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# Central Asia in a Reconnecting Eurasia

*Uzbekistan's Evolving Foreign Economic  
and Security Interests*

**CSIS** | CENTER FOR STRATEGIC &  
INTERNATIONAL STUDIES

*A Report of the CSIS Russia and Eurasia Program*

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Center for Strategic & International Studies  
1616 Rhode Island Avenue, NW  
Washington, DC 20036  
202-887-0200 | [www.csis.org](http://www.csis.org)

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4501 Forbes Boulevard  
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# Preface

In January 2014 the CSIS Russia and Eurasia Program launched its new *Eurasia Initiative*. The vast Eurasian landmass, stretching from China in the East to Europe in the West and from the Arctic in the North to the Indian Ocean in the South, includes some of the world's most powerful and dynamic states, as well as some of the world's most intractable challenges. Scholars and analysts are accustomed to focusing on Eurasia's various regions—Europe, the former Soviet Union, East Asia, South Asia, and Southeast Asia—rather than on the interactions between them. The goal of the *Eurasia Initiative* is to focus on these interactions, while analyzing and understanding Eurasia in a comprehensive way.

More than any time since the collapse of the Silk Road five centuries ago, today we have to focus on Eurasia as a whole. Over the past two decades, Eurasia has begun to slowly reconnect, with the emergence of new trade relationships and transit infrastructures, as well as the integration of Russia, China, and India into the global economy. Even as this reconnection is underway, the center of economic dynamism in Eurasia, and in the world as a whole, has increasingly shifted to the East. The impact of these shifts is potentially enormous, but they remain poorly understood because of our tendency to limit analysis to a single country or region within the broader Eurasian space.

The first fruits of the *Eurasia Initiative* include the report you are holding in your hands, one of the five country studies making up our report series *Central Asia in a Reconnecting Eurasia*. Our decision to start with Central Asia stems from a concern that the drawdown of U.S. and allied troops from Afghanistan will augur declining international interest in the region, which has played a critical role over the course of the conflict. For U.S. policymakers, turning away from Central Asia now would be a serious miscalculation. The five states of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) are located at the heart of the Eurasian landmass, in close proximity to four of Washington's biggest foreign policy challenges: Afghanistan/Pakistan, Iran, Russia, and China. For that reason alone, the United States has a strong interest in developing economic and security ties with the states of Central Asia, and doing so in a way that is no longer driven by the exigencies of the war in Afghanistan, but is responsive to the needs and interests of the region itself, as well as enduring U.S. interests.

So in the spring, summer, and fall of 2014 we embarked on a “listening tour” to Central Asia that included extended visits to each country, where we interviewed government officials, experts, private-sector actors, and representatives of international organizations

to understand how Central Asian elites perceive the economic and security environment changing around them. We sought to discover how they are coming to define their national interests in the post–Afghanistan conflict world, including what they would like to see from the United States.

This report and the others in the series reflect what we gleaned from these interviews, along with analysis of published data and secondary literature, to provide a broad overview of how Central Asia sees the world. We should emphasize that the focus of these reports is on the foreign economic and security policies of the five Central Asian states. These reports do not seek to address domestic political issues, human rights, and many other issues, not because we think they are unimportant, but rather because we are interested in the strategic implications of a reconnecting Eurasia, which means concentrating on how these countries interact with the outside world. Of course, internal issues often do impact foreign ties. For instance, one of the main impediments to foreign investment in Central Asia is corruption, coupled with inefficient regulatory frameworks and bureaucratic institutions. The reports analyze these phenomena, but only insofar as they affect the Central Asian states' engagement with the outside world.

Central Asia lies at the heart of the Eurasian landmass and in many ways has the most to gain from the process of transcontinental reconnection. That process can only reach its full potential, however, if the interests of the Central Asian states themselves are given proper consideration. The goal of this series on *Central Asia in a Reconnecting Eurasia* is to analyze the perspectives of these countries and bring them to the attention of policy-makers in the United States.

# Acknowledgments

There are many institutions and individuals to which we would like to express our gratitude for their crucial roles in the production of this report and others in the series. We would first like to thank the Smith Richardson Foundation, the Ministry of Foreign Affairs of the Republic of Kazakhstan, and Carlos Bulgheroni for their generous financial support for this project. We thank the Carnegie Corporation of New York for its support of the CSIS Russia and Eurasia program. We would like to thank all of the government officials, experts, private-sector actors, and representatives of international organizations that graciously shared their thoughts with us during our “listening tour.” We would also like to express particular gratitude to the Embassies of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan in the United States for their assistance in the facilitation of our research trips to their respective countries. Ambassadors Kairat Umarov of Kazakhstan, Kadyr Toktogulov and Muktar Djumaliev of Kyrgyzstan, Farhod Salim of Tajikistan, Meret Orazov of Turkmenistan, and Bakhtiyar Gulyamov of Uzbekistan deserve special thanks. Dana Kurmasheva with the Foreign Ministry of Kazakhstan, Dana Masalimova with the Embassy of Kazakhstan, Mukhamed Lou with the Embassy of Kyrgyzstan, Abat Fayzullaev with the Embassy of Uzbekistan, and Mirlan Isamidinov with the Diplomatic Academy of the Ministry of Foreign Affairs of the Kyrgyz Republic named after K. Dikambaev also deserve special thanks.

We would further like to express our gratitude to the members of our *Eurasia Initiative* advisory council, all of whom have provided critical guidance throughout the project. The advisory council includes: Najia Badykova; Stephen Benson; Edward Chow; Ambassador William Courtney; Rosemarie Forsythe; Roger Kangas; Ambassador Batu Kutelia; Johannes Linn; Michael Matera; Martha Brill Olcott; David Sedney; Craig Steffensen; and Ambassador Kairat Umarov. Marlène Laruelle and Timur Shaimergenov also deserve thanks for their insights. Finally, we would like to thank the many present and former members of the CSIS Russia and Eurasia Program staff who contributed to this project, including: Yulia Danilina; Eric Griffith; Kendra Harkins; Peter Krivicich; Allen Maggard; Sung In Marshall; Kirill Prudnikov; Dylan Royce; Narek Sevacheryan; Jason Siler; and Nic Wondra.

A very special thanks goes out to Aizhan Kul-Mukhammed for her tireless assistance in the organization and management of this project, without which it truly would not have been possible.



# 1 | The View from Tashkent

## Uzbekistan



Source: Based on a United Nations map, [https://commons.wikimedia.org/wiki/File:Uzbekistan\\_map.jpg](https://commons.wikimedia.org/wiki/File:Uzbekistan_map.jpg).

With a population of over 30 million, Uzbekistan is Central Asia's largest market, comprising almost a half of the population of the region. It is also the geographic pivot and lynchpin of Central Asia, bordering all of the other Central Asian states as well as Afghanistan, and with transit connections in all directions. It is uniquely dependent on these cross-border linkages, as one of just two double landlocked countries in the world:

goods from Uzbekistan must cross at least two other states to reach the sea.<sup>1</sup> Uzbekistan is also central to the region's economy, including as a gas supplier for Kyrgyzstan, Tajikistan, and the southern provinces of Kazakhstan. A major agricultural producer, Uzbekistan is also the main regional water consumer, and a key player in Central Asia's water management challenges.<sup>2, 3</sup>

However, because of security concerns and a long-standing focus on economic self-sufficiency, Uzbekistan often remains aloof from neighbors that it views as unstable or not fully sovereign, and does not support regional initiatives that it views as contrary to its interests. Security concerns and disputes over shared resources have strained relations with Tajikistan and Kyrgyzstan, while economic and political competition have been a source of distrust toward Kazakhstan and Turkmenistan. After some attempts in the 1990s to support regional integration, Tashkent reversed course around the turn of the century. Uzbekistan today eschews participation in multilateral organizations that could compromise its sovereignty, instead emphasizing bilateral relations with its neighbors. This approach allows Tashkent a high degree of flexibility. Uzbekistan's foreign policy is not isolationist though, as Tashkent trades actively with its neighbors and participates in numerous regional forums to discuss shared concerns like water use, border demarcation, drug trafficking, and terrorism.

Uzbekistan is particularly wary of Russian-led integration projects; it does not participate in the Eurasian Economic Union (EEU) or the Collective Security Treaty Organization (CSTO), from which it suspended its membership in 2012. Russia remains Uzbekistan's largest trading partner but, as in the rest of Central Asia, China's presence is growing rapidly. Elites, meanwhile, see instability in neighboring states as the principal external security threat facing Uzbekistan. Tashkent seeks to cope with these dangers by securing its borders against the potential spread of radicalism and terrorism from abroad while maintaining a high degree of control at home. It acts assertively to defend its security, at times closing (and even mining) borders and threatening military force to protect its interests.

Economically, Tashkent has pursued a strategy of economic nationalism borrowed from the early stages of development of the so-called Asian Tigers such as South Korea and Taiwan. This strategy has manifested in a gradualist approach to reforms, particularly those suggested by international financial institutions, and a concomitant focus on industrialization and the maintenance of a strong state role in the economy.

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1. The only other double landlocked country is Liechtenstein.

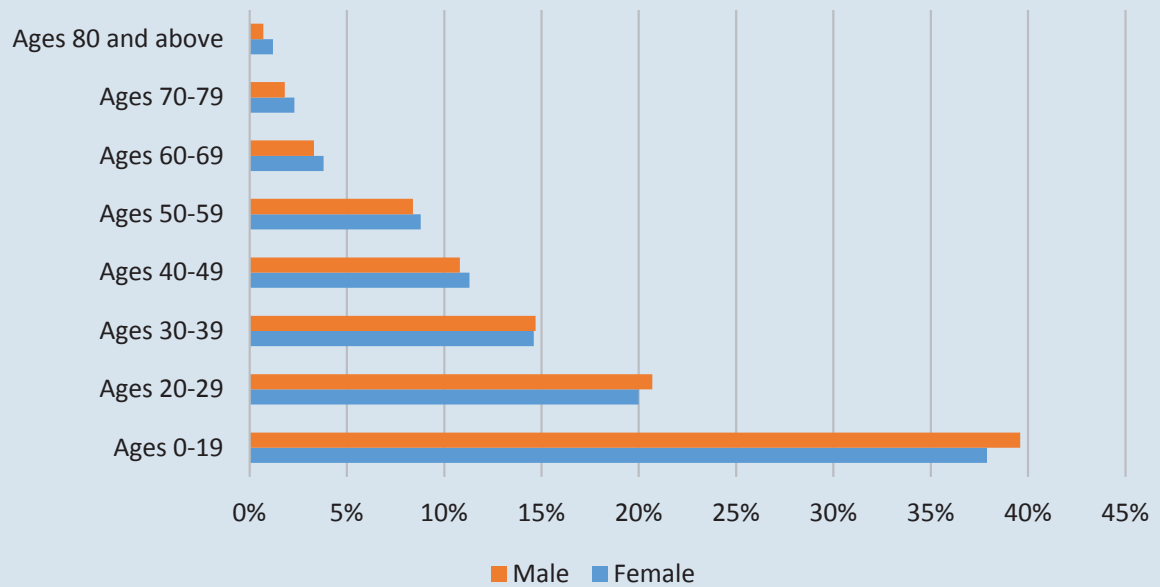
2. Uzbekistan represents almost 60 percent of the entire irrigated area (or 2.14 million hectares) of the Syr Darya basin. More than half of that land depends on transboundary sources of water.

3. Jean-Paul Azam and Galym Makhmejanov, "Isolationism in Uzbek Economic Policy as an Obstacle for Water-Energy Consortium," Toulouse School of Economics, University of Toulouse, May 2010, 7, [http://www.researchgate.net/profile/Jean-Paul\\_Azam/publication/260318434\\_Isolationism\\_in\\_Uzbek\\_Economic\\_Policy\\_as\\_an\\_Obstacle\\_for\\_Water-Energy\\_Consortium/links/542a82070cf277d58e873781.pdf](http://www.researchgate.net/profile/Jean-Paul_Azam/publication/260318434_Isolationism_in_Uzbek_Economic_Policy_as_an_Obstacle_for_Water-Energy_Consortium/links/542a82070cf277d58e873781.pdf).

## Demographic Challenges in Uzbekistan

According to World Bank estimates, the population in Uzbekistan reached over 30 million people in 2013 and remains quite young; 28.6 percent of its people are under age 14. This comparatively large, young population presents its share of challenges. Only 55.1 percent of Uzbekistan's population is employed, and only 36.2 percent is urban.<sup>1</sup> The World Bank forecasts that Uzbekistan's labor force may increase by 3.9 million people by 2030, becoming the fifth-largest labor force in the Emerging Europe and Central Asia region, after Russia, Turkey, Ukraine, and Poland.<sup>2</sup>

### Population Pyramid of Uzbekistan by Percentage of Population



Source: The World Bank.

Despite robust growth, Uzbekistan's economy has not created sufficient jobs for this growing population. The International Monetary Fund's (IMF) 2013 forecast projects that Uzbekistan will likely need to grow at an average rate of 8.7 percent over the next five years just to absorb new entrants into the labor market and keep the unemployment rate constant.<sup>3</sup> Population growth also exacerbates issues of scarcity of land and water resources.

The lack of jobs keeps labor migration levels high, with Russia, Kazakhstan, the United Arab Emirates (UAE), Turkey, Korea, and Europe as the main destinations for the 10 percent or more of Uzbekistan's labor force that works abroad.<sup>4</sup> Expected population growth also suggests the need for greater urbanization in what remains

a fairly rural country, although Tashkent blocks urbanization by imposing restrictive rules for residence permits and registration in cities.

1. All population data is from World Bank, “World Development Indicators, 2013: Uzbekistan, Population,” <http://data.worldbank.org/>.

2. World Bank, “Taking STEPs to Improve Employment Outcomes in Uzbekistan,” February 2, 2015, <http://www.worldbank.org/en/news/feature/2015/02/02/taking-steps-to-improve-the-labor-market-in-uzbekistan>.

3. IMF, “Republic of Uzbekistan: 2012 Article IV Consultation,” September 2013, <http://www.imf.org/external/pubs/ft/scr/2013/cr13278.pdf>.

4. International Crisis Group, “Uzbekistan: Stagnation and Uncertainty,” Asia Briefing No. 67, August 22, 2007, [http://www.crisisgroup.org/~media/Files/asia/central-asia/uzbekistan/b67\\_uzbekistan\\_\\_\\_stagnation\\_and\\_uncertainty](http://www.crisisgroup.org/~/media/Files/asia/central-asia/uzbekistan/b67_uzbekistan___stagnation_and_uncertainty).

Uzbekistan’s economy grew fourfold from 2005 to 2013,<sup>4</sup> with growth continuing even when much of the world faced a serious downturn during the global financial crisis. Import substitution allowed Uzbekistan to remain self-sufficient in many key commodities, most importantly wheat, while new industrial enterprises have emerged also. Automobile export has also become an important source of revenues, accounting for around 4 percent of total exports.<sup>5</sup>

The government is selective in its approach to foreign direct investment (FDI), prioritizing FDI in projects that bolster its import substitution and export-oriented policies.<sup>6</sup> As a result, foreign investment constitutes a relatively small percentage of GDP—less than 2 percent in 2012.<sup>7</sup> A fixed exchange rate, capital controls, corruption, and high inflation also impede foreign investment, as well as the development of Uzbekistan’s financial sector.

Uzbekistan remains a country with great potential, and its role is critical to the emergence of a more prosperous, connected Central Asia. Rich in hydrocarbons and mineral resources and possessing a relatively well-educated and low-cost labor force, Uzbekistan may in time become a leading, diversified economy. Uzbekistan further has the potential to serve as a manufacturing, transport, and financial hub for Central Asia and the South Caucasus. This would require Tashkent, however, to enact major reforms, encourage entrepreneurial activity at home, and promote freer trade with its neighbors.

4. From \$14.3 billion in 2005 to \$56.8 billion in 2013. See World Bank, “World Development Indicators, 2013,” <http://data.worldbank.org/>.

5. Ministry of Foreign Economic Relations of the Republic of Uzbekistan, “Информация об Импорте Республики Узбекистан по итогам 2014 года,” <http://www.mfer.uz/ru/export/statistics/>.

6. European Parliament, “Uzbekistan: selected trade and economic issues,” Policy Briefing, September 12, 2013, [http://www.europarl.europa.eu/RegData/etudes/briefing\\_note/join/2013/491518/EXPO-INTA\\_SP\(2013\)491518\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/briefing_note/join/2013/491518/EXPO-INTA_SP(2013)491518_EN.pdf).

7. Ibid.

## 2 | Uzbekistan's Foreign Economic and Security Policy

Since the collapse of the Soviet Union, Uzbekistan has prioritized defending itself from perceived security threats both at home and in its wider neighborhood, while zealously protecting its sovereignty. According to Uzbekistan's Ministry of Foreign Affairs, "The main goals of the foreign policy of the Republic of Uzbekistan are further strengthening of independence and sovereignty of the state, increasing the role and place of the country in international politics, creation of the most favorable conditions for ensuring national and regional security, sustainable and dynamic development of the national economy, continuing the progressive movement towards building an open democratic state, joining the ranks of developed states of the world."<sup>1</sup>

For much of the past two decades, the main external risks Tashkent perceived were tied to terrorism and extremism. Fear of extremism spilling across borders has been an important component of Uzbekistan's approach to neighboring countries, especially Afghanistan, but also Kyrgyzstan and Tajikistan. Concern centers especially on the Islamic Movement of Uzbekistan (IMU), which established itself in Afghanistan and then in Pakistan after being driven out of bases in Central Asia around 2000, as well as the self-proclaimed Islamic State.<sup>2</sup> With the drawdown of foreign forces from Afghanistan, Uzbek concerns about regional instability are again growing. Additionally, a range of regional threats, including conflicts tied to borders and territory, ethnicity, energy, and water, occupy the minds of policymakers in Tashkent.

