

CHAPTER IV

THE IMPLEMENTATION OF UZBEKISTAN STRATEGY TO SUPPORT ITS ECONOMIC IN THE BEGINNING OF ITS INDEPENDENCE

After examining the orientation of Uzbekistan foreign policy that put economic as the main concern, in this chapter writer will tell more about the implementation of economic based foreign policy orientation of Uzbekistan into real foreign policy action that was realized by the multilateral foreign policy. According to Vladimir Petrovski, Multilateral foreign policy is often considered to be a type of superstructure over preventive foreign policy, in which it opens more opportunity of cooperation to any directions or any kinds of states. Besides that, he argued that multilateral foreign policy also create a new pattern of political behaviour of the states.

President Islam Karimov in his first collection of works said that:

*"...our state pursues active multilateral foreign policy in the interest of Uzbekistan. It is the necessary condition and important means of sovereignty. The approach to establish stable, mutual, beneficial contacts with economically developed countries is based on the interest of Uzbekistan. It is also necessary to reform the organization of the whole foreign trade activity..."*⁶⁶.

Uzbekistan has a favourable geopolitical position and possesses autonomous energy and water systems. It helps to form a link between the republics of the region. The republic has sufficient potential in cotton, fruit, and silkworm export. Great surface and underground wealth gives the possibility to pursue independent political and economic policy⁶⁷. Therefore, it is not

⁶⁶ Prosperous Mother Land, retrieved on September 4, 2008 at <http://www.press-service.uz/karimov-works-collection.html>, p.1

⁶⁷ *Ibid*, p.2

impossible to implement the multilateral foreign policy, for they have a huge of factor that can attract many states to invest and cooperate with them.

As it was mentioned in the previous chapter that the main orientation of Uzbekistan's foreign policy was economic orientation, for the economic sectors were the core problem that was faced by Uzbekistan in the beginning of its independence. As it was mentioned by President Karimov that the major problem of Uzbekistan was economic stabilization, they needed to improve financial policy, strengthen the credit-bank system, do stimulation of production and investment activity, activate anti-inflation and antimonopoly regulation, empower structural reconstruction of economy, and answer the questions of attracting foreign investments⁶⁸.

In addition to the impacts of this economic stability were The lack of development and reforming of education and culture, strengthening of intellectual and spiritual potential, social protection of people. Moreover, Karimov emphasized the idea that the essence of all economic, democratic and political reforms is in the creation of worthy living conditions for life and activity of the people⁶⁹. Every citizen must feel the advantages of reforms and take interest in their results, see the particular definite results of the changes.

In dealing with these all conditions, Uzbekistan needs to take the best and propest strategy, and multilateral foreign policy is the ultimate choice to answer

⁶⁸ *Ibid*, p.3

⁶⁹ *Ibid*, p.5

the problems and enforce the principles and orientation of Uzbekistan government that were reflected by the idea of "Economic first" by president Islam Karimov⁷⁰.

In order to make easier writer to analyze the implementation of Uzbekistan's multilateral foreign policy, writer will turn to a country-by-country analysis of actual Uzbekistan foreign policy orientation. According to Henry Hale, there are five main partners of Uzbekistan in doing cooperations.

Country-by-Country Potential Cooperation Analysis

1. Russia

The condition of Uzbekistan as the ruble zone of Russia in the very beginning in fact, open another opportunity of Uzbek to make ties with other super power, in this case is USA. At the time Uzbekistan exit from the ruble zone marked a dramatic shift in Russian-Uzbek relations. Tensions between Uzbeks and Russians in Uzbekistan began to rise, as Russians realized they would have to go through a currency exchange process to visit Russia. Then Russia began to pressure Uzbek leaders to allow ethnic Russians to hold dual citizenship, and Karimov agreed to give. As Uzbek stressed, they were still all part of an economic union as well as a mutual security pact despite the breakup of the ruble zone⁷¹.

Overall, Uzbek-Russian relations have been the closest in the CIS, despite occasional rifts. Although Uzbekistan has consistently spoken out for close cooperation with Russia, it has had to react to several big shifts in Russian policy⁷². Thus, Uzbekistan has big bargaining position to do cooperation as a

⁷⁰ Ali Banuazizi and Myron Weiner, *Op.Cit*, p.143

⁷¹ *Ibid*, p.144

⁷² Ali Banuazizi and Myron Weiner, *Op.Cit*, p.149

benefit from its geopolitical position that really important to the existence of Russia in Central Asia and ideological war with USA.

