significant,[14] inevitably becoming a priority of economic policy. On the other hand, total agricultural production in the Soviet Union began deteriorating at the end of the 1970s until the mid-1980s. The agricultural crisis accelerated after the collapse of the Soviet Union, and the production of all former Soviet republics combined declined until the early 2000s.[15]

The years of *glasnost* and *perestroika* were difficult for the Uzbek government authorities, who felt the pressure of beingchastisedduring Gorbachev's war on corruption.[16] In this political atmosphere, Islam Karimovbecame the President of the Uzbek Soviet Socialist Republic in 1989,[17] and after a short turbulent period, on August 31, 1991, the independence of Uzbekistanwas declared. Of the foremostsignificant challengeson the agenda of the newly independent republic were economic transformation and structural reforms.

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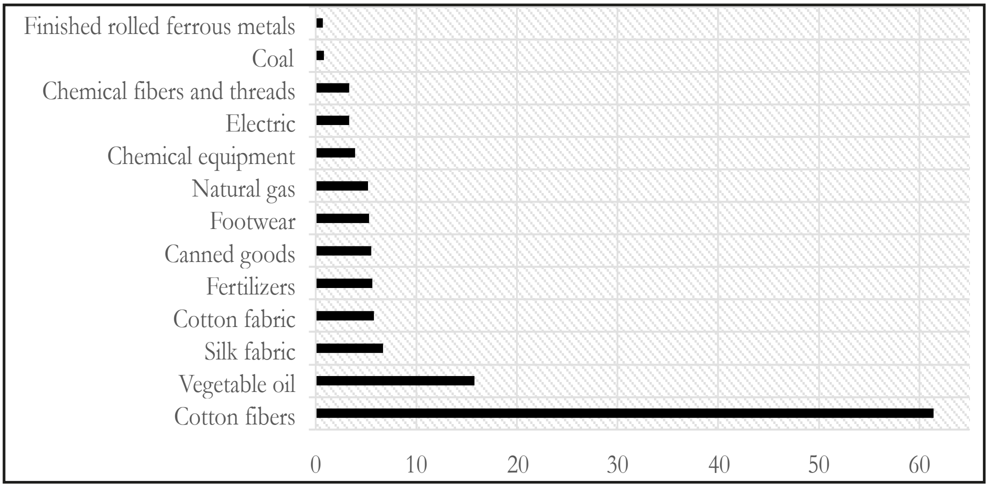
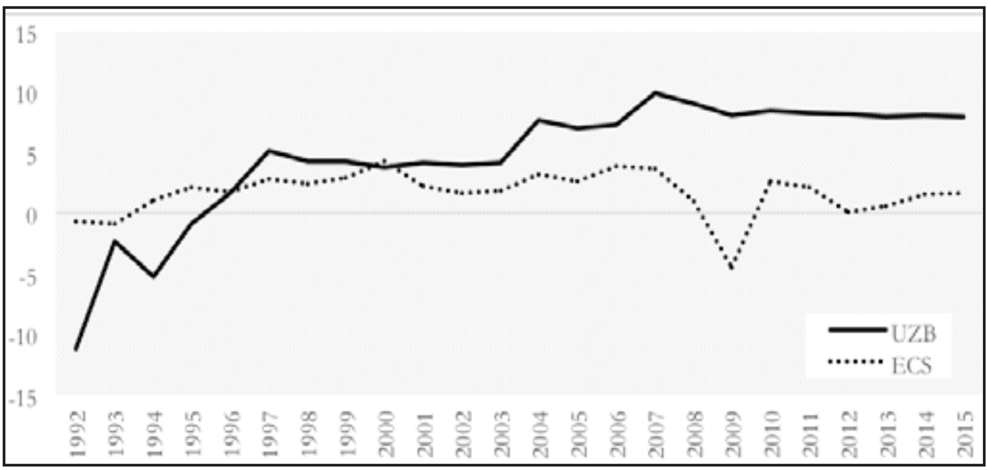
The following section is a scrutiny of the initial years, roughly a decade (1991-2001) after independence, during which Uzbekistan depended onimports of food and energy. This was a legacy of the Soviet planned economy eraas Uzbekistan's resources were devoted to cotton production and to some minor industries, such as textiles, canned food production, and extraction (Figure 1).[18] As of 1988, all necessary inputs, including electricity, machinery, food, and energy were imported from other Soviet republics,[19] and almost 40% of the labor force worked in agriculture at the time of independence.[20] In 1989, Uzbekistan was the second poorest republic with nearly 44%of its population living on less than 75 rubles per month, the official threshold of poverty at its time.[21]

Figure 1: Uzbekistan's Share in Soviet Production



Source: B. Plyshevskii, "Reforming the Economies of the CIS: Uzbekistan", *Problems of Economic Transition*, Vol. 37, No. 9 (1995), pp. 84-85.

Figure 2: Annual GDP Growth, Percent



Source: The World Bank, "World Development Indicators, World Bank and the Organisation for Economic Co-operation and Development (OECD) National Accounts Data",World Databank, http://www.databank.worldbank.org (last visited 20 January 2017). UZBrefers to: Uzbekistan, ECS: Europe & Central Asia (last visited 16 February 2017).

The Initial Years

After independence, the Uzbek economy experienced tough days, like almost all other former Soviet republics did, recording consecutive years of contraction and hyperinflation between 1992 and 1995 (Figures2 and 3).[22] This slowdown and turbulence were typical for all newly independent states.[23] What distinguishes Uzbekistan from the others was thatafter 1995, the gross domestic product (GDP) of Uzbekistanbegan growing steadily (Figure 2), returning topositive figures as early as 1996. It is important to note that among the newly independent states, Uzbekistan was one of the best performers in terms of output growth and many other macroeconomic indicators.[24]

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While the shrinkage of the GDP in Uzbekistan recovered faster than in the other newly independent states, revenues from the sale of state enterprises only slightly contributed to this performance as the Uzbek authorities embraced a cautious approach towards privatization, unlike other newly independent states. Between 1993 and 1998, especially with the impact of economic reforms in 1994, privatization contributed just 0.6 % to the GDP on average terms annually.[25]

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Some scholars relate Uzbekistan's better economic performanceto favorable "initial conditions" after independence, as well as to theproduction of cotton and the pursuit of self-sufficiency in energy.[26] Cautious and gradual reforms have also been credited by some authors,[27] yet these cautionary policies were subject to criticism on the grounds that they contributed to imbalances, especially in the government budget, and on the grounds thatthe government expenditures did not make a positive contributionto the economic growth.[28]

Still,there is little doubt that these policies contributed to the economic independence endeavors to a significant degree. These policiescomprise a whole, known as the "Uzbek model." The following subsections will investigate the emergence of this model and to what degree it contributed to the economic success story that distinguished Uzbekistan from the other former Soviet states.

The Introduction of the Currency and the Monetary System

As the firstand the most important sign of independence, Uzbekistan introduced a currency, the Uzbek som, in two phases, the first between November 1993 and June 1994, and the second between July and August 1994.[29] In the first phase, the transition currency, the som-kupon was circulated together with Russian and older Soviet rubles, andthen the old banknotes and coins were gradually withdrawn. The Central Bank of the Republic of Uzbekistan (CBRU) exchanged the old banknotes with new ones at a rate of 1 to 1. This process of the old currency withdrawal was completed by February 1994. In this first phase, the supply of the som-kupon banknotes began increasing gradually, tripling in the first six months after November 1993.[30] After 1994, this supply growth slowed, wellinto 1997.[31] In the second phase, the som-kuponswere swapped with brand new soms at a rate of 1 to 1,000.[32]

For the sake of comparison, the whole process took 10 months for Uzbekistan, while Kyrgyzstan completed the introduction of the new currency in one week, with the support of expert knowledge from the International Monetary Fund (IMF). Uzbeks chose to follow their own methods without getting any support neither from Russia nor from the international institutions, at the cost of currency depreciation and high inflation (Figure 3).

Another important policy tool of the government in the initial years was the foreign exchange policy. There were, and still are, at least three foreign exchange rates in Uzbekistan, one in the auction market, one in the commercial bank market, and one in the unofficial curb market. The former was the largest by 1997 and the rate in this market stays artificially appreciated. Here, the source of foreign exchange is part of export revenues from gold and cotton, "the centralized exports."[33] The exporters operating in this market change their foreign currencies at a low rate and hence pay an *implicittax*. Those who can get the cheap foreign currency in this market are "importers of capital goods, raw materials, grains, and some high-priority consumer goods;" some enterprises; and the government for serving public debt.[34] They get an *implicit subsidy*. The implicit tax on centralized exports and subsidies for centralized imports increased in this period to a level of 56 % by 1999.[35] The IMF estimates that with these implicit taxes and subsidies, about 16 % of GDP was transferred from exporters to importers.[36]

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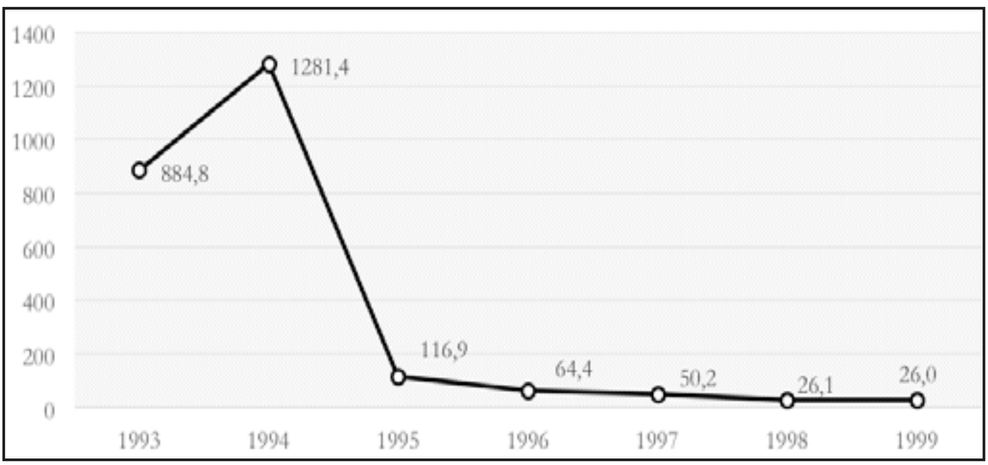
The second market is for the banks and exchange offices. The price here is also centrally set and the source of foreign exchange is the "non-centralized exports", that is, the export revenues excluding those of gold and cotton. In 1997 and 1998, exporters had to exchange 30% of their trade income at the official exchange rate, while in 1998, this share was increased to 50 % (and more).[37] Theserulescontinued to apply in the third period, after the 2010s.[38] Only licensed traders can trade foreign currency in this market; individualsare not allowed. The third market is the illegal and unofficial market where excess supply and demand determine the exchange rate. The higher the level of foreign exchange controls, the higher is the level of the margin between the official and unofficial exchange rates. The margin was about 100 % by mid-

Figure 3: Year-end Consumer Price Inflation Growth, Percent Change



Source: International Monetary Fund, "World Economic Outlook October 2016", http://www.imf.org, (last visited 4 January 2017).

