

Uzbekistan, an Expanding and Capital-Hungry Economy

Specific Interrelated Opportunities in Energy, IT and Agriculture

By Malika Saidkhodjaeva*

Uzbekistan has a strong and vibrant economy. It is fortunate to be rich in mineral resources, self-sufficient in energy and endowed with a wide variety of human skills. The demographic profile of its youthful population and degree of technical education indicate considerable potential dynamism.

The location of the capital, Tashkent, at the heart of the five Central Asian Republics (see Table 1) gives the city a coordinating role in the wider region and as a key stepping-stone between Europe and China. Uzbekistan also has a secondary and potentially rewarding part in the ancient and reviving North-South flow of goods, services, capital and people emanating from Russia and Northern Europe towards Afghanistan, Pakistan and India and in a developing trade in the reverse direction. As a key trading, communications and energy hub, Uzbekistan will, therefore, begin to attract much more foreign investment. The challenge will be to use that valuable inflow to derive optimum long-term national benefit.

Following the break-up of the Soviet Union in 1991, the newly independent Uzbekistan government found itself faced with many intractable economic problems. Subsidies from Russia and neighbouring FSU states had been withdrawn; capital inflow had been virtually halted and current income from cross-border trade declined sharply. Lack of continuing investment and markets led to declining industrial and agricultural output and high domestic inflation.

The new economic policy targeted:

- continuing self-sufficiency in energy
- self-sufficiency in food-grains
- diversion of key exports such as cotton and gold to international hard-currency buyers
- restriction of inessential and luxury imports

As a result, Uzbekistan's sensible response in very difficult circumstances resulted in a much shallower economic recession than that experienced by its neighbours. In comparison, for example, with the other large Central Asian republic, Kazakhstan, which since that time has been experiencing the tumultuous and de-stabilizing effect of high capital-inflow into the oil and gas-sector, the Uzbekistan government was able to pick a more cautious strategy and a step-by-step approach to economic reform and the opening-up of the economy to international interest and support.

This opening-up process continues. There have been the first privatisation projects in the electricity and banking sectors. Invitations to leading Western universities to set up outreach academic and technical training centres in Uzbekistan have been readily taken up: a number are already in full

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operation in Tashkent and Samarkand and others are planned in Urgench and the Fergana Valley.

High priority has had to be placed on social issues:

- Health
- Education
- Provision for the aged
- Improvements in urban water supply
- Improvements in transport infrastructure

This leaves many major economic opportunities still to be tackled:

Agriculture: Diversification

Further rationalisation of the cotton and cereals industries will give higher per capita yields and will release resources for a gradual switch to other high-value export cash crops in which Uzbekistan has some accumulated experience. As external export markets again begin to develop and thrive under private sector stimulus and with much cheaper air freight both to key markets in Western Europe and Southeast Asia, as well as to neighbouring states, exchange restrictions can be gradually lifted and external competitiveness enhanced.

A Sound Energy Mix

Uzbekistan's continuing energy self-sufficiency is a source of great economic strength. In 2001 consumption rose by 7.8% to 54.8 mtoe after sluggish growth over the previous five years. Oil production which had slumped 33.6% over the previous decade plays only a small role (11.9%) in the energy mix (see Table 3). Coal (1.1 mtoe) and hydro (1.3 mtoe) barely count for anything in this mix. There is no nuclear and no significant alternatives (solar, wind, geo-thermal etc).

A Modern Gas Economy

Taking an overview, Uzbekistan today is predominantly a modern expanding natural gas economy. Natural gas production has risen 36.9% over the decade to 46.0 mtoe (82.9% of total energy consumption) and is still capable of expanding strongly (see Table 2). The level of gas production puts Uzbekistan in first place among the five Central Asian states, although Turkmenistan at 43.1 mtoe is not so far behind. A decade ago Turkmenistan gas production was double that of Uzbekistan. What is more significant, however, is that Uzbekistan's natural gas consumption is four times that of Turkmenistan and five times that of Kazakhstan. In other words Uzbekistan is far ahead of the other Central Asian states in the modern distribution and utilization of natural gas, a very useful economic under-pinning to kick-start the Uzbekistan economy into a period of high industrial growth and agricultural diversification.

Rich Petroleum Resources

In geological terms, Uzbekistan is a strategic centre of the semi-ring extending from the Persian Gulf through the Caspian and Tarim basins, an area which comprises:

- some 85% of proven global crude oil reserves
- a vast reservoir of natural gas much of which has been only superficially explored and evaluated

The country has a total of 155 oil, condensate and natural

gas fields which the international industry rates to be of high prospectivity.