2. Central Asian States

Namely there are six states that are recognized as central Asian states, they are Uzbekistan, Kazakhstan, Tajikistan, Kyrgyzstan, Turkmenistan, and Azerbaijan⁷³. This central Asian states idea was developed by Russia to be Commonwealth of Independent States, but Turkmenistan rejected to be a part of this CIS, for it considered that it did not need CIS since it had large of natural gas.

The brotherhood pre condition that put these all central Asian states as previously part of USSR in fact did not make any good influence to the cooperation among them because it seemed to be like up and down cooperation. It was happened as the impact of different historical background in every states. However, Uzbekistan need to make cooperation with them probably as the place for its market products.

According to Henry Hale, the strong Central Asian cooperation fits into two broader Uzbek foreign policy strategies. Initially, a firm Central Asian bloc could help counterbalance Russia's hegemony within the CIS. Indeed, Central Asian leaders met a bloc before deciding to join the CIS in December 1991, and adopted a series of joint demands on the new organization⁷⁴.

Uzbek leaders also believe that they would play the leading role in Central Asian bloc, since Uzbekistan is the most populous state in the region and is

⁷³ Jeff Sahadeo and Russel Zanca, *Op, Cit*, p.15

⁷⁴ Ali Banuazizi and Myron Weiner, *Op.Cit*, p.151

centrally located⁷⁵. Although there still an idea that Kazakhstan president, Nazarbaev as the other alternative of Central Asian states. However, Karimov knows that a Central Asian bloc will not be enough to offset Russian hegemony in the region. Therefore, the other three of it must be considered: establishing friendly relations and as many economic ties as possible with powerful neighbours⁷⁶.

3. Middle Eastern Countries

There are three countries that includes in this group analysis, they are Republic Islam Iran, Turkey, and Saudi Arabia. All of them are the country with majority people of moslem, and the close ethnic and culture with Uzbekistan. On November 26, 1991 when Iranian foreign minister M Ali Akbar Velayati visit Tashketn, he said that: 'Islam is an important factor of community with certain republics and we will strengthen contacts with them in every possible way'⁷⁷. Thus, the cooperation among islam countries is the ultimate choice for Uzbekistan to do cooperation.

Republic Islam Iran, is politically very much in the point of view of Karimov's interest to pursue and publicize them although Iranian-Uzbekistan ties are not very extensive. To the extent that other states worry most about the Iranian threat, Karimov can win valuable concession from the west. Thus fears of Iranian influence prompted the USA to establish diplomatic relations with Uzbekistan without the clear demonstration of democracy and respect for human rights that it

⁷⁵ *Ibid*, p.150

⁷⁶ *Ibid*, p.152

⁷⁷ *Ibid*, p.153

originally demanded⁷⁸. Therefore, ties with Iran provide Uzbekistan with economic and political benefits. While these ties help Uzbekistan become less dependent on Russia, Uzbekistan's foreign policy is certainly not oriented primarily towards Iran, nor is it likely to be so.

Turkey, it appears to be much more active than Iran in Uzbekistan, and Uzbekistan seems to be pursuing Turkish ties much more aggressively than Iranian ones. Karimov's primary political aim seems clear: Turkish ties can strongly counterbalance, although not replace Russian ones, as Karimov said "We regard Turkey as an elder brother". It is attractive to Uzbekistan for several reasons: it is nearer than most Islamic states, it is relatively prosperous, it faces many of the same problems that Uzbekistan does, and the native language of both two states are quite similar. Further, Turkey represents what most Uzbek political leaders want their state to become⁷⁹. Moreover, it provides Uzbek with an important source of investment, personnel, training, and technology which can give some extremely important room to manoeuvre vis a vis Russia⁸⁰.

Saudi Arabia, it represents another potential patron for Uzbekistan, and a rich one at that. It has taken an active interest in countering what it sees as Iran's inroads in Central Asia, and has begun to pump great resources into the region. So far it has focussed on religious aid, although it is well situated to be an important future player despite its distance. If Saudi Arabia is indeed competing with Iran for spiritual influence in Uzbekistan, it has three distinct advantages: first, it is far richer than Iran; second, it espouses Sunni Islam as opposed to Iran's Shi'ism, while

⁷⁸ Ali Banuazizi and Myron Weiner, *Op.Cit*, p.155

⁷⁹ *Ibid*, p.156

⁸⁰ Ali Banuazizi and Myron Weiner, *Op.Cit*, p.160

Uzbekistan is also traditionally Sunni; and third, Saudi Arabia contains two of the most holy sites in Islam- Mecca and Medina. Overall, Saudi Arabia has the potential to be a major force in shaping Uzbek foreign policy, but it has not thus far shown enthusiasm of Turkey, the Saudis could be the vital economic allies for Uzbekistan in times of crises and development.

