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# Policy Brief

Taliban's economic  
governance and the  
interests of Uzbekistan

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## **Taliban's economic governance and the interests of Uzbekistan**

Contrary to the very dim and pessimistic assumptions about Afghanistan's dire economic conditions eventually getting even worse during the Taliban rule, so far appears to be a hasty and premature assessment. Nonetheless, the Taliban's ability to stay in power so far by utilising any available tools to prevent full scale economic collapse cannot by any means be regarded as a viable transformation to solid socio economic reforms. Thus, this paper will analyse the economy of the country as well as its relationship with Uzbekistan with a greater emphasis on the security and long-term export interests of it to the Taliban-run Afghanistan.

After the withdrawal of the allied forces led by the US and the subsequent Taliban takeover of the entire country in late August 2021, the Afghan economy which had traditionally been sustained by foreign aid has been experiencing enormous disruptions fuelled in part by the country's freezing foreign exchange reserves amounting [some \\$9 billion](#).

During the last 10 months of 2023, there has been a slight economic underperformance in Afghanistan compared to the last year which was the continuation of the overall economic decline. According to the [World Bank's data](#), the export of the country faced a slight decline by 0.5 percent, while merchandise import saw a higher growth rate relative to the same period in 2022 showing a clear trade deficit. The trade imbalance, in the favour of imports, indicating an unhealthy economy is nevertheless the sign of an increasing demand in the economy which could partly be caused by the international humanitarian assistance, [\\$40 million](#) per week in average, resumed in [December 2021](#).

In addition to this, the Taliban government's some [strict economic measures](#) including the restrictions against capital flight, smuggled imports, tax collection, and tough macroeconomic measures, in many ways, slowed down the economic free-fall. However, the wider prohibitions of women's

economic participations such as barring girls' secondary schools, restricting female aid staff working with foreign organisations, banning women working at many other public places including [bathhouses](#), [parks and gyms](#) also contributed to the overall economic downturn.

The Taliban government appeared to take some practical steps which helped to minimise the consequences of the economic difficulties in Afghanistan. These relatively successful practical measures appeared to be a result of the Taliban government's domestic and foreign policy choices.

### **Domestic achievements**

The start of the Taliban rule in Afghanistan and the country's economic malaise came in parallel with devastating natural disasters such as an earthquake in Spring 2022, a drought in the Summer of 2022 and the winter anomalies of the late 2022 and early 2023, following the Covid-19 pandemic. As mentioned earlier, the Taliban's practicality was clearly observed in tackling several internal issues which eventually had some stabilising effects on the economy.

**First, by** fighting corruption. As per the Transparency International's latest annual corruption perception index, Taliban run Afghanistan was [ranked as 150](#) out of 180 countries who participated in this index. This is a seemingly enormous accomplishment for a country as isolated as Afghanistan, particularly considering it had been among top [10 most corrupt governments](#) for decades. Although, this ranking remains significant in many ways, it cannot for sure demonstrate ["an improvement of the situation on the ground"](#). Regardless, the crackdown on bribery and smuggling in custom services along with efforts to eradicate illegal [road checkpoints](#) appear to be major steps that can be identified as a solid improvements the Taliban could be credit for. The Taliban government's efforts on successfully eliminating the well-established bribery systems at official border control points (BCP) putting an end the annual bribery on some undeclared products [as much as US \\$767 million each year](#).

**Second,** tax collection. According to Afghanistan Economic Monitor, World Bank's monthly report on Afghanistan, the Taliban's revenue collection in the first 7 months of 2023 was 5 percent [below the target](#) though it was marginally higher than the previous year by 1.2 percent (in the last ten

months of 2022, some [\\$1.7 billion](#) were said to be collected by Taliban). Moreover, the border taxes being one of the major contributor to the revenue has also been risen almost unnoticeably by 1.3 percent due to the periodic [closure](#) of the Pakistan-Afghanistan border crossing point. This minor increase in 2023 is the continuation of the overall upward trend in tax collection that started after the Taliban came to the power in 2021.