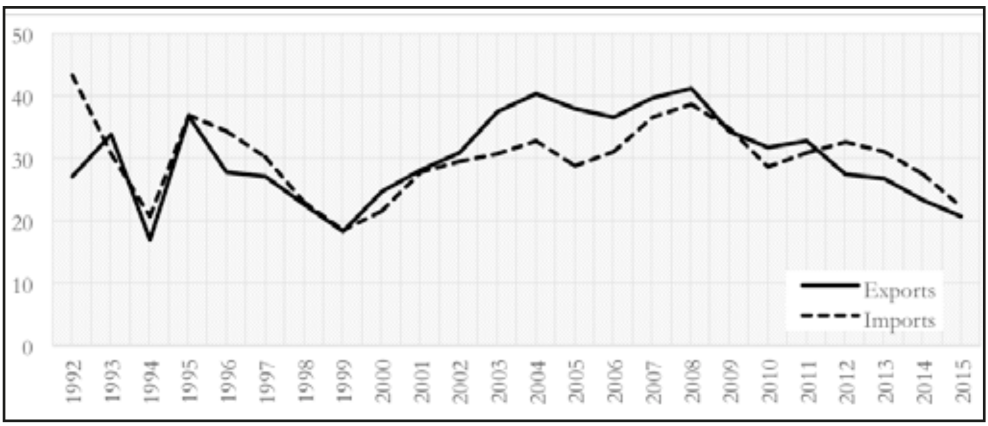
1998, and then it increased to about 400 % after the decree on foreign currency restrictions.[39] A study by the IMF staff found that the margin between the unofficial market and the official exchange rates had a significant impact on the increase of inflation during these years (Figure 3).[40]

This is one of the reasons why inflation performed in these years relatively worse than the other newly independent states. It was one of the side effects of the initial economic policies. During the same period, Kazakhstan, for instance, gave more importance to controlling inflation and the World Bank research team estimates that this may be the reason why its economy contracted while the Uzbek economy grew in the first decade after independence.[41] While the developments on the monetary side can be summarized as such, one should also scrutinize the real economy for a complete perspective.

International Trade and the Real Economy

On the real economy side, the first factor that is related to the Uzbek model of economic independence was international trade. By the year 1992, when imports constituted 43 and exports 27 % of the GDP,the Uzbek economy depended on agriculture, especially on cotton.[42] Especially between 1993 and 1995, of its exports, about two thirds

Figure 4: Imports and Exports of Goods and Services, Percent of GDP



Source: The World Bank, "World Development Indicators, World Bank and OECD National Accounts Data", World Databank, http://www.databank.worldbank.org, (last visited 20 January 2017).

was cotton raw and roughlyone fifth was gold.[43] This dependence on cotton often adversely impacted Uzbekistan's hydropoliticalrelations, especially with its upstream neighbors in the Aral Sea basin.[44]

In two years, imports decreased to 21 and exports to 17 % of GDP (Figure 4). This was anoutcome of some specific policies. First, cotton sown area was decreased; and instead, other products, such as wheat and potatoes, were planted.[45] Due to an increase in investments in agricultural technology, the yield from cereals and other crops grew significantly during these initial years, surpassing the productivity figures recorded in Europe and Central Asia by the end of the decade (Figure

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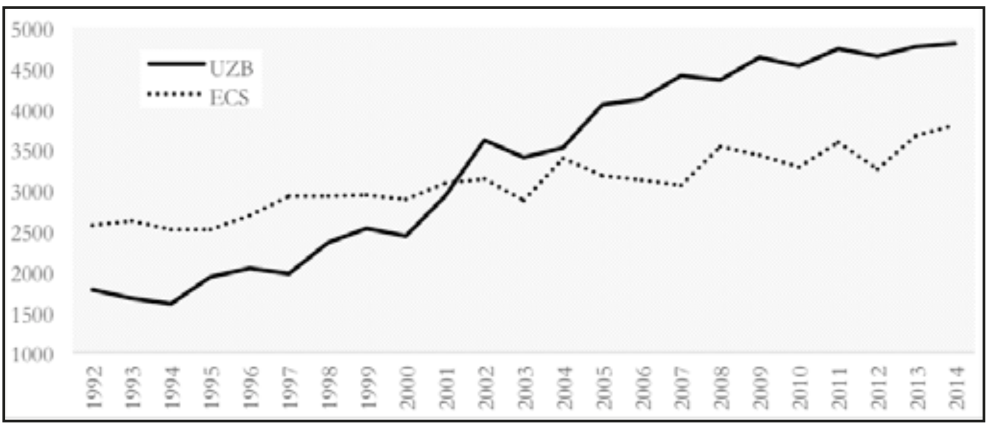
5). This led export revenues from cotton to decrease, but the need for importing food decreased as well, and a near-self-sufficiency was reached by 1998. Before the implementation of these policies, wheat imports were 1 billion US$ (USD), constituting 40 %

Figure 5: Cereal Yield, Kilograms per Hectare



Source: The World Bank, "World Development Indicators, Food and Agriculture Organization, Electronic Files and Web Site", World Databank, http://www. databank.worldbank.org, (last visited 20 January 2017). UZB refers to: Uzbekistan, ECS: Europe & Central Asia (all income levels).

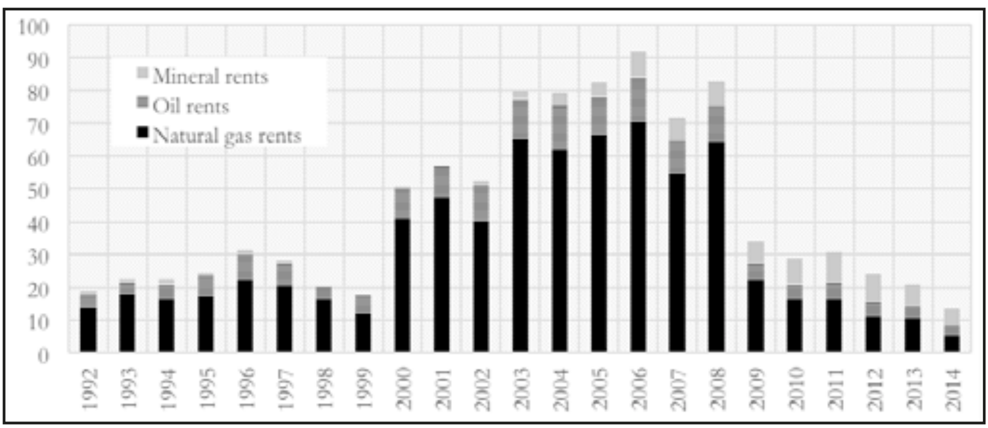
of total imports.[46] On the other hand, as a result of these occasional increases and decreases in the supply of different products, the total agricultural output fluctuated throughout the decade (Figure 7).

Second, oil and gas production increased with the positive contribution of intense imports of capital goods. Although as a consequence of this the import figures in the current account balance sheet were hiked, the aim of energy self-sufficiency was achieved by the year 1996. Oil and natural gas rents rose between 1992 and end-1996 (Figure 6), a period in which Europe Brent spot oil prices fluctuated between the relatively high levels of 13 and 23 US$ per barrel.[47] Then, towards the end of the initial period, with the impact of the crises in the world in 1998-1999, gold, oil and natural gas prices, along with the prices of commodities including cotton, decreased sharply, leading to a downfall in the oil rents (Figure 6) and cotton export revenues.

The low price of cotton, accompanied with state subsidies for domestic cotton production in the richer countries, such as the US, Greece and Spain, had considerable impacts on Uzbekistan's cotton exports.[48] Also, the emergence of and the increasing demand for synthetic and chemical fibers decreased the relative global demand for cotton.[49]

In general, in this first period, increased domestic food production led to a

Figure 6: Mineral, Natural Gas and Oil Rents, Percent of GDP



Source: The World Bank, "World Development Indicators", World Databank, http://www.databank.worldbank.org, (last visited 21 January 2017). Minerals included are: tin, gold, lead, zinc, iron, copper, nickel, silver, bauxite, and phosphate.

decline in food imports while export revenues from minerals, energy products, and cotton could not be raised to the desired levels (Figure 6). As a result, the total volume of exports contracted steadily throughthe end of the 1990s, andthe Uzbek economy recorded trade deficits (Figure 4). Some experts argue that the main reason behind the initial deterioration of the external balance was the policy of import substitution accompanied by foreign exchange restrictions.[50] It should be noted, however, that the low level of global demand for Uzbek exports had aconsiderable impact on trade deficits, as discussed above. On the other hand, this global price surge influenced Uzbekistan less than the other commodity exporters in the region, partly thanks to the relatively more diversified composition of the Uzbek economy.[51] The positive impacts of this diversification would be observed in the following decade, over the years of openness, as explored in the next section of this paper.