Protective of its sovereignty and wary of its larger neighbors' ambitions, Tashkent seeks to manage these threats on its own as much as possible. In June 2012, Uzbekistan suspended its membership in the CSTO and three months later adopted a new Foreign Policy Concept that asserts four "no's"—namely, no to deployment of foreign bases in Uzbekistan; no to membership in any military bloc; no to participation in international peacekeeping operations; and no to the mediation of any external power in the resolution

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1. Ministry of Foreign Affairs of the Republic of Uzbekistan, "Foreign Policy," 2015, <http://mfa.uz/en/cooperation/policy/>.

2. Jeffrey Mankoff, "Beyond 'Af-Pak,'" *Foreign Policy*, June 4, 2009, <http://foreignpolicy.com/2009/06/04/beyond-af-pak/>.

of regional conflicts in Central Asia.<sup>3</sup> The Ministry of Foreign Affairs emphasizes that Uzbekistan “does not participate in military-political blocs and reserves a right to leave any interstate formation in case of its transformation into a military-political bloc.”<sup>4</sup> At the same time, Tashkent is unwilling to entrust its security to outsiders. In an August 2012 address, Foreign Minister Abdulaziz Kamilov emphasized that the primary mission of the military is to protect the security and territorial integrity of Uzbekistan itself: “An Uzbek soldier will never fight abroad,” he said.<sup>5</sup> At the same time, Uzbekistan focuses on building its own capacities by increasing military purchases from the United States and China.

## Russia

Uzbekistan’s emphasis on sovereignty is to a considerable extent a product of its relations with Russia. Compared to its neighbors, Uzbekistan is comparatively insulated from Russian pressure, as it neither shares a border with Russia nor hosts a sizable ethnic Russian population (Russians comprise no more than about 5.5 percent of the population). While it generally eschews Russian-led Eurasian integration, Tashkent has at times shown significant deference to Russian interests, especially when ties with the West have frayed, as in the aftermath of the 2005 Andijon crisis. In today’s fluid strategic environment, Uzbekistan wants to remain apart from Russian-led regional integration projects while exploring opportunities for improving bilateral relations with Moscow, as Western interest in Central Asia again appears to be declining in the aftermath of the war in Afghanistan.

Among the Central Asian states, Uzbekistan is particularly wary of Russian-led integration efforts. One official we spoke with said that Uzbekistan approached the question of Eurasian integration “cautiously [осторожно],” while an analyst noted that integration can only succeed among countries at a common level of development, which Central Asia lacked.

Uzbekistan was part of the Eurasian Economic Community (EurAsEC) from 2006–2008, when it formally suspended its membership.<sup>6</sup> It never joined the Eurasian Customs Union, and while it was a member of the CSTO, Uzbekistan suspended its membership in 2012 when the organization was developing new capabilities to intervene against unrest in member states. Nor has Uzbekistan expressed any intention to join the EEU; our interlocutors indicated that Tashkent would refrain from joining the EEU, which they viewed as

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3. Farkhod Tolipov, “Uzbekistan Without the CSTO [Collective Security Treaty Organization],” *CACI Analyst*, February 20, 2013, <http://www.cacianalyst.org/publications/analytical-articles/item/12652-uzbekistan-without-the-csto.html>.

4. Ministry of Foreign Affairs of the Republic of Uzbekistan, “Foreign Policy.”

5. “Глава МИДа Узбекистана: У нас не будет никаких иностранных военных баз или «оперативных групп слежения»,” *Ferghana.ru*, August 30, 2012, <http://www.ferghananews.com/news.php?id=19349&mode=snews>.

6. Robert M. Cutler, “Uzbekistan Looks to Its Own Good,” *Asia Times*, December 19, 2008, [http://www.atimes.com/atimes/Central\\_Asia/JL19Ag01.html](http://www.atimes.com/atimes/Central_Asia/JL19Ag01.html).

compromising member states' sovereignty. In January 2015, President Karimov confirmed that Uzbekistan would remain permanently outside the EEU.<sup>7</sup>

Similarly, Tashkent worries about the expansion of Russian influence over its neighbors in Central Asia, some of whom it views as little more than Russian proxies; in an interview one official referenced “the militarization of Central Asia, which Russia is fueling.” Russia’s provision of military assistance to Kyrgyzstan and, especially, Tajikistan—a country with which Uzbekistan has had its share of territorial and other disputes—has angered policymakers in Tashkent. Moreover, Tashkent sees Russia’s attempts to wield greater influence over regional affairs as extending beyond the security realm. Though at times making statements favorable to Uzbekistan’s position, Russia continues to support upstream hydropower projects in Kyrgyzstan (Kambarata-1) and Tajikistan (Rogun), both of which Uzbekistan strenuously opposes because of their potential to limit water flows and negatively impact Uzbek agriculture. Russian support for these and other projects is seen in Tashkent as an effort to manipulate bilateral relations between the Central Asian states for Moscow’s own ends.

Despite its worries about Russian influence in Central Asia, Uzbekistan continues to value good bilateral relations with Moscow. Russia and Uzbekistan appear to have reached a tacit agreement that delineates those areas in which bilateral cooperation is possible—and those where it is not.<sup>8</sup> Russia has refrained from explicitly retaliating against Uzbekistan over its decisions to suspend its membership in the CSTO, reject EEU membership, or expel Russian companies such as cellular network operator MTS and cement company Eurocement. Amid shared concerns about the rise of extremism in Afghanistan and the spread of the Islamic State, Russo-Uzbek security cooperation has increased since early 2015 as well.<sup>9</sup>

Tashkent is nonetheless wary of crossing Russian red lines. Uzbekistan took a cautious approach to the crisis in Ukraine, with President Karimov stating that “the age-old interests of Russia . . . should also be taken into account,” though he fell short of recognizing the annexation of Crimea.<sup>10</sup> One Uzbek official we interviewed emphasized that, despite occasional tension, Russia is “a partner, not an antagonist.”

Tashkent plans to continue engaging with the EEU, albeit on a bilateral basis. Uzbekistan already participates in the Commonwealth of Independent States (CIS) free trade area, and announced in December 2014 that it would negotiate a free trade agreement with the EEU that would, most importantly, allow its migrant workers continued visa-free access to

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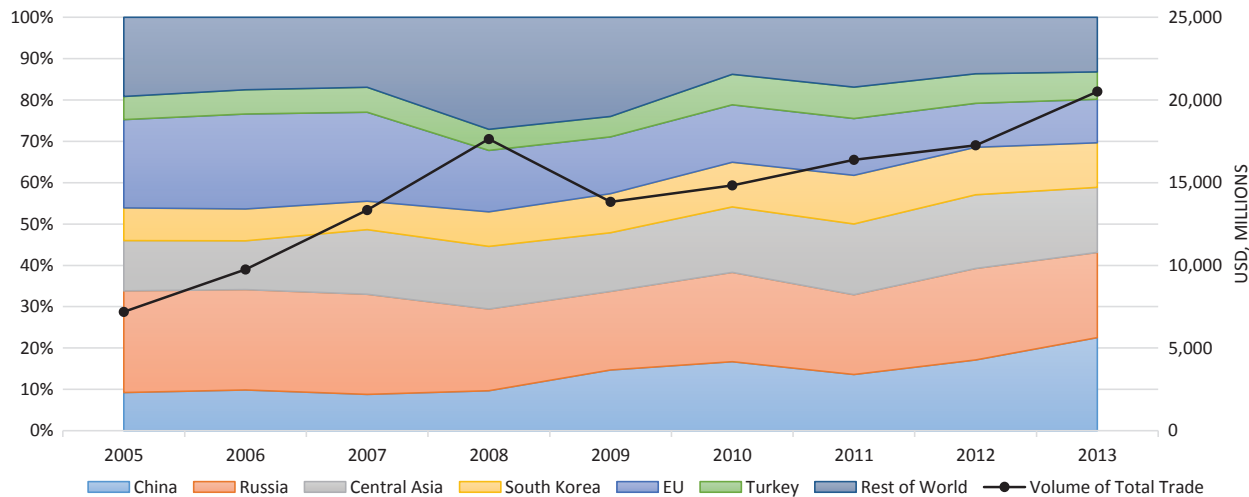
7. “Uzbekistan not to join Eurasian Union and Customs Union—Islam Karimov,” Kazinform, January 15, 2015, <http://inform.kz/eng/article/2736945>.

8. “Uzbekistan, Russia ready to strengthen bilateral ties,” *UzDaily*, December 12, 2014, <http://www.uzdaily.com/articles-id-30348.htm>.

9. Joanna Paraszczuk, “Uzbekistan Would ‘Cooperate with Russia’ to Combat Domestic Security Threat by IS,” Radio Free Europe/Radio Liberty, April 13, 2015, <http://www.rferl.org/content/uzbekistan-islamic-state-cooperation-russia/26952999.html>.

10. Press Service of the President of the Republic of Uzbekistan, “Выступление Президента Республики Узбекистан Ислама Каримова На Заседании Совета Глав Государств-Членов ШОС В Расширенном Составе,” September 12, 2014, <http://press-service.uz/ru/news/5005/>.

## Breakdown of Uzbekistan's Total Trade



Source: International Monetary Fund Direction of Trade Statistics and author calculations.

Russia. Despite its concerns about the EEU, Uzbekistan wants to preserve its trade relationships with EEU members and fears being locked out of these markets by what Tashkent believes are discriminatory measures against Uzbek exports. Such measures as, for example, limits on Uzbek textiles set by the system of Russian state procurement<sup>11</sup> will hamper agricultural and textile exports to EEU members. EEU technical regulations have already had a negative impact on automobile exports, a significant business for Uzbekistan.<sup>12</sup>

Uzbekistan also remains economically dependent on Russia to an extent. According to Uzbek trade statistics, Russia remains the country's top trading partner (although the IMF's Direction of Trade Statistics database, which relies on statistics from Uzbekistan's trading partners, indicates that the value of Uzbekistan's trade with China slightly surpassed its trade with Russia for the first time in 2013).<sup>13</sup>

Uzbek migrant workers, of whom there are an estimated 4 million to 6 million in Russia, reportedly make up a third of the Uzbek labor force.<sup>14</sup> Uzbekistan is also the largest single recipient of remittances from Russia, accounting for one-third of all Russian-origin remittances. Those remittances, however, are of lesser importance to Uzbekistan's economy

11. "Узбекистан просит РФ в 2015 г облегчить доступ на рынок текстиля," RIA Novosti, December 9, 2014, <http://ria.ru/economy/20141209/1037280673.html>.

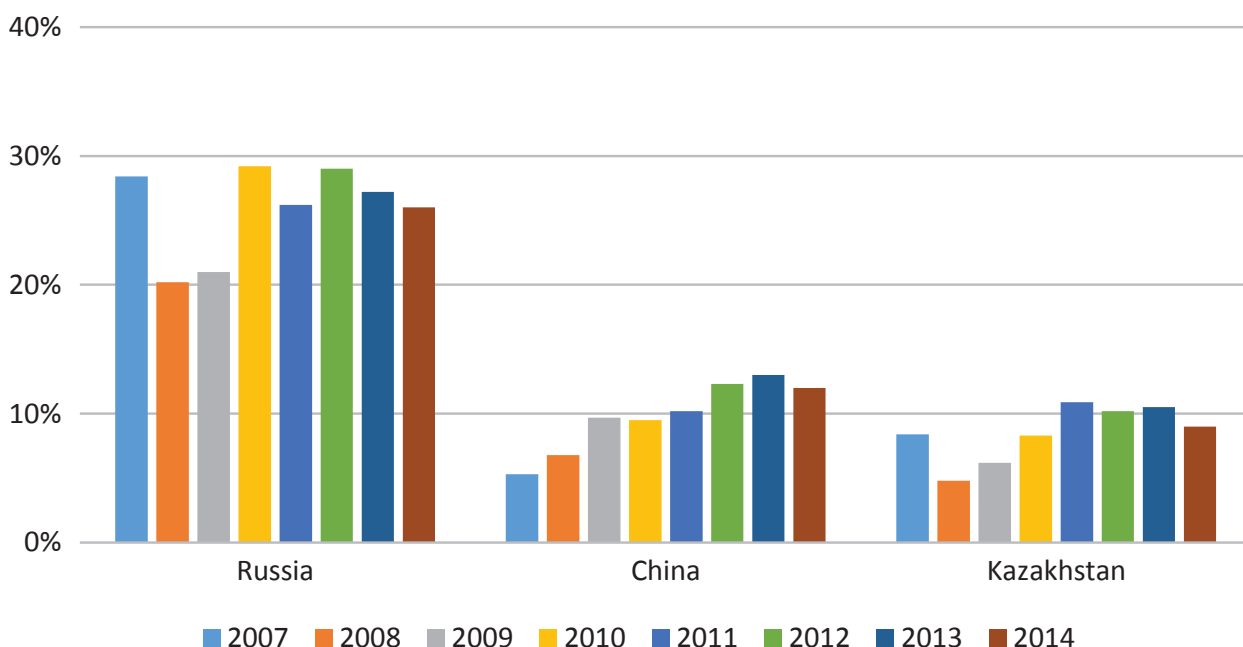
12. According to the Uzbek side, export of Uzbek cars to Russia fell by 35 percent during 2014 and share of GM Uzbekistan dropped from 2.2 percent in 2013 to 1.6 percent in 2014. The reason is introduction of safety regulations in the EEU and priority utilization of Russian-made cars. See "Узбекистан просит РФ в 2015 г облегчить доступ на рынок текстиля," RIA Novosti; and "Названы причины падения продаж GM Uzbekistan в РФ," Gazeta.uz, November 26, 2014, <http://www.gazeta.uz/2014/11/26/gmuz/>.

13. President of Russia, "Заявления для прессы по итогам российско-узбекистанских переговоров," December 10, 2014, <http://kremlin.ru/events/president/transcripts/47216>.

14. Uzbekistan values bilateral trade with Russia at roughly \$7 billion in 2013, while Russian statistics value it around \$4 billion in 2013. See "Ослабление рубля заставит узбекских мигрантов вернуться на родину," RIA Novosti, December 22, 2014, <http://ria.ru/economy/20141222/1039671756.html>.



## Uzbekistan's Main Foreign Trade Partners as a Percentage of Total Trade



Source: State Statistics Committee of Uzbekistan.

as a whole (6.4 percent of GDP in 2013)<sup>15</sup> than in the remittances-dependent economies of neighboring Kyrgyzstan (31 percent of GDP) and Tajikistan (48 percent).<sup>16, 17</sup>

Around 850 Russian companies, including state-owned enterprises, are also active in Uzbekistan. The oil and gas sector is a particular area of Russian focus and, according to experts we spoke with and published sources,<sup>18</sup> Russian companies retain a leading position there, much larger than in neighboring Kazakhstan or Turkmenistan. Gazprom is developing the Shakhpakhty gas field, where it has extracted around 2.8 billion cubic meters (bcm) of gas since 2004, which is then shipped to Russia.<sup>19, 20</sup> Gazprom is also

15. World Bank, “World Bank Group–Uzbekistan Partnership: Country Program Snapshot,” April 2015, <http://www.worldbank.org/content/dam/Worldbank/document/Uzbekistan-Snapshot.pdf>.

16. In the second quarter of 2014, Russia’s Central Bank reported that remittances to Uzbekistan amounted to \$1.647 billion, and for 2013 they reached \$6.689 billion. See UN Development Program (UNDP) and Ministry of Foreign Affairs of Finland, *Central Asia Trade and Human Development* (New York: UNDP, 2014), 57–58, [http://www.eurasia.undp.org/content/dam/rbec/docs/CA%20trade%20and%20HD%20paper%20ENG\\_web\\_.pdf](http://www.eurasia.undp.org/content/dam/rbec/docs/CA%20trade%20and%20HD%20paper%20ENG_web_.pdf).

17. World Bank, “Migration and Remittance Flows in Europe and Central Asia: Recent Trends and Outlook, 2013–2016,” October 2, 2013, <http://www.worldbank.org/en/news/feature/2013/10/02/migration-and-remittance-flows-in-europe-and-central-asia-recent-trends-and-outlook-2013-2016>.

18. Vladimir Paramonov and Alexey Stokov, “Российское нефтегазовое присутствие в Узбекистане: основные проблемы, прогнозы и риски,” *Vremya Vostoka*, October 12, 2009, <http://www.easttime.ru/analytic/3/1/715p.html>.

19. Gazprom International, “330 million cubic metres produced at Shakhpakhty,” December 12, 2014, <http://www.zargaz.ru/en/news-media/articles/330-million-cubic-metres-produced-shakhpakhty>.

