



UNISCI Discussion Papers

UZBEKISTAN LOOKS EAST

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In the spring of 2003, Uzbekistan paved roads, restored building facades and raised half-dozen international hotels to put on its best face for the European Bank for Reconstruction and Development's annual meeting in Tashkent. A year later, the EBRD stopped public-sector lending in reaction to a lack of progress in economic and democratic reforms. The Uzbeks' reaction was to show unconcern and cancel its presentation at the EBRD's spring 2004 meeting in London.

If this lack of interest in EBRD assistance was a surprise, Uzbek officials had another one this spring. Uzbekistan is the third poorest country in the former Soviet Union, but when the European Union's foreign policy chief visited Uzbekistan, the Uzbeks declined to ask for aid, which would inevitably come with strings similar to the EBRD's.

The United States also ties its \$50 million in annual assistance to the central government to reform. But unlike in previous years, this year Congress is not allowing the State Department to waive these requirements on the basis of national security, and it looks likely that this aid will be suspended.

The Uzbek government complains often and loudly about being pushed to achieve in 12 years what it took Europe and America centuries, and wars. It is easy to question the sincerity of this shift in discussion from Uzbek lack of progress to Western lack of manners. What is harder to understand is the inability to offer the small measures that could give donors the fig leaf to say progress is occurring.

Possibly, Uzbekistan failed to gauge the seriousness of the EBRD's intentions. And it may have failed to realize that others are obliged to take the EBRD's decision into account in formulating their country strategies. Uzbekistan may also believe that combating Islamic extremism is not compatible with liberal democracy or open borders, and not unreasonably, that the United States will recognize and appreciate this. In Tashkent, the "power ministries"

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call the shots while the Foreign Ministry makes soothing statements, and the Tashkent government could be forgiven for seeing a similar dynamic in post-9/11 Washington.

One should also give credit to the Uzbek government for its mastery of realpolitik. EBRD's decision does not affect the private sector, which is dominated by crony capitalists. Nor does it affect projects with social benefits, such as water. In fact, EBRD's project pipeline may not be at all affected by its rhetorical position.

It is also likely that Uzbekistan is shopping for better deals, where its partners care more about getting a return on their investment or look less critically at structural impediments to economic growth.

Just a few days before Uzbekistan was to have made its presentation at the London EBRD meeting, Uzbek President Islom Karimov flew to Moscow, where he made overtures to increase ties to Russia. If serious, this marks a shift in Uzbek policy, which up to now has sought distance from its former colonialist (unlike Kyrgyzstan and Tajikistan, which host Russian military bases, and Kazakhstan and Turkmenistan, which are major trading partners).

In trade, Uzbekistan has largely neglected the needs of Western investors, to the point that U.S. officials have stopped recommending that U.S. businesses invest here. But perhaps Uzbekistan isn't seeking investment from Western countries, and thus does not need to worry about such complex matters as rule of law.

A quick look at foreign investment shows that EU countries and the United States together constituted just over 40% of foreign investment in 2003. South Korean investment alone nearly equals this at 37.9%, and comes with far less strings. And the Uzbek government has said recently that it is seeking greater ties with other Asian countries like China and Japan. While it seems unlikely today that protectionist Uzbekistan would allow for an expansion of Chinese imports, it may be more open to Chinese direct investment.

Among IFIs, the EBRD is the only one which clearly connects its lending to human rights and democracy. When the EBRD, with Uzbek agreement, set the benchmarks, it realistically expected to see progress. When it didn't, it was left with no choice but to call the Uzbek's bluff, even though it means closing off a line of dialogue.

The World Bank in designing its country strategy for 2005-7 is obliged to take into account the EBRD's decision. But considering that it already has a minimal program in Uzbekistan, and that its mandate only allows it to work with the government, it faces two options: continued minimal assistance or withdrawal.

The Asian Development Bank has a larger program than the World Bank and no political mandate. It could provide an alternate channel for Western governments who wish to remain engaged, despite the EBRD's decision.

The Islamic Development Bank, which Uzbekistan joined in 2003, could also replace some of the lost credit from the EBRD. The IDB's announcement at the London EBRD meeting of a \$24 million line of credit for healthcare must have been a ray of sunshine to the Uzbeks in attendance.



Seeking a balance among various countries and donors is only natural for a double-landlocked country equidistant from Berlin and Beijing. If it involved its neighboring countries, it would also be a healthy trend toward reintegration. But it does not. The borders are for all practical purposes closed to vehicles, and while exchange booths in the bazaars show the rates for Japanese yen and British pounds, even the National Bank won't accept Kazakhstani tenge or Kyrgyz som.

Rather, Uzbekistan seems to be positioning itself as most outsiders view it: as either the board on which the Great Game is played, or as the edge of the CNN weather map.

The alternative could be to become the center of a revived Central Asia. But this would require policy decisions that are still considered either too painful or have been made impossible by infighting among the elite, and about which Western governments and donors may find they have less influence on than they had hoped.