

UZBEKISTAN IN THE CONTEXT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS

Dilshojon KARIMOV

*Master of Economics, doctoral candidate
at Prague University of Economics
(Tashkent, Uzbekistan)*

Introduction

The most urgent tasks of the present day are to make an objective assessment of the reasons for the emergence of the global financial and economic crisis that broke out in 2008 and draw up a program of measures for overcoming its negative consequences.

As world experience shows, crises inevitably give rise to political instability and an increase in crime and corruption throughout the world (for example, the 1847-1849 crisis led to revolutions in many European countries, while the Great Depression of 1929 generated Fascism). Moreo-

ver, such conditions may cause an abrupt change in the functioning of political institutions and push to the foreground aggressive forces that used to be considered secondary and marginal (anarchism, Nazism, neo-Fascism, and racism). The elections held recently in the European countries (including to the European Parliament) are clear

proof of the real possibility that such threats may arise.

But during the first weeks of 2008, essentially all international experts regarded the situation in the world economy as favorable. Society did not take the warnings of some analysts about the impending crisis seriously.

The National Economy Before and in the Midst of the Crisis

Keeping in mind the growing integration of Uzbekistan's economy into the global financial and economic structures, it stands to reason that the crisis could not help but have a negative impact on the republic.

It should be noted, however, that in recent years a sufficiently stable resource base was created in Uzbekistan conducive to the smooth functioning of the financial-economic, budgetary, and banking systems, as well as of different branches of the national economy.

The macroeconomic situation in Uzbekistan in recent years has been enjoying the following attributes: continued economic growth, low inflation rates, higher real personal monetary incomes and employment, higher foreign trade volumes, and dynamic development of small business, entrepreneurship, and home jobs (see Table 1).

Table 1

Key Economic Indices of the Republic of Uzbekistan
(% of the previous year)

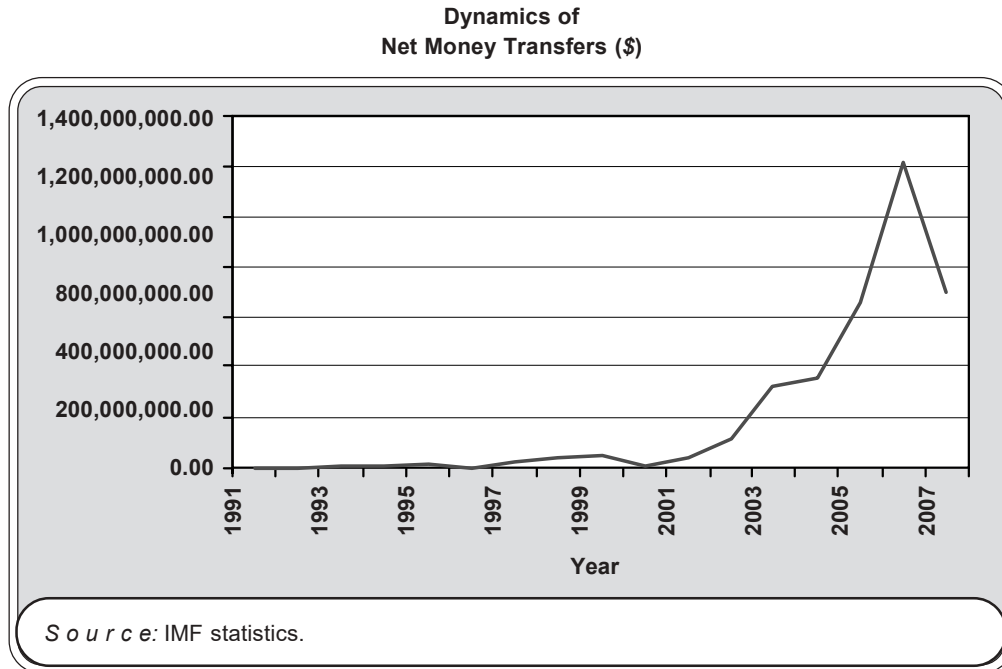
Indices	2005	2006	2007	2008	2009 (predicted)
Gross domestic product	107.0	107.3	109.5	109.0	108.0
Budget revenues (% of GDP)	21.2	21.6	21.8	23.8	22.2
Deficit/surplus (% of GDP)	0.3	0.5	0.5	1.6	1.0
Industrial production	107.2	110.8	112.1	112.7	109.3
Agricultural production	106.2	106.2	106.1	104.5	105.0
Investments in basic capital	105.7	111.4	122.9	128.3	118.0
Inflation (CPI)	7.8	6.8	6.8	7.8	7-9
Soum/dollar exchange rate (at the end of the period)	1,174.02	1,240.00	1,290.00	1,393.00	1,456.0

Source: Data of the State Statistics Board of the Republic of Uzbekistan.