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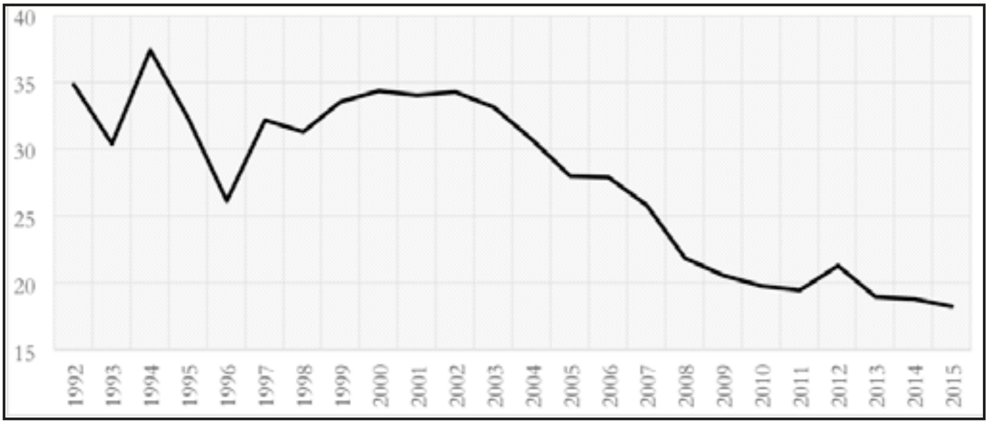
In the initial years, Uzbekistan chose to diversify its economy by channeling resources generated from oil, natural gas and mineral extraction, as well as state revenues from cotton exports, to industrialization.[52] In addition, current account transactions were restricted formally in 1997 and a "multiple exchange rate regime"was introduced.[53] The aim of the latter was preserving foreign exchange reserves,[54] reaching self-sufficiency in food and energy,[55] and finally, decreasing imports and diversifying economic growth by increasing modern industrial production with state support. Particularly in the final years of the period, the initial results of these measureswere observed: Between 1998 and 2001, the industry sector received 55 % of all investments, the transport and communications sector got 25 %, andagriculture got 10 %.[56] The lower level of investments received by the agriculturesectorwas subject to criticism on the grounds thatthis may distort income distribution in disfavor of the rural population and the poor.[57]

On the other hand, this was a policy preference, and the government aimed at supporting the rural population and the poor through direct social spending. As indicators of this, spending on healthcare and education remained at relatively higher levels, with healthcare getting about 3 % of GDP and education about 9 percent of

Figure 7: Agriculture, Value Added, Percent of GDP



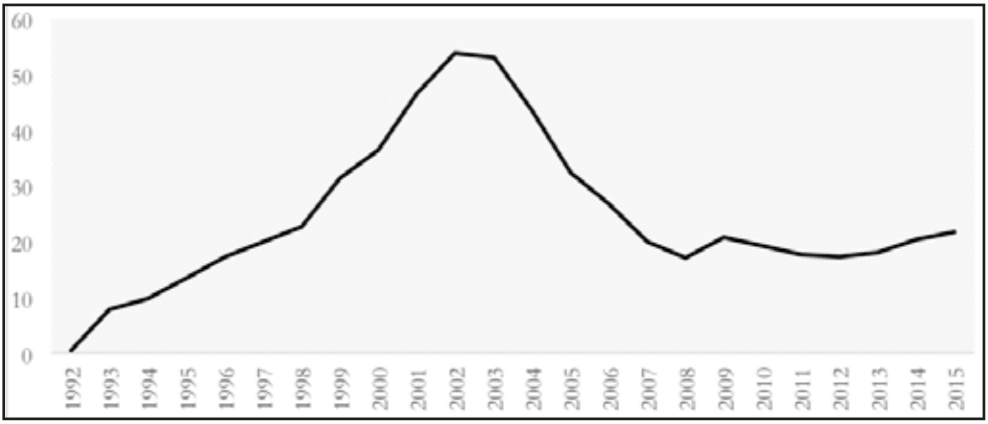
Source: The World Bank, "World Development Indicators, World Bank and OECD National Accounts Data", World Databank, http://www.databank.worldbank.org, (last visited 20 January 2017).

gross national income (GNI) between 1995 and 2001.[58] A social assistance system was introduced in 1994 based on *mahalla* or district organization. This system provided state assistance to the poor, determined by the *mahalla* elders. In the initial years, high amounts of direct subsidies led to a hike in inflation.[59] In 1994, along with some reforms necessitated by the IMF, subsidies for food, housing, transportation, utilities and energy were lifted.[60] As a consequence, the level of social transfers decreased. In Fergana, for instance, the number of all households receiving welfare benefits decreased at a rate of one third during the decade,[61] and the amount paid as apercent of state budget dropped by half.[62] Despite all its setbacks, this original model of social assistancewas founded on solid grounds, andwas suggested by some scholars as a model for other regional states.[63] On the other hand, as the government transferred substantial amounts to the poor, it was not an easy task for the policy-makers to conduct a balanced as well as an independent fiscal policy during these initial years.

Fiscal Policies, Foreign Investment, and Aid

The policies of industrialization and import substitution had an impact on the increase of external debt cumulatively until 2002, making its peak at about 54 % of GDP (Figure 8). Although the borrowing was mostly long-term public debt (Figure 9),

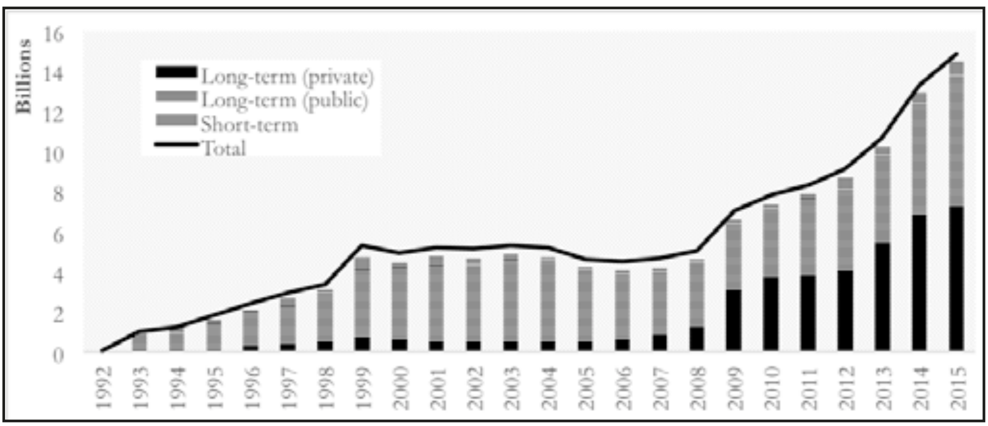
Figure 8: External Debt Stocks, Percent of Gross National Income



Source: The World Bank, "World Development Indicators, International Debt Statistics",World Databank, http://www.databank.worldbank.org (last visited 22 January 2017).

the average interest paid for this debt remained relatively high in comparison to the following periods (Figure 10). Especially in 1994, with the impact of the economic reforms promised to the IMF, external loans were guaranteed easily for a short time until 1996, when the promised reforms and the

Figure 9: Debt Stocks, Current USD



Source: The World Bank, "World Development Indicators, International Debt Statistics",World Databank, http://www.databank.worldbank.org, (last visited 22 January 2017).

standby agreement with the Fund were suspended. Finally, in 2001, the IMF ceased all formal relations with the Uzbek government.[64]

The Uzbek government manages its debt through six state-owned banks. Although 28 banks were authorized for foreign exchange transactions by the end of the 1990s, most of these transactions were made by the Central Bank of the Republic of Uzbekistan (CBRU).[65] As of 2001, the CBRU held three quarters of the total financial assets and about two-thirds of the total capital of the entire banking system.[66] During the initial years after independence, when the new national currency (som) was introduced, a general mistrust in the banking system prevailed, people preferred to hold large amounts of cash, as compared to people in other newly independent states.[67] With some regulations and reforms in thebanking system at the end of the period, increased levels of liberalization and competition in the system reestablished trust to a

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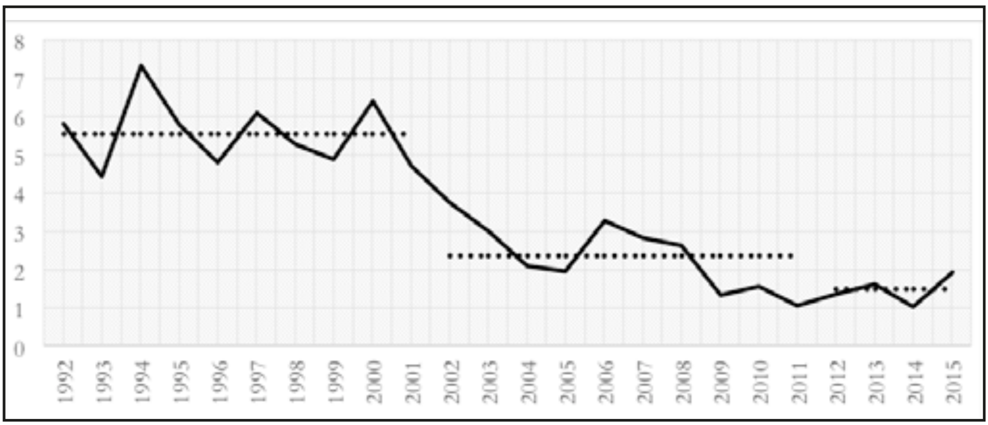
Figure 10: Average Interest on New External Debt Commitments



