Uzbekistan at a crossroads: Main developments, business climate, and political risks

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Key Points

- Uzbek patronage politics are complex and fluid. Individual loyalty of officials to each other, their past professional ties, and their common business interests play a far greater role than their regional affiliation in Uzbek elite politics.
- A salient feature of Uzbek politics is the country’s woefully weak formal state agencies and disproportionately influential informal institutions.
- The top current elite hierarchy is composed of three influential groups, whose leaders are members of President Karimov’s inner circle: Prime Minister Shavkat Mirziyoev; National Security Service (SNB) chief Rustam Inoyatov; First Deputy Prime Minister Rustam Azimov, and Elyor Ganiev, Minister of Foreign Economic Relations, Investments and Trade.
- Because power and wealth are intricately linked, these officials have developed reputations as the country’s major oligarchs. Mirziyoev and Inoyatov carry greater weight than Azimov and Ganiev. Both are viewed by Uzbek officials as Karimov’s potential political heirs, but Mirziyoev is believed to have several advantages in the leadership contest.
- One paradoxical attribute of Karimov’s rule is that a dramatic expansion of the government bureaucracy in the past two decades has coincided with a steep decline in its capacity to effectively implement policies.
- The government’s harsh response to the Andijon events has since served as a powerful deterrent for civil society and social groups. The memory of the events, however, is unlikely to stop Uzbeks from protesting, should the government fail to address socio-economic conditions, which are continuing to deteriorate.
Overview of main political and economic developments

On September 1, 2013, President Islam Karimov presided over lavish festivities celebrating the 22nd anniversary of Uzbekistan’s independence. The celebrations, featuring a pompous speech by Karimov and ostentatious performances by Uzbek singers and dancers, were used by Uzbek authorities to showcase the political stability and economic progress that Uzbekistan has achieved since 1991.

Prospects for economic growth appear bleaker as the country faces the indirect negative consequences of the GFC

Uzbek officials claimed that the global financial crisis (GFC) did not affect Uzbekistan. Prospects for economic growth, however, appear bleaker as the country faces the indirect negative consequences of the GFC. For example, a reduction in the demand for Uzbek labor migrants in Kazakhstan and Russia has resulted in a decrease in remittances. Karimov’s administration adopted an anti-crisis program that sought to increase expenditure on infrastructure modernization and investment in small and medium-sized businesses; beef up the export-oriented sectors of the economy by offering reduced-interest government loans; reform banks and restructure their debts; and increase government spending on social welfare projects. Many Uzbek financial analysts, however, have questioned the effectiveness of the government’s anti-crisis measures. Such observers claim that corruption and favoritism hampered the anti-crisis measures, including the process of distributing government funds to key economic industries.

In the realm of politics, Karimov’s decision to dispatch his daughter to Geneva, and then to Spain as Uzbekistan Ambassador, may have been motivated by his desire to stabilize the political situation and to protect her from covert attacks by rival clans. But rather than bring an end to
elite infighting, however, her departure broke a tenuous balance in relations between elite groups. In the aftermath of her political exit, Uzbek prosecutors launched numerous investigations into the firm Zeromax she was supposedly controlling and other holdings associated with her. These actions destroyed Zeromax and spurred various influential political patronage networks to clash over what was left of Karimova’s assets. Moreover, the dismantling of Zeromax and other fuel-supplying conglomerates associated with her plunged the country into a deepening fuel shortage, thus contributing to growing public frustration at the regime’s economic policies. In what seems to be an act of retaliation, Karimova returned to Uzbekistan in July 2013 and, relying on social media networks, launched a media campaign designed to undermine her political and business rivals. Gulnara’s revelations about insider squabbles and corrupt practices have proved to be politically damaging for the political elites in Tashkent.

Uzbekistan now finds itself at a crossroads. The financial crisis and political challenges have offered President Karimov and various elite groups a unique chance to drastically overhaul the country’s political and economic systems, transforming the informal patronage politics into a formal and more transparent decision-making process. Karimov’s call in November 2010 for expanding the powers of political parties and the parliament vis-à-vis the president, had raised hopes of a more democratic government. A sizable number of Uzbeks, however, remain skeptical of Karimov’s call because similar political promises were made in the past – but with no visible effect. The president’s unwillingness to move from words to actions in the pursuit of political reforms indicates that the decision-making processes will remain far from transparent.