At a presentation of the EBRD's annual report *Transition Report 2007*, it was noted that over the past seven years, the economic growth rates in Uzbekistan amounted to an average of 5.4%, while in 2007, this index equaled 9.3%.

The high world gold and raw hydrocarbon prices, as well as the large money transfers into the country, which amounted to 7% of the total GDP volume¹ (see Fig. 1), have had a positive impact on the republic's economic growth.

Figure 1



This figure clearly shows that in 2001-2007 the volume of transfers was on the rise, that is, over these six years the amount of net money transfers rose by 1,600% and amounted to almost 7.2% of GDP; the increase in this index in 2005-2007 was much higher than in 2001-2007. We can see from these data that migration from Uzbekistan has intensified over the past three years. World practice shows that this process is having a positive effect on the country's development since, in the future, it could promote an increase in investments and a rise in the country's foreign trade turnover. On the other hand, in the context of the global financial and economic crisis, stable development of the national economy is being disrupted.

According to experts, the world financial and economic crisis could spread to the Central Asian region as early as 2009. The impending disaster was demonstrated by the reduction in remittances after 2007, the decrease in foreign investments, and the reduction in demand for local products.

In addition, the crisis could have a negative impact on the financial sphere (lending and foreign investments) and import. In this respect, most countries of Central Asia (CA) intended to put tight restrictions on state spending, lower the inflation rate, and halt the outflow of foreign currency; this, in turn, could lead to a reduction in import (in order to support national manufacturers).

¹ See: *Vesti* (Uzbekistan), 10 December, 2007.

Over the past two decades, the efforts of the IMF and WB leave much to be desired with respect to conducting reforms in countries with a transition economy. While carrying out their economic reforms, the CA republics encountered a whole slew of problems. For example, Western countries and international financial institutions were not willing to issue these republics large loans; nor did their closest neighbors (Turkey and Iran), which were pursuing their own interests, render the necessary financial assistance. The crisis showed again that the activity of international financial institutions must be improved and comprehensive relations developed with Third World countries.

Due to the aggravated financial and economic situation in the CA republics, selling large industrial facilities to foreign investors became very popular. Kazakhstan is a good case in point, where foreign capital took over some of important industrial facilities, such as Ekibastuz GRES-1 (America's AEC), the Ermakov power plant (Japan Chrome Corporation), the Karaganda metallurgical combine (America's Ispat International), the Vasilkovskoye Gold Mine (a Canadian-British-Dutch financial industrial group), the Chinkent lead factory (an Australian company), the Zyrianovsk lead and Ust-Kamenogorsk lead and zinc combines (Ridder Invest Company), and the Bakyrchik Gold Mine (Britain's Bakyrchik Gold and Canada's Indochina Goldfields); Balkhashmed was taken over by a Western company, while the main chromium fields went to Turkish companies, and so on.²

I would like to draw special attention to the fact that the ill-conceived policy of many states with respect to foreign borrowing has placed their economies in a difficult position by making them overly dependent on external factors. As for Uzbekistan, even though it encouraged the receipt of foreign investments, it was against hasty liberalization of the economy and privatization of strategic facilities. At the initial stage, Uzbekistan largely retained state control over the economy and carried out a socially oriented domestic policy, focusing explicitly on protecting the socially vulnerable strata of the population.

The republic never pursued a policy of obtaining short-term speculative loans and attracting foreign loans on a long-term basis at preferential interest rates (see Fig. 2).³ The republic's government has repeatedly rejected proposals to provide loans for certain projects, since it had no reliable guarantee of their timely servicing. Uzbekistan's aggregate external debt as of 1 January, 2009 amounted to 13.3% of GDP and is classified by international rating agencies as "less than moderate."⁴

According to foreign economists, countries that are mainly oriented toward export and have large external debts will suffer the greatest losses, and those countries that adopted timely measures to re-tool production, develop new technologies, and produce competitive products at the lowest costs will suffer the least. (Given the current world economic system, the external debt should not exceed 50% of GDP, while before the crisis it amounted to 60%.)

