

Eurasia's Latest Economic Reboot Can Be Found in Uzbekistan

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Uzbekistan's new President Shavkat Mirziyoyev says he wants his country to finally move on from Soviet era politics and economics. (Photo by VYACHESLAV OSELEDKO/AFP/Getty Images)

Eurasia has become a hot spot on the map because of China's Silk Road initiative. The region's most populated country, once closed to the world, is now looking to reboot itself following generations of Soviet-style governing, and maybe take advantage of the region's new push forward. As a starter, its central bank has made first moves to make its currency, the soum, fully convertible, something that even Bloomberg [noted on Sept. 5](#). There are now vast economic reforms in the works in the ancient Central Asian nation of Uzbekistan. Following the death of long-term ruler, Islam Karimov, newly elected president Shavkat Mirziyoyev thinks he can be the Uzbek leader that opens more to the outside world, something it has failed to do even after the dismantling of the Soviet Union.

For the most part, Uzbekistan has been ruled just like the U.S.S.R. well into the 2000s. But Mirziyoyev gives Eurasia watchers hope that the region's biggest military power will finally modernize its economy, and get along with other 'Stans in the process.

"The Uzbeks have been self-imposed isolationists and now are about opening up to their neighbors," says Svante Cornell, director of the Silk Road Program at the Central Asia-Caucasus Institute, with offices in both Washington and Sweden. "Karimov was also putting in place a strategy for fuller engagement with the outside world, but he had a lot of [PR problems](#). Not so with Mirziyoyev. At least on the rhetorical level, I'm pleasantly surprised with how he has implemented foreign policy," Cornell says from a cell phone while driving through Sweden.

Mirziyoyev was elected on [Dec. 4, 2016](#), with 88.6% of the vote.

The wealth that accumulated inside this country of 31.2 million (third largest ex-Soviet state after Russia and Ukraine) in the 1990s and early 2000s has dwindled. That forces Mirziyoyev to change Uzbekistan's economic policies and reform its legal system to attract foreign capital, much of it from [Korea](#) and [China](#).

Just months after being elected, Mirziyoyev visited Turkmenistan, Kazakhstan, Russia and China. This month, he was in the Central Asian nation of Kyrgyzstan. While relations with its neighbors have been cool to say the least, Mirziyoyev's visits to the three nearby 'Stans: Turkmenistan, Kazakhstan and Kyrgyzstan are a strong signal. Uzbekistan is working on improving trade relations with Central Asia. If you can't get along with your neighbors, the prospect for opening up to foreign investment is dim.

The importance of maintaining high economic growth and increasing competitiveness of the Uzbek economy "has become the top priority for the national leadership," says Sodiq Safoyev, first deputy chairman of the country's Senate and a former foreign minister and ambassador to the U.S. One aim is to build a constructive foreign policy. So for starters, Mirziyoyev signed a Joint Declaration of Strategic Partnership and [Good Neighbor Practices with Kazakhstan's](#) president Nursultan Nazarbayev in March. During the visit, 13 documents related to cross-border taxation, security and trade were signed. At the time, some 500 Uzbek execs traveled to Kazakhstan's capital, Astana, bringing in trade and investment agreements reportedly worth \$1 billion. Uzbekistan's total 2016 GDP was around \$67 billion.

Some compare Mirziyoyev to Deng Xiaoping. Deng's role in Chinese history was the de-Maoization of the economy and launching reforms that made China an economic superpower.

"If you look back into history, Uzbekistan is impressive in Eurasia because while people from other areas of Central Asia were nomadic, there was actually a civilization in Uzbek cities like Tashkent," says Jonathan E. Hillman a director from the Reconnecting Asia Project at the Center for Strategic and International Studies in Washington. "They are part of the old Silk Road and will be part of China's new Silk Road," he says.

The other aim, of course, is creating the conditions to bring in more foreign capital. Over the years, they've managed to increase their rankings in [The World Bank's Doing Business report](#). (They're [number 87 out of 190 countries](#), which is better than Brazil at 123.) "We want to provide an environment that is attractive to foreign investors and so improving our investment climate is an important part of our development strategy now," Safoyev says.

Like Russia post-U.S.S.R., Uzbekistan's government is preparing for full currency convertibility by 2019. Like China during its own reform and rebuild movement, there are economic free trade zones popping up as an answer to rapid development.

"Limited convertibility of the currency has constrained private business development and foreign direct investment, too. It's affected our competitiveness against other countries nearby," says Safoyev. They are working with the International Monetary Fund to eliminate foreign exchange restrictions in order to move to a market-based exchange rate. "There is strong political will to get this done," he says.

Mirziyoyev is not the sole decision maker on economic matters. Some people there are not as opened to changing the status quo. Moreover, this isn't a culture that likes to experiment all that much. Uzbeks are cautious. Their external debt is less than 20% of GDP. They haven't run a budget or account deficit in 10 years.

When one of their former Soviet neighbors, Kazakhstan, was growing like gangbusters thanks to leverage and oil, Uzbekistan kept still and underperformed in terms of GDP growth. But because the country was not leveraged up like Kazakhstan, when the downturn came in commodity prices and foreign trade, they weathered it well. Last year, their economy grew China-like: 7%. Kazakhstan grew Russia-like: 1%.

The European Bank of Reconstruction and Development (EBRD) is back after a hiatus under the Karimov administration. They are working with the government to improve transparency and align local statistics and methodologies of key economic indicators with international standards in order to get a credit rating. The next step would be issuing sovereign bonds like Kazakhstan does.

"The fact that EBRD is back is a positive sign," says Hillman. "There is an opportunity for engagement now that Mirziyoyev is in charge."