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Key political and economic actors in Uzbekistan

A salient feature of Uzbek politics is the country’s woefully weak formal state agencies and disproportionately influential informal institutions. Historically, regional and tribal affiliations played a prominent political and economic role. Uzbek identity in public and private life is traditionally determined by an individual’s belonging to five distinct geographic areas that make up separate provinces: Tashkent, Samarkand, Fergana, Surkhandarya-Syrdarya, and Khorezm. During the almost seventy-year Soviet period, members of the so-called Samarkand and Tashkent clans established dominant key economic and political positions, leaving other groups with dwindling opportunities. These clans, as some Uzbek commentators claim, have preserved their control of the government and the economy after Uzbekistan gained independence in 1991.

Patronage politics is in constant flux. The current elite hierarchy consists of two tiers. The top tier is composed of three influential groups, whose leaders are members of President Karimov’s inner circle: Prime Minister Shavkat Mirziyoev; National Security Service (SNB) chief and former specialist KGB officer Rustam Inoyatov; First Deputy Prime Minister Rustam Azimov, and Elyor Ganiev, Minister of Foreign Economic Relations, Investments and Trade. Because power and wealth are intricately linked, these officials have developed reputations as the country’s major oligarchs. The lower-tier is made up of oblast governors, wealthy industrialists, land-owners and informal powerbrokers. Leaders of these lower-tier groups are subordinate to those in groups linked to the major oligarchs.
Some analysts believe that patronage groups are primarily based on regional affiliation, as was the case during the Soviet period. Mirziyoev is said to represent the powerful Samarkand clan, Azimov and Ganiev the Tashkent clan, and Inoyatov the Surkhandarya clan. But the reality is far more complex and fluid. Regional affiliations do play a role in Uzbek politics; however, due to numerous purging campaigns, patronage groups are now built on several factors, including individual loyalty to officials, common pragmatic interests, regional ties, family ties, and professional ties.

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In a clear sign of pragmatism, Uzbek officials maintain their membership with multiple patronage networks to hedge their bets and defend their economic and political resources. The political power and influence wielded by Uzbek’s oligarchs varies depending on the issue. Mirziyoev is chiefly responsible for agriculture and regional development (enabling him to keep a close eye on oblast governors). Azimov reportedly controls the industrial sector, and in particular, the lucrative Navoi Mining and Metallurgical Combinat (NMMC), a multi-industry enterprise employing over 67,000 people and producing various products, from gold to uranium. Meanwhile, Ganiev controls all foreign trade and investment relations. Inoyatov is in charge of state security and of digging up the dirt on various officials, as well as his own rivals. He also controls borders through the Border Protection Service attached to the SNB, and tax collection. Bakhodir Parpiev, the chief of the State Committee on Taxes, is reportedly Inoyatov’s relative.

The oligarchs’ influence is also linked to what is currently President Karimov’s pet project. In recent years, Karimov has been focusing his attention on urban renewal, and has presided over massive construction projects designed to change the outlook of Tashkent, Andijon, Samarkand, and Fergana. This means that elites with a background in urban planning and finance have had more access to Karimov than other officials.

Nevertheless, given the rank and profile of their government positions, Mirziyoev and Inoyatov carry greater weight than Azimov and Ganiev. Both are viewed by Uzbek officials as Karimov’s potential political heirs, but Mirziyoev is believed to have several advantages in the leadership contest. Some Uzbek insiders suggest that Mirziyoev is Karimov’s clone in many respects: his views on the economy, his reliance on ruthless methods of control, and his personal tastes are very similar to Karimov’s. Insiders say that Mirziyoev is keenly aware of what Karimov likes and dislikes, and he makes sure to refrain from anything that would displease him. As Prime Minister, Mirziyoev has gained solid experience in running the country on a day-to-day basis. He has built up powerful alliances with various groups through allies in patronage networks. In May 2009, his niece married the nephew of the Russian-British tycoon Alisher Usmanov. Although Usmanov’s nephew died in a road accident in May 2013, the marriage conveyed political influence and wealth, and is likely to have profound implications for Uzbek politics in the near future. Finally, Mirziyoev, born in 1957, is much younger and healthier than Inoyatov, born in 1944, who is said to suffer from pancreatic cancer.