Source: The World Bank, "World Development Indicators, International Debt Statistics",World Databank, at http://www.databank.worldbank.org (last visited 22 January 2017). Dashes indicate the average of the period.

significant degree.[68] As an indicator, the broad money to GDP ratio was 10 % by 2003, down from 53 % in 1993.[69]

On the other hand, the government had a cautious approach to the banking system too. In the initial years, only a small number of private banks could get official licenses, andtheir weight in the economy remained marginal. The number of banks by 2001 was 38, of which six were owned by foreign nationals.[70] The state-owned banks controlled the financial system of the country during the period. Moreover, the interest rates were also set by the state, and the banks had limited access to financial instruments.[71]

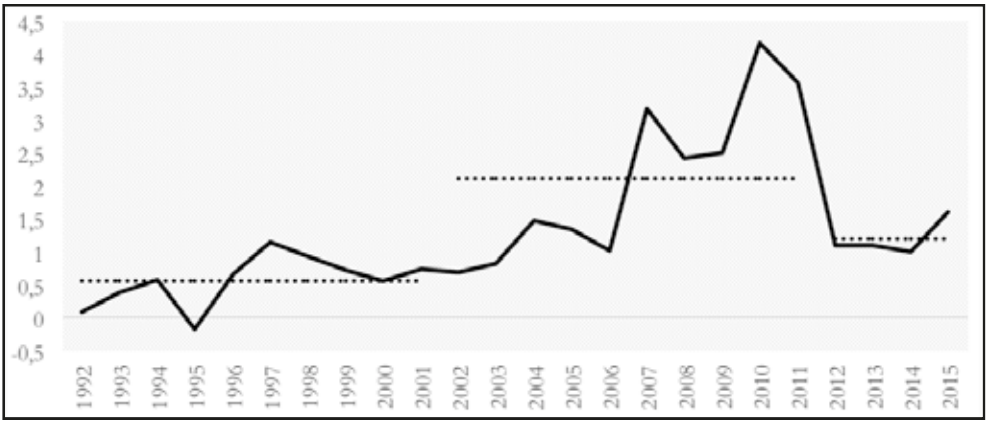
In this period, the country attracted relatively low but "high-profile" foreign direct investments (FDI) as well (Figure 11), especially from Germany, the US, and South Korea, from companies such as Mercedes-Benz, Coca-Cola, Daewoo and British American Tobacco.[72] Although some authors criticized the performance of these factories on the grounds that they functioned below capacity in this period,[73] and although in the initial years the Daewoo cars were sold only in the domestic market,[74] they have proved their importance as Uzbekistan's car exports began increasing in the following periods, even amid decreasing energy and commodity prices, and increased global uncertainties.

The Uzbek Model and Economic Reforms

In these initial years, in general, Uzbekistan was reluctant for the economic reforms. On the other hand, as stated above, it recorded a better economic performance in comparison to other newly independent states. This was perceived as a paradox[75] and hence classified as the "Uzbek puzzle" by some authors,[76] even while the Uzbek authorities advertised it proudly as the "Uzbek model"[77] on international platforms. Pomfret argues that this success of good economic performance contributed to the Uzbek leaders' self-confidence and an increase inKarimov's weight in regional and world politics. The Uzbek leadership saw this situation as an opportunity and sought political and economic alliances in the West.[78] The relations, however, would depend on the economic liberalization, reforms, and political freedom, as perceived by the Western governments and institutions.

In this period, reforms pursued a volatile path with occasional accelerations and slowdowns. The process was cautious and a "shock therapy"[79] similar to those in other former Soviet states was deliberately avoided. The caution appeared in the spheres of price and foreign exchange controls, as well as privatizations[80] and

Figure 11: Foreign Direct Investments, Percent of GDP



Source: The World Bank, "World Development Indicators, IFS and Balance of Payments databases of IMF, OECD",World Databank, http://www.databank.worldbank.org (last visited 24 January 2017). Based on the World Bank and OECD GDP estimates. Dashes indicate the average of the period.

open trade. A cautious way was selected for reforms because of the composition of the population and the high level of poverty, and for achieving social and political stability.[81]

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In the mid-1990s, the outlook for general economic and political reforms in the transition economies was positive, and the overall increase in the level of democracy was promising. The optimism on the side of theglobal economy was hurt by the crises in the late-1990s, and with their impacts on the global and regional scales. A similar pattern can be observed in the second decade after the dissolution of the Soviet Union and along with the booming world economy, until 2007-2008, when itcrashed into the 2008-10 global economic crisis, the worst global economic depression since 1929. The following section scrutinizes this second decade from the perspective of Uzbekistan and its place in the global political economy.

The Years of Openness

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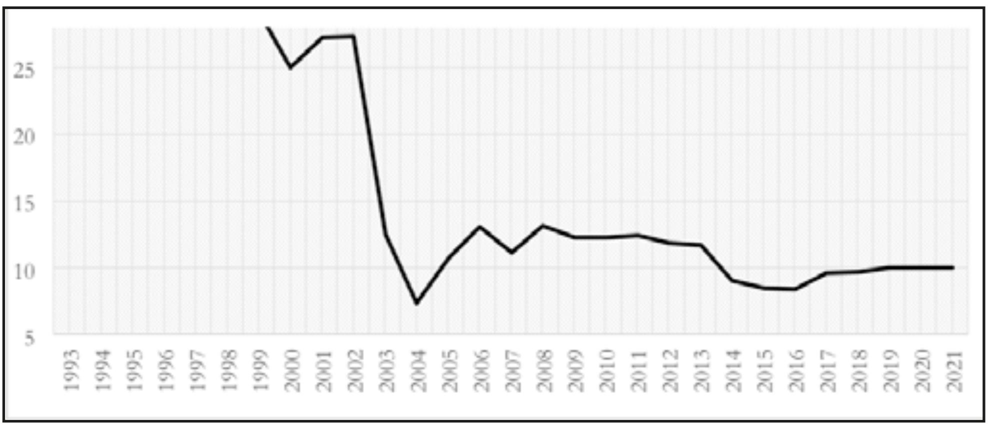
economic independence, especially away from Russian dominance, and tried to open itself to the world economy. The best way for doing this seemed to be aligning with the US. The atmosphere of the global "war on terror" and an overall threat of radicalism, which Karimov had long stressed on various occasions, prepared this ground in the second period. During the initial years,Karimov was a supporter of economic integration with the Commonwealth of Independent States,[82] and at the same time, he sought for a balancing alliance from the US.[83]

An important characteristic of this period (2002-2011), "the years of openness" in this context, was a steep decline in consumer price index (CPI) growth. The increase in consumer prices was brought down from about 27 % in 2001 and 2002 to an average of 13 % during the period (Figure 12). Price controls had a considerable impact on this decrease. Other positive developments followed, under favorable global economic conditions and an optimistic outlook for world demand conditions. Under these circumstances, the endeavors of opening Uzbekistan to the global economy gained pace.

Figure 12. CPI, Annual Percent Change, Average Prices



Source: International Monetary Fund, "World Economic Outlook October 2016", http://www.imf.org, (last visited 4 January 2017). Estimates start after 2014.

Economic Reforms and International Community

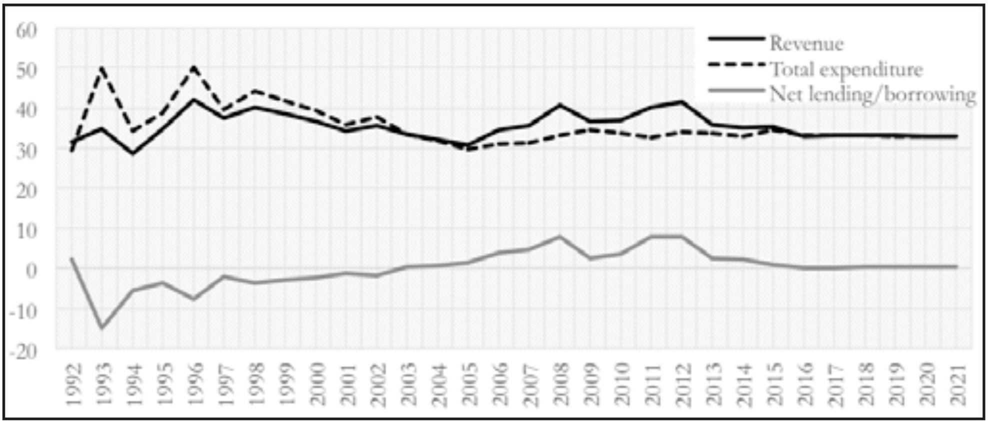
The initial signals of openness in this second eraafter independence were the promises by the Uzbek authorities of economic reforms. First among these was the promise of reforms in the foreign exchange regime. Accordingly, the policies of the previous period, money transfer controls by the CBRU, the state banks, the State Customs Committee, and the Ministry of Finance were subject to change. In October 2003,[84] the Uzbek authorities agreed to stick to the obligations of Article VIII of the IMF agreement,[85] which obligated the removal of restrictions on international transactions and theelimination of themultiple foreign currency regimes.[86] Yet, these reforms could not be realized amid fears of increasing inflation and concerns of the external debt service.[87] Politically, the events in Andijan in 2005 became a real turning point for these reform policies, as discussed further in this paper.