4. Indian Sub-Continent

There are three states that is including this Indian sub- continent, they are India, Pakistan and Bangladesh. Among those three countries, Pakistan is the most enthusiastic to seek economic and political ties with Uzbekistan.it was one of the first historically Islamic states, along with Turkey and Iran, to send a high level delegation to Uzbekistan after its declaration of independence⁸¹. Even poverty stricken Bangladesh is working to establish ties with Uzbekistan. for that time until now, however, an anachic Afghanistan separates this region from Uzbekistan, giving all of these states extra incentive to solve that crises⁸². Overall, Pakistan and India represent potentially very important markets for Uzbekistan cotton and other resources, as well as a promising source of technology and industrial goods⁸³.

5. United States of America

As mentioned in the explanation Iran-Uzbekistan cooperation, it attracts United States of America as the main enemy of Republic Islam Iran to make diplomatic relation with Uzbekistan. moreover, as the leading state of CIS,

⁸¹ *Ibid*, p.161

⁸² Ali Banuazizi and Myron Weiner, *Op.Cit*,p.162

⁸³ *Ibid*, p.163

Uzbekistan has vital and strategically beneficial for USA to safeguard the central Asia from Russian power.

As a central of central Asia, Uzbekistan geopolitical position is really important for any states that wants to empower its power, including USA as the super power country. Uzbekistan is the place where two biggest powers are conflicted each others, namely Russian and USA. It is mutually beneficial for Uzbekistan vis a vis USA to create ties, for both of sides will get adavantages. In one side, Uzbekistan can make USA as its alliance to empower their weaknesses in term of technology, economy and military. In other side, USA as the alliance can put its power in Uzbekistan to safeguard and monitor any movement of Russia and Afghanistan, which were its biggest enemies, communist and Islam.

Multilateral foreign policy that was run by Uzbekistan mostly give mutually beneficial for both Uzbekistan and partners. Therefore, no doubt this policy can bring Uzbekistan to the better in all spheres of life.

The Step of Uzbekistan Economic Reformation 1991-1999

In this section, writer will provide chronological economic actions of Uzbekistan to stabilize its economic stability. Writer will divide the phase into four major stages which is acknowldged as the four economic reformation strategies, they are:

First stage is in 1992-1994. In this stage, the government more focus on the restructuring of governmental infrastructures, the preparation for transition to market economy and foreign trade policy⁸⁴.

⁸⁴ Country Paper 10th Series, *Op.Cit*, p.6

This stage is included creating the infrastructure needed for an independent state, creating the legislative base for the transition to a market economy, price liberalisation, privatisation, inflation control and social protection. The foundation for a multi-structured economy was laid in this period. Over 50 republican ministries and departments were reorganised into concerns, associations, and corporations that were initially formed as limited liability companies. The privatisation of small firms was implemented—i.e., trade and some communal services, local, light and food industries, the construction materials industry, transport and state housing. In total about 54 thousand objects were privatised during these years. Some state land plots were allocated to rural households to expand their private holdings. This helped to strengthen the rural private sector, increase food production, and improve employment and housing in rural areas.

The main objective of the economic policy of this period was to saturate markets with goods, ensure social protection under conditions of high inflation and balance the state budget⁸⁵.

Tax policies of this period focused on revenue collection. In 1993 a number of new taxes were introduced, the tax base for some payments expanded, the income tax rate increased, and the VAT calculation procedure changed. Yet opportunities for building independent state finances in that period were restricted

⁸⁵ Country Paper 10th Series, *Op.Cit*, p.7

by the fact that Uzbekistan's financial system still functioned inside the ruble zone⁸⁶.

The first stage of economic reforms was characterised by the implementation of a soft monetary policy. In order to mitigate the consequences of the ruble zone and to prevent large declines in production and deteriorating living standards, the state subsidised production through centralised easy credits. Consumption was also subsidised by the overvalued exchange rate, and by the centralised price setting and rationing of essential goods.

Foreign trade policy emphasised balancing the internal market by provide increasing consumer goods imports while controlling inflation. Trade policy of that period was characterised by the absence of non-tariff import restrictions and low (5-10% of customs cost) of import tariffs. A wide range of tariff and non-tariff (primarily quotas and licenses) export restrictions were introduced, in order to redirect products to the domestic market. For example, from November 1992, the export of 73 types of commodities was subject to licensing, while the export of 18 types of goods was banned⁸⁷.