It would be unwise to burden the national budget with such development, when the international oil industry is demanding relatively minor improvements in participation and taxation terms.

Access to the Latest Technology

The major prize to be achieved in the petroleum sector is the adjustment of terms for foreign participation to permit a strong inflow of advanced technology and external capital. This does not imply any selling off of national assets, merely a more practical working relationship between the public sector and the new outsiders. Energy self-sufficiency, as in the UK, Netherlands and Canada, often gives cause for a misguided and dangerous government complacency. In the case of Uzbekistan, slowness in this policy area would be like abandoning the fast-track to sustained economic growth and high-levels of prosperity.

Abundance of Minerals

The rich mineral resources of Uzbekistan include 900 identified areas with proven reserves valued at \$970 bn and probable resources put at \$3.3 trn.

Reserves of uranium are sufficient to sustain production at current (1990-99) levels for the next 60 years. Gold production and reserve statistics, estimates and forecasts are not easily obtained but anecdotal evidence suggests buoyancy. New discoveries of other minerals include more large and accessible deposits of marble, granites and gabbros.

Tashkent As a Regional/International IT Hub

Various efforts have been made to establish Tashkent as the key communications hub for the Central Asia region. There are very many sound economic and commercial reasons for such a development. Yet the critical mass of computing resources and the level of penetration of IT use in Uzbekistan still falls below the levels considered as essential in industrialised countries – not far below but still below.

To make this jump is not a difficult one and, if managed properly, can be achieved swiftly with little charge to the government budget. Countries such as India, Japan and Malaysia may be able to supply the most appropriate model; a competent analysis of the relative backwardness in IT of Kazakhstan, Turkmenistan, Tajikistan and Kryrgyzstan compared with Uzbekistan may also be helpful.

Without doubt, agricultural diversification, oil and gas production acceleration, minerals development and a consumer-led period of high economic growth would benefit sharply from stronger communication links and local IT trading facilities. An example within the energy sector would be to build on the daily co-operation and quarterly meetings of the region's five energy ministers to go beyond energy supply issues of mutual concern to the introduction of advanced IT and Western market mechanisms to manage and regulate peak levels of energy demand.

Summary

The Uzbekistan economy is quite close to the point of economic take-off. Resource- and skills- and people-rich, Uzbekistan has many advantages over its neighbours. The national economic priorities are now being focussed on

strengthening external trading links, communication infrastructure and a strong inflow of capital and technology.

Table 1
The Five Central Asian Republics

	Population (millions)	Area (sq. miles)
Uzbekistan	25.0 ¹	175,000
Khazakhstan	17.8 ²	1,050,000
Tajikistan	6.2 ³	55,000
Kyrgustan	4.8 ⁴	75,000
Turkmenistan	4.7 ⁵	190,000
Total (5)	58.5	1,545,000

¹ of which 69% Usbeks; 10% Tajiks

² of which 36% Kazakhs

³ of which 60% Tajiks; 23% Usbeks

⁴ of which 52% Kyrgyz

⁵ of which 72% Turkmen

Statistics provided by PTA London from UN Sources.

Table 2
Uzbekistan Oil Sector
Mtoe

	1991	1996	2001
Production	2.8	7.6	7.3
<i>Oil Reserve/Production Ratio 2001: 11.2 years</i>			
Consumption	11.0	7.4	6.5
<i>Oil Self-Sufficiency 2001: 112.3%</i>			

Source: PTA London from International Oil Industry Sources

Table 3
Uzbekistan Natural Gas Sector
mtoe

	1991	1996	2001
Production	35.2	41.1	48.2
<i>Gas Reserve/Production Ratio 2001: 33.2 years</i>			
Consumption	33.4	39.0	46.0
<i>Gas Self-Sufficiency in 2001: 104.8%</i>			

Source: PTA London from International Gas Industry Sources

Author Note

This paper, covering the broad aspects of current research, has been written for presentation to the 26th Annual International Conference of the International Association of Energy Economists in Praha, Czech Republic on 4-7 June 2003 and supplements more detailed information presented to IAEE-24 in Houston, USA in June 2001 and to IAEE-25 in Aberdeen, Scotland in June 2002.

Erratum

In the article on *Mexico's Energy Scene* in the First Quarter 2003 issue, the Crude Oil Reserves figure in Table 1 should be 38.29×10^9 b not 8.29×10^9 b as shown.