In May, the new government announced construction of a \$2.2 billion oil refinery as part of its five year plan. Most of the oil comes from Russia and Kazakhstan. Uzbek reserves are largely under-explored, and international oil and gas companies are expanding their operations.

A \$4 billion Uzbek-Korean joint venture to build the Ustyurt Gas Chemical Complex is [the biggest energy investment so far](#), with capacity to produce 3.5 billion cubic meters of natural gas and 500 thousand tons of polyethylene and polypropylene a year. State owned enterprises and [foreign companies like Hyundai and Haldor Topsoe of Denmark](#) are working on projects to build out fossil fuel derivatives like gas-to-liquid (GTL), methanol-to-olefins (MTO) and methanol-to-gasoline.

In March, [following meetings between General Electric VP Ronald James Pollett and the Mirziyoyev administration](#), the company said it would invest upwards of [\\$388 million](#) over the next two years on greenfield assembly lines for industrial equipment and home appliances.

“We know we need to improve our investment climate,” Safoyev says. “We are working with foreign consulting companies, investment banks and other international financial institutions to make this happen,” he says, without naming names.

Russia did the same in the 90s, hiring big U.S. consulting firms like The Boston Consulting Group, one of the first teams on the scene in post-Soviet Russia.

Like every frontier market, Uzbekistan has a massive informal economy. Mirziyoyev is making it formal, much in the way that Brazil did in the early 2000s, helping with its lackluster tax base, according to the World Bank. Small businesses in Uzbekistan make up 40% of the nation’s manufactured goods and 98% of its agribusiness is privately held, according to the government.

Foreigners from 27 countries will be allowed to visit Uzbekistan visa-free from 2021. Uzbekistan will also allow free travel of their citizens outside of the country, starting in 2019. Some Uzbeks do travel to Russia, China, Turkey, Western Europe, and the U.S., but still need the Soviet-style exit visas as opposed to just travel visas from the country they are visiting.

Safoyev rattles off a list of priorities that sound almost Trumpian:

- reduce regulatory burden for small to mid-sized business owners;
- reduce bureaucratic red tape for some inspection agencies;
- liberalize financial, taxation and customs systems (think China-style free trade zones);
- reform laws that protect private business from the government.

Privatizations are going to happen, but the Uzbeks are keeping control of companies and sectors deemed strategically important, like energy, existing gold mines and basic infrastructure like rail and air.



The city of Samarkand has been at the crossroads of world cultures for over two and a half millennia, and is one of the most important sites on the old Silk Road traversing Central Asia, according to UNESCO. China wants to make the Silk Road great again. Uzbekistan's new leadership will try to take advantage of that, but needs major reforms to change its old Soviet-style system. Wheels are in motion. (Shutterstock)

"Even where the state plays a major role, we are open to private local and foreign investment," Safoyev says. "If an investor is ready to invest in its own exploration operations and finds gold or copper or oil or whatever, then we are happy to let them set up their own production and sales operation."

Their biggest commodity so far is cotton. It's trying to upgrade its agribusiness sector. A new executive order paved the way for four pharmaceutical industrial zones so the country will not be so dependent on commodities.

On the political side, they're talking the talk about fighting corruption, a perennial curse everywhere in the emerging markets, including those widely considered liberal and democratic. [Brazil pops up again here.](#)

Still, Uzbekistan's reboot depends on the political awakening of a nation, particularly its elites. This will take a generation or two. It's a young country. The median age there is 26.7 years old, younger than Russia by about 12 years and younger than Kazakhstan by four years.

For some, Mirziyoyev's victory, and the obstacles he'd face from some older establishment figures were givens. The rest has been an upside surprise.

"Few could have expected him to so quickly revive Uzbekistan's foreign relations with the rest of Central Asia and beyond and to do it so quickly raises hopes for political reforms," says Zachary Witlin, an analyst for the Eurasia Group in Washington.

Moreover, Mirziyoyev's leadership has opened the legacy of Soviet-style strongman Karimov to criticism for the first time. In opening the door to criticizing Karimov's ways of governing (though "ruling" may be a better word choice), Uzbekistan's new 60-year-old president is trying to create a base of support among the people in his confrontation with the vested interests resisting change.

A cabinet re-shuffle in January appears to have done much to consolidate the president's position. Numerous visits to Uzbekistan's regions are allowing the population a degree of interaction with the head of state that was unthinkable under Karimov. Acknowledgement of the economic hardship in rural areas have created some genuine popular support for Mirziyoyev and a degree of optimism in the public, the International Crisis Group in Brussels [wrote in a report on Mirziyoyev's first 100 days](#). For them, Mirziyoyev needs to cultivate the support of the country's business class, including rich Uzbeks in Russia, who may have limited interest in change.

"If I was Uzbekistan's president, I'd make changes in baby steps, and declare small victories," says Hillman. "Like their direct flights from Tashkent into Dushanbe in the nearby Tajikistan, their neighbor. There never was a direct flight between these two, and it's an important new connection. Symbolic stuff like that is very meaningful. The structural reforms...those will be tougher."

So far, there has been no real signs of internal struggles and we are almost a year in. "It's a good sign," says Cornell. "I see is no reason why Uzbekistan cannot help Eurasia integrate."

It's almost like starting from scratch. GDP per capita is around \$2,100, four times lower than Kazakhstan's, and about on par with India's.

"I think what we are seeing really is a softening of the old regime," says Vladislav Inozemtsev, a Russian economist and director of the Moscow-based think tank, the Center for Research on Post-Industrial Societies.

Safoyev, speaking from Tashkent, is fine with that. The Soviet system and all they've inherited from it may eventually crumble. "You have a centuries-old entrepreneurial tradition here," he says of Uzbek's historic go-it-alone attitude. "We are young and we are well-educated and with a young and dynamic economy, Uzbekistan will once again be a bright spot on the Silk Road."