The existing export structure, which was dominated by raw materials which could be readily sold on world markets, helped to reorient Uzbekistan's foreign trade from CIS to other markets. Due to state controls and support for the most important sectors, the reorientation of foreign trade toward non-CIS markets, and the repudiation of shock therapy, the economic decline in the first stage was relatively low. The reported decline in Uzbekistan's real GDP during 1993-1994

⁸⁶ *Ibid*, p.8

⁸⁷ Country Paper 10th Series, *Op.Cit*, p.7

was only 18% below the 1991 figure. This decline was considerably smaller than those reported in other CIS countries⁸⁸. In sum, the first stage of economic reforms was characterised by soft macroeconomic policies combined with limited implementation of market reforms.

Second stage is in 1994- third quarter of 1996. The government focus on emphasizing the stabilization of production, deepening market reforms, expanding the non-state sectors, strengthening the national currency, and promoting structural reform⁸⁹.

In the beginning of 1994 institutional prerequisites had been created for developing a capital market. The Republican Stock Exchange had begun functioning, and was to be used to sell shares in limited liability companies (medium and large enterprises in the food processing and light industries, machine building, transport and other economic sectors including those of strategic significance) to external owners. Their stock was redistributed between the state and employees, and was freely sold, even to foreign investors. The second stage privatisation emphasised the development of the securities' market. Laws "On joint stock companies and shareholders' protection", "On securities and stock exchange", "On the mechanism of the securities market functioning" and other legal acts were adopted⁹⁰.

In September 1996 the creation of privatisation investment funds was begun⁹¹. The objective was to involve the population in the privatisation process

⁸⁸ *Ibid*, p.8

⁸⁹ *Ibid*, p.9

⁹⁰ Country Paper 10th Series, *Op.Cit*, p.10

⁹¹ *Ibid*, p.9

through guaranteed protection of people's deposits in securities and reduction of shareholders' risks on the stock market. An innovation scheme was developed to establish independent financial investment units that would improve corporative management and capital market development.

Due to privatisation, non-state enterprises constituted 84% of total republican enterprises at the end of the second stage⁹². Still, privatisation was mostly formal in character, for two reasons. First, the associations, state concerns and other organisations created from former ministries and departments continued to manage former state enterprises by administrative methods. Under such conditions owners could not fully realise their property rights and decentralised management of privatised enterprises was constrained. Second, the emergence of real owners was impeded by the character of privatisation, which set limits on the sale of some categories of shares. The underdeveloped secondary securities market sometimes prevented new owners from acquiring controlling equity positions in "their" companies.

The introduction of the national currency made possible the implementation of independent monetary and fiscal policies, and realisation of a stabilisation programme aimed at curbing inflation and the production decline. Liberalisation of consumer prices continued, rationing of essential goods was banned and restrictions on foreign exchange were reduced. Mandatory state orders for all types of agricultural products except cotton and grain were banned, and state procurement of cotton and grain was considerably reduced. Social policy

⁹² *Ibid*, p.11

began to move away from universal social support to targeting the most vulnerable population groups. Particular attention was paid to protecting mothers and children, and youth⁹³.

In this period import liberalisation progressed further. All import duties were banned, and a transition from non-tariff regulation to tariff export regulation was initiated. The number of commodity types which could be exported via quotas and licenses was considerably reduced. Quotas and licenses remained for commodities where internal and world prices differed considerably (cotton, base metals, energy, and a number of raw materials). The category of banned export shrank to 13 types of commodities⁹⁴. In sum, this period of economic reforms was characterised by the introduction of tighter financial policies, the accelerated implementation of market reform in many areas, and, most importantly, substantial improvements in the macroeconomic situation and an increase in investment activity.

Third stage is in the late of 1996-1998. It was signed by the strengthening of macroeconomic level and the implementation of import substitution policy⁹⁵.

In response to internal and external shocks like poor cotton and grain harvests (resulting from unfavourable weather conditions), there was a deterioration of the terms of trade and the balance of payments. This and the desire to accelerate structural reform led the government to soften its monetary policy and ration foreign exchange. The accumulation and direct allocation of

⁹³ Country Paper 10th Series, *Op.Cit*, p.9

⁹⁴ Country Paper 10th Series, *Op.Cit*, p.10

⁹⁵ *Ibid*, p.11

funds, including centralised credits, to priority large import-substituting projects was encouraged. Direct tools of monetary-credit policy regulation were broadly applied. Centralised investments in the real sector grew; import tariffs were increased along with excise taxes on a number of imported consumer goods.