President Karimov has been known for pursuing a nuanced policy of rewards and punishments that plays various patronage networks off against each other in an effort to keep his hold on power. Countless cadre purges and dismissals have meant that except for Karimov himself, no single Uzbek leader enjoys nation-wide recognition and support.

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Gulnara Karimova

Born in 1972, Gulnara Karimova has been one of the most influential people in Uzbekistan after Karimov. A graduate of the Tashkent University of the World Economy and Diplomacy and then Harvard University, she had built a vast business conglomerate. Until its demise in early 2010, her Switzerland-registered Zeromax holding operated oil and gas companies, gold mines, a national mobile telephone network, TV and radio companies, health care centers, tourist resorts, and nightclubs, all in Uzbekistan. According to the Swiss magazine Bilan, Karimova is one of the world’s richest women—her estimated $600 million are reportedly kept in Swiss bank accounts. A diplomatic cable from the U.S. Ambassador in Uzbekistan, released by WikiLeaks in late 2010, depicted her as a “robber baron,” claiming that, supported by her father’s influence, she “bullied her way into gaining a slice of virtually every lucrative business” in Uzbekistan.

Apart from her vast financial interests, Karimova is also known for her social activism. She is the president of Fund Forum Uzbekistan, a national association of young people modeled after the Soviet-era Komsomol organization. Karimova sits on the board of directors of numerous Uzbek government supported GONPOs (Government affiliated non-profit organizations). The Social Initiatives Support Fund (SISF) and Women’s Council Public Association (WCFA) that are affiliated with her provide micro-credits for women farmers in rural areas of Uzbekistan. She is also the president of the Center for Political Studies, a think-tank affiliated with 25 academic institutions worldwide.

Karimova has considerable government experience as well. In 1998, she served at Uzbekistan’s Mission to the United Nations. From 2003 to 2005, she was a counselor at the Uzbek Embassy in Moscow. In February 2008 she became Deputy Foreign Minister for International Cooperation in Cultural and Humanitarian spheres, and in September 2008, was appointed as Permanent Representative of Uzbekistan to the United Nations Office and other international organizations in Geneva. In January 2010, President Karimov sent her as the Uzbek Ambassador to Spain. Some analysts have suggested that Karimov’s decision to dispatch Gulnara to Spain was dictated by his wish to protect her and her business empire from attacks by rival groups. Karimova reportedly used her time as Uzbek Ambassador to transfer much of her remaining assets to banks and property across Europe, and particularly Switzerland.

In July 2013, Karimova was forced to return to Tashkent after her diplomatic immunity was revoked by the Uzbek Ministry of Foreign Affairs. Upon her return, she said that she would focus on charity work (through Fund Forum Uzbekistan) and show business (she developed her own line of clothing and jewellery). Two months later, she emerged at the center of a political scandal after she publically accused the SNB and some members of her family—her sister and her brother-in-law—of conspiring to bring her down. Following the accusations, Fund Forum Uzbekistan and several of her businesses were closed down by authorities. As of early 2014, Karimova is seen by many analysts as a spent political force in Uzbekistan.

Shavkat Mirziyaev

Born in the Jizzakh province in 1957, Mirziyaev was appointed by Karimov as Prime Minister in December 2003. From 2001 to 2003, he served as governor of the Samarkand province, and from 1996 to 2001, as governor of the Jizzakh province. Although Mirziyaev maintained a low public controls of the economy, political life, and public sphere

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profile, he developed a reputation of being a brutal and hardline official who advocated for Soviet-style controls of the economy, political life, and public sphere. As governor of the Jizzakh province, Mirziyaev reportedly adopted punitive agricultural policies, such as the requisitioning of private land from farmers and forcing high school children to engage in government-enforced cotton collection campaigns. He also reportedly ordered violence against farmers who objected to the government’s repressive agricultural policies.