20. Current recoverable reserves of the field are estimated to be around 8 bcm. See Gazprom International, “330 million cubic metres produced at Shakhpakhty”; and “Gazprom Commences Production at Shakhpakhty Field,” *Emerging Europe Monitor: Eurasia* 8, no. 11 (November 2004), <http://connection.ebscohost.com/c/country-reports/15080706/gazprom-commences-production-shakhpakhty-field>.

preparing to sign a production-sharing agreement with Uzbekistan on the nearby Dzhel gas deposit, which contains perhaps 10 bcm of recoverable reserves.<sup>21</sup> Lukoil participates in a consortium carrying out a \$4 billion gas-development project at the Kandym gas field in the Bukhara region. Lukoil's decision to invest in this downstream project came, however, as Russian producers have begun to lose ground to Asian companies that are carving out market share in the exploration of more difficult fields. For example, Gazprom has already lost out on several projects in Ustyurt to Malaysian Petronas,<sup>22</sup> and Chinese companies remain active in the exploitation of Uzbekistan's hydrocarbon resources. The Uzbek emphasis on economic sovereignty helps limit Russian influence, while the Karimov government's more autarkic approach to development restricts opportunities for foreign, including Russian, companies to seize a significant foothold in the Uzbek economy.<sup>23</sup>

## China

As in the rest of Central Asia, China is an increasingly visible presence in Uzbekistan, although less so than in its Central Asian neighbors. Up to 2002, Sino-Uzbek economic relations were limited mainly to trade—and in fairly low volumes.<sup>24</sup> Immediately following the Andijon crisis of 2005, which produced great strain in Uzbekistan's relations with the West, President Islam Karimov traveled to Beijing, where he was received warmly, with the Chinese leadership expressing support for Tashkent's "crackdown on separatists, terrorists, and extremists," which Beijing saw as analogous to the challenges it faced in the Xinjiang region.<sup>25</sup> The two countries also signed a Treaty on Friendly and Cooperative Partnership, laying the legal and political grounds for closer cooperation.<sup>26</sup>

Between 2005 and 2013, Sino-Uzbek bilateral trade increased nearly sevenfold,<sup>27</sup> to \$4.6 billion, though Uzbekistan, which primarily sends hydrocarbons, metals, and cotton to China, runs a persistent trade deficit with its eastern neighbor. China is also a key source of FDI for Uzbekistan, accounting for approximately 35 percent of total foreign investment in

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21. European Dialogue, "A Promising Land: Russian State Companies Expect Major Discoveries in Central Asia," <http://www.eurodialogue.eu/eu-central-asia/A-Promising-Land-Russian-State-Companies-Expect-Major-Discoveries-In-Central-Asia>.

22. Paramonov and Strokov, "Российское нефтегазовое присутствие в Узбекистане."

23. In 2013, the two countries signed a Program for Economic Cooperation until 2017. See "Владимир Путин: «Россия занимает первое место среди внешнеторговых партнёров Узбекистана»," Ruskline, April 16, 2013, [http://ruskline.ru/news\\_rl/2013/04/16/vladimir\\_putin\\_rossiya\\_zanimaet\\_pervoe\\_mesto\\_sredi\\_vneshnetorgovyh\\_partnyorov\\_uzbekistana/](http://ruskline.ru/news_rl/2013/04/16/vladimir_putin_rossiya_zanimaet_pervoe_mesto_sredi_vneshnetorgovyh_partnyorov_uzbekistana/).

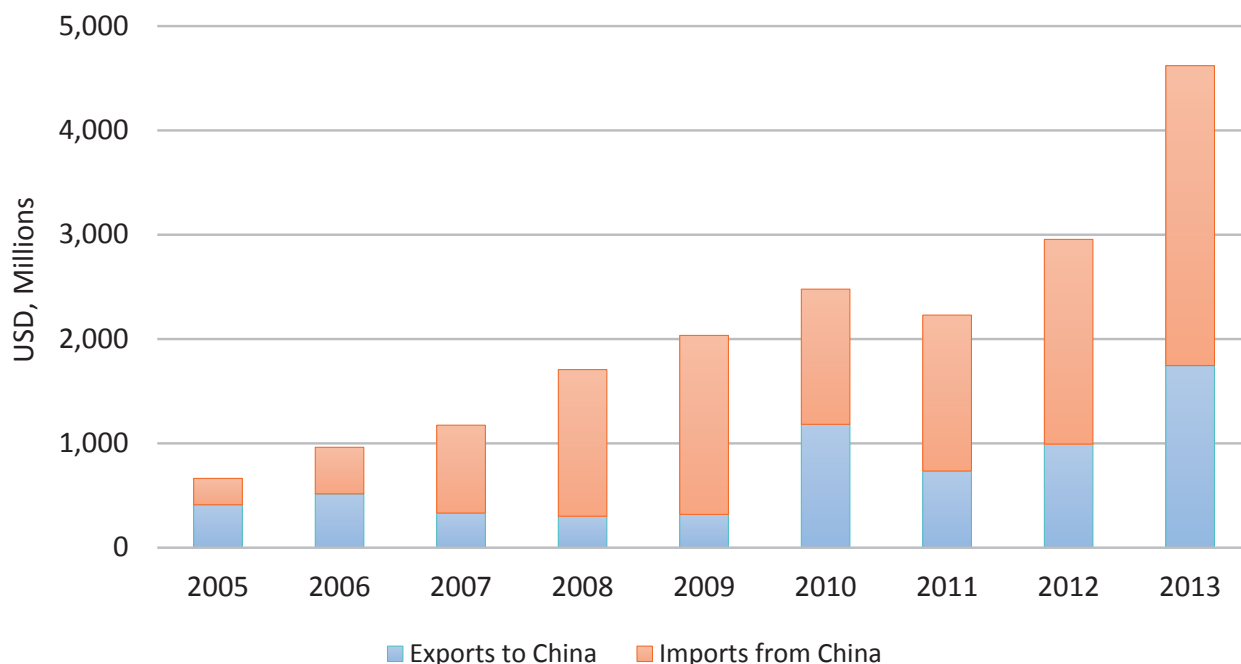
24. Vladimir Paramonov and Alexey Strokov, "China in Central Asia: Energy Interests and Energy Policy," *Central Asia and the Caucasus* 11, no. 3 (November 2010), <http://cyberleninka.ru/article/n/china-in-central-asia-energy-interests-and-energy-policy>.

25. Grant Podelko, "Uzbekistan: President Begins Visit to China Carrying No Baggage from Andijon Crackdown," Radio Free Europe/Radio Liberty, May 25, 2005, <http://www.rferl.org/content/article/1058998.html>.

26. "Uzbekistan, China Ink Partnership Treaty," *Turkish Weekly*, May 26, 2005, <http://www.turkishweekly.net/news/11186/uzbekistan-china-ink-partnership-treaty.html>.

27. While substantial, this rate of growth is much smaller than the increase in China's trade with Turkmenistan (nearly 80-fold) or Kyrgyzstan (40-fold).

## Uzbekistan's Trade with China



Source: International Monetary Fund Direction of Trade Statistics and author calculations.

Uzbekistan in 2013 (\$4.5 billion in 2013).<sup>28</sup> Chinese investment has facilitated Uzbekistan's diversification away from an inherited economic dependence on Russia.

The Central Asia–China natural gas pipeline, opened in 2009, brings gas from Turkmenistan, Uzbekistan, and Kazakhstan to China. With the opening of a third line (called Line C) along this route in 2014, Uzbekistan now provides 10 bcm of gas per year to China. This figure is set to rise with the opening of the planned Line D, which is also set to cross Kyrgyzstan and Tajikistan in 2018. The total capacity of the Central Asia–China gas pipeline is set to be 85 bcm and will provide about a quarter of China's annual natural gas consumption.<sup>29</sup>

Chinese companies are also active in Uzbekistan's upstream. In June 2006, the China National Oil and Gas Exploration and Development Corporation, a subsidiary of China National Petroleum Corporation (CNPC), signed an agreement with Uzbekneftegaz to conduct geological exploration on five blocks within the Ustyurt, Bukhara-Khiva, and Fergana oil and gas regions. In 2008, CNPC and Uzbekneftegaz agreed to jointly develop Mingbulak oil field in the Namangan region. In 2015, CNPC will launch a new project to develop three gas-condensate fields—Dengizkul, Khojadavlat, and East Alat—at a cost of

28. "China, Uzbekistan to deepen all-around cooperation, advance ties," CCTV.com, August 9, 2013, <http://english.cntv.cn/20130908/102347.shtml>.

29. China National Petroleum Corporation, "Flow of natural gas from Central Asia," 2015, <http://www.cnpc.com.cn/en/FlowofnaturalgasfromCentralAsia/FlowofnaturalgasfromCentralAsia2.shtml>.

\$280 million. The fields are expected to produce 1 bcm per year after the project's completion.

Uzbekistan also supports China's Silk Road Economic Belt (SREB) initiative, which Karimov noted could play a "decisive role" in enhancing investment and transportation links throughout Central Asia that will "advance the long-term economic interests of all countries in the region, including in part through trans-regional transport infrastructure, and strengthen the geopolitical and economic potential not just of participating states, but of the entire Central Asian region."<sup>30</sup>

Tashkent recognizes, though, that an increasingly dominant role for China in the economy could ultimately have political ramifications, and it is taking steps to manage the potential consequences. One analyst we spoke with said that although it would be possible for Uzbekistan to attract even more Chinese FDI, "the goal is not maximizing FDI; rather it is maximizing development." Uzbekistan also maintains a strict visa regime to limit Chinese migration, as the influx of Chinese workers has been a source of domestic tension throughout Central Asia. Chinese companies, most notably Alcatel-Lucent Shanghai Bell, have also had projects abruptly canceled by Tashkent.<sup>31</sup> An Uzbek official also noted that the permeability of China's borders with Kyrgyzstan and Tajikistan facilitated smuggling of contraband into Uzbekistan, which Tashkent seeks to prevent.

For many years, Uzbekistan had conducted the better part of its security and defense cooperation with China within the framework of the Shanghai Cooperation Organization (SCO). This cooperation includes counterterrorism efforts through the SCO's Tashkent-based Regional Anti-Terrorist Structure (RATS), designed to share information on terrorism and other cross-border threats and, more recently, Internet radicalization.<sup>32</sup> Beijing is particularly concerned about the presence of Uyghurs in Central Asia and seeks to use the SCO to rally the Central Asian states' support for a crackdown on Uyghur groups.<sup>33</sup> Though several tens of thousands of Uyghurs live in Uzbekistan, their level of politicization is reportedly low, and the government is careful to keep their activities strictly controlled.<sup>34</sup> Nonetheless, Tashkent is reportedly unhappy with Beijing's efforts to focus SCO activities on Chinese domestic security concerns.<sup>35</sup>

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30. Press Service of the President of the Republic of Uzbekistan, "Выступление Президента Республики Узбекистан Ислама Каримова."

31. The contract to install a fiber-optic data network was scrapped in August 2012. Talks with the company apparently resumed in May 2013. See "Uzbekneftegaz, Alcatel-Lucent resume talks on SCADA [supervisory control and data acquisition] project," *UzDaily*, May 23, 2013, <http://www.uzdaily.com/articles-id-23260.htm>.

32. Richard Weitz, "Uzbekistan: A Peek Inside an SCO Anti-Terrorism Center," *EurasiaNet*, September 25, 2012, <http://www.eurasianet.org/node/65960>.

33. Sean R. Roberts, "A 'Land of Borderlands': Implications of Xinjiang's Trans-border Interactions," in *Xinjiang: China's Muslim Borderland*, ed. S. Frederick Starr (Armonk, NY: M. E. Sharpe, 2004), 216–240.

34. "Uzbekistan: Uighur minority demands more political rights," IRIN, December 7, 2004, <http://www.irinnews.org/report/26530/uzbekistan-ughur-minority-demands-more-political-rights>; "Regional body to establish anti-terror unit," *China Daily*, October 6, 2014, [http://www.chinadaily.com.cn/m/xinjiang/urumqi\\_hightech/2014-06/10/content\\_17574803.htm](http://www.chinadaily.com.cn/m/xinjiang/urumqi_hightech/2014-06/10/content_17574803.htm).

35. Sarah Lain, "China's Strategic Presence in Central Asia," *China in Central Asia* (blog), October 20, 2014, <http://chinaincentralasia.com/2014/10/20/chinas-strategic-presence-in-central-asia/>.

## **China's Main Projects in Uzbekistan**

### **Oil processing**

- China participated in the construction of a natural gas chemical plant at Uzbekneftegaz's Mubarek Gas Processing Plant to produce polyethylene and liquefied gas aimed at Central Asian markets.

### **Technology**

- Huawei is a large investor in the Uzbek telecommunications sector, which serves 10 countries in Central Asia and the Caucasus. It provides equipment and services for most mobile operators in Uzbekistan, including national operator Uzmobile.
- Chinese investment helped establish a joint industrial technological park in Jizzak, which hosts joint production of cellular phones with ZTE and high-speed elevators with Yangzhou Sanxin Mining Equipment, and production of construction materials, among other ventures.

### **Railroads**

- China's investment will help develop two main railways projects in Uzbekistan. A China-Kyrgyzstan-Uzbekistan railway project is under discussion.
- Construction on an electrified rail line from Angren to Pap started in summer 2013. The Angren-Pap railway line will cost \$1.633 billion, with the Export-Import Bank of China (EximBank) providing a \$350 million loan for building a tunnel through the mountains by the China Railway Tunnel Group. The World Bank provided a \$195 million loan to the project.<sup>1</sup>

### **Agriculture**

- China has become a leading importer of Uzbek cotton, buying as much as 300,000 tons annually, or nearly half of Uzbekistan's total cotton exports.<sup>2</sup> In addition, the China National Machinery Industry Corporation provides Uzbekistan agricultural equipment.

### **Chemicals**

- Since 2011, China's Citic Construction has been an investor in Uzbek strategic chemical enterprises, including construction of the Kungrad Soda Plant and Dehkanabad Potash Fertilizer Plant. In 2014, Citic Construction also agreed to construct a plant to produce NPK (nitrogen, phosphorus, and potassium) fertilizer in Samarkand.
- In August 2014, Uzkhimprom and China's CAMC Engineering Co. Ltd. signed a contract for the construction of a chemical complex for the production of polyvinyl chloride (PVC), caustic soda, and methanol worth \$439.8 million.

## Uranium

- In August 2009, the Uz-China Uran joint venture was established between Uzbekistan's Goscomgeo and the China Guangdong Nuclear Uranium Corp. (CGNPC) to focus on the black shale deposits in the Boztauskaya area in the central Kyzylkum desert of the Navoi region.
- Uzbekistan has been the second-largest uranium supplier to China since 2013, after Kazakhstan. Uranium exports to China reached 1,663 tons in 2013. According to a 2014 agreement between CGNPC and Uzbekistan's Navoi Mining and Metallurgy Combine (NGMK), China will purchase \$800 million of low-enriched uranium from Uzbekistan by 2022.<sup>3</sup>

1. World Bank, "7.6 Million People in Uzbekistan Will Benefit from Better Inter-regional Accessibility by Railway Link," press release, February 14, 2015, <http://www.worldbank.org/en/news/press-release/2015/02/13/benefit-inter-regional-accessibility-by-rail-in-uzbekistan>.

2. "C 2013 goda pochti polovinu eksporta khlopka iz Uzbekistana pridetsya na Kitaj," *Novosti@mail*, September 25, 2013, <https://news.mail.ru/economics/14915110/>.

3. "China to buy uranium for US\$800m in Uzbekistan by 2022," *UzDaily*, May 27, 2014, <http://www.uzdaily.com/articles-id-27892.htm>.

China and Uzbekistan have made strides toward more bilateral engagement on security issues, especially after 2012 when Karimov and then-Chinese president Hu Jintao pledged to upgrade their countries' relations to the status of a strategic partnership. In subsequent years, the two countries' militaries have conducted joint training and education activities, while the tempo of high-level visits has increased.<sup>36</sup> China appreciates Uzbekistan's decision to eschew foreign military bases on its territory, as well as its commitment to not participate in any alliances, a stance that reflects Chinese policy as well. Conversely, Uzbekistan appreciates China's focus on pragmatic economic cooperation. As President Karimov has noted, China "has never set any political demands" on Uzbekistan. An Uzbek scholar we interviewed echoed this observation, noting that China's SREB was advantageous because it lacked political factors, such as a focus on human rights, typically present in Western programs for the region.

## Central Asia

While Tashkent aspires to become a regional hub for transit and trade, the Central Asian states' varying levels of development, coupled with Uzbekistan's emphasis on sovereignty,

36. Zabikhulla S. Saipov, "Common Concerns and Threat Perceptions Force China and Uzbekistan to Closely Coordinate Their Positions," *Eurasia Daily Monitor* 9, no. 182 (October 5, 2012), [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=39935#.VRVvefnF-So](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=39935#.VRVvefnF-So); "China, Uzbekistan agree to enhance military cooperation," *Xinhua*, May 31, 2012, [http://news.xinhuanet.com/english/china/2012-05/31/c\\_131621416.htm](http://news.xinhuanet.com/english/china/2012-05/31/c_131621416.htm).

## Central Asia



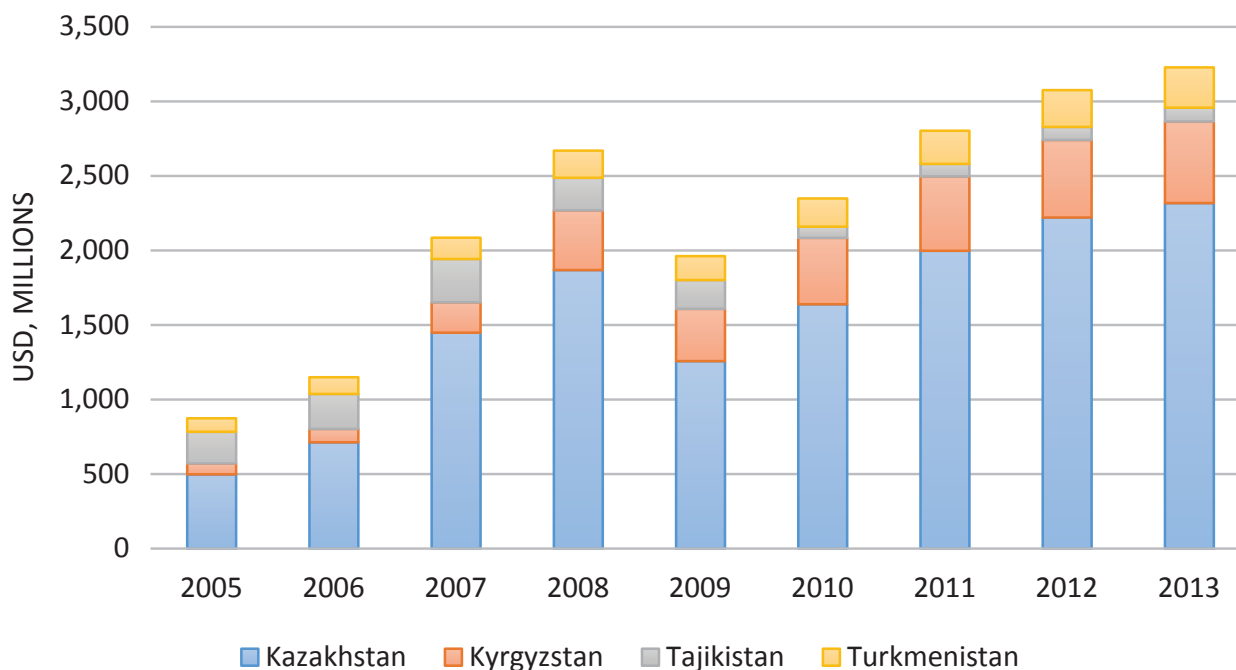
Source: Based on a United Nations map, <http://www.un.org/Depts/Cartographic/map/profile/centrasia.pdf>.

has left Tashkent wary of many forms of regional cooperation. Instead, Tashkent emphasizes bilateral ties with its Central Asian neighbors. These ties have often been strained by disputes over resources, borders, and the role of outside powers, though Uzbekistan has more recently sought to improve relations with the rest of Central Asia in the face of common challenges.