The volume of centralized exports also grew and restrictions on currency convertibility were increased. The following scheme of access to the currency market was introduced⁹⁶:

a) To import raw materials and inputs, enterprise requests to purchase foreign exchange had to be approved by the Republican Commission on Monetary Policy;

b) The import of consumer goods was subject to Central Bank issued licenses linked to planned volumes of foreign exchange and import quotas

c) Import by individual "shuttle" traders was restricted through exchange controls.

Implementation of the import substitution policy through broad use of administrative tools brought certain results. Rationing of foreign exchange allowed the government to control import volume and structure. During the first years after the introduction of the currency rationing regime there was a notable increase of the share of investment goods in the total volume of imports⁹⁷. Potentially problematic side effects of this regime were minimised by the commodity composition of Uzbekistan's exports, which is dominated by raw

⁹⁶ Country Paper 10th Series, *Op.Cit.*, p.11

⁹⁷ *Ibid*, p.12

materials that have low elasticity with respect to the exchange rate in the short- and medium-term.

This policy produced positive results in terms of energy and grain independence and created new sectors and types of production. But over time the shortcomings of this policy became more transparent. First, the real exchange rate growth had a growing negative impact on the competitive capacity of national producers and exporters. Second, in response to the growth of demand for imports due to the growing real exchange rate, the government had to permanently tighten the import policy. Third, considerable and ever growing relative price distortions led to inefficient distribution and use of resources. Fourth, with the growing disparity between the exchange rate set by the Central Bank and that of the parallel market, importers' non-productive expenditures spent in seeking "rental profit" also tended to grow. Fifth the exchange rate that had been fixed without taking demand into account meant that monetary and fiscal discipline were absent. This led to the broad use of quasi-fiscal financing, discouraging private investment and maintaining relatively high inflation rates. Sixth, the rationing of foreign exchange in order to promote planned structural change became the main restrictive factor in restructuring⁹⁸.

This was not caused solely by the above mentioned export volume reduction, but the absence of a free foreign exchange market, impeding foreign investment inflows. Later the situation was aggravated by declining world prices for basic export goods and the Russian exchange crisis in 1998. A correction in

⁹⁸ Country Paper 10th Series, *Op.Cit*, p.12

economic policy was made, though it was not solely a reaction to the devaluation of the Russian ruble and the deterioration of the terms of trade. A notable decrease in exports was observed in 1997-2001 (approximately 40%); the inflow of foreign investments was below the existing potential and this affected the pace of the structural reform and economic growth. The need for an economic policy correction was thus apparent in any case⁹⁹.

Forth stage is in the beginning of 1999. The declaration of liberalisation of all aspects of life opened the new stage of economic reforms. It also signed the declaration of foreign market liberalization as a major economic reform priorities, and develop the role of private entrepreneurship and particularly medium and small-sized enterprises (SMEs). It was run to open larger opportunity in order to attract more foreign investments¹⁰⁰.

The privatisation of large basic economic sectors was initiated in order to attract foreign investment. The state applied an individual approach to the privatisation of large enterprises with the participation of strategic investors. Individual privatisation required a detailed survey of the enterprise to be privatised and the development of the most appropriate privatisation strategy. Significant changes were introduced in exchange policies. From May 1 to November 1 the official multiple exchange rates were gradually unified. Since July 2000 the soum exchange rate on the over-the-counter currency exchange market was reduced by almost three times. In spite of measures taken, the foreign exchange market remained over-regulated. Restrictions on access to the foreign

⁹⁹ Country Paper 10th Series, *Op.Cit*, p.13

¹⁰⁰ *Ibid*, p.13

exchange market, and the overvalued exchange rate continued to generate a large disparity between the official and parallel exchange rates, with the associated negative consequences¹⁰¹.

Due to this reason the Memorandum on Economic and Financial Policy prepared jointly with the International Monetary Fund for the first half of 2002 anticipated the further liberalisation of the trade and foreign exchange regimes, and the creation of the preconditions for current account convertibility. Since July 2002 the Central Bank stopped quasi-fiscal crediting of investment projects. In order to reduce demand for foreign exchange import protection measures were tightened by¹⁰²:

- Raising import tariffs and excise taxes for imports.
- Requiring the use of cash registers in retail trade.
- Banning the sale of products imported by third persons.
- Restrictions on issuing licenses for wholesale traders.
- Introducing a certification system and requirements for international certification.
- Toughening of requirements for commodity branding.

