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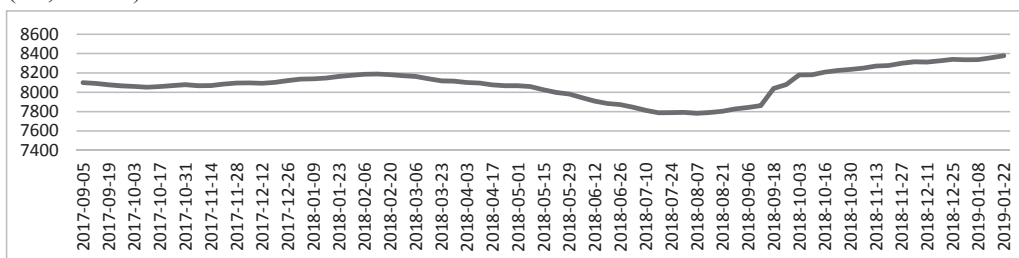
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Starting with September 2016, Post Karimov's stage of economic development in Uzbekistan has begun with initiation of postponed comprehensive market reforms. New president and government resolutely addressed the country's most urgent issues and strategically important political and economic problems of internal and external sectors¹⁾, such as liberalization of exchange rates and foreign trade policies, as well as opening the country to regional and global partners²⁾. Today the first results are visible.



Measures on liberalization of the foreign exchange market were prepared thoroughly within one year and introduced in September 2017. From the beginning of its independence Uzbekistan tried to avoid “shock therapy” type market reforms and the “big bang” with immediate liberalization of exchange markets both for current and capital account transactions. However, attempts to introduce exchange rates reforms step by step were not consistent. For many years it has multiple exchange rates with the black-market rate several times less than the official exchange rate. Especially during global financial and economic crises started in 2008 as well as regional external shocks affected to export markets, commodity prices and migrant remittances after December 14, 2014, the gap of the two rates were fluctuated between 2 and 3 times.

The first step is the unification of exchange rates. It was introduced resolutely by the new authorities in September 2017. “Money overhang” has been taken care of by further rigid macroeconomic stabilization, as well as through realistic and transparent privatization proposals open to both domestic and foreign investors. As a result, the official exchange rate depreciated by 50 percent immediately. However, since then fluctuations of the unified exchange rate has not been so dramatic (see, Chart 1).



Source: Data of the Central Bank of Uzbekistan .

Chart 1. Dynamics of exchange rates sum to dollar, Sept. 2017 – January 2018

1) Mirziyoev Sh. M. The Decree of the President of Uzbekistan “Strategy of actions along five priority directions of the development of Uzbekistan”. “Narodnoe Slovo”, 08.02.17.

2) Mirziyoev Sh. M. The Decree of the President of Uzbekistan “Urgent measures on liberalization of the exchange rate policy”. “Narodnoe Slovo”, 03.09.17

Now it is important to provide “free access to physical and legal persons to currency convertibility by commercial banks as well as to make currency freely convertible for current account transactions. All importers and investors are to be served by commercial banks at market exchange rates”³⁾. Finally, according international experiences, “liberalization of capital accounts, needs to be introduced without haste though choosing the proper timing of such reforms and a favorable domestic and external economic environment. Otherwise massive capital flight could impede the further economic reforms”, like it happened in the Post WW II UK or Russia after 1991⁴⁾.

Uzbekistan initiated the whole package of measures to improve **bilateral and regional cooperation with neighboring Central Asian countries**. Given its geopolitical (has borders with all other Central Asian states), economic and demographic (the most populous country in the region) significances its new policy with neighbors opens vast possibilities for inter- and intra- regional trade and cooperation in the field of energy and water supply. According to existing estimates better coordination and joining efforts in building regional integrated systems could help them double their joint GDP. Within two recent years their mutual trade between Uzbekistan and its neighbors (Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan) increased 1.5 times. Moreover, strengthening free trade zone within the Commonwealth of Independent States (CIS), according to the “Road map” adopted by the government of Uzbekistan will promote “cooperation in such spheres as trade, investment, transport, tourism”⁵⁾ not only with neighboring, but with Russia, Belarus and other CIS countries too.

The liberalization of exchange rates and foreign trade policies, as well as opening up the country is beneficial not only to regional states (like China, India, South Korea, other Asian countries) but **global partners** such as the USA, Japan, Germany, France as well. The increase of foreign trade of Uzbekistan with these states in 2018 was respectively: 1.90, 4.21, 1.24, 1.19 times. The most dynamic growth of trade among all states was with Japan.⁶⁾ Cooperation in the framework of the **Dialogue «Central Asia plus Japan»** initiated by Tokyo in 2004 and six meetings at the level of foreign ministers afterwards is an important mechanism to strengthen further bilateral and regional relations. Uzbek-Japanese bilateral economic cooperation plays significant and growing role. There are 10 joint ventures, including one - with a 100% Japanese capital were set in Uzbekistan and 13 representatives of Japanese companies accredited in Uzbekistan. In 2018 bilateral trade increased more than two times. It was the most dynamic growth among all trade partners of Uzbekistan. The total volume of financial and technical assistance of Japan to Uzbekistan amounted to more than \$4.1 billion.

However, there are some problems mentioned by IMF experts: “External trade is supporting growth; but import and export data show early signs of an overheating economy. Therefore, it is important to correct early on macroeconomic policies that create excessive domestic demand pressures, which could eventually result in large and persistent external imbalances”⁷⁾. For resolving these problems it is also important to increase export competitiveness of the country as

3) Islamov B., Ziyadullaev N., Ziyadullaev N., Islamov D. “Liberalization of Exchange Rates in Uzbekistan”. Российский журнал «Региональная экономика». (“Russian regional economics” journal), Moscow №1, 2018, p. 92

4) Islamov B., Islamov D. Либерализация обменного курса: международный опыт и уроки для Узбекистана В журнале «Международные отношения», (“Liberalization of Exchange Rates: International Experiences and Lessons for Uzbekistan”, International Relations journal), UWED, Tashkent №1, 2018 pp. 95

5) Б. Исламов, Д. Исламов, Внешнеторговая интеграция и гармонизация национальных интересов, “Российский внешнеэкономический вестник” (. “Russian Foreign Economic Journal”) Moscow №11, 2017, p. 21

6) “Foreign Trade Statistics of Uzbekistan for 2018”, T., Statistical Committee of Uzbekistan, February 2019 (Preliminary data).

7) Uzbekistan: Staff Concluding Statement of an IMF Staff Visit, November 8, 2018, at: <https://www.imf.org/en/News/Articles/2018/07/31/ms073118-uzbekistan-staff-concluding-statement-of-an-imf-staff-visit>

well as the level of diversification of the structure and geography of exports via assessment of important factors ensuring the competitiveness of Uzbekistan's export goods and improving macroeconomic policy, deepening institutional and structural reforms that support development and trade.

To meet these and other problems the President of Uzbekistan approved the Road Map, developed with the participation of the World Bank and other international financial institutions, of the main areas of structural reforms of Uzbekistan for the period 2019-2021. The Economic Council headed by the Prime-Minister of the Republic Uzbekistan was formed to ensure the implementation of the Road Map, as well as the International Expert Group under the Economic Council, which is formed from a number of foreign experts who carry out expert study of specific measures of the Road Map of Reforms⁸⁾.

8) Mirziyoev Sh. M. The Decree of the President of Uzbekistan “On additional measures to ensure the further development of the economy and increase the effectiveness of economic policy,” 11 January 2019, Tashkent, Uzbekistan (UzDaily.com)