Uzbekistan's relations with Kazakhstan have improved markedly in recent years, reflecting in part growing trade ties. Bilateral trade turnover in 2013 amounted to \$2.3 billion (72 percent of Uzbekistan's total trade with Central Asia), a nearly fivefold increase since 2005. This growth is set to continue and could perhaps double if border and customs restrictions are removed.<sup>37</sup> Impediments remain, however, including de facto restrictions on Kazakh investment in sectors like banking, retail, and construction. A free

37. Two countries report different figures: Kazakhstan reported \$2 billion in total trade in 2013, while Uzbek statistics reported \$3.2 billion. Kazakh specialists estimate that they can increase exports to Uzbekistan by \$1.6 billion with expansion of deliveries with over 90 goods. A strategy for economic cooperation between Uzbekistan and Kazakhstan for 2007–2016 envisages expansion of mutually beneficial cooperation in the field of transport and communications, as well as oil and gas. See “Узбекистан и Казахстан планируют довести торговый оборот до \$5 млрд,” RIA Novosti, November 25, 2014, <http://ria.ru/economy/20141125/1034974645>

## Uzbekistan's Trade with Central Asia



Source: International Monetary Fund Direction of Trade Statistics and author calculations.

trade zone along the Kazakh-Uzbek border announced in 2008 remains mostly on paper. Kazakhstan's membership in the EEU could negatively impact trade across the border, accounting in part for Tashkent's interest in a free trade agreement with the EEU. At the same time, expanded Uzbek-Kazakh economic ties could be an important driver of regional growth.

Kazakhstan and Uzbekistan also share some common positions on regional challenges. President Karimov said during a November 2014 appearance in Astana that the two countries should "coordinate their positions" more often, and he praised a Strategic Partnership Treaty signed in 2013 that, among other provisions, affirms a shared position on water and energy issues.<sup>38</sup> The two countries regularly hold meetings of intergovernmental commissions to address these issues as well as others, such as counterterrorism and counternarcotics operations.

Turkmenistan and Uzbekistan share a landlocked geography that leaves them dependent on neighbors for access to global trade routes. Both are also skeptical of Russian-led integration projects and are downstream states with similar concerns about water. Ashgabat and Tashkent are also working in concert on regional connectivity issues, with the two presidents stating that the road and rail networks of their respective countries are

.html; and "Казахстанские компании поставят в Узбекистан товары на \$7 млн," National Chamber of Entrepreneurs of Kazakhstan, September 18, 2014, <http://palata.kz/ru/news/10361>.

38. "Узбекистан ратифицировал договор о стратегическом партнерстве с Казахстаном," *UzDaily*, December 24, 2013, <http://www.uzdaily.uz/articles-id-18560.htm>.



complementary pieces of a “well integrated system, . . . a transit complex for not only Uzbekistan and Turkmenistan, but also for third countries,”<sup>39</sup> connecting to, most notably, Iran and the Middle East through the Uzbekistan-Turkmenistan-Iran-Oman transport and communications corridor. Uzbekistan has been also invited to participate in constructing the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline. Tensions still exist, though, in areas such as border demarcation, though an agreement of 2004 simplified access for the residents of 12 districts in Uzbekistan to Turkmenistan’s territory.<sup>40, 41</sup>

Uzbekistan’s relations with Kyrgyzstan and Tajikistan have experienced serious tensions throughout the post-Soviet period. While the histories of Uzbekistan and Tajikistan are deeply intertwined, relations have often been difficult, dating to Uzbekistan’s involvement in the Tajik Civil War during the 1990s. The primary dispute today centers on Dushanbe’s decision to resume construction of the Rogun hydropower plant, which could potentially solve Tajikistan’s chronic winter power shortage but reduce the water flow of the Amu Darya River, negatively impacting Uzbek agriculture and possibly causing environmental damage downstream. An international development official we spoke with worried that, in a worst-case scenario, tensions over Rogun could spark a military clash between Uzbekistan and Tajikistan. Direct flights between Tashkent and Dushanbe ended during the civil war, while Tashkent has maintained a strict visa regime for Tajik citizens since 2000. The Uzbek side closed the border entirely between April 2010 and October 2011, allegedly to prevent the shipment of goods to Rogun. It then suspended railroad connections in November 2011 following an explosion along the route that it blamed on extremists, promoting a costly new rail line to China through the mountainous Angren-Pap tunnel instead. In 2013, Uzbekistan stopped supplying gas to Tajikistan.<sup>42</sup> More recently, Uzbek-Tajik relations have seen some improvement. Karimov attended the September 2014 SCO summit in Dushanbe, announcing that direct flights will soon resume. According to press reports, the two sides are also talking about liberalizing the visa regime.<sup>43</sup>

Uzbekistan also has unresolved territorial disputes with Kyrgyzstan, including a disputed border that is over 1,000 km long, mainly in the Fergana Valley, where Uzbekistan has several exclaves wholly surrounded by Kyrgyz territory with a single road connecting them to the Uzbek mainland. Several skirmishes broke out around the disputed border in 2012 and 2013. A March 2014 agreement resolved some of the less contentious border

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39. “Uzbekistan, Turkmenistan Set for New Phase of Mutually Advantageous Cooperation,” Uzbekistan National News Agency, October 25, 2014, <http://uza.uz/en/politics/uzbekistan-turkmenistan-set-for-new-phase-of-mutually-advant>.

40. Евразийский Коммуникационный Центр, “В Бухаре Состоялось Заседание Межправительственной Комиссии Узбекистана и Туркмении,” September 28, 2013, <http://eurasec.com/evrazijskie-novosti/3635/>.

41. Stephen Aris, “The Foreign and Security Policies of the Central Asian States,” ISN ETH Zurich, July 30, 2013, <http://www.isn.ethz.ch/Digital-Library/Articles/Detail/?id=167520>.

42. In 2012, Tajikistan imported 125 million cubic meters of Uzbek gas of the planned 145 million. See Catherine Fitzpatrick, “Uzbekistan Closes Tajikistan Border, Renews Rail Blockade,” *EurasiaNet*, May 24, 2010, <http://www.eurasianet.org/node/61144>.

43. Olga Tutubalina, “Узбекская виза. Вопрос об отмене визового режима между РТ и РУ продолжает оставаться открытым,” *Asia-Plus*, January 10, 2007, <http://news.tj/tj/node/5591>.

## The Fergana Valley



THE MAP DOES NOT IMPLY THE EXPRESSION OF ANY OPINION ON THE PART OF THE AGENCIES CONCERNING THE LEGAL STATUS OF ANY COUNTRY, TERRITORY, CITY OR AREA OF ITS AUTHORITY, OR DELINEATION OF ITS FRONTIERS AND BOUNDARIES.

Source: GRID-Arendal, [http://www.grida.no/graphicslib/detail/oblasts-in-the-ferghana-valley-area\\_7488](http://www.grida.no/graphicslib/detail/oblasts-in-the-ferghana-valley-area_7488).

issues, but did not address the more difficult issue of the Uzbek exclaves.<sup>44, 45</sup> Tashkent stayed neutral during the ethnic conflict between Kyrgyz and Uzbeks in southern Kyrgyzstan in 2010, preventing its citizens from crossing the border and encouraging ethnic Uzbek refugees to return to Kyrgyzstan. Bishkek worries, though, that its larger neighbor could play the ethnic card in the future.

Despite these tensions, bilateral trade is growing rapidly, with 28.55 percent annualized growth from 2005–2013 (not including the far higher volume of unofficial trade, especially in the Fergana Valley).<sup>46</sup> Uzbekistan's interest in improving relations stems partially from the importance of Kyrgyzstan as a transit state on the road to China. Tashkent has evinced renewed interest in a Chinese proposal for a 270-km rail link from Kashgar in China's Xinjiang Uyghur Autonomous Region to Andijon in the Uzbek sector of the Fergana Valley

44. "Uzbekistan, Kyrgyzstan to sign border deal," *Azernews*, March 25, 2014, <http://www.azernews.az/region/65463.html>.

45. Demir Azizov, "Uzbekistan, Kyrgyzstan draft agreement on several state borders," *Trend*, April 1, 2014, <http://en.trend.az/regions/casia/uzbekistan/2257767.html>.

46. Total trade was at \$73 million in 2005 and \$547 million in 2013.

via Kyrgyzstan's Naryn and Osh oblasts.<sup>47</sup> The rail link would be particularly attractive for the GM-UzDaewoo car assembly plant in Andijon, which relies on regular imports of parts and components from South Korea, which are currently routed primarily via Russian territory.<sup>48</sup>

Water is among the most complex issues in Central Asian politics, and in Uzbekistan's relations with its upstream neighbors. With a large population and significant agricultural sector, Uzbekistan's economy is highly dependent on access to water from the Amu Darya and Syr Darya rivers, which flow into the country from Tajikistan and Kyrgyzstan, respectively. Despite a growing population, Uzbekistan has in recent years received less water from its neighbors, whose own offtake from the rivers has increased. President Karimov warned in 2012 that disputes over water in Central Asia could "deteriorate to the point where not just serious confrontation, but even wars could be the result."<sup>49</sup>

Plans for new large hydroelectric stations in Kyrgyzstan (Kambarata-1) and, especially, Tajikistan (Rogun) have been a long-standing source of tension.<sup>50</sup> Rogun is designed to provide Tajikistan surplus electricity, reducing its need to import energy from Uzbekistan. At the same time, Tashkent points to concerns about the potential for catastrophic damage downstream should the dam fail (due to earthquakes or equipment failure), environmental costs, reduced water flows along the Amu Darya, and the socioeconomic impact of the dam on downstream communities.<sup>51</sup> Expressions of Russian interest in funding Rogun add a regional geopolitical dimension to the dispute as well, given Tashkent's worries about the expansion of Russian influence over its weaker neighbors.

## Turkey

Uzbekistan and Turkey have long had a rather chilly relationship despite their shared cultural heritage and economic ties. Efforts to expand Turkish economic and cultural influence during the 1990s were poorly received in Uzbekistan, and the rise of Turkey's Islamist AK Party created suspicions within the secular Uzbek government. Tashkent closed down schools operated by the *Hizmet* (Gülen) movement in 1999, along with more than 50 Turkish-operated companies suspected of supporting the movement. Uzbekistan also remains aloof from efforts to forge a common Turkic identity, which Tashkent views as a threat to its national identity. Uzbekistan is not a member of the Turkic Council, and its president does not typically participate in the Turkic summits sponsored by Ankara.

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47. Azizov, "Uzbekistan, Kyrgyzstan draft agreement on several state borders." See also UK Foreign and Commonwealth Office, "Project Note," [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/317670/China-Kyrgyzstan-Uzbekistan\\_Railway\\_project.doc](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/317670/China-Kyrgyzstan-Uzbekistan_Railway_project.doc).

48. Ibid.

49. "Uzbek leader sounds warning over Central Asia water disputes," Reuters, September 7, 2012, <http://www.reuters.com/article/2012/09/07/centralasia-water-idUSL6E8K793I20120907>.

50. Joshua Kucera, "Tajikistan's Dream," *Wilson Quarterly*, Summer 2014, <http://wilsonquarterly.com/quarterly/summer-2014-where-have-all-the-jobs-gone/tajikistans-dream/>.

51. Rustam Azimov, "Proceedings of the High Level Meeting on Regional Riparian Issues in the Context of the 'World Bank Note on Key Issues for Consideration on the Proposed Rogun Hydropower Project,'" Uzbekistan Ministry of Foreign Affairs, August 2014, <http://www.mfa.uz/en/press/release/2014/08/2115/>.

## The Syr Darya and



Source: Background layer attributed to DEMIS Mapservers; maps created by Shannon1 via Wikimedia Commons, [http://en.wikipedia.org/wiki/Syr\\_Darya#/media/File:Syr\\_daryamap.png](http://en.wikipedia.org/wiki/Syr_Darya#/media/File:Syr_daryamap.png) and [http://en.wikipedia.org/wiki/Amu\\_Darya#/media/File:Amudaryamap.jpg](http://en.wikipedia.org/wiki/Amu_Darya#/media/File:Amudaryamap.jpg).

Relations have gradually improved in recent years. Then-Turkish foreign minister Ahmet Davutoğlu visited Tashkent in July 2014, the first such high-level visit in 13 years. According to one Uzbek media outlet, the “visit was dictated not by a desire to develop bilateral relations at the political level, but more by the interests of NATO.”<sup>52</sup> The two sides also agreed to hold annual summit meetings and foreign ministerials. Total Uzbek trade with Turkey grew to \$1.36 billion in 2013 from \$682 million in 2009, and a road map signed during Davutoğlu’s visit aims to boost that figure to \$5 billion.<sup>53</sup>

52. Zabikhulla Saipov, “Strained Thaw between Tashkent and Ankara,” *Eurasia Daily Monitor* 11, no. 144 (August 6, 2014), [http://www.jamestown.org/programs/edm/single/?tx\\_ttnews%5Btt\\_news%5D=42720&cHash=271ba536841f3c606aa7b31148e85d47#.VRQ2OvnF98E](http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=42720&cHash=271ba536841f3c606aa7b31148e85d47#.VRQ2OvnF98E).

53. “Uzbekistan and Turkey to Increase Bilateral Trade Turnover,” *Vremya Vostoka*, July 14, 2014, <http://easttime.info/news/uzbekistan/uzbekistan-and-turkey-increase-bilateral-trade-turnover>.

## Amu Darya Watersheds



## Iran

Because of its concerns about Islamism, Uzbekistan views the Islamic Republic warily. Economic relations are growing, though, with trade reaching \$272.2 million in 2013. Despite this caution, and despite remaining aloof from many other regional multilateral organizations, Uzbekistan is a member of the Tehran-based Economic Cooperation Organization, which aims to promote trade and investment ties. The two countries also signed an agreement in 2011 to establish the Uzbekistan-Turkmenistan-Iran-Oman rail corridor connecting Central Asia with Iranian ports on the Persian Gulf and the Gulf of Oman.<sup>54, 55</sup>

54. “Uzbekistan, Turkmenistan, Iran, Oman still intending to create new transport corridor,” Interfax, August 6, 2014, <http://www.interfax.com/newsinf.asp?id=526672>.

55. Ibid.

Iran is already an important export route for Uzbek cotton. Exports via Iranian Railways increased by 14 percent in 2014 following an agreement to lower railroad tariffs.<sup>56</sup>

While viewing Iran as a potential source of instability, Uzbek officials nevertheless support U.S. efforts to reach a deal bottling up Iran’s nuclear program and allowing Tehran to be a more constructive player in the region. A senior Uzbek official explained that “U.S. and Iranian interests coincide in both Afghanistan and the Middle East: if Washington and Tehran can find an agreement on the nuclear issue, there will also be a wider rapprochement.”

## India

Relations with India have not yet lived up to their potential. During the 1990s, Tashkent prioritized relations with Pakistan over relations with India, and trade ties with India continue to lag. Trade turnover in 2013 was just \$259.5 million.<sup>57</sup> There are only a few large Indian investments in Uzbekistan, including a project between India’s Gail and Uzbekneftegaz on joint exploration and exploitation of natural resources in western Uzbekistan.<sup>58</sup> Following the signing of a strategic partnership agreement in 2011, Tashkent began paying renewed attention to the Indian private sector. In 2004, the Indian Institute of Entrepreneurship proposed to the Uzbek Foreign Ministry to set up employment centers, with the first to begin operations in 2015.<sup>59</sup> These centers will support joint ventures and explore new business opportunities for local entrepreneurs. According to one Uzbek analyst, the election of Narendra Modi was a source of concern in Uzbekistan because of his perceived hostility to the West and to Islam.

## Afghanistan

For most of the past two decades, Uzbekistan’s priorities for Afghanistan have centered on security. On the one hand, Tashkent has sought to insulate itself from cross-border threats, while on the other it has pursued a diplomatic framework for resolving the Afghan conflict. As early as 1997, President Karimov set forth his “six-plus-two” initiative to pursue a regional solution to the conflict.<sup>60</sup> Unable to gain traction for this initiative, Tashkent then

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56. “Иран и Узбекистан изучают пути развития железнодорожного сообщения друг с другом,” Iran.ru, April 22, 2014, [http://www.iran.ru/news/economics/93378/Iran\\_i\\_Uzbekistan\\_izuchayut\\_puti\\_razvitiya\\_zheleznodorozhnogo\\_sobshcheniya\\_drug\\_s\\_drugom](http://www.iran.ru/news/economics/93378/Iran_i_Uzbekistan_izuchayut_puti_razvitiya_zheleznodorozhnogo_sobshcheniya_drug_s_drugom).

57. Ministry of Foreign Affairs of the Republic of Uzbekistan, “Cooperation of the Republic of Uzbekistan with Near East, Middle East, and African countries,” <http://www.mfa.uz/en/cooperation/countries/376/>.