Stronger import protection led to considerable increases in prices of import goods and the sum's nominal appreciation on the parallel market. Together with the devaluation of the official exchange rate by over 40% in January 2002, these measures allowed Uzbekistan to unify exchange rates in mid-2003. Although this exchange rate unification reduced the burden on external debt servicing,

¹⁰¹ Country Paper 10th Series, *Op.Cit*, p.14

¹⁰² *Ibid*, p.15

enhancement of import protectionism affected the growth of real incomes, the investment climate in the country and economic growth. Uzbekistan's banking sector has insufficient capital levels relative to risks assumed by banks¹⁰³.

Further development of the financial sector would also require measures to reduce excessive financial market concentration and create a more competitive banking environment. For this purpose many scholars think state banks should be privatised and restrictions on foreign access to domestic financial markets removed. Strengthening financial system fundamentals such as accountability, the legal framework, contract enforcement, information confidentiality, and new regulatory structures are the main challenges now for Uzbekistan. Freeing banks from unnatural control functions (for example, control of proper payment of taxes) and confidentiality are critical for increasing trust in the banking system and growth of savings and investments. One should assist in all possible ways the formation of greater diversity of markets and institutions as well as their institutional development. The gradual penetration of foreign financial institutions in order to develop competition, increase the efficiency of national financial organisations and smooth the integration into globalisation processes should be encouraged¹⁰⁴.

These all economic reformation stages were aimed to realize the Uzbekistan five principles, in which put the gradual transition to market relations as the last principle. This means that the purpose of these all policies was the

¹⁰³ Country Paper 10th Series, *Op.Cit*, p.16

¹⁰⁴ Country Paper 10th Series, *Op.Cit*, p.16



joining of Uzbekistan products into international market or in other word, Uzbekistan products can competitively exist in international market relation.

According to international policy report in May 2004, the success of socio-economic transformations depends very much on the current situation in the economy, national traditions, the mentality of the people, and natural resources, which must be considered alongside the development of reform programmes¹⁰⁵. The natural resources was the only thing that Uzbekistan can be proud of, for Uzbekistan was lack of the other factors that mentioned above. Therefore, besides these main strategy of economic reformations stages, Uzbekistan still need the support of its foreign policy in order to achieve the purpose of international market economic relations.

The Step of Uzbekistan Multilateral Foreign Policy 1991-1999

As it is mentioned in the previous explanation that the strategy of economic reformation stages was not enough to achieve the purpose of Uzbekistan to stabilize its economic stability. Therefore, besides that strategy Uzbekistan needs to use its foreign policy action to open a bigger opportunity of markets and cooperations. It is necessary to explain and analyze the chronological actions of Uzbekistan foreign policy to support the achieving of economic stability. In order to make easier the explanation and analysis on this chronological actions of Uzbekistan foreign policy, writer put three categories on Uzbekistan cooperations achievements during the period of 1991-1999.

¹⁰⁵ *Ibid*, p.17

1. Partnership Cooperation

As reported in Uzbekistan government official sites that there are 30 countries which are noted as Uzbekistan economic partners cooperations¹⁰⁶. Partnership cooperation is a form of joint cooperation between Uzbekistan and its countries partner to make ties in running economic or trade activity, for example, the foreign investment, expertises and technological machinery support, and using of Uzbekistan natural resources. Furthermore, all kind of Uzbekistan activities that is done by cooperation with its countries partner are including in this partnership cooperation.

United States of America was the first partner of Uzbekistan in this category. In 1991, Newmont Mining Corporation that represented by its director president Gordon Parker came to Uzbekistan to make an agreement on natural resources exploitation. South Korean with its Daewoo automotive company signed the cooperation agreement to put its branch in Asaka to produce 180,000 cars per year. In May 1993, two European banks made cooperation with Uzbekistan, which were the Swiss bank headed by its chairman Dr. N. Sen and Deutsche Bank headed by Georg Krupp. It was also followed by the cooperation between Uzbekistan and German business circle. There are many other partnership cooperations categories that can be seen at the appendix of this thesis¹⁰⁷.

¹⁰⁶ Uzbekistan official report, retrieved on October 27, 2008 at <http://www.gov.uz/economic-partners.html>

¹⁰⁷ See Appendix about Economic Cooperation Uzbekistan Report.

2. Market Cooperation

Market cooperation is a form of Uzbekistan cooperation to its countries partner only in term of market products, so the cooperation is made to open bigger chances for Uzbekistan's product to be consumed by other people. Futhermore, this market cooperation also vis a vis to Uzbekistan, in which other countries partner's product can be consumed by Uzbek, but there is no any investment or expertiest support between the cooperated countries.