Since 2002, the Uzbek economy attracted more and more investments from abroad.[88] In 2002, the foreign direct investments corresponded to less than 1 % of GDP, while in 2011, investments reached to more than 4 % of GDP (Figure 11). In USD terms, the amount increased 25 times, as compared to 2002.[89] The authorities tried to attract investments to the energy, chemical, metallurgy, and machine building sectors. The agricultural sector and related industries needed significant investments too. While the foreign investments decreased slightly after the Andijan events in 2005, they climbed to record highs in 2007 and again in 2010, just after the crisis.[90] With the impact of the investments received from South Korea and Germany, the automobile industry developed in the second period, and energy production surpassed domestic demand slightly,[91] contributing to GDP growth to a significant degree.[92] By the end of the period, Uzbekistan was consuming 85 percent of the natural gas produced domestically and exporting the remaining volume.[93]

During these years, beginning from 2003, the general government recorded budget surpluses and the net lending to borrowing ratio remained on the positive side (Figure 13). These years also witnessed a decrease in debt stocks, which were accumulated in the previous period (Figure 8). The average interest paid for new debt fell to a more sustainable level. Although this interest rate increased to 3.2 %

Since 2002, the Uzbek economy attracted more and more investments from abroad.

Figure 13: Government Balances, Percent of GDP



Source: International Monetary Fund, "World Economic Outlook October 2016", http://www.imf.org (last visited 4 January 2017).

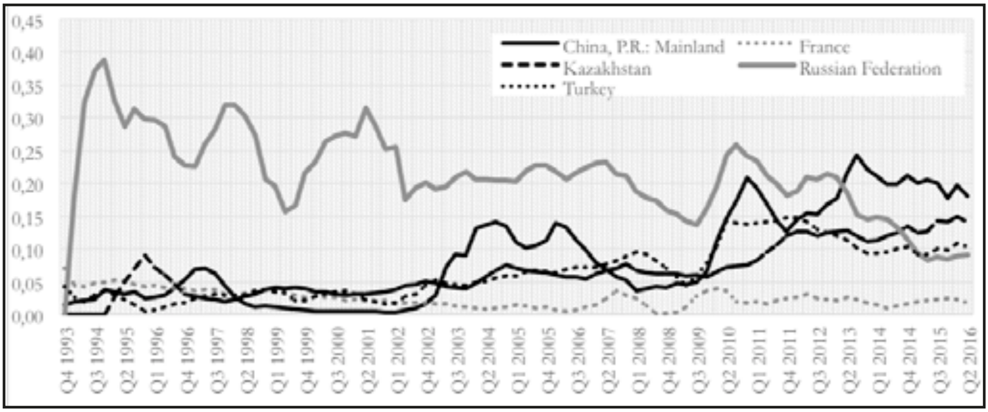
reflecting creditors' risk perceptions after 2005 Andijan events, it decreased back to below-1.5 level by the end of the period (Figure 10).

Changing International Trade Conditions

A definitive characteristic of this period was the change in the Uzbek trade composition. The most dramatic difference was the share of Russia in the tradestructure.[94] By the end of the previous period, about one-third to a quarter of all Uzbek exports had gone to Russia. By mid-2002, this share fell to as low as 17 % and increased only slightly over 25 %throughout the decade. The share of China and Turkey, on the other hand, increased dramatically from less than 2 % by the end of the previous period to an average of 9 % and about 8 %, respectively, during the entire decade (Figure 14). This trend would continue in the following period.

The main reason behind this increase was the growing economies of the export partners during the 2000s, and particularly the increasing natural gas demand from China. Another positive development was that,especially at the beginning of the second period, the price of Uzbek export commodities rose, contributing to a hike in GDP growth after 2004 from about 4 % to 7-8 %.[95]

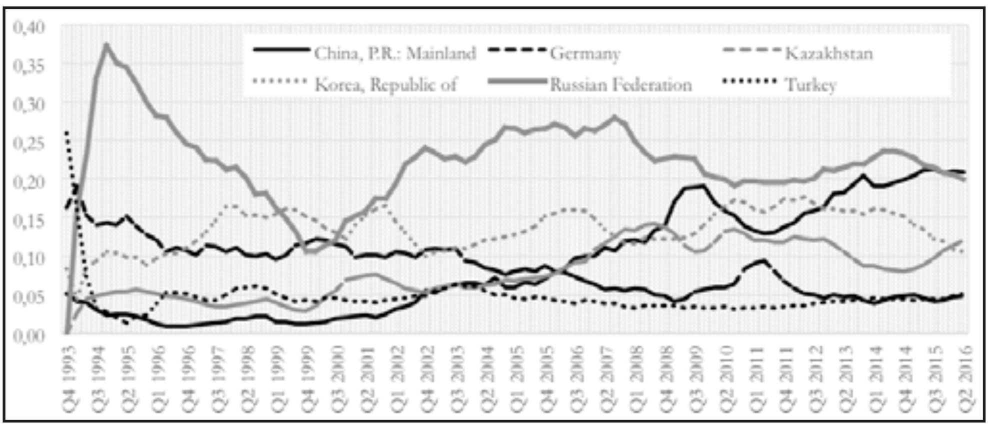
Figure 14: Main Export Partners, As Percent of Total Exports



Source: International Monetary Fund, "Direction of Trade Statistics (DOTS)", Annualized quarterly data,http://www.imf.org (last visited 21 January 2017).

In this period, Uzbekistan remained relatively unaffected by the global price volatility of its exports, since it sold them for lower than international prices. Thus, the price drop of energy and cotton only converged Uzbek prices to the world prices.[96] Although workers' remittances decreased due to the deterioration of the Russian economy affected by the crisis (Figure 23), strict controls and the state-led financial system protected the Uzbek financial sector against the shocks of the 2008-10 crisis.[97]

Figure 15: Main Import Partners, As percent of Total Imports



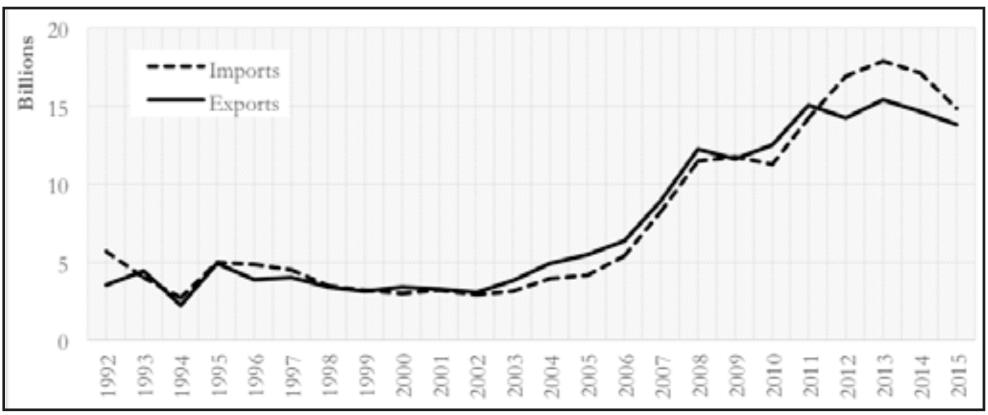
Source:International Monetary Fund, "Direction of Trade Statistics (DOTS)", Annualized quarterly data, http://www.imf.org (last visited 21 January 2017).

On the imports side, the previous period witnessed a dramatic surge in the share of imports from Russia from a peak of 37 %by the end of 1994 to as low as 10 % by the early 2000s. This figure recovered during the second period, reaching a peak of 28 % in 2007, but could not climb to the early-1990s level. Imports from South Korea remained high due to imports of car parts to be assembled in the Uzbek plants, imports from Kazakhstan increased from 7 to 12, and China from 3 to 14 % during the entire period (Figure 15).

Exports surpassed imports and a current account surplus was recorded almost throughout the whole period (Figure 16). Also, as another sign of openness, the share of trade in GDP increased from 50 to about 80 % on the eve of the crisis in 2008, after a slight decrease with the impact of the 2005 Andijan incident. Because of the deteriorating global trade conditions, it dropped to 63 % by 2011 (Figure 17). With the high FDI levels and trade surplus, a current account surplus was recorded throughout the period.[98]

A decisive characteristic of this period was that international politics impacted trade and other indicators. In his 1997 book, Karimov described Uzbekistan as a "front line state" near the borders of the conflictzones of Afghanistan and Tajikistan, and worried that the conflict in this region would spread into Uzbekistan and to Central Asia as a whole.[99] Justified with these concerns and Karimov's concerns of Russian dominance, he sought a closer alliance with the US,[100] for which he found a chance after 9/11. Even before that,

Figure 16: Imports and Exports of Goods and Services, Current USD



Source: The World Bank, "World Development Indicators, World Bank and OECD National Accounts Data", World Databank, http://www.databank.worldbank.org, (last visited 20 January 2017).

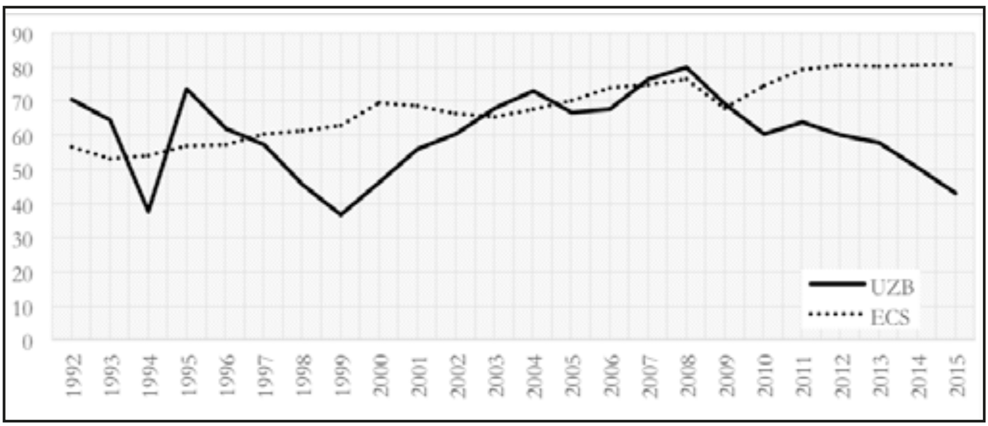
Karimov appreciated US material aid, stating that "no country could undertake democratic and economic reforms without help."[101]

Openness, Foreign Aid, and International Politics

In parallel, another important characteristic of this period in the economy was foreign aid. The US aid to Uzbekistan increased during the US-Uzbek rapprochement, especially after 9/11, and peaked in 2002 under the George W. Bush administration, reaching nearly US$150 million economic and US$53 million military aid, inflation adjusted.[102] The sharp increase during the previous period brought the net bilateral aid from about US$1.4 million in 1992 to US$129 million by 2001. The assistancehas grown in this second period, reaching a peak of US$211 million in 2004 (Figure 18). Also, the share of the US aid in terms of the total amount of the assistance received by Uzbekistan increased in this period (Figure 19).