Figure 3, which features such indices as the GDP dynamics and the dynamics of foreign trade as a whole, as well as of export and import, can be used to determine the scope of the impact of the world financial and economic crisis on Uzbekistan's economy.

This figure clearly shows the interaction between the annual GDP growth and the volume of annual foreign trade growth, that is, it determines how integrated the republic is in the world community. For example, the financial crisis in Southeast Asia in 1997, as well as the collapse of the Russian stock market in 1998 had a negative impact on foreign trade growth, but these events did not have a significant influence on the republic's GDP growth.

In 1993-1997, the import growth rates were much higher than the export rates since a policy was pursued that provided the population with all its basic necessities (due to the low level of restrictions

² See: V. Vovk, N. Kharitonova, "Vneshnepoliticheskie prioritety stran Tsentral'noi Azii," available at [http://www.ia-centr.ru/public_details.php?id=137].

³ See: I.A. Karimov, "Mirovoi finansovo-ekonomicheskii krizis, puti i mery po ego preodoleniiu v usloviakh Uzbekistana," Uzbekiston, Tashkent, 2009, p. 9.

⁴ *Ibid.*, pp. 25-26.

Figure 2

Dynamics of the External Debt of Several Countries of the World (% of GDP)

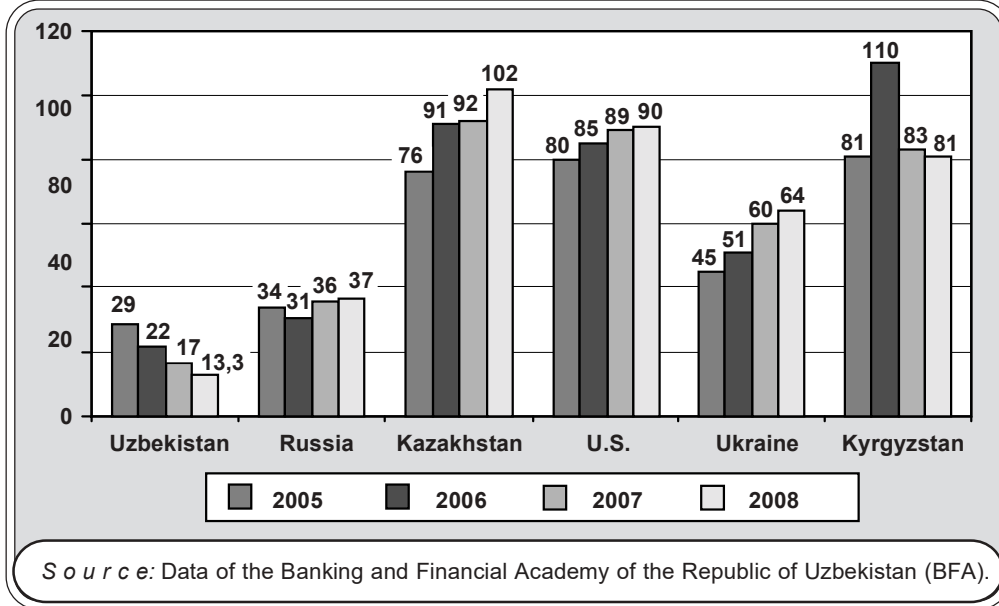
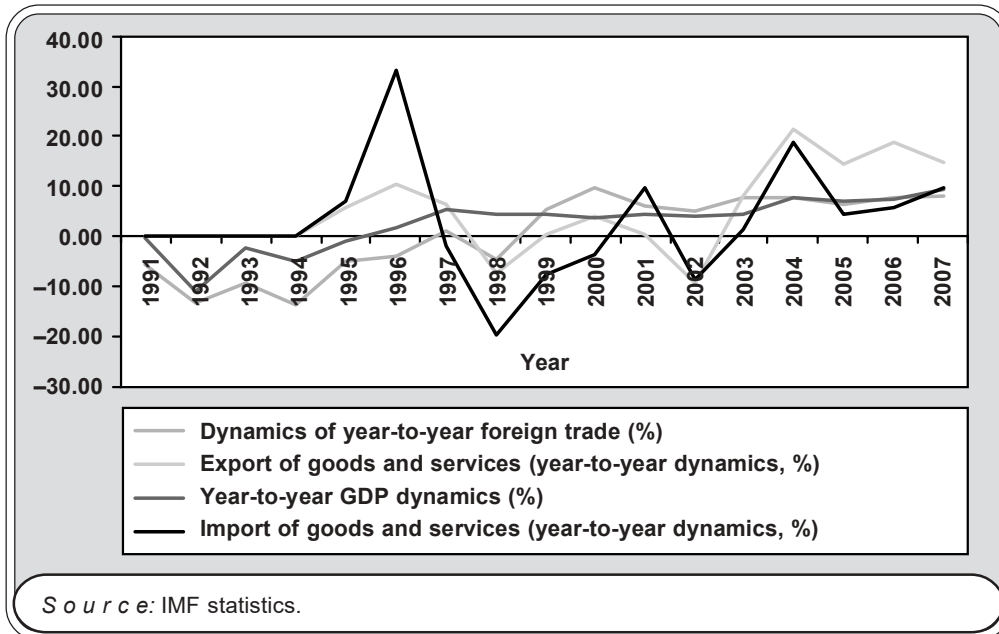