58. “GAIL to set up LPG [liquefied petroleum gas] plants in Uzbekistan,” *Hindu Business Line*, May 1, 2006, <http://www.thehindubusinessline.com/todays-paper/tp-corporate/gail-to-set-up-lpg-plants-in-uzbekistan/article1732491.ece>.

59. “Институт предпринимательства Индии откроет центры занятости в Узбекистане,” *UzDaily*, October 30, 2014, <http://www.uzdaily.uz/articles-id-22357.htm>.

60. That initiative included Afghanistan’s six neighbors (China, Iran, Pakistan, Tajikistan, Turkmenistan, Uzbekistan) along with the United States and Russia. Karimov also attempted to revive the group as a six-plus-three (including NATO) process at the 2008 NATO Bucharest summit, but Russia did not support the plan, saying it gave the United States too much influence in Central Asia. See Matthew Stein, “Uzbekistan’s View of

stepped up its long-standing engagement of the ethnic Uzbek population in northern Afghanistan to ensure security along the border and create a buffer against Taliban forces further south.<sup>61</sup> Tashkent provided military and other assistance to the Northern Alliance, especially the ethnic Uzbek forces under General Abdul Rashid Dostum.<sup>62</sup> With most of Central Asia's rail infrastructure, Uzbekistan has been a critical pillar of the Northern Distribution Network (NDN), with the majority of goods crossing into Afghanistan at the Termez-Hairatan border crossing.<sup>63</sup>

Our interlocutors were generally pessimistic about Afghanistan's future following the drawdown of coalition forces. Increased fighting in northern Afghanistan, coupled with the reemergence of the IMU in Afghanistan, is a source of particular concern.<sup>64</sup> The IMU, which developed links with the Taliban in the years before 9/11, launched major attacks from bases in Tajikistan and Afghanistan against the Uzbek government until the early 2000s. It was largely driven out of Afghanistan by U.S. bombing in the early stages of Operation Enduring Freedom, finding refuge in Pakistan's remote tribal areas, from where IMU fighters participated in attacks across the region and in the Middle East. During 2014, Pakistani military operations drove much of the remaining IMU forces from North Waziristan back into Afghanistan. In early 2015, reports claimed that at least some Afghan-based IMU groups had pledged allegiance to the Islamic State, which has also been expanding its presence inside Afghanistan. President Karimov acknowledges there is no military solution to Afghanistan's problems, while officials we spoke with noted that radicalization in Afghanistan is affecting the entire region.

Despite the security challenges, Tashkent has been involved in efforts to modernize the Afghan economy, trying to elevate its regional influence and improve its own infrastructure and connectivity with South Asia. With funds from international development agencies, Uzbekistan built and operates a railroad from its border to Mazar-i-Sharif, the first main line railway in Afghanistan.<sup>65</sup> As part of its contract to operate the line, Uzbekistan Railways also trains Afghan engineers and takes Afghan goods for export.<sup>66</sup> Uzbek officials would like to extend this rail corridor to Herat, which would allow Uzbek goods to reach Iran, but acknowledge the need for additional financing. They also would like to assist

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Security in Afghanistan after 2014," *Military Review* (May/June 2012): 78–79, <http://fmso.leavenworth.army.mil/documents/Uzbekistans-view.pdf>.

61. Igor Rotar, "Will 'Dostumistan' Be Established Near Afghanistan's Border with Uzbekistan?," *Eurasia Daily Monitor* 11, no. 45 (March 2014), [http://www.jamestown.org/single/?tx\\_ttnews%5Btt\\_news%5D=42075&no\\_cache=1#.VTau2CFVhBd](http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=42075&no_cache=1#.VTau2CFVhBd).

62. *Ibid.*

63. Deirdre Tynan, "Uzbekistan: U.S. Senate Wants Pentagon to Be More Transparent on NDN Contracts," *EurasiaNet*, September 26, 2011, <http://www.eurasianet.org/node/64226>.

64. "Uzbek Group in Afghanistan Pledge Allegiance to Islamic State," Radio Free Europe/Radio Liberty, March 30, 2015, <http://www.rferl.org/content/uzbek-group-in-afghanistan-behead-afghan-soldier/26928658.html>.

65. Andrew Grantham, "Hairatan to Mazar-i-Sharif railway," *Railways of Afghanistan* (blog), February 2012, <http://www.andrewgrantham.co.uk/afghanistan/railways/hairatan-to-mazar-i-sharif/>.

66. "Uzbekistan extends contract on railway maintenance in Afghanistan," Cihan News Agency, March 31, 2015, [http://en.cihan.com.tr/news/Uzbekistan-extends-contract-on-railway-maintenance-in-Afghanistan\\_4372-CHMTcxNDM3Mg](http://en.cihan.com.tr/news/Uzbekistan-extends-contract-on-railway-maintenance-in-Afghanistan_4372-CHMTcxNDM3Mg).

Afghanistan with its own railway modernization efforts.<sup>67</sup> Uzbekistan also supplies electricity to Afghanistan through the Northern Transmission Link, which was financed by the Asian Development Bank (ADB) and provides 75 percent of Kabul's electricity.<sup>68</sup> Tashkent sees the World Bank-supported Central Asia and South Asia Power Transmission Project (CASA-1000), which would bring hydropower from Kyrgyzstan and Tajikistan to South Asia, as rivaling its own ambitions and worries that CASA-1000 will not be viable unless major new dams like Rogun and Kambarata-1 are built.

## European Union

Relations with the European Union (EU) have improved gradually over the past several years. Following the 2005 Andijon crisis, Brussels imposed an arms embargo and suspended its Partnership and Cooperation Agreement, while banning 12 Uzbek officials from traveling to Europe. These sanctions were lifted in 2009, and President Karimov visited EU and NATO headquarters in January 2011.<sup>69</sup> An EU mission to Tashkent then opened in 2012, and the two sides are currently elaborating an assistance program set to run until 2020. Uzbek participation in the NDN has also helped. Since February 2012, the defense ministers of Latvia, the United Kingdom, Germany, Poland, Italy, and other European countries have visited Tashkent to coordinate the withdrawal of their troops via the NDN.

The EU is Uzbekistan's second overall trade partner, with total trade turnover increasing from \$1.5 billion in 2005 to \$2.15 billion in 2013. Uzbekistan's exports to the EU (mostly gold and cotton) have sharply declined<sup>70</sup> while imports from the EU have increased. Uzbekistan's most important individual trade partner within the EU is Germany, which has been at the forefront of efforts to improve political and economic relations with Tashkent and also maintains a small military contingent at Termez on the Uzbek-Afghan border.<sup>71</sup> The EU is also an important assistance donor, with aid focused on rural and local development, rule of law and judiciary reform, trade facilitation, and support to the private sector and small businesses.<sup>72</sup> Brussels and Tashkent signed a memorandum of understanding on energy cooperation in 2011. In addition to diversifying export routes, the memorandum focuses on sustainable development of energy resources, energy efficiency, and the development of new energy sources, especially renewables.

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67. Grantham, "Hairatan to Mazar-i-Sharif railway."

68. Uzbekistan will continue to provide 300 megawatts of electricity to Afghanistan annually for the next 20 years. See Islamic Republic of Afghanistan Ministry of Energy and Water, "Power Sector Strategy for the Afghanistan National Development Strategy," April 15, 2007, <http://www.carecprogram.org/uploads/docs/AFG-Power-Sector-Strategy-en.pdf>.

69. Sebastien Peyrouse, ed., "How Does Central Asia View the EU?," Europe-Central Asia Monitoring Working Paper No. 18, June 2014, [http://www.eucentralasia.eu/uploads/tx\\_ictcontent/EUCAM-WP18-How-does-Central-Asia-view-the-EU-1.pdf](http://www.eucentralasia.eu/uploads/tx_ictcontent/EUCAM-WP18-How-does-Central-Asia-view-the-EU-1.pdf).

70. Brian Anderson and Yuri Klimov, "Узбекистан: торговый режим и последние события в сфере торговли," University of Central Asia Institute of Government Management and Politics, 2012, [http://www.ucentralasia.org/downloads/UCA-IPPA-WP4-Uzbekistan%20and%20Regional%20Trade\\_Rus.pdf](http://www.ucentralasia.org/downloads/UCA-IPPA-WP4-Uzbekistan%20and%20Regional%20Trade_Rus.pdf).

71. Stephen Castle, "Europe Ends Its Attempt to Penalize Uzbekistan," *New York Times*, October 27, 2009, [http://www.nytimes.com/2009/10/28/world/asia/28uzbek.html?\\_r=0](http://www.nytimes.com/2009/10/28/world/asia/28uzbek.html?_r=0).

72. European External Action Service, "EU relations with Uzbekistan," [http://eeas.europa.eu/uzbekistan/index\\_en.htm](http://eeas.europa.eu/uzbekistan/index_en.htm).



# United States and NATO

Despite lingering tensions over human rights, Tashkent still aspires to a close partnership with Washington. It views strong ties with the United States as a prerequisite for its ability to maintain distance from Moscow, as well as a means of enhancing its own influence in the region.

Particularly since the start of combat operations in Afghanistan, U.S.-Uzbek relations have centered on regional security issues. U.S. forces deployed to Uzbekistan in the initial stages of the Afghan war, but departed in 2005 in the aftermath of the Andijon crisis, when Washington and Tashkent failed to reach agreement on extending the lease at Karshi-Khanabad airport. After the period of strained relations that followed, the two countries began working more closely together following the Obama administration's decision to renew attention on the Afghan conflict. As with all the Central Asian states, Washington established annual bilateral consultations (ABCs) with Uzbekistan in 2009 to address a wide range of issues, including trade and development, investments, energy, agriculture, health, parliamentary exchanges, education, science and technology, counternarcotics, border security, counterterrorism, religious freedom, trafficking in persons, development of civil society and human rights, as well as Afghanistan. Uzbekistan emerged as a key node in the NDN, while the United States lifted its post-Andijon sanctions in 2011. Several high-level visits followed, including that of Secretary of State Hillary Clinton in October 2011. While Uzbekistan is expected to be an important component of Washington's New Silk Road initiative, at least one analyst we interviewed noted that the initiative lacked concrete projects, in contrast to China's SREB, and questioned the U.S. emphasis on building transit routes to South Asia, a region with which Central Asia had little in common.

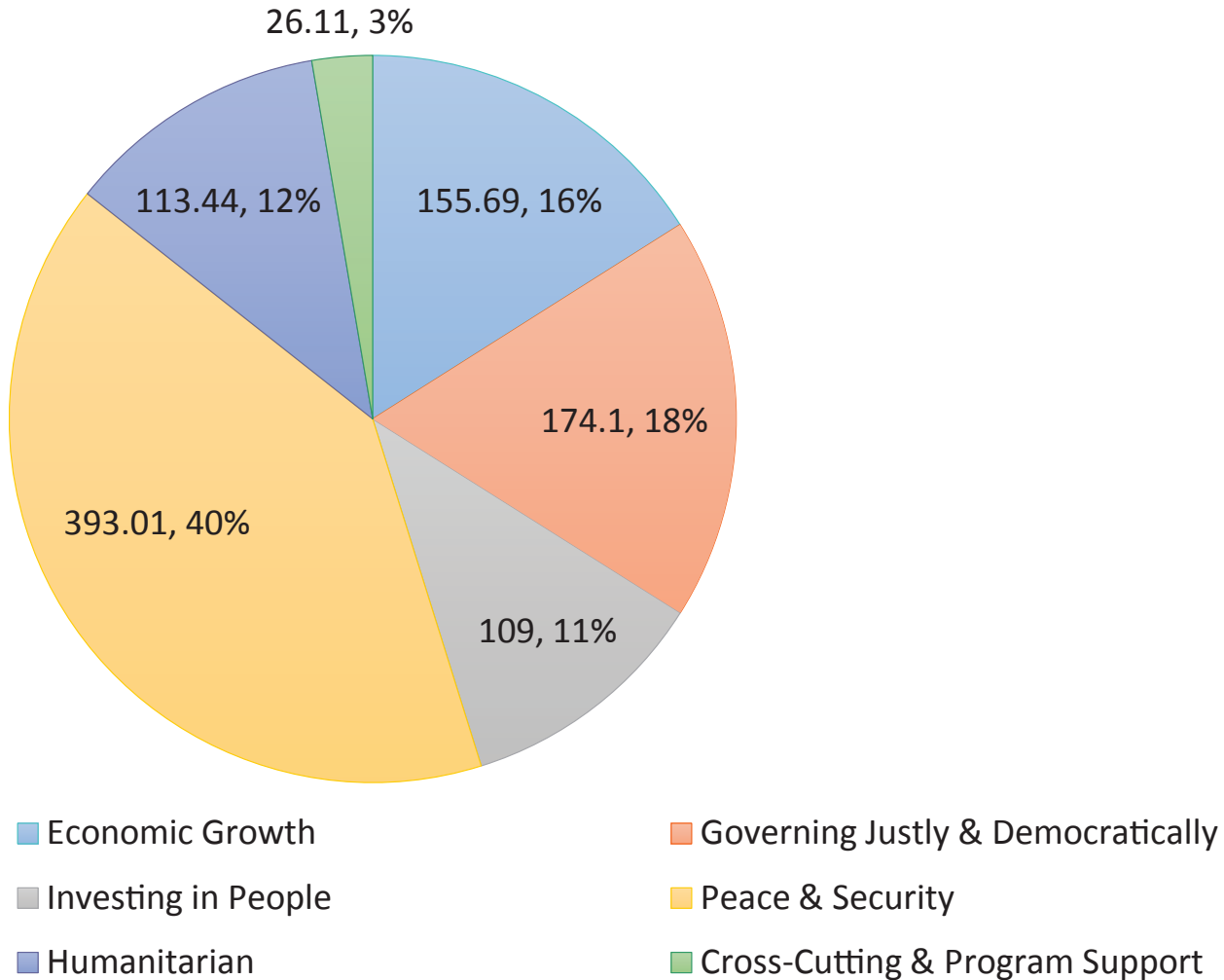
After a period of international isolation, Tashkent today wants to strengthen its regional influence with the help of the United States. Support for U.S. efforts in Afghanistan not only allows Uzbekistan to address its cross-border security concerns, but also to position itself as an important U.S. partner. The centerpiece is again military and security cooperation, including U.S. security assistance, which the Obama administration restored in 2012. The 2014 Plan for Military and Military Technical Cooperation, signed by U.S. Central Command and the Uzbek Ministry of Defense, includes a provision for the training of Uzbek special forces, while also laying a foundation for \$2.8 billion in U.S. investment.<sup>73</sup> In late 2014, Washington also delivered "excess defense articles," most notably more than 300 mine-resistant ambush-protected vehicles (MRAPs) and 20 armored support vehicles, to Uzbekistan's military, a donation worth more than \$30 million.<sup>74</sup> Uzbekistan has also

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73. Joshua Kucera, "Turkmenistan Asks U.S. for Military Aid to Address Afghan Border Instability," *EurasiaNet*, March 27, 2015, <http://www.eurasianet.org/node/72761>. Also see General Lloyd J. Austin III, "The Posture of U.S. Central Command" (testimony before the Senate Armed Services Committee, March 26, 2015), [http://www.armed-services.senate.gov/imo/media/doc/Austin\\_03-26-15.pdf](http://www.armed-services.senate.gov/imo/media/doc/Austin_03-26-15.pdf).

74. Joshua Kucera, "No Longer under Sanctions, Uzbekistan Gets 300 Armored Vehicles from U.S.," *EurasiaNet*, January 22, 2015, <http://www.eurasianet.org/node/71746>.

## Cumulative U.S.-Budgeted Assistance to Uzbekistan, FY1993–FY2010, USD Millions



Source: Jim Nichol, *Uzbekistan: Recent Developments and U.S. Interests*, Congressional Research Service, August 2013, <https://www.fas.org/sgp/crs/row/RS21238.pdf>.

benefited from the State Department’s Export Control and Related Border Security Program, from which Tashkent has received over \$20 million in equipment and training.<sup>75</sup>

With the heavy focus on security, U.S.-Uzbek economic ties have lagged. American companies invested just around \$500 million in Uzbekistan from 1992 to 2012. Our interlocutors stressed that Tashkent would like to attract additional U.S. investment, especially in sectors that facilitate technology transfer. Uzbekistan has signed a trade and investment framework agreement (TIFA) with the United States and other Central Asian countries, establishing a regional forum to discuss ways to improve investment climates and expand trade within Central Asia.

<sup>75</sup> “U.S. Ambassador attends EXBS Vehicle Donation ceremony to Uzbek Institute of Nuclear Physics,” Embassy of the United States Tashkent, Uzbekistan, July 16, 2012, <http://uzbekistan.usembassy.gov/071612en.html>.

One positive example of U.S.-Uzbek economic cooperation that our government interlocutors were keen to emphasize is General Motors' joint venture with Uzavtosanoat, which assembles more than 200,000 cars a year in the Andijon region for the Uzbek and Russian markets (another joint venture between the two firms opened a factory in November 2011 to assemble engines).

Tashkent has also maintained close relations with NATO since the establishment of the NDN in January 2009. Five months later, President Karimov formally acknowledged that he had reopened select bases to airlifts of NATO supplies headed for Afghanistan.<sup>76</sup> Uzbekistan would like to see a continued NATO presence in the region to assist in tackling transnational militant groups following the drawdown of foreign forces from Afghanistan.