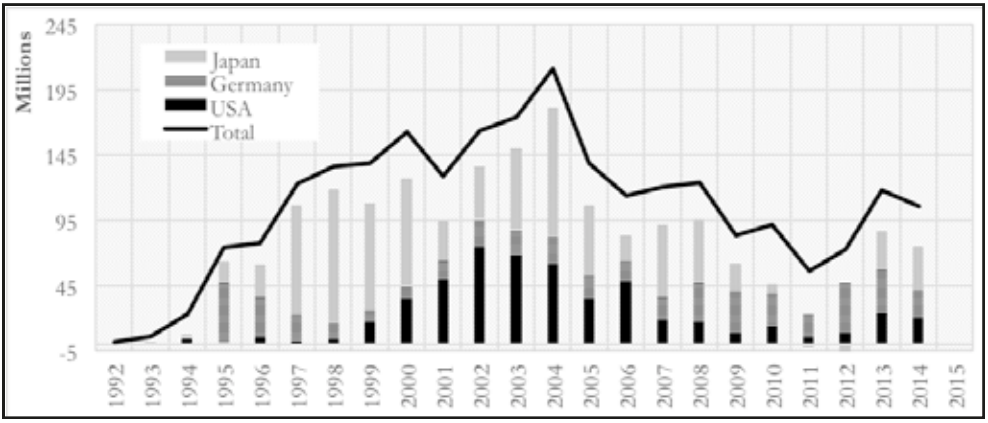
However, the Andijan incident in 2005 was a real turning point in Uzbek-US and Uzbek-Russian relations, as a result of which Uzbekistan requested the US tobe evicted from the base at Karshi-Khanabad. Furthermore, in 2012, the Uzbek parliament passed a bill to ban all foreign military bases,[104] and Uzbekistan canceled the tax privileges of the US gold mining company Zarafshan-Newmont.[105] This change in Uzbekistan's foreign policy

Figure 17: Trade, As Percent of GDP



Source: The World Bank, "World Development Indicators, World Bank and OECD National Accounts Data", World Databank, http://www.databank.worldbank.org, (last visited 20 January 2017). UZB refers to: Uzbekistan, ECS: Europe & Central Asia (all income levels).

Figure 18: Net Bilateral Aid Flows from DAC Donors, Current USD



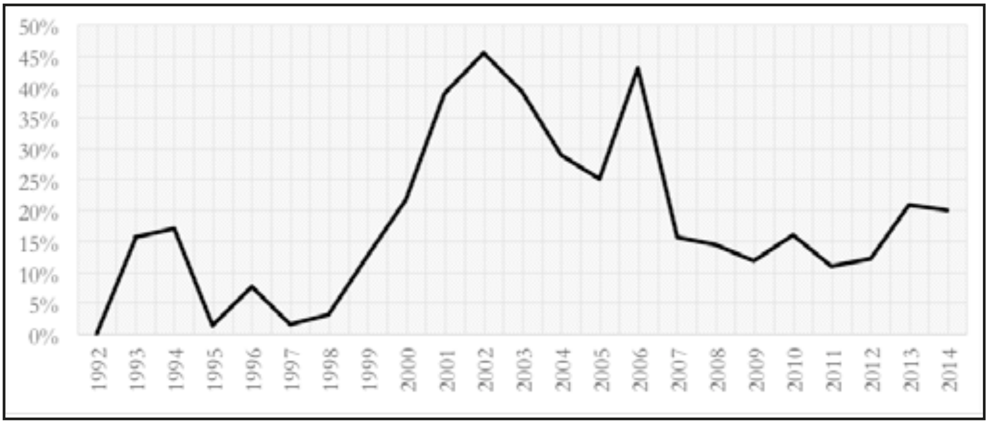
Source:The World Bank, "World Development Indicators; Development Assistance Committee of the OECD, Geographical Distribution of Financial Flows to Developing Countries, Development Co-operation Report, and International Development Statistics Database", World Databank, OECD, athttp//www.databank.worldbank.org, http://www.oecd.org/dac/stats/idsonline, (last visited 20 January 2017).[103]

priorities was seen as measures taken by Karimov for protecting its rule and regime,[106] especially in the years of consecutive color revolutions.[107] Some authors have tried to explain this change bygeographical factors.[108] Others have criticized the geopolitical approaches and explained the change in the US-Uzbek and US-Russian relations with the constructed nature of relations between countries on their conceptualizations of "war on terror" and "Islamic threat."[109]

In late 2005, a "Mutual Defense Pact" between Russia and Uzbekistan was signed. It allowed the use of military bases by either party.[110] Also in 2005, Uzbekistan withdrew from the Organization for Democracy and Economic Development, known as the GUAM, as an abbreviation of the four member countries: Georgia, Ukraine, Azerbaijan, and Moldova,[111] which was seen as a gesture for improving relations with Russia. Instead, in 2006, Uzbekistan joined the Russian-dominated CIS Collective Security Treaty Organization, from which it had withdrawn in 1999.[112]

The decrease inthe US bilateral aid after 2005 is noteworthy here,andis well studied in the relevant literature.[113] Trade was also affected (Figure 20). Not only the US but also China[114] and Russia[115] occasionally played the card of economic assistance in the form of

Figure 19: Net Bilateral Aid from the US, As Percent of Total Aid

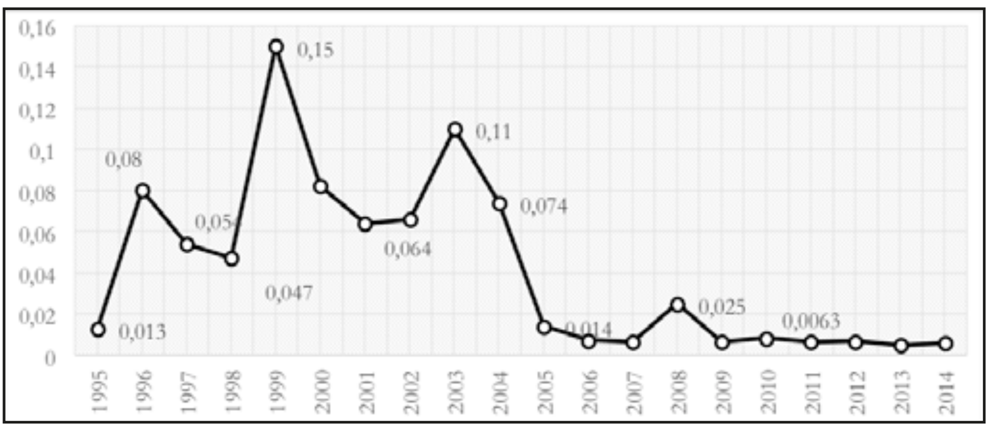


Source: The World Bank, "World Development Indicators; Development Assistance Committee of the OECD, Geographical Distribution of Financial Flows to Developing Countries, Development Co-operation Report, and International Development Statistics Database", World Databank, OECD, http://www.databank.worldbank.org, www.oecd.org/dac/stats/idsonline (last visited 20 January 2017).

investments, loans or debt write-offs during this period.

The second period after independence began with an emphasis on openness, more economic reforms, an improvement of relations with the West, in particular against the increasing dominance of Russia. International

Figure 20: Uzbekistan's Imports from the US, Percent of Total Imports



Source: Observatory of Economic Complexity- OEC,"What does Uzbekistan export?", at http://www.atlas.media.mit.edu (last visited 5 January 2017).

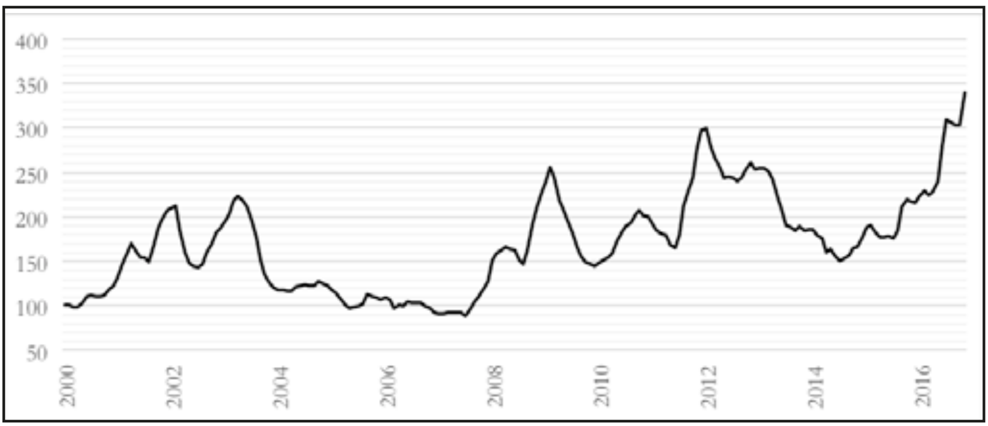
politics and economy became decisive in this period, especially the US war on terror, color revolutions, and the protests in Andijan, as well as the 2008-10 economic crisis.