Commonwealth of Independent States (CISs) were the main partner of Uzbekistan in this category, which were Kazakhstan, Tajikistan, Turkmenistan, Azarbaijan, and Kyrgyzstan. Bangladesh, Afghanistan and Pakistan were included in this category¹⁰⁸. There are many Uzbekistan products such as cotton, wool and silk that hugely spread in those countries partner. For more cooperation can be seen at the appendix¹⁰⁹.

3. Security Alliance Cooperation

One of the main factor that can attract foreign investor to come to invest in a country is the security condition in that country. Facing the condition in which put Uzbekistan geographically and geopolitically in the border of two conflicted countries, Afghanistan and Tajikistan, make Uzbekistan insecure, so they need to take a appropriate action toward this kind of case. Moreover, this condition was exacerbated by the weak of Uzbekistan military power as the newly independent state. Therefore, having security cooperation or alliance is the only alternative to

¹⁰⁸ Ali Banuazizi and Myron Weiner, *Op.Cit*, p.150

¹⁰⁹ See Appendix about Economic Cooperation Uzbekistan Report.

solve this kind of problem. This cooperation is aimed to make stronger the security and military power of Uzbekistan and make the foreign investment feel safe to invest their capital in Uzbekistan.

A bigger of Afghanistan crises invited the USA as the world security guardian, to come to solve the conflict. This opportunity was used by Uzbekistan to do security alliance with USA. As a result, Uzbekistan became the center of USA military bases in central Asia. This cooperation give mutual benefits for both of Uzbekistan and USA. USA can solve the Afghanistan crises easier and show its role to the world security. Moreover, USA also can spy the activity of Russia as its competitive country in many kind of sectors. Uzbekistan as the host country can make certain that they are in safe and secure condition under the USA protection, so they can invite more investors. Furthermore, Uzbekistan also can empower its military weaknesses by the supporting of USA in term of technology and expertiest.

Besides these all bilateral cooperations, Uzbekistan also join many organizations that can support all its bilateral and multilateral cooperations. According to world fact book 1999, that Uzbekistan has been joining 38 international organizations, which are AsDB, CCC, CIS, EAPC, EBRD, ECE, ECO, ESCAP, IAEA, IBRD, ICAO, ICRM, IDA, IFC, IFRCs, ILO, IMF, Intelsat, Interpol, IOC, ISO, ITU, NAM, OIC, OPCW, OSCE, PFP, UN, UNCTAD, UNESCO, UNIDO, UPU, WFTU, WHO, WIPO, WMO, WTO, WTrO (applicant)¹¹⁰.

¹¹⁰ Uzbekistan, retrieved on December 5, 2008 at

To conclude this cooperation description, these all 3 categories of cooperation and joining international organizations were implemented in order to support the main economic programmes that had been running up to the implementation of these all cooperations. These all cooperations also will be used as the variables factors of measuring the development and improvement of Uzbekistan's economic stability that will be more elaborated in the next explanation.

The Improvement of Uzbekistan's Gross Domestic Product (GDP) from 1991 to 1999

According to investopedia, GDP is one of the primary indicators used to determine the health of a country's economy (economic stability). It represents the dollar value of all goods and services produced over a specific time period or in other word it is the size of the economy¹¹¹. Usually, GDP is expressed as a comparison to the previous quarter or year. For example, if the year-to-year GDP is up 3%, this is thought to mean that the economy has grown by 3% over the last year.

There are five components that is included in GDP, they are Consumption (C), Investment (I), Government spending (G), Export (X) and Import (M)¹¹². Writer will more focus on the component Investment, Export, and Import, for these three components are dealing with the role of Uzbekistan foreign policy to

<https://www.cia.gov/library/publications/the-world-factbook/print/uz.html>

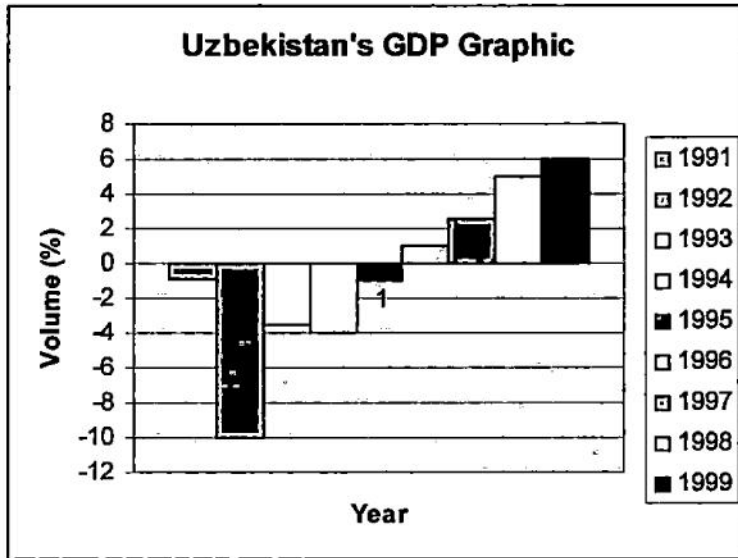
¹¹¹ GDP, retrieved on December 5, 2008 at