In May 2014, NATO transferred its regional liaison office from Almaty to Tashkent. NATO officials emphasize that the move is consistent with a "regular rotation process" intended to "support [NATO]'s public diplomacy activities" across the region.<sup>77</sup> Uzbek observers, however, appear uncertain as to whether NATO will turn out to be just a temporary fixture in Tashkent.<sup>78, 79</sup>

## South Korea, Japan, and Malaysia

Uzbekistan views South Korea's post-World War II development path as a model for its own, with export promotion and import substitution laying a foundation for rapid industrialization. Reinforcing this connection is Uzbekistan's Korean diaspora (currently around 164,000 individuals), descendants of those deported by Stalin from the Russian Far East in the 1930s and 1940s.<sup>80</sup> South Korea is consequently the only country with an official quota for Uzbek migrants, and South Korean companies have a strong presence in Uzbekistan. Total trade increased fourfold to over \$2.1 billion between 2003 and 2013, making South Korea Uzbekistan's fourth-largest trading partner, while South Korean FDI is more than \$6 billion. South Korean president Park Geun-hye has also been a strong proponent of new transit infrastructure through Eurasia, an initiative Tashkent also supports.<sup>81</sup> South Korea's Daewoo established a joint venture with Uzavtosanoat in 1992, allowing Uzbekistan to become the second-largest car exporter in the CIS, after Russia. Along with the Korean National Oil Corporation and Korea Gas Corporation, Daewoo is also involved in the Uzbek energy sector, while Korea Hydro & Nuclear Power (KHNP) is planning to increase uranium purchases from Uzbekistan from 300 tons annually to 500 tons. Korean Air

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76. Deirdre Tynan, "Uzbekistan: Karimov Gives Washington the Air Base It Needs for Afghan Operations," *EurasiaNet*, May 10, 2009, <http://www.eurasianet.org/departments/insightb/articles/eav051109a.shtml>.

77. Cited in Joseph Kucera, "NATO to Open Liaison Office in Uzbekistan," *EurasiaNet*, May 26, 2013, <http://www.eurasianet.org/node/67021>.

78. "Ha то и купс," *UzMetronom*, May 14, 2013, [http://www.uzmetronom.com/2013/05/14/na\\_to\\_i\\_kurs.html](http://www.uzmetronom.com/2013/05/14/na_to_i_kurs.html).

79. Lesley Pories, "Legitimate Threat or Excuse for Repression? The Islamic Movement of Uzbekistan and Central Asian Stability Post-2014," *Al Nakhlah*, May 1, 2013, <http://alnakhlah.org/2013/05/01/legitimate-threat-or-excuse-for-repression-the-islamic-movement-of-uzbekistan-and-central-asian-stability-post-2014-by-lesley-pories/>.

80. Alisher Ilkhamov, ed., *Ethnic Atlas of Uzbekistan* (New York: Open Society Institute, 2002).

81. "Korea, Uzbekistan hold summit talks," *Korea.net*, June 18, 2014, <http://www.korea.net/NewsFocus/Policies/view?articleId=120004>.

invested in Navoi airport as its regional hub covering the Middle East, India, and Central Asia, developing a new cargo terminal and facility that includes refrigeration, a cooler room, and a warm room.<sup>82</sup> A branch of South Korea's Inha University also opened in Tashkent in 2014.

Despite comparatively small amounts of trade and investment, Japan has been an active partner for Uzbekistan, particularly in development, education, and technology exchange. In 2013, trade between the two countries totaled \$215 million. Overall financial and technical assistance provided by the government of Japan exceeds \$2 billion.<sup>83</sup> Japanese companies participate in several large projects in Uzbekistan, including construction of a gas compressor station at the Kokdumalok field and an oil refinery near Bukhara, reconstruction of a refinery in Fergana, and modernization of airports in Samarkand, Bukhara, and Urgench. Tokyo also initiated a "Central Asia + Japan" initiative to conduct a multilateral dialogue on complex subjects such as economic innovation, the joint management of energy resources, the development of trade via regional transport, and the fight against terrorism and drug trafficking.<sup>84</sup>

Malaysia is another Asian tiger whose economic model Tashkent aims to emulate as a Muslim country with political stability, an export promotion strategy, and interreligious balance.<sup>85</sup> Uzbekistan is Malaysia's largest trade partner in the region, accounting for more than 40 percent of Malaysian trade with Central Asia. Malaysian oil monopoly Petronas also has two projects in Uzbekistan.

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82. Korea Air Cargo, "To Be a Respected Leader in the World Airline Community," May 11, 2011, <http://cargo.koreanair.com/ecus/fpg/servlet/CargoNewsServlet?pid=12&version=eng&seqNo=1079>.

83. Japan International Cooperation Agency (JICA), "Maps of JICA Major Projects: Uzbekistan," October 1, 2014, [https://libportal.jica.go.jp/fmi/xsl/library/Data/PlanInOperation-e/CentralAsiaCaucasus/763\\_Uzbekistan-e.pdf](https://libportal.jica.go.jp/fmi/xsl/library/Data/PlanInOperation-e/CentralAsiaCaucasus/763_Uzbekistan-e.pdf).

84. Marlene Laruelle and Sebastien Peyrouse, *Globalizing Central Asia: Geopolitics and the Challenges of Economic Development* (New York: Routledge, 2013).

85. Juhaidi Yean Abdullah, "Uzbekistan Sees Malaysia as Model Country," *New Strait Times*, June 20, 1992, <https://news.google.com/newspapers?nid=1309&dat=19920620&id=61IPAAAIBAJ&sjid=JZADAAAIBAJ&pg=2394,3888307&hl=en>.

## 3 | Uzbekistan in a Reconnecting Eurasia

Although Uzbekistan continues to resist multilateral initiatives confined to the post-Soviet region and most of its economic policies are inward-focused, interest in broader transcontinental regionalism is growing. The focus is what the Uzbek government describes as a “multivariate system of international transport-communication corridors which provide reliable and stable access for Uzbekistan to global markets.”<sup>1</sup>

As a double landlocked country, Uzbekistan is far from major world markets and for now is mainly a transit country, but it seeks to increase its role in global value chains. Though far from the sea, Uzbekistan’s location at the heart of Central Asia (and Eurasia more broadly) also has its advantages. Thanks to the Soviet development policy and state-focused efforts during independence, Uzbekistan has become the most industrialized country in Central Asia, with comparatively well-developed physical and human capital. Existing road and rail corridors through the region almost all cross Uzbekistan, including the only rail link from Central Asia to Afghanistan and South Asia. New pipelines, regional power grids, and other infrastructure also go through Uzbekistan. Uzbek diasporas across Central Asia and Afghanistan comprise a natural network for expanding trade across the region. Tashkent is by far the largest city in Central Asia, and in a more liberal political and economic climate, it could become more of a regional hub for education, trade, and culture.

The impact of these comparative advantages remain dulled, however, by a protectionist trade and investment climate that reflects the same emphasis on security and the preservation of state sovereignty driving Uzbek foreign policy. Protectionism and import substitution have insulated Uzbekistan from much of the economic turmoil that the Soviet collapse produced elsewhere and from the vagaries of the global economy. Yet this approach has also discouraged foreign investors. While many officials understand the economic case for liberalization, Tashkent remains reluctant to cede authority to market forces.

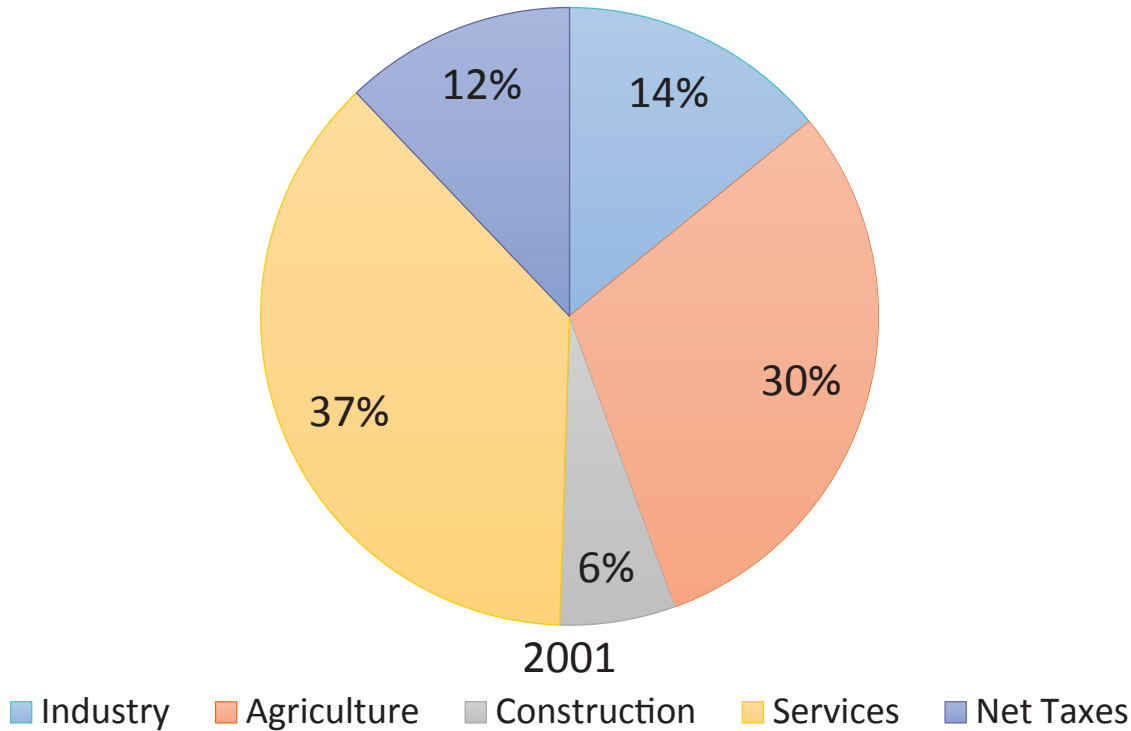
The Uzbek government understands the dilemma it faces and is taking steps to conduct reforms gradually. Tashkent announced that its economic policy goals for 2015 include reforms to develop private property and entrepreneurship.<sup>2</sup> Other recent reforms include

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1. Ministry of Foreign Affairs of the Republic of Uzbekistan, “Foreign Policy.”

2. Ministry of Foreign Affairs of the Republic of Uzbekistan, “Доклад Президента Республики Узбекистан Ислама Каримова На Заседании Кабинета Министров, Посвященном Итогам Социально-Экономического

## The Diversification of Uzbekistan's



Source: State Statistics Committee of Uzbekistan.

steps to streamline regulations and simplify customs procedures, and to expand the banking system.<sup>3</sup> In January 2014, new legislation was enacted providing foreign investors with certain incentives and guarantees from the state.

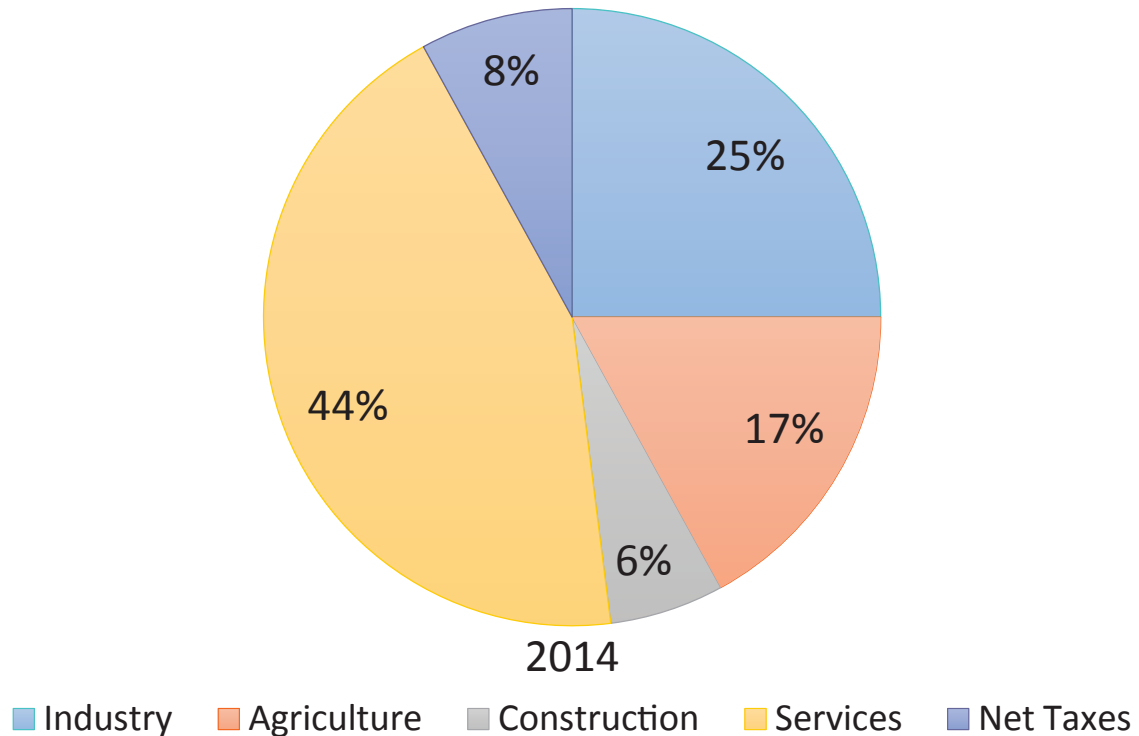
More attention is also being directed at the Fund of Reconstruction and Development (FRD), which was created in 2006 and collects revenue from extractive industries and stimulates investment by extending long-term loans to banks for cofinancing of government-selected strategic projects. The FRD had amassed \$11 billion in assets as of October 2012. This fund is the state's vehicle for joint investment with foreign partners and also finances the government's 2011–2015 industrial and infrastructure modernization program, valued at \$47 billion. The government directs investment from the fund into priority areas such as energy, transport, and irrigation, as well as specific industries, including agro-processing, petrochemicals, and textiles.

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Развития Страны В 2014 Году и Важнейшим Проритетным Направлениям Экономической Программы На 2015 Год,” January 17, 2015, <http://www.mfa.uz/ru/press/news/2015/01/3421/>.

3. The measures include a considerable reduction and simplification of customs documents, the creation of a shared interagency electronic database for foreign trade, and abolition of import contracts registration at customs.

## Economy, 2001 vs. 2014



Uzbekistan is also opening the door for eventual larger-scale privatization through a program<sup>4</sup> currently being developed with the help of the World Bank. Tashkent aims to make a gradual transition from its import substitution strategy to export promotion policies. The transition from state control is being undertaken gradually, in line with President Karimov's admonition: "Do not destroy the old house until you build a new one."<sup>5</sup>

While fundamental challenges still remain, the lure of joining a wider transcontinental web of trade and exchange provides some incentive for Tashkent to loosen its grip. It remains unclear, however, whether the Uzbek government is willing to accept the associated costs of increased openness and flexibility.

## Foreign Trade and Investment

With the focus on industrialization, the growth of Uzbek imports continues to outpace the growth of exports. Uzbekistan's trade surplus fell to \$1.2 billion in 2013 from \$3.7 billion in

4. "Постановление Президента Республики Узбекистан 'О Программе Приватизации Государственного Имущества На 2012–2013 Годы,'" LexUz, April 25, 2012, [http://lex.uz/pages/getpage.aspx?lact\\_id=2084372](http://lex.uz/pages/getpage.aspx?lact_id=2084372).

5. Islam Karimov, "The Global Financial Economic Crisis, Ways and Measures to Overcome It in Conditions of Uzbekistan," Press Service of the President of the Republic of Uzbekistan, March 2009, <http://www.press-service.uz/en/about/books/1132>.

## Uzbekistan's Trade Balance



Source: State Statistics Committee of Uzbekistan.

2007. While 25 percent of Uzbekistan's GDP comes from industry,<sup>6</sup> its main exports are commodities—gas, gold, cotton, and metals—which together amount to about 40 percent of exports.<sup>7</sup> Imports are concentrated in high-technology areas, for which there are no import duties, and natural resources that Uzbekistan lacks (particularly ferrous and nonferrous metals and oil).<sup>8</sup>

Meanwhile Uzbekistan applies export restrictions on a broad range of products including cereals, live animals and meat, sugar, vegetable oil, raw hides, skins, silk, and fur. To stimulate local production, import excises are applied to a broad list of goods, including meat, dairy products, fruits, coffee, flour, vegetable oil, prepared foods, water and nonalcoholic beverages, and cotton.<sup>9</sup> Import tariffs (the average tariff exceeds 14 percent, the highest in the region) and nontariff barriers (e.g., foreign exchange restrictions) also limit trade.<sup>10</sup> International comparisons suggest that trade restrictiveness is likely an important factor behind Uzbekistan's low total productivity growth, though geographical and infrastructure challenges contribute as well.<sup>11</sup>

6. Aleksey Malashenko, *The Fight for Influence: Russia in Central Asia* (Washington, DC: Carnegie Endowment for International Peace, 2013), 202.

7. Ministry of Foreign Economic Relations, Investment and Trade of the Republic of Uzbekistan, "Статистика внешней торговли," <http://www.mfer.uz/ru/export/statistics/>.

8. Observatory of Economic Complexity, "Trade in Uzbekistan," <http://atlas.media.mit.edu/profile/country/uzb/>.

9. Excise rates vary from 10 percent to 200 percent, some of them effectively stopping or reducing imports of taxed goods.

10. World Bank, "World Bank Group–Uzbekistan Partnership: Country Program Snapshot."

11. International Monetary Fund, "Republic of Uzbekistan: 2012 Article IV Consultation."



## Annualized Growth in Uzbekistan's Global Trade Ties, 2005–2013

<i>Partner Country/ Group</i>	<i>Growth Rate</i>	<i>Value in 2005 (USD millions)</i>	<i>Value in 2013 (USD millions)</i>
World	14.01%	7,185	20,511
China	27.46%	663	4,619
Russia	11.52%	1,767	4,227
Central Asia	17.74%	874	3,228
South Korea	18.52%	569	2,213
European Union	4.35%	1,534	2,157
Turkey	16.45%	402	1,360
United States	11.89%	169	416
South Asia	12.22%	64	161
Iran	1.17%	124	136

Source: International Monetary Fund Direction of Trade Statistics and author calculations.