Mirziyaev’s reliance on punitive measures in the economy and his intolerance of political opposition have reportedly made him Karimov’s most favorite official. Some Uzbek analysts suggest that the president is grooming him as a potential successor. Although Mirziyaev is politically dependent on Karimov, Uzbek observers suggest that his long tenure in top government positions has allowed him to build up a network of loyal supporters in the Jizzakh and Samarkand provinces.

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Azimov is reportedly a member of the influential Tashkent clan, which is a rival of the Samarkand clan led by Mirziyaev. Gulnara Karimova attacked Azimov indirectly through a series of 25 blog posts in March 2013, hinting at his involvement in corrupt deals. In particular, she wrote that the Navoi Free Economic Zone, overseen by Azimov, awarded lucrative contracts for solar panel production to several foreign companies in a non-transparent way.

Rustam Azimov

Born in Tashkent in 1958, Rustam Azimov is a graduate of the Tashkent Institute of Agricultural Engineers. Since 2002, Azimov has served as Deputy Premier, Minister of Economy, and Minister of Finance. From 2000 to 2002, he was Deputy Prime Minister, and in charge of macroeconomics and statistics. Before joining the ministerial ranks, Azimov was Chairman of the National Bank for Foreign Economic Activity of the Republic of Uzbekistan from 1991 to 1998, and in 1994, served as a Member of Parliament.

Due to his extensive experience in Uzbek government, Azimov holds considerable influence regarding decisions affecting the economy, the national budget, and foreign investment. He has been portrayed by some Western observers as a technocratic official who favors liberalizing the Uzbek economy and opening up trade to the outside world. Insider accounts by Uzbek analysts, however, suggest that Azimov is similar to other hardline Uzbek officials who advocate policies that seek to strengthen the state’s centralized economy.

Rustam Inoyatov

Born in the Surkhandarya province in 1944, Rustam Inoyatov graduated from the Tashkent Institute of Persian philology. He began his career in the Soviet KGB and was involved in covert operations in Afghanistan during the Soviet occupation of Afghanistan (1979-89). From 1991 to 1995, he served as deputy head of the SNB, and was appointed head in 1995.

Similar to many long-serving top government officials, Inoyatov has maintained a low public profile since the early 1990s. He is, however, considered to be one of President Karimov’s most trusted security officials. According to exiled Uzbek opposition activists, Inoyatov spearheaded the Karimov regime’s campaign of the early 1990s to
silence political dissidence by kidnapping, jailing, torturing, and even killing those critical of the government. Inoyatov also reportedly played a decisive role in suppressing public protests in the city of Andijon in May 2005.

Inoyatov represents the interests of the country’s security service within the Uzbek government hierarchy. In Uzbekistan’s behind-the-scenes bureaucratic squabbles, the Inoyatov-led SNB is often pitted against the Ministry of Internal Affairs headed by Adkham Akhmedbayev, an ally of

see Ganiev as a crisis manager, mainly due to his vast experience in both security and business.

### Political risks in Uzbekistan

#### Weak state institutions and cadre instability

One paradoxical attribute of Karimov’s rule is that a dramatic expansion of the government bureaucracy in the past two decades has coincided with a steep decline in its capacity to effectively implement policies. In 2007, the Brookings Institution and the Center for Global Development labeled Uzbekistan as one of the weakest post-Soviet states based on its performance in four core areas: economy, politics, security, and social welfare.

The executive branch of the current Uzbek government is composed of seven deputy Prime Ministers, 14 Ministers, and the heads of 28 other government agencies. The several thousand employees who staff these government agencies are woefully underpaid, and the average monthly salary in the Ministry of External Relations and Trade is less than $300. Middle-level officials are hired mainly on the basis of personal connections and patronage, and reportedly often bribe higher-ranking officials in order to obtain a government job. Such bribes reportedly range between $200 and $500. Along with low salaries, insiders within the Uzbek government say that professional training opportunities for young specialists are limited.