<http://www.investopedia.com/gdp.html>

¹¹² GDP, retrieved on December 10, 2008 at

<http://www.wikipedia.com/gdp.html>

support the economic stability, here by the graphic of Uzbekistan GDP 1991 to 1999¹¹³:

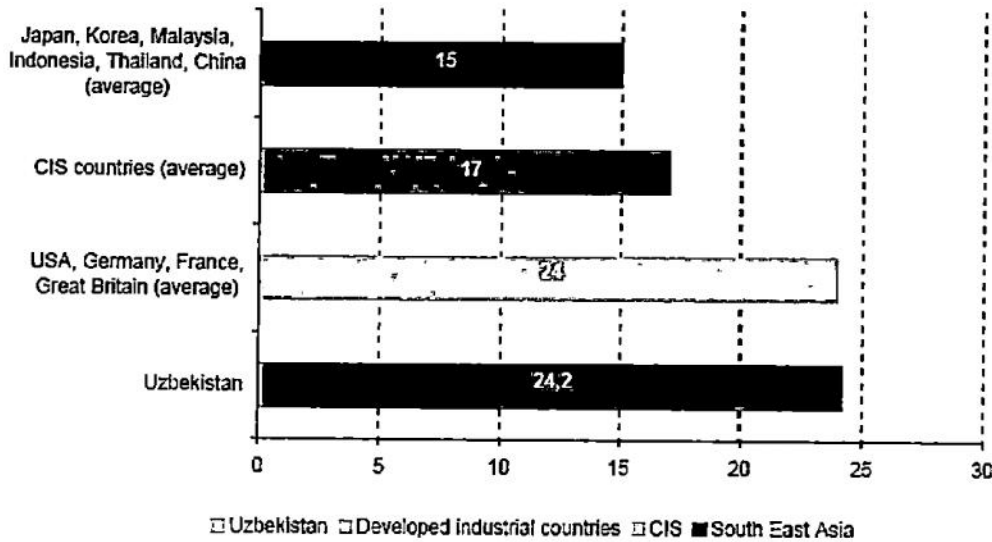


According to the formula that GDP is $C + I + G + (X - M)$, so the higher of investment has significant influence to determine the increasing of GDP's number¹¹⁴. In Uzbekistan case, we can see from the graphic above that there was a significant improvement on the number of Uzbekistan's GDP year to year from 1991 to 1999. This improvement was determined by the increasing of investment, export and import (tax) activities of Uzbekistan.

¹¹³ Uzbekistan, retrieved on December 5, 2008 at <http://www.umsl.edu/services/govdocs/wofact92/wf930254.txt> (1991-1999)

¹¹⁴ GDP, retrieved on December 10, 2008 at <http://www.wikipedia.com/gdp.html>

Impor Tax burden in Uzbekistan compare to others:



Source: Country-Papers-Series-Uzbekistan

The diagram above showing the volume of Uzbekistan’s import tax compare to other states, form those all countries Uzbekistan has the highest number of tax and this significant number give bigger income to Uzbekistan budget in term of its Gross Domestic Product.

Uzbekistan’s Income from Export and Import Activities 1991-1999¹¹⁵:

Year	Export	Import
1991	1.5 Billion	3.5 Billion
1992	900 Million	900 Million
1993	706.5 Mil	947.3 Mil
1994	943.7 Mil	1.15 Billion
1995	3.1 Billion	2.9 Billion
1996	3.2 Billion	3.2 Billion
1997	3.8 Billion	4.7 Billion
1998	3.8 Billion	4.1 Billion
1999	4.8 Billion	3.1 Billion

¹¹⁵ Uzbekistan, retrieved on January 1, 2009 at <https://www.cia.gov/library/publications/the-world-factbook/print/uz.html> (1991-1999)

To conclude this chapter, the role of Uzbekistan's multilateral foreign policy in opening and enlarging its possible cooperation to all countries can be seen through the increasing of number of investments, and the income from export and import activities that determine the increasing of Uzbekistan's GDP number. Therefore in the end of this chapter, writer concludes that Uzbekistan's foreign policy has significant role in supporting its economic activities to stabilize its economic condition.