With a large labor force, low production costs, and relatively good infrastructure, Uzbekistan holds significant potential as a destination for foreign investment. Yet according to Karimov, Uzbekistan has attracted just \$60 billion of foreign investment since independence.<sup>12</sup> In contrast to some of its neighbors though, the bulk of this investment has been in industry and services, rather than hydrocarbons. The government of Uzbekistan has created incentives for foreign capital to invest in priority sectors, and while Tashkent recognizes the need to improve the investment climate, progress is slow. To some extent, this gradual approach is deliberate, with the government seeking to focus investment in projects that support its import substitution and export-oriented industrial policy. Investment has also been hampered by a history of investment disputes, coupled with restrictions on the repatriation of profits.<sup>13</sup> Corruption also remains an obstacle. Transparency International's 2014 corruption perception index ranked Uzbekistan 166 out of 175 countries analyzed.<sup>14</sup> Intraregional investments are also hampered by a lack of knowledge of neighboring markets and ineffective communication between private companies.<sup>15</sup>

12. National Information Agency of Uzbekistan, "Выступление Президента Ислама Каримова на торжествах, посвященных 23-летию независимости Республики Узбекистан," August 31, 2014, <http://uza.uz/ru/politics/vystupprezidenta-islama-karimova-na-torzhestvakh-posvya>.

13. U.S. Department of State, "2013 Investment Climate Statement: Uzbekistan," February 2013, <http://www.state.gov/e/eb/rls/othr/ics/2013/204758.htm>. There have been investment disputes involving foreign investors and contractors in Uzbekistan in recent years, mainly in the mining, textile, telecommunications, food processing, and trade sectors. Most disputes involved nonpayment or delayed payment for goods or services by state entities.

14. Transparency International, "Visualizing the Corruption Perceptions Index 2014," <http://www.transparency.org/cpi2014/infographic#compare>.

15. Roman Vakulchuk and Farrukh Irnazarov, *Analysis of Informal Obstacles to Cross-Border Economic Activity in Kazakhstan and Uzbekistan*, Asian Development Bank (ADB) Working Paper No. 130 (Manila: ADB, May 2014), <http://www.adb.org/sites/default/files/publication/42485/reiwp-130-cross-border-economic-activity-kazakhstan-uzbekistan.pdf>.

The Uzbek authorities generally do not welcome portfolio investors and fear speculative investments that could affect foreign exchange reserves. They consequently impose capital controls to ensure that foreign currency is used primarily to import capital rather than buy consumer goods or invest in the financial sector. All foreign investors are required to open accounts in local currency, in addition to contributing hard currency investments. One result is a persistent gap of around 25 percent between the official and black market foreign exchange rates. Unsurprisingly, foreign companies point to challenges with currency convertibility as one of the greatest obstacles to investment.<sup>16</sup>

The Uzbek government has prioritized certain industries for their purported economic multiplier effects where it is seeking to attract FDI. These industries include electric power, chemical and petrochemical production (including fertilizers), oil refining, machine building and metalworking, the auto industry, transport services, oil production, nonferrous metallurgy, and construction. Uzbekistan has also created two free industrial economic zones (FIEZs) to attract foreign investments near the cities of Navoi and Angren. In addition, there is a tax-free industrial park at Jizzak. Legislation grants foreign direct investors incentives on a case-by-case basis, including tax holidays, duty-free import of capital goods, and protection against expropriation.<sup>17</sup> However, questions remain about implementation.

In an effort to improve Uzbekistan's investment climate, President Karimov signed several legal amendments on January 20, 2014, providing foreign investors some preferences for hiring foreign labor and obtaining multiple entry visas for their international employees, as well as providing more guarantees from the state for infrastructure construction and investment protection.<sup>18</sup> In January 2015, Karimov instructed the government to reduce state ownership in a number of sectors and implement a new privatization program, with a specific focus on improving Uzbekistan's rank in the World Bank's Doing Business report.

## Oil and Gas

Uzbekistan has significant gas and, to a lesser degree, oil reserves, though their size is modest compared with the resources in Azerbaijan, Kazakhstan, or Turkmenistan. Domestic consumption is relatively high, given Uzbekistan's larger population and higher level of industrialization.<sup>19</sup> Uzbekistan is thus a net importer of oil and consumes around 80 percent of its gas production domestically, leaving comparatively little left over for export.

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16. In 2003, Uzbekistan implemented Article 8 of the IMF Treaty that enforces domestic currency convertibility, but since then has broken the regulation several times.

17. U.S. Department of State, "2013 Investment Climate Statement: Uzbekistan."

18. "In 2014 in Uzbekistan it is planned to draw over \$3.9 billion of foreign investments and loans," UzReport, January 21, 2014, [http://economics.uzreport.uz/news\\_e\\_115764.html](http://economics.uzreport.uz/news_e_115764.html).

19. Annual volumes of gas production are comparable to those of Kazakhstan and Turkmenistan, but Uzbek consumption is double Turkmenistan's and four times Kazakhstan's.

## Oil and Natural Gas in Uzbekistan

### *Uzbekistan's Oil and Natural Gas Data*

Oil, Proved Reserves	600 million barrels	Natural Gas, Proved Reserves	1.1 trillion cubic meters
Oil, Production (2013)	63,000 barrels/day	Natural Gas, Production (2013)	55.2 billion cubic meters
Oil, Consumption (2013)	70,000 barrels/day	Natural Gas, Consumption (2013)	45.2 billion cubic meters

Source: BP Statistical Review of World Energy 2014, <http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2014/BP-statistical-review-of-world-energy-2014-full-report.pdf>.

Energy accounted for 33 percent of Uzbekistan's total exports in 2014 (40 percent in 2012), up from 12.4 percent in 2005. Uzbekistan's natural gas export capacity is around 10 bcm per year; since 2014, this gas is contracted to China through Line C of the Central Asia–China pipeline that first opened in 2009. Previously, Uzbekistan exported around 7.5 bcm to Russia and smaller amounts to its Central Asian neighbors. Tashkent would like to boost its gas exports by 20 percent by 2021, a step that would require modernization and expansion of existing energy infrastructure, as well as efforts to reduce domestic consumption by eliminating price subsidies.

Hydrocarbon production could be substantially increased, but only with an influx of foreign investment and technology. The region between Bukhara and Khiva contains 60 percent of Uzbekistan's known oil and natural gas fields, while additional fields are located in Ustyurt and the Uzbek part of the Aral Sea (in northwestern Uzbekistan). Gas reserves in the Uzbek part of the Aral Sea were originally estimated by the government at approximately 1 trillion cubic meters, with oil reserves of about 150 million tons. In contrast to Azerbaijan or Kazakhstan, foreign investment in Uzbekistan's oil and gas sector comes largely from Russian or East Asian companies, working through production-sharing agreements or joint ventures with Uzbek state energy companies. East Asian and, especially, Russian firms are more comfortable working in Uzbekistan's state-dominated economy, but they generally lack the experience that Western companies bring in managing complex, high-cost projects and using cutting-edge technology.

Two members of the international consortium developing Uzbekistan's Aral Sea reserves, Malaysia's Petronas and South Korea's Korea National Oil Corporation (KNOC), have withdrawn in recent years leaving Russia's Lukoil, China's CNPC, and Uzbekneftegaz as its only three partners. In mid-2013, KNOC also withdrew from two blocks in the Fergana Valley (Chust-Pap and Namangan-Tergachin), as well as two other blocks (West Fergana and Chinabad).<sup>20</sup> Daewoo International ceased its oil exploration projects in Koskudyk and Ashibulak in the Ustyurt region in 2012.<sup>21</sup> Petronas and its partner Sasol Limited both substantially reduced their shares in the construction of a synthetic fuel production plant

20. Korean National Oil Corporation (KNOC) decided to withdraw, saying that "these reserves do not meet the business objectives of the project."

21. Demir Azizov, "Korean Daewoo company stops oil and gas exploration in Uzbekistan," *Trend*, September 20, 2012, <http://en.trend.az/capital/business/2067759.html>.

in the Kashkadarya region.<sup>22</sup> Tethys Petroleum left Uzbekistan in 2014, citing “recent changes in the business climate and political environment.”<sup>23</sup> Conversely, Russia’s Lukoil, one of the largest foreign investors in Uzbekistan, announced plans to quadruple its total cumulative investment to \$5 billion by 2017.<sup>24</sup>

Uzbekistan is also aiming to bolster its refining capacity to offset a decline of gas exports (see Appendix). Yet the largest companies in the field, such as Uzbekistan GTL and Kor UNG Investments, are struggling to implement planned projects because of high costs and limited availability of financing on international capital markets. As part of a \$600 million investment in its energy sector, Uzbekistan also recently began a pilot program to assess whether shale oil reserves at the Sangruntau field in northern Navoi district are recoverable.

Since Uzbekistan is not a major exporter of oil, it has little international oil pipeline infrastructure, except a pipeline linking the Shymkent refinery in Kazakhstan to the Chardzhou refinery in northeastern Turkmenistan via Uzbekistan. Its gas pipelines are also insufficient to export larger volumes, as the bulk of domestically produced gas is consumed within the country. Tashkent also prioritizes connecting the entire country to the gas grid (“gasification”) over boosting exports.

The Soviet-era Central Asia Center Pipeline (CAC) to Russia was long the main pipeline for exporting natural gas, but today it is in need of repairs and modernization. The newer Central Asia–China pipeline (Turkmenistan to China via Uzbekistan and Kazakhstan) has helped to reroute Uzbek gas to China and increase transit fees supporting government revenues, but only a minority of the gas originates in Uzbekistan. Smaller export pipelines include the Bukhara-Urals pipeline from the Dauletabad field in southeastern Turkmenistan through the Bukhara region to Kazakhstan. The Tashkent-Bishkek-Almaty pipeline runs from eastern Uzbekistan through northern Kyrgyzstan to southern Kazakhstan, with an annual capacity of 3.16 bcm.

By 2050, Uzbekistan also aims to increase renewable and alternative energy and to reduce its domestic use of hydrocarbons by half. The ADB and South Korea are funding Central Asia’s first solar power generation project in Namangan province, which began operating in test mode at the end of 2014.<sup>25</sup>

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22. “Uzbekistan GTL в 2014 г привлечет \$3 млрд на строительство завода синтетического топлива,” *Новый Век*, September 24, 2013, <http://noviyvek.uz/novosti/uzbekistan-gtl-v-2014-g-privlechet-3-mlrd-na-stroitelstvo-zavoda-sinteticheskogo-topliva.html>.

23. “Tethys Petroleum Pulls Out of Uzbekistan,” Radio Free Europe/Radio Liberty, April 21, 2015, <http://www.rferl.org/content/uzbekistan-energy-investment-tethys/25219776.html>.

24. U.S. Energy Information Administration, “Uzbekistan,” <http://www.eia.gov/beta/international/country.cfm?iso=UZB>.

25. The project, located in the Pap district of Namangan province, has a capacity of 130 kilowatts. See “Uzbekistan launches first solar power plant,” *Times of Central Asia*, December 31, 2014, <http://www.timesca.com/news/14815-uzbekistan-launches-first-solar-power-plant>.

### Completed Transportation Projects in Uzbekistan

- Rehabilitation and reconstruction of 152 km of the Samarkand-Termez road (a section of the Trans-Afghan international transport corridor)
- Construction and reconstruction of sections of the Volgograd-Astrakhan-Atyrau-Beineu-Tashkent highway (the main section of the international transport corridor E-40)
- Reconstruction of 341 km of railroad and laying of fiber optics (Samarkand-Hodjadavlet)
- Construction of 232 km of railroad and 68 km of railroad reconstruction (Tashguzar-Boysun-Kumkurgan)
- Electrification of 114 km of the Tukimachi-Angren railroad line
- Reconstruction of the Termez-Galaba railroad station, including a bridge through the Amu Darya River and laying of telecommunication links

## Transport

Uzbekistan's double landlocked geography, coupled with inadequate transport capacity, represents a brake on economic growth. Transit costs range from 15 percent to 70 percent of the cost of a good in Uzbekistan, compared to 5 percent to 7 percent of the same good's cost in the EU.<sup>26</sup> Uzbek transit costs are two-and-a-half times the global average, and the domestic transport sector accounts for 9 percent of GDP and 4 percent of employment.<sup>27</sup>

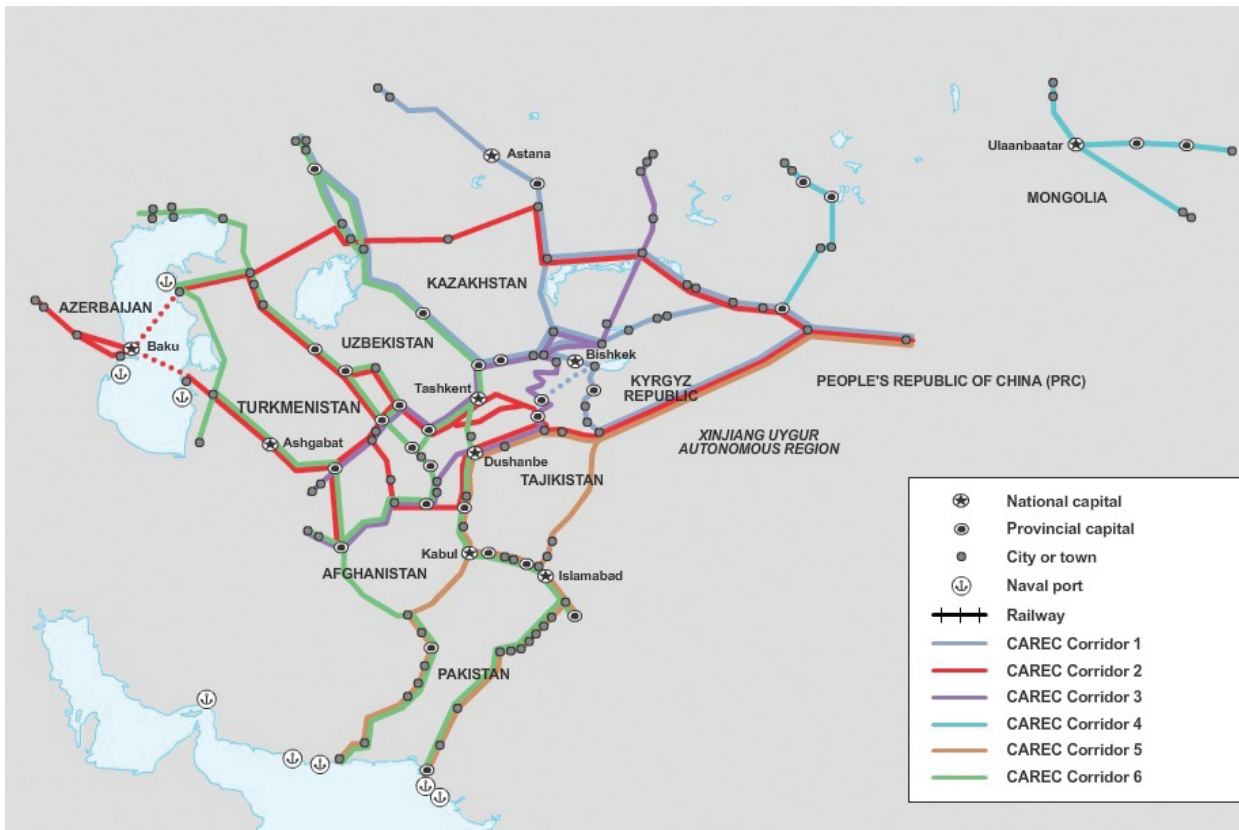
A December 2010 presidential decree<sup>28</sup> aimed to address these challenges by promoting the (re-)construction of sections of the Uzbek national highway (total length of 2,306 km) and of road infrastructure facilities and services, the upgrade of 1,030 km of railway tracks, and the renewal of the vehicle fleet at existing intermodal logistics centers. To date the program has spent some \$5.6 billion, which includes foreign investment and loans of \$2.1 billion. In order to implement the infrastructure projects more efficiently, Uzbekistan participates in the Euro-Asian Transit Links (EATL) project, which provides joint expert analysis and recommendations by the United Nations Economic Commission for Europe (UNECE) and the United Nations Economic and Social Commission for Asia and

26. "The Transport Sector: Tariff Reductions as a Means to Economic Growth," *Center for Economic Research Development Focus*, no. 13 (July 2013), [http://www.cer.uz/upload/iblock/cc9/e13\\_jvzpuussneujnpxyfd%20eng2.pdf](http://www.cer.uz/upload/iblock/cc9/e13_jvzpuussneujnpxyfd%20eng2.pdf).

27. *Ibid.*

28. TRACECA [Transport Corridor Europe-Caucasus-Asia], "Country Report on Infrastructure and Finance: Uzbekistan," August 2011, [http://www.traceca-org.org/fileadmin/fm-dam/Investment\\_Forum/110805\\_UZB\\_country\\_report.pdf](http://www.traceca-org.org/fileadmin/fm-dam/Investment_Forum/110805_UZB_country_report.pdf).

## The CAREC Corridors



Source: Central Asia Regional Economic Cooperation (CAREC).

the Pacific (UNESCAP).<sup>29</sup> The recommendations cover critical areas such as funding/financing, planning, and implementation, and aim at facilitating both the upgrade of existing infrastructure and the construction of more economically competitive transport routes.<sup>30</sup>

Uzbekistan is also developing its transport infrastructure as part of the Central Asia Regional Economic Cooperation (CAREC) program, which aims to develop regional transit corridors connecting Central Asia to global markets. CAREC has mobilized more than \$3 billion from international lenders as well as the Uzbek government itself for infrastructure projects in Uzbekistan since 2001, with a particular emphasis on railway modernization.<sup>31</sup>

29. UN Economic Commission for Europe, “Euro-Asian Links,” <http://www.unece.org/mc/trans/main/eatl.html>.

30. Michalis Adamantiadis, “Euro-Asian Transport Linkages Project (EATL) and Uzbekistan,” UN Economic Commission for Europe, January 17, 2012, [http://www.unece.org/fileadmin/DAM/trans/events/2012/Conference\\_Uzbekistan\\_and\\_Europe\\_17-01-2012/Conf\\_Uzb\\_Eu\\_Presentation\\_01.pdf](http://www.unece.org/fileadmin/DAM/trans/events/2012/Conference_Uzbekistan_and_Europe_17-01-2012/Conf_Uzb_Eu_Presentation_01.pdf).