Prospects

The third period,in the context of this article after 2011,inherited the economic setbacks of the previous era, the years of openness. In this third period, a new phase commenced in world politics,[116] one marked by climate change, lower oil prices, terror threats and occasional conflicts, combined with populist governments in the world, amid promises of economic protectionism. The uncertainty in global politics climbed to levels higher than the crisis-levels in 2016 (Figure 21). The impacts of these developments on the Uzbek economy are predicted to increase in the future because of factors that will be discussed in this section. The end of the Karimov era and the new government of Mirziyoyev will be decisive factors in this period.

A new phase commenced in world politics, one marked by climate change, lower oil prices, terror threats and occasional conflicts, combined with populist governments in the world, amid promises of economic protectionism.

Figure 21: Global Policy Uncertainty Index, January 2000=100



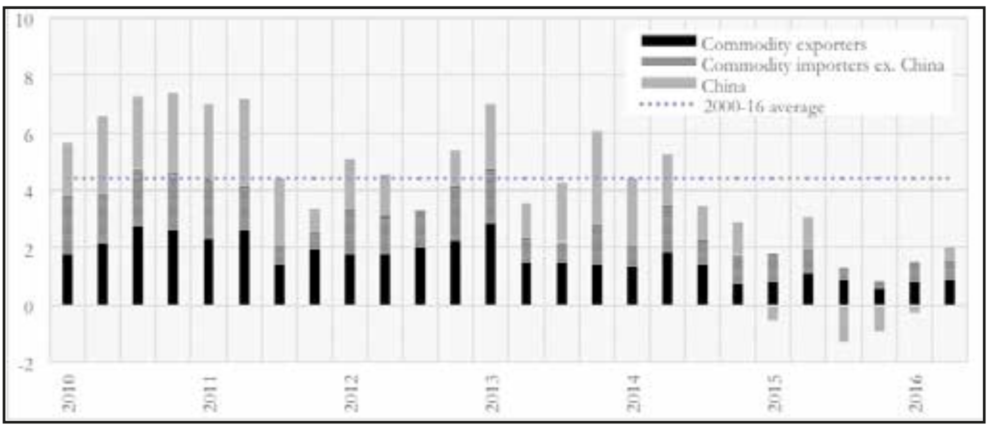
Source: The World Bank calculations based on the frequency of articles in domestic newspapers. See,The World Bank, "Global Economic Prospects", http://www.data.worldbank.org (last visited 20 January 2017).

New Challenges

The previous period exposed some discrepancies for the Uzbek economy that managed to remain hidden during the 1990s. First, it is obvious that Uzbekistan still needs comprehensive reforms, and for doing this, it must attract foreign direct investments, borrow from the international creditors, and receive aid from donors. In the previous period, foreignaid emerged as one of the easiest yet highly politicized ways of securing funds, but the flow of aid depended on Uzbekistan's relations with the global powers, as discussed in the previous section. Another important source, the FDI, does not seem to be as high as it was in the prior period (Figure 11). This is a global trend, having an impact on all emerging markets, especially on China, an important export market for Uzbek natural gas in the previous period (Figure 22).

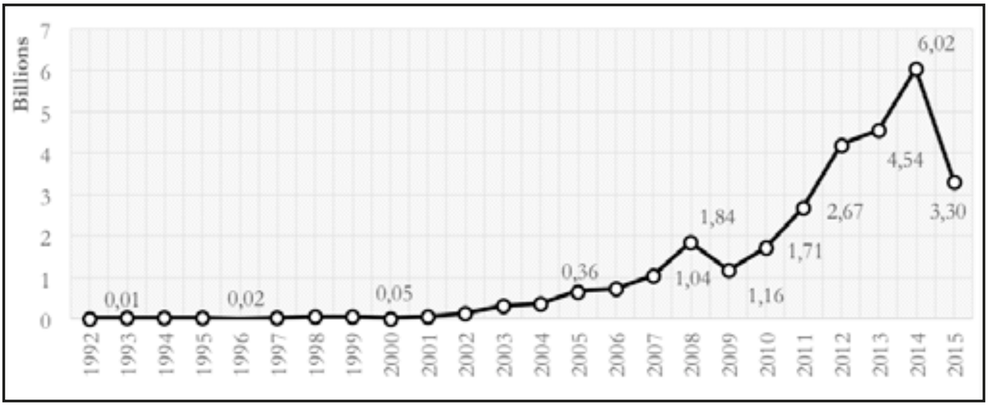
In this period, the structure of the Uzbek economy differed from the initial years. The weight of cotton in the economic activity decreased significantly, yet its importance inthe regional political economy remained amid global and regional environmental concerns in the Aral Sea basin. Karimov on every occasion criticized Kyrgyz and Tajik leaders who aim to build giant dams on rivers upstream that are arterials of Uzbek irrigation. As a regional energy exporter, Uzbekistan used its position in the Central Asian Power System[117] and threatened to curtail energy transfers upstream, or sometimes even

Figure 22: Total Capital Inflows into Emerging Economies, Percent of GDP



Source: The World Bank, "Global Economic Prospects", http://www.data.worldbank.org (last visited 20 January 2017).

Figure 23: Net Current Transfers from Abroad, Current USD

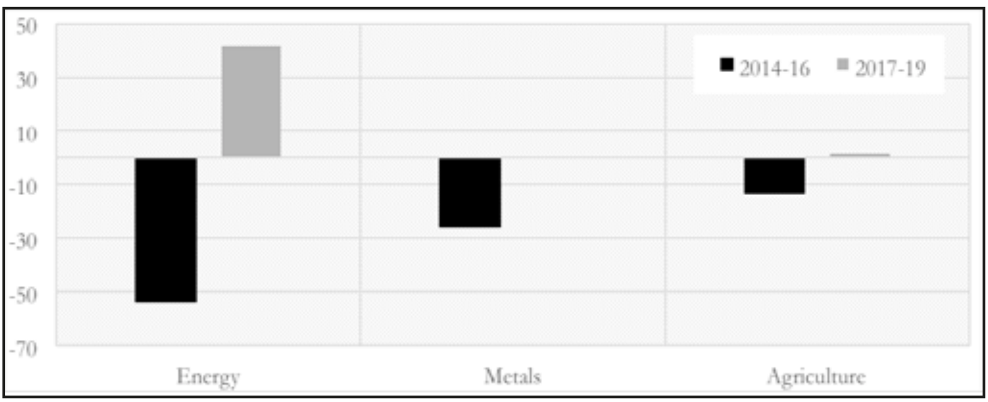


Source: The World Bank, "World Development Indicators, World Bank and OECD National Accounts Data",World Databank, http://www.databank.worldbank.org (last visited 20 January 2017).

intimidated militarily,[118] in retaliation for a decrease in the volume of water flowing into its cotton fields.[119]

In this period,the growth of global goods trade remained below-averageas compared to the previous two periods. It seems to continue on this lower level in the medium-term (Figure 25). Along with this, a prolonged recession in Russia and the slowdown of the Chinese economy, together with a

Figure 24: World Commodity Price Changes



Source: The World Bank, "Global Economic Prospects", http://www.data.worldbank.org (last visited 20 January 2017). The World Bank estimates for 2017-2019.

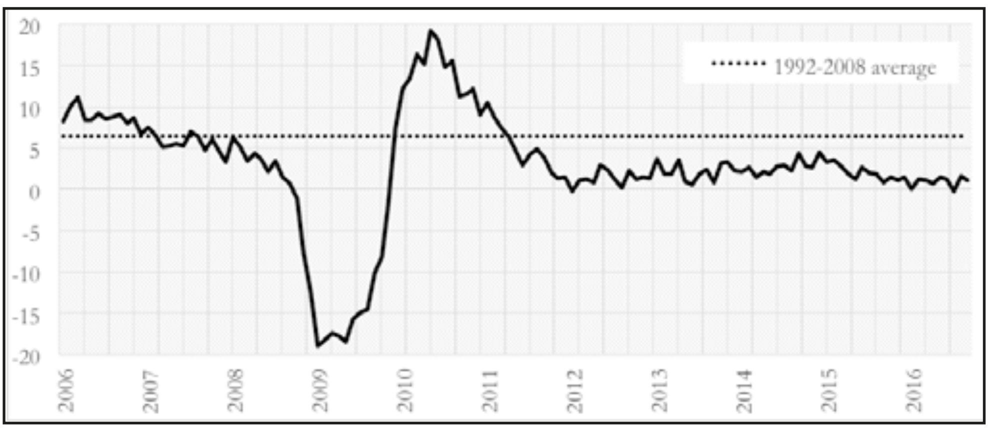
strong USD, will shape the impending priorities of Uzbekistan.[120] The impacts of the Russian slowdown is reflected by the statistics on workers' remittances, which decreased sharply after 2014 (Figure 23), mostly because of the energy price surge between 2014 and 2016.

The Future of Energy Prices and the Uzbek Economy

The World Bank estimates that energy prices will recover between 2017 and 2019, however, they will most probably remain about one-third below the pre-2014 levels. The decrease of metals and agriculture prices, on the other hand, will not bounce back in the medium-term, according to estimates (Figure 24).