Figure 3

Dynamics in GDP Growth and Foreign Trade Increase



on import and low customs fees). In 1997, the republic began conducting a policy aimed at supporting local manufacturers; they enjoy favorable conditions in the internal and external markets.

Tariff regulation in 1999-2008 led legitimately to exports soaring ahead of imports. This was largely due to the increase in world ginned cotton, gold, and ferrous metal prices (the republic's main export commodities).

The Government's Anticrisis Policy

Uzbekistan continues to enjoy relatively sophisticated mechanisms for producing and selling goods in the internal market; all they require is more stimulation in order to alleviate, albeit to some extent, the consequences of the crisis.

Implementing joint investment projects in the infrastructure branches is one such measure designed to soften the blow of the world financial crisis. In the crisis conditions, the sources for financing and providing loans to the republic's infrastructure branches abruptly shrank.

The government of Uzbekistan is carrying out measures to further diversify foreign trade relations, primarily with the countries of Asia and the CIS (including with Russia), in order to ensure dynamic and balanced economic growth.

Due to the declining demand in the world market, the prices for the products exported by Uzbekistan (precious and ferrous metals, cotton, uranium, petroleum products, mineral fertilizers, and so on) are dropping. This in turn is leading to a decrease in export revenue for economic entities and is affecting their profitability, and, ultimately, the growth rates and macroeconomic indices. In addition, purchasing power is dropping in the world, which could have a negative effect on the country's payment balance and on production as a whole. Ninety-two percent of international payments for goods and services is carried out in U.S. dollars, and the exchange rate of this currency greatly fluctuates.

Meanwhile, the Central Bank's monetary policy and the economy's stable position giving no reason for concern. However, Uzbekistan, as part of the global economic expanse, is increasingly feeling the negative consequences of the world crisis. So carrying out the anticrisis program for 2009-2012 is still an important priority in the republic's socioeconomic development for 2009. The Uzbekistan government is posing itself the following tasks in order to ensure dynamic and balanced economic growth.

- *First*, continuing the structural reforms and diversification of the economy is the most important priority of the economic program for 2009.
- *Second*, keeping in mind the food crisis and possible inflow of migrants, the government declared 2009 to be The Year of Development and Improvement of the Village.
- *Third*, development of the service and small business sphere is regarded as the most important factor in providing employment and raising the population's standard of living. These measures include both tax and loan benefits, as well as further intensification of institutional reforms in order to create a more favorable business climate for developing private business.
- *Fourth*, further improvement of the production and social infrastructure is a vital factor in the country's modernization and in raising employment.

- *Fifth*, in 2009, further improvement in banking performance remains a priority task; the population and economic entities are still being encouraged to deposit their free funds in commercial banks.

On the whole, all these measures are aimed at creating additional jobs keeping in mind the possible inflow of migrants and at satisfying the population's growing demands. The main emphasis is being placed on the agricultural sector; there are also plans to expand the scope of contractual work on the major repair, reconstruction, and building of housing.

On the whole, it can be said that the anticrisis program is targeted toward those spheres of the economy that do not require large investments but, in so doing, generate the largest number of jobs.

Special mention should be made of the fact that Uzbekistan, in contrast to other raw material export countries (which are dealt the main blow), has every opportunity to avoid the destructive consequences of the crisis. This requires reorienting the national economy toward accelerated technological development.