President Karimov has been keen to centralize power and reluctant to delegate authority to other government officials. Cadre reshuffles at

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former Minister of Interior Bakhodir Matlyubov. Akhmedbayev has a reputation as President Karimov’s loyalist, and he is not allied to any of the three upper-tier groups. Appointed as Minister of Interior in December 2013, Akhmedbayev is yet to achieve the level of political influence enjoyed by leaders of the upper-tier groups.

Elyor Ganiev

Born in the Syrdarya province in 1960, Ganiev is a graduate of the Tashkent Polytechnic Institute. He had a long and illustrious government career: he served as Minister of Foreign Economic Affairs and Trade, Minister of Foreign Affairs, and Deputy Prime Minister. Ganiev currently serves as Minister of Foreign Economic Relations, Investments and Trade. Along with Mirziyaev, Azimov, and Inoyatov, Ganiev is a member of Karimov’s inner circle, and has a deep personal loyalty to the President. Ganiev reportedly represents two types of actors in the Uzbek government. On one hand, as a former Soviet KGB official, he represents the interests of the country’s formidable SNB. On the other hand, he represents the interests of the country’s business elite. Some Uzbek economic analysts
central, regional, and local levels are frequent. The frequent rotation of cadre points to another problem in the Uzbek government: pervasive corruption.

**Corruption**

Islam Karimov regularly claims that eliminating corruption is among his top policy priorities. A special Committee under the president was created to oversee the activities of the Customs Committee and other law enforcement agencies, and to collect the complaints and grievances of the public. The common public view in Uzbekistan, however, is that such anti-corruption measures have been used by elite groups more often as a tool to undermine rival groups, than as an opportunity to make genuine attempts to address corruption.

According to both local and international observers, corruption is an endemic problem in Uzbekistan. As mentioned above, Uzbekistan currently ranks 168 on Transparency International’s 2013 Corruption Perceptions Index. Because of the enormous revenues generated, corruption is most rampant in the extractive sector, and in mining and railway transportation. Government officials reportedly extort bribes when awarding lucrative contracts. Uzbek economic analysts suggest that bribes make up around 10-15 percent of the total cost of a contract.

Corruption also has adverse effects on foreign investors and their investments. Foreign investors are pressured to hire sub-contractors and local staff from among the relatives of influential officials. Extortion begins at Uzbekistan’s border checkpoints. Seeking bribes, customs officers engage in harassment of foreign nationals, creating various hurdles for the transportation of goods and equipment. In 2009 and 2010, for example, foreign truck drivers who operate in Uzbekistan openly urged authorities to stop the frequent extortion practices by the Uzbek Customs Committee and traffic police.

**Threats to stability: public protests, ethnic and religious insurgency**

If the issue of presidential succession is important, it is not the most important topic for Uzbek politics—at least for now. President Karimov is 75 years old, but some insiders say that he is likely to remain in power for at least another decade.

President Karimov’s repressive political and economic policies have worsened public opinion and resulted in some isolated public protests. The most significant outpouring of public frustration occurred in May 2005 in Andijon, where protesters demanded greater political and economic rights. Rather than deal with the demands of protesters in a constructive manner, the regime ordered Uzbek military units to open fire, a move that resulted in the deaths of more than 700 peaceful demonstrators. The government’s harsh response to the Andijon events has since served as a powerful deterrent for civil society and social groups. The memory of the events, however, is unlikely to stop Uzbeks from protesting, should the government fail to address socio-economic conditions, which are continuing to deteriorate. For example, demonstrations protesting against electricity cuts and rising food prices have occurred in every large city in Uzbekistan since the 2010s. Although these protests have lacked unity, political analysts suggest that this may change.

Along with political protests, Uzbekistan has also seen a rise in ethnic tensions. This has been most palpable in the Samarkand and Bukhara provinces located on the Uzbek-Tajik border.
border. The area is home to a large ethnic Tajik population that has long complained of political discrimination and of being badly treated by Uzbek officials. The fear of harsh government reprisals has so far prevented the Tajiks from organizing themselves into taking decisive action to claim Tashkent's attention, and to demand a response to their grievances. Their marginalization, however, has led many people to find an outlet in other areas, including radical Islam.