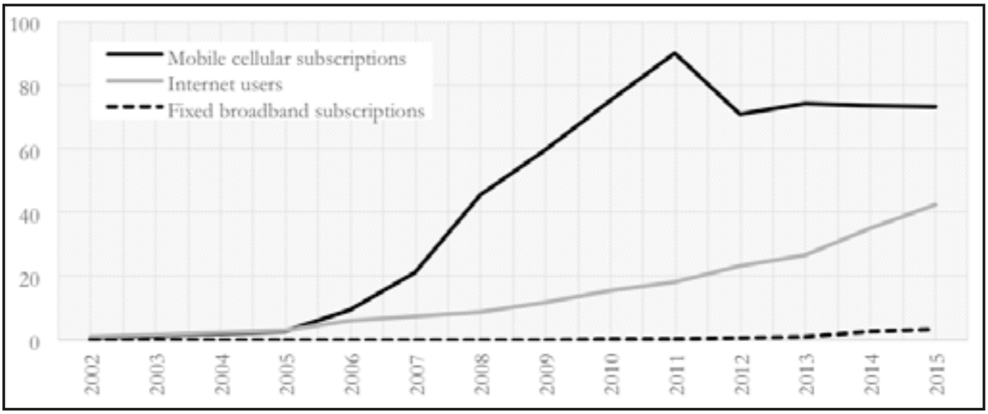
Until recently, a significant advantage of the Uzbek economy in comparison to other resource-exporting countries in the region was that it emerged relatively less affected by the crises. Thiswas possible with the economic policy adop ted by the authorities after independence. However, the current period has its owncharacteristics and the Uzbek politics and economy will be more exposed to the developments in the world under the circumstances of increasing levels of integration with the global economy. An indicator of this integration may be the growth in the usage of the internet and other communication technologies in the current period (Figure 26).

Figure 25: Growth of Global Goods Trade, in Terms of Volume



Source: CPB Netherlands Bureau for Economic Policy Analysis. See,The World Bank, "Global Economic Prospects",http://www.data.worldbank.org (last visited 20 January 2017). The World Bank estimates for 2017-2019.

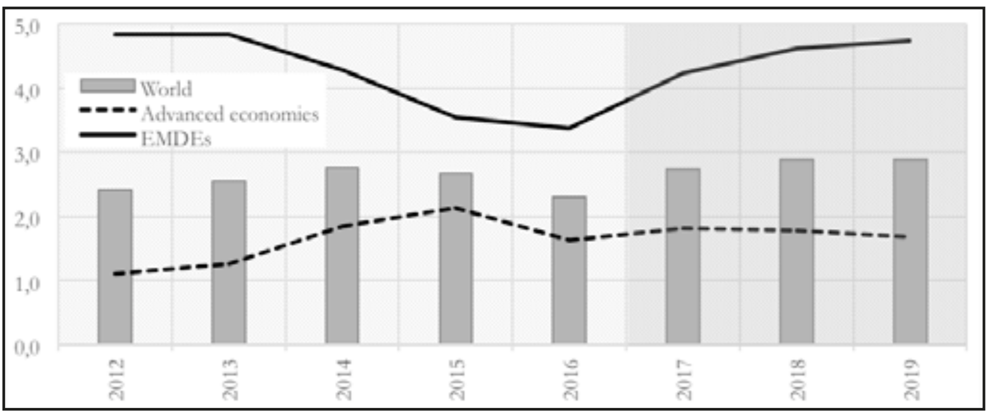
Figure 26: Communication Technology, Users per 100 People



Source: The World Bank, "World Development Indicators, International Telecommunication Union, World Telecommunication/ICT Development Report and database", *World Databank*, http://www.databank.worldbank.org (last visited 23 January 2017).

The World Bank estimates that in the medium-term, GDP growth in emerging economies will recover beginning from 2016. Although this may be a positive indicator for the Uzbek economy, the weak growth prospects for the advanced economies in the upcoming years pose a considerable risk on the external demand and on the FDI side (Figure 27). Uzbekistan

Figure 27: World Growth Prospects



Source: The World Bank, "Global Economic Prospects", athttp://www.data.worldbank.org (last visited 20 January 2017). Aggregate growth rates calculated using constant 2010 USD GDP weights. EMDE: Emerging market and developing economies. Shaded area indicates World Bank estimates.

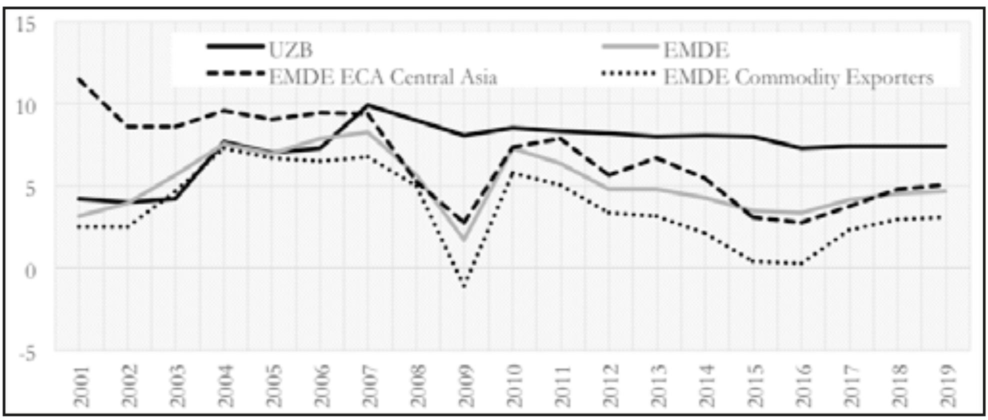
has a special place here, as the World Bank estimates a growth rate of 7.4 % between 2016 and 2019 for the Uzbek economy. This estimation is promising and well above all emerging market economies, commodity exporters and Central Asian states, in general (Figure 28).

In this current period, the leadership of the incumbent president, Shavkat Mirziyoyev, will be a crucial determining factor for the future of the Uzbek economy.

In this current period, the leadership of the incumbent president, Shavkat Mirziyoyev, will be a crucial determining factor for the future of the Uzbek economy. Global political and economic developments will continue to shape the path ofthe reform process initiated in the second period. It is highly unlikely that the Uzbek leadership will diverge away from its policy of economic independence and the successful Uzbek model in the foreseeable future. This is one of the most advantageous and robust aspects of the Uzbek economy and its achievements thus far.

There are further advantages for the Uzbek economy in the short-term as well. First, as stated above, estimates by international organizations indicate a rapid growth for the Uzbek economy in the medium-term. In this respect, Uzbekistan distinguishes

Figure 28: Growth Prospects for Selected Regions



Source: The World Bank, "Global Economic Prospects",http://www.data.worldbank.org (last visited 20 January 2017).121 UZB refers to: Uzbekistan, EMDE: Emerging market and developing economies, ECA: Europe and Central Asia (developing only).

itself significantly from the other developing countries both globally and regionally. Second, Uzbekistan has a relatively diversified economy, now less dependent on cotton and commodity exports. This is another distinguishing characteristic of the Uzbek economy, as compared to other former Soviet commodity exporters. Under the global political and economic uncertainties, it is a matter of political will to translate these advantages into long-term and sustainable gains for the Uzbek economy and for the Uzbek people.

Conclusion

Since the collapse of the Soviet Union, Uzbekistan has chosen an original path for economic development and independence. This paper divided the post-independence economic policies of the Uzbek leadership into three periods according to certain definitive characteristics, and argued that the original path of the Uzbek model has been one of the key factors for the performance of the Uzbek economy. Over the last 25 years, the primary motivation behind the occasional changes in political and economic preferences of the Uzbek leadership has been the changing global political economic conditions and the aim for a pursuit of independence under these circumstances.

In these three periods, the global, regional, and domesticpolitical environment have influenced Uzbekistan's economic performance and policies. The first two eras began with political optimism and ended with economic crises. Despite this, until recently, its original model helped the Uzbek economy survive these economic crisis periods. Furthermore, in terms of various macroeconomic indicators discussed here, the Uzbek economy performed quite well during these periods. The crises in the world economy not only made the Uzbek leadership give priority to economic issues, but also, they have been central to domestic and foreign policy decisions. In other words, the relationship between economy and policy has been dialectical in Uzbekistan. Trade, the FDI, foreign aid, and other similar indicators were influenced by foreign policy decisions as reflected by the numbers discussed in this paper. Domestic developments, such as the 2005 Andijan events, influenced political and economic positions, the level of openness, and the pace of economic reforms in Uzbekistan.

As this paper argues, the primary motivation behind the occasional changes in political and economic preferences has been the pursuit of independence (*mustaqillik*), as understood and identified by the Uzbek leadership. The current period of the world economy has its own characteristics and is open to fundamental political and economic challengesamongst high levels of global political and economic uncertainties. Although international organizations and official statistics indicate an economic performance well above the world average in the current and coming years, global risks and a slowdown in developed economies may negatively affect the Uzbek economy. To avoid the deteriorating impacts of the recent developments, further diversification of trade markets and economic structure in a sustainable way is necessary.

Over the last 25 years, the primary motivation behind the occasional changes in political and economic preferences of the Uzbek leadership has been the changing global political economic conditions and the aim for a pursuit of independence under these circumstances.

The legacy of the Soviet Union, especially under the leadership of Vladimir Putin, the bid of China for beinga major economic power, as well as the US interests in the region, particularly after 9/11, have been important dynamics to consider with respect to Uzbek political economy. Yet, these are only part of the picture. Regional economic conditions,the Soviet and pre-Soviet legacy of the political and economic history, as well as the constructed interests and perceived threats ofthe Uzbek leadership should all be taken into consideration. In parallel, some changes in Uzbek politics and economics may be predicted in the future, on the condition that the interests of Uzbek politics coincide with other actors. A higher emphasis on regional integration and cooperation is a viable and possible option, depending on the development of relations with neighboring states, especially Kazakhstan, Kyrgyzstan and Tajikistan, as well as with Turkey. The renewed political leadership in Uzbekistan underMirziyoyev would definitely be a chance for a fresh inception of endeavors for regional cooperation and integration.

To avoid the deteriorating impacts of the recent developments, further diversification of trade markets and economic structure in a sustainable way is necessary.

Endnotes

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