31. Central Asia Regional Economic Cooperation (CAREC), “Uzbekistan in Regional Economic Cooperation (CAREC) Program,” 2013, <http://www.carecprogram.org/index.php?page=uzbekistan>.

## Rail

The railway network in Uzbekistan covers 4,230 km. In 2014, in celebration of its 20th anniversary, Uzbekistan Railways noted that all regions in the country are now connected with railway links.<sup>32</sup> More than 1,200 km of new railway lines were built from 1994–2014, including two strategic railroads from the center of the country to the Aral Sea: Navoi-Uchkuduk-Nukus-Sultanuizdag with a bridge across the Amu Darya, and Tashguzar-Boysun-Kumkurgan, connecting the two southern regions of Surkhandarya and Kashkadarya. This line also provides shorter access for Tajik trains bypassing Turkmenistan.<sup>33</sup>

Tashkent is also completing a 129-km electrified railway from Angren to Pap, which will connect the Fergana Valley with the central part of Uzbekistan. It will also connect Uzbekistan with China while bypassing Tajikistan, long a strategic goal of Tashkent given ongoing tensions with Dushanbe. Since this line runs through the Pamir Mountains, it is estimated to cost as much as \$1.6 billion, with part of the funding from a \$195 million World Bank loan, as well as a \$350 million loan from the Chinese EximBank.

Uzbekistan was instrumental in the construction of an ADB-funded railway from the border town of Hairatan to Mazar-i-Sharif in Afghanistan<sup>34</sup> completed in December 2011.<sup>35</sup> The Tashguzar-Boysun-Kumkurgan rail project completed in 2007 also improved links from Afghanistan to Tashkent in the north and Iran and Turkmenistan in the west. Plans also exist to construct a railroad from China to Uzbekistan via Kyrgyzstan, which would link China's rail network with the Fergana Valley and improve Uzbekistan's connectivity with South Korea, one of its main investors.

The next stage of infrastructure development to 2019 includes over 150 projects worth about \$10 billion. Thirteen projects have been designated strategically important, including construction of the electrified railway line from Angren to Pap; electrification of the railway sections between Marakand and Karshi (140 km), Marakand and Bukhara, and Karshi and Termez (325 km); completion of a double-track electrified railway line from Jizzak to Yangiyer; introduction of more high-speed passenger trains on the Tashkent-Samarkand route; construction of a fiber-optic line along the Navoi-Uchkuduk-Misken-Nukus-Kungrad-Karakalpakiya route; and installation of centralized control and auto-lock station equipment on the Navoi-Uchkuduk-Sultanuizdag-Karakalpakiya route. The program also includes construction and renovation of 1,800 km of highway; new bypass roads in Karshi, Kokand, Tashkent, Bukhara, and Gulistan; and repair of rural roads. In addition,

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32. "На развитие железнодорожных транспортных коммуникаций Узбекистан направил более \$6 млрд," *Podrobno.uz*, November 7, 2014, <http://podrobno.uz/cat/economic/gajk-6-mlrd/>.

33. "Новую железную дорогу Узбекистан предложит для транзита Таджикистану," *RIA Novosti*, August 13, 2014, <http://tjk.rus4all.ru/news/20140813/725395737.html>.

34. "Hairatan-Uzbekistan Rail Project, Afghanistan," *RailwayTechnology.com*, <http://www.railway-technology.com/projects/hairatanuzbekistanra/>.

35. Grantham, "Hairatan to Mazar-i-Sharif railway."

Uzbekistan is promoting intermodal logistics centers to facilitate more rapid transit of goods. The largest such project is the international logistics center at the Navoi airport.

## Port

Uzbekistan has one river port on the Amu Darya River along the Uzbekistan-Afghanistan border at Termez. In the early 2000s, U.S. engineers improved some roads around the port to facilitate movement of humanitarian supplies to Afghanistan.<sup>36</sup> The U.S. government contributed about \$575,000 toward upgrades of the Ayratom-Hairatan border crossing and another \$700,000 for a similar upgrade that is underway at the river port.<sup>37</sup> The goal is to have secure, efficient stations for transporting supplies across the border, a key element for increasing trade with Afghanistan.<sup>38</sup>

## Airport

Uzbekistan has six international airports, two of which provide air cargo services with international airlines. Uzbekistan's main international air link is to Russia. There are no direct flights to Turkmenistan, Tajikistan, Georgia, or Armenia; connections generally go via Moscow or Istanbul. Uzbekistan Airways (Ö'zbekiston Havoyollari) flies to several other main cities of the region, including Almaty, Astana, Bishkek, Baku, Minsk, Beijing, Ürümqi, Delhi, Amritsar, and Riga, as well as 17 cities in Russia. Flights to Dushanbe are set to resume, though the timing remains uncertain.

Uzbekistan Airways is planning to launch new flights to increase cargo transportation, particularly via the international intermodal logistics center at Navoi Airport, utilizing two newly purchased Boeing airliners, which will operate from Navoi to Dubai, Tianjin, Frankfurt, Aktöbe (Kazakhstan), and New Delhi, with on average 13 flights per week.<sup>39</sup> It also plans to inaugurate new cargo flights to Amsterdam, Shanghai, Mumbai, and possibly Guangzhou from Navoi Airport in 2015.

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36. "Country Profile: Uzbekistan," Library of Congress, Federal Research Division, February 2007, <http://lcweb2.loc.gov/frd/cs/profiles/Uzbekistan.pdf>.

37. "Ambassador Visits Termez and Afghan Border Region (June 27, 2008)," Embassy of the United States Tashkent, Uzbekistan, June 27, 2008, <http://uzbekistan.usembassy.gov/pe062708.html>.

38. Ibid.

39. "Uzbekistan Havoyollari to increase cargo transportation," *UzDaily*, January 26, 2015, <http://www.uzdaily.com/articles-id-30833.htm>.



# 4 | Conclusion

While its long-time strategy has been to stay apart from, rather than operate within, regional multilateral groupings, Uzbekistan remains highly susceptible to developments in neighboring states, as well as the policies of major powers in the region. Nevertheless, Uzbek elites believe that they have successfully insulated themselves from the ambitions of their larger neighbors; Uzbekistan remains outside of Russia's regional integration projects, while its economic dependence on China is less than its neighbors.

While this focus on sovereignty has in many ways served Uzbekistan well, elites understand that the world around them is changing and that Uzbekistan has to adapt and, in particular, become more involved in regional affairs while continuing to ensure its sovereignty and independence. Fearing isolation as Central Asia opens to the outside world, Uzbekistan has in recent years become more open to regional cooperation on security, including (in the context of NATO operations in Afghanistan) environmental issues, and trade and infrastructure. Diplomatic engagement has increased as well, with President Karimov increasing the tempo of his meetings with neighboring leaders (including traveling to Dushanbe for the September 2014 SCO summit, his first visit to Tajikistan since 2008). Uzbekistan's Foreign Policy Concept, which prioritizes "peace and stability in Central Asia, a region as a zone of security and sustainable development," also reflects this newfound emphasis on regional engagement.<sup>1</sup>

While Tashkent would welcome greater Western involvement in the region to offset the growing influence of Russia and China, it remains sensitive to the West's tendency to meddle in domestic affairs. Even more than its neighbors, Uzbekistan wants to ensure that Western political and economic involvement in Central Asia does not come with democratic or other political conditionality.

In recent years, Tashkent prioritized pragmatic economic engagement in its relations with the West. As the International Security Assistance Force (ISAF) draws down from Afghanistan, Tashkent is again becoming attuned to the potential security challenges it could face and is seeking to ensure that the United States and its allies will continue to focus on Afghanistan while helping Uzbekistan and its neighbors defend their own security interests. Uzbek officials would like to see a comprehensive U.S. strategy for the region,

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1. Ministry of Foreign Affairs of the Republic of Uzbekistan, "Foreign Policy."

which would presumably ensure that Washington does not wash its hands of Central Asia once it is largely out of Afghanistan.

Uzbek officials argued the United States could be a stabilizing factor in Central Asia simply by being present in multiple capacities. As in the other countries we visited, Uzbek elites would like to see a more engaged, committed United States, whose activity goes beyond inter-parliamentary visits and official delegations. That said, some interlocutors expressed concern that U.S. involvement could exacerbate intraregional tensions if done poorly. Tashkent has particular concern about the possibility of U.S. support for the Rogun Dam and other hydroelectric projects that could affect water flows to Uzbekistan.

Increased economic cooperation and, especially, more investment are high on the wish lists of Uzbek elites, though few were willing to recognize the role that Uzbekistan's own resistance to economic liberalization plays in keeping foreign companies away. General Motors' operations in Uzbekistan, which several of our interlocutors cited as a model, are a case in point.

Because of continuing risks to security from the outside, Uzbekistan would also like greater U.S. engagement on military and security issues. Although foreign military financing (FMF) is available for Uzbekistan to purchase U.S. equipment, Uzbek officials said they would like access to a wider variety of defense goods. The 2014 decision to provide MRAPs was widely praised in official communications, and Tashkent hopes that this decision augurs continued U.S. focus on regional security in partnership with Uzbekistan.

Ultimately, Uzbekistan is interested in bilateral relations with the United States that will reinforce its own independence. Particularly given its interest in maintaining some distance from Russia, Tashkent would like a closer partnership with the United States. With the United States looking for regional partners as it pulls out from Afghanistan and confronts a more assertive Russia, Uzbekistan is in many ways a prime candidate for increased U.S. economic and security engagement. That said, concerns about the investment climate, not to mention human rights, continue to limit Washington's appetite for the kind of partnership Tashkent seeks.

For the United States, the tension between interests and values that has long dogged its policy in Central Asia is especially acute in Uzbekistan, which is at once the most strategically significant player in the region and a country whose record on human rights has long drawn criticism. While the drawdown of U.S. forces from Afghanistan appears to offer an opportunity to recalibrate the balance between values and interests in Central Asia, lingering uncertainty in Afghanistan coupled with a mounting confrontation between Washington and Moscow reinforce Uzbekistan's strategic importance. Tashkent understands its value to the United States, but the partnership that it seeks will remain underdeveloped as long as it remains confined to the security sphere. The real question is how far Tashkent is willing to go to secure a deeper partnership, one that would require the economic liberalization that would make Uzbekistan more attractive to U.S. companies, as well as some degree of political relaxation.

# Appendix. Upstream and Downstream Projects in Uzbek Oil and Gas, by Country

<i>Country</i>	<i>Upstream projects</i>	<i>Downstream projects</i>
Russia	<p>Lukoil:</p> <ul style="list-style-type: none"> <li>• Seven oil and gas fields in Southwest Gissar and central Ustyurt (2008)</li> <li>• Khauzak and Kandym oil and gas fields in Bukhara-Khiva and Gissar regions (2004)</li> </ul> <p>Gazprom:</p> <ul style="list-style-type: none"> <li>• Shakhpakhty field (2004)</li> <li>• Four fields in Western Ustyurt (2006)</li> </ul>	<p>Lukoil:</p> <ul style="list-style-type: none"> <li>• Gas processing facility at Kandym</li> </ul>
China	<p>CNPC:</p> <ul style="list-style-type: none"> <li>• Bukhara-Khiva region (2005), in a JV with Uzbekneftegaz</li> <li>• Mingbulak oil field in Namangan (2008)</li> </ul>	<p>JV UzindoramaGasChemical (Uzbekneftegaz, Indorama Group, CNPC):</p> <ul style="list-style-type: none"> <li>• Gas chemical complex in Kashkadya region</li> <li>• Possible participation S-Oil (Korea), Mitsubishi (Japan)</li> <li>• Along with Uzbekneftegaz and Korean IRED, CNPC is doing feasibility study of butanediol and methanol production</li> </ul>
Malaysia	<p>Petronas:</p> <ul style="list-style-type: none"> <li>• Baisun field in Surkhandarya region (2010)</li> <li>• Three fields in West Urga/Western Ustyurt (2008)</li> </ul>	<p>JV Uzbekistan GTL (Uzbekneftegaz, Petronas, Sasol), 2009:</p> <ul style="list-style-type: none"> <li>• Gas-to-liquids (GTL) project based in southern Uzbekistan</li> <li>• Possible participation of Qatar Petroleum</li> </ul>
Korea	<p>KOGAS:</p> <ul style="list-style-type: none"> <li>• Surgil field in Aral Sea (2006) in a JV with Uzbekneftegaz</li> </ul>	<p>JV UZ-Kor Gas Chemical (Uzbekneftegaz, KOGAS, Lotte Group, ST Ex Energy), 2008:</p> <ul style="list-style-type: none"> <li>• Construction of Ustyurt gas-chemical complex at Surgil field</li> </ul>

(continued)

<i>Country</i>	<i>Upstream projects</i>	<i>Downstream projects</i>
		<p>JV Kor UNG Investments (Uzbekneftegaz, KOGAS, Kolon, Kwangshin, Engine Tech), 2011:</p> <ul style="list-style-type: none"> <li>• Construction of network of compressed natural gas (CNG) fueling stations</li> </ul>
Vietnam	<p>PetroVietnam:</p> <ul style="list-style-type: none"> <li>• Kossor block of Ustyurt region (2010)</li> <li>• Molabaur block of Ustyurt region (2012)</li> </ul>	
Consortium: CNPC (33.3%), Lukoil (33.3%), Uzbekneftegaz (33.4%)	<ul style="list-style-type: none"> <li>• Aral Sea exploration block (2006)</li> <li>• One hydrocarbon field and 6 prospective blocks discovered</li> </ul>	

## About the Authors

**Andrew C. Kuchins** is a senior fellow and director of the CSIS Russia and Eurasia Program. He is an internationally known expert on Russian foreign and domestic policies who publishes widely and is frequently called on by business, government, media, and academic leaders for comment and consulting on Russian and Eurasian affairs. His more recent scholarship has been devoted to issues including the reconnection of Eurasia, the foreign economic and security policies of the states of Central Asia and the South Caucasus, U.S.-Russia relations and the “reset,” Russia’s Asia strategy, and the role of energy in the Russian Far East.

From 2000 to 2006, Kuchins was a senior associate at the Carnegie Endowment for International Peace, where he previously served as director of its Russian and Eurasian Program in Washington, DC, from 2000 to 2003 and again in 2006. He was director of the Carnegie Moscow Center in Russia from 2003 to 2005. He has also held senior management and research positions at the John D. and Catherine T. MacArthur Foundation, Stanford University, and the University of California at Berkeley. Kuchins currently teaches at Johns Hopkins School of Advanced International Studies (SAIS) and has also taught at Georgetown and Stanford Universities. He holds a BA from Amherst College and an MA and PhD from Johns Hopkins SAIS.

**Jeffrey Mankoff** is deputy director and fellow with the CSIS Russia and Eurasia Program. He is the author of *Russian Foreign Policy: The Return of Great Power Politics* (Rowman & Littlefield, 2009) and an expert on international security, Russian foreign policy, regional security in the Caucasus and Central Asia, ethnic conflict, and energy security. Before coming to CSIS, he served as an adviser on U.S.-Russia relations at the U.S. Department of State as a Council on Foreign Relations International Affairs Fellow. From 2008 to 2010, he was associate director of International Security Studies at Yale University and an adjunct fellow at the Council on Foreign Relations. Mankoff also teaches courses on international security and Central Asia at Georgetown University’s School of Foreign Service. Mankoff has held academic fellowships at Harvard, Yale, and Moscow State Universities. He holds dual BAs in international studies and Russian from the University of Oklahoma and an MA, MPhil, and PhD in diplomatic history from Yale.

**Aitolkyn Kourmanova** is the head of the private consultancy Central Asia Strategic Management Group, based in Almaty, Kazakhstan. She specializes in economic policies in Central Asia as well as media. She was a principal researcher for the two studies funded by

the Asian Development Bank: *Remittances of International Migrants and the Financial Sector* (December 2008) and *Study of Mechanisms and Potential for Agricultural Trade in Central Asia* (June 2007). Her recent publications include “Regional Cooperation in Central Asia: Nurturing from the Ground” (George Washington University, 2013), and “Lessons from Zhanaozen: Bringing Business, Government and Society Together” (George Washington University, 2012). She was a coauthor of *New Industrial Asia: Lessons for Kazakhstan* (Almaty Institute, 2007). Ms. Kourmanova was a Hubert Humphrey Fellow in 2011–2012 and head of the Central Asia Institute for Economic Strategies from 2007 to 2011, where she launched a popular economic magazine, *Vox Populi*, and edited a quarterly academic business magazine, *Economic Strategies—Central Asia*. She holds a bachelor’s degree in international relations and earned her executive master of business administration degree from École des Hautes Études Commerciales de Paris. She was a Central Asia Fellow at George Washington University’s Elliott School of International Affairs from April to August 2013.

**Oliver Backes** is a research assistant with the CSIS Russia and Eurasia Program. He manages research projects on the foreign and domestic policies of Russia and the states of the former Soviet Union, focusing on the changing geopolitical and geoeconomic dynamics of Eurasia and the crisis in Ukraine. His current research interests are in Russian foreign policy and the foreign economic and security strategies of the states of Central Asia and the South Caucasus. Backes is the creator and principal author of CSIS’s Ukraine Crisis Timeline, a unique multimedia tool that tracks developments in Ukraine. He holds dual BAs in international relations and diplomatic history from the University of Pennsylvania.



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