Karimov’s intolerance of secular political opposition groups has meant that underground religious groups have emerged as the government’s major opponents. Two Islamic groups that the government views as a major security threat are Hizb ut-Tahrir, a pan-Islamic movement that seeks to build a global Islamic state, and the Islamic Movement of Uzbekistan (IMU). Hizb ut-Tahrir is largely non-violent, and its activities are generally limited to distributing leaflets and proselytizing. In contrast, the IMU, formed in 1999, was known for its violent operations in the Fergana Valley. Faced with a strong military response from both the Uzbek and Kyrgyz governments, many IMU members escaped to Afghanistan through the porous Tajik-Afghan border, and joined the Taliban in 2001. The operational capability of the groups was, however, effectively destroyed following the U.S.-led invasion of Afghanistan in 2001. Despite this, security services in the Central Asian republics warn of new IMU terrorist attacks.

Succession of power after Karimov’s departure

An important political risk is the uncertainty surrounding the succession of power that will follow Karimov’s departure. The Uzbek president will turn 76 at the end of the year. The constitution enables him to run for presidency indefinitely, but Karimov has not indicated yet whether he would run for another term or step down, and has not designated a successor.

Under these uncertain circumstances, there are three power succession scenarios for Uzbekistan.

The ‘Turkmenistan’ scenario

Under this scenario, President Karimov’s sudden departure from office—for example due to sudden death or the sudden onset of a debilitating medical condition such as stroke—would likely prompt key power groups to reach a tentative power-sharing agreement. In particular, this could mean an alliance between Inoyatov and Mirziyaev. But the behind-the-scenes struggle would continue until one of the groups is powerful enough to destroy the opposing faction, thus emerging as the ultimate winner. Under this scenario, the struggle would take place only at the elite level and would not cause political instability at any other level.

The ‘Yeltsin-Putin succession’ scenario

In this scenario, President Karimov, due to poor health or old age, would transfer power to his hand-picked successor—most likely Mirziyaev—and resign. The country would probably avoid political turmoil at even the elite level.

The ‘2011 Arab Spring’ scenario

Under this scenario, protests caused by deteriorating socio-economic conditions would attract thousands of Uzbek citizens, forcing President Karimov and his regime to use military force against the protesters. With the number of protesters swelling to the hundreds of thousands despite violent repression, Karimov and his entourage would be forced to transfer power to a caretaker government and face legal prosecution. Under this scenario, the country would likely enter a politically and socially unstable period, and face the prospect of protracted civil conflict and possibly even civil war.

If the issue of presidential succession is important, it is not the most important topic for Uzbek politics—at least for now. President Karimov is 75 years old, but some insiders say that he is likely to remain in power for at least another decade. Karimov appears to be in very good physical shape for his age, and maintains an exceptionally busy schedule. He
has built a political system in which various political factions are hugely distrusting of each other. Although originally a representative of the Samarkand clan, Karimov himself is not a member of any patronage network. Within the system that he created, he is the ultimate arbiter and the focal center of power, and he is almost irreplaceable. This means that it is in the best interests of powerful groups to keep him in power. The Soviet Politburo leaders is a good analogy: despite being very old, Leonid Brezhnev continued to nominally rule the Soviet Union until he died because his subordinates did not trust each other enough to build a stable power base. According to a number of Uzbek political analysts, the so-called Brezhnev scenario is the most likely one under the current circumstances.

Endnotes

1. Turkmen President Saparmurad Niyazov's sudden death in December 2006 allowed his successor Gurbanguly Berdymukhamedov to seize power after a protracted behind-the-scenes rivalry with opposition elite factions
2. Due to poor health, Russian President Boris Yeltsin voluntarily transferred presidential powers to his hand-picked successor Vladimir Putin in 2000.
3. During the so-called Arab Spring, widespread, popular protests across the Arab world toppled dictatorial regimes in Tunisia, Egypt, Libya, and Yemen.