On the whole, the following conclusions can be drawn with respect to the impact of the world economic crisis on Uzbekistan's economy:

- The crisis is still having a minimal impact on the economy and mainly affects branches that produce export commodities.
- The republic's economy continues to grow, but the consumer market is shrinking (due to inflation); the volume of remittances is decreasing.
- It is highly likely that the crisis in Uzbekistan will take its toll later than in other countries of the region, since the republic's economy is more sustainable, stable, and diversified.
- The global crisis in Uzbekistan will have severe consequences due to the economy's export and raw material orientation.
- The crisis could lead to a revival of the protectionist policy, which will become a powerful tool in the import-substitution policy.
- The country's withdrawal from the crisis will be accompanied by structural changes in the economy. The anticrisis program, which is aimed at modernizing production and reducing production costs by means of technological improvement, will ensure the country's future competitiveness in the world markets.

The global financial and economic crisis has essentially had no effect on the securities market, but there are still high inflation risks, and there may be a change in foreign investors' targets, whose stock exchange share amounted to more than 30% of the total securities turnover.

It should also be noted that the collapse in the mortgage market in the U.S., which set the crisis off, did not have an effect on the mortgage system emerging in Uzbekistan. This is explained by the fact that it relies on internal sources of financing.

Possible Pluses of the Crisis

When analyzing the situation in countries affected by the crisis, the appropriate lessons should be learned when forming and developing the mortgage and securities market in the future.

In addition to the possible negative consequences, the current crisis could also have positive effects. In the European countries and the U.S., investors are dispensing with assets and getting rid of shares. This is releasing resources for further investment, which will encourage a search for new alternative markets.

In contrast to Western markets, the markets of developing countries are showing sustainable growth dynamics. So it is highly likely that many investors will set their sights on Uzbekistan's market, since the country is enjoying a stable situation and economic growth.

Moreover, the world financial crisis could have a positive effect on the republic's economy. This requires pursuing a balanced fiscal and monetary policy aimed at stimulating export potential, diversification of the economy, differentiation, and correct positioning of export commodities.

For example, the world financial crisis is increasing the demand for gold, which is one of the republic's export items, thus generating a rise in its price in the near future. The same can be said for other raw mineral resources produced in the country.

In addition, whereas Uzbekistan used to deliver fruits and vegetables to Russia and Kazakhstan, the demand for these products is also growing at present in European and Asian countries.

However, large European commercial companies make very specific demands on the quality of these products, and their production in the republic must meet these demands. This requires motivating the producers (dehkan households and farmsteads) and creating a network of services for them; in the final analysis, this will lead to a rise in competitiveness of the fruit and vegetable industry.

Uzbekistan's neighbors became convinced even more that they were right to choose a multi-vector foreign policy. At present, they heavily depend on the financial and political support of the world nations. Meanwhile, the economic slump could lead to a sociopolitical crisis, which not all countries will be able to deal with. So it is a little risky to count on stable financial and political support from the world community.

In addition to everything else, the crisis is creating a new and, most likely, the last opportunity for Uzbekistan to reinforce its leading position in the Central Asian region. Uzbekistan is trying to reactivate the collective tools of its influence, that is, it is quite capable of playing a leading role in regional integration and realizing its long-cherished dream of creating a single country and nation ("Our common home Turkestan").

But the activity of the integration structures largely depends on the internal prosperity of the republic itself, which increases its economic appeal.

Conclusion

Keeping in mind the growing integration of Uzbekistan's economy into the world economic and financial structures, the global crisis had and is continuing to have a negative impact on it. This is particularly clear in the export-oriented branches and production units related to them; demand has dramatically dropped in the world market and the prices for the republic's most important export commodities have decreased. This, in turn, is having a negative impact on the balance and efficiency of the economy as a whole and is creating many problems in implementing the envisaged projects and reaching the set goals.

Despite the negative influence of the global financial and economic crisis, in 2009 Uzbekistan not only enjoyed stable functioning of its economy, but also achieved high and stable growth rates and developed a whole set of effective measures, primarily an anticrisis program and the mechanisms for introducing it. Its implementation will make it possible to withdraw from the crisis with

a stronger, more stable, and balanced economy, which will ensure the republic a worthy place on the world arena.

Moreover, the crisis could help to enhance the production of goods meant for internal consumption, which in the future will ensure dynamic economic growth and promote a further rise in the standard of living.

So the government of Uzbekistan should conduct a policy aimed at rendering additional assistance to the banking and financial structures and supporting business activity and the enterprises and companies of the real sector of the economy. Additional tax benefits and preferences must be granted to raise the profitability of production and export possibilities, and other large-scale projects must also be elaborated and implemented.