**Note**

*It's widely believed though that the Taliban's relative success in generating revenue through various taxations came by a large portion thanks to the movement's huge experience acquired in fighting against the former Afghan government and US-led allied forces. It is also important to understand that the years-long experience and the knowledge of the Taliban on functioning of the low-key governance in different local levels gave the movement certain edge for its future marginal success.*

**Third**, preventing the capital flight. In addition to some strict measures involving the regulation of the popular informal money transfer system called *hawala* which is believed to be a principal cause of capital flight from the country. The interim Taliban government has managed to prevent currency depreciation and has kept the Afghani relatively stable against foreign currencies. For this purpose, the government [injected](#) some \$14 million in July 2023 through several currency auctions.

**Fourth**, fighting smuggled imports as being one of the crucial pillars of the current Afghan economy which is operating in a survival mode gave the Taliban a solid leverage in dealing with this issue in an unusual way. The Taliban's historical experience and its knowledge about every corner of the country while it was in a fierce armed conflict with the former government and its supporters played an important role in both eliminating the smuggled import and taking advantage of these illegal channels of income where the foreign support came into Afghanistan through smuggling. For effectively eliminating smuggling, the Taliban on the one hand, strengthened the execution of the regulations at the BCPs that already existed in addition to some increase in duties and royalties for the extraction and [trading minerals](#) on the other hand, the Taliban did manage setting taxes at a relatively good rate that businesses [could afford](#).

**Fifth**, the Taliban government's infrastructure projects were also no less an important factor in somehow balancing internal economic situation, considering these projects significant role in employment issues even though these are insignificant in the entire economy of the country. Only the Qoshtepa canal project itself accommodated roughly [5500 workers](#) at various locations.

### **International achievements**

Overall, the economic measures the Taliban government have taken so far are most likely focused on strengthening and securing its governance rather than improving the lives of ordinary Afghan people. International aid, however, is mostly directed to a wider community. Seemingly this is how most of the anticipated famine and humanitarian catastrophe has been prevented despite poverty affecting one in every two Afghans according to the [Afghanistan Welfare Monitoring Survey](#).

In addition to some sporadic, domestically oriented economic measures which helped the interim Taliban government to continue operating even though the overall environment was not responsive. The interim Taliban government's foreign policy strategies such as having special and pragmatic cooperation with neighbouring countries including China, Russia, Iran, Pakistan, and other Central Asian countries has helped the regime to continue operating despite several aforementioned hurdles.

China has been one of the vocal supporters of the interim Taliban government in the name of pragmatism since the dramatic change of power in August 2021. Amongst the security risks resonating from Afghanistan along with its geographic location being an important corridor for China westward, Beijing has a big economic interest in Afghanistan given its mineral-rich mining industry and other important natural resources. In early 2023, Xinjiang Central Asia Petroleum and Gas Company (CAPEIC) signed a contract with the Taliban government and agreed to invest [\\$540 million](#) until 2026 for oil and gas search in Afghanistan's Amu Darya river basin. Furthermore, in Summer 2023, there has been a rumoured proposal from the Chinese company [Gochin](#) to invest \$10 billion for building ["lithium ore processing plant and battery factories"](#) in the country. China is clearly ready to be an active player economically despite the presence of the security risks coupled with the Taliban government's arguably vague future (no official recognition

and no formal interactions) holding China back from being deeply engaged with the Taliban at least for now. Trade between two nations has also been strong since the beginning of 2023. Speaking of trade, it is important to note that China is among the top trading partners of Afghanistan with 18 percent of import in 2023 coming respectively from [China](#) and [Pakistan](#) followed by the United Arab Emirates with 14 percent.

[Iran](#) however was the number one trading partner of Afghanistan in terms of importing into Afghanistan. As for export, Pakistan has been the largest export market for Afghan goods comprising 55 percent of total export in 2023 with India coming second with a total [29 percent](#). Although there was a relatively intense economic cooperation between Afghanistan and Pakistan, the relations between the two significantly worsened over the second half of 2023. During this period, the export to Pakistan dropped by 15 percent. Moreover, the entire trade turnover among these two countries faced a [43 percent](#) annual decline. This itself signifies the deteriorating relations with Pakistan during the Taliban reign, the reason for this can be explained by increasing border conflicts, rising geopolitical tensions, and economic difficulties that both countries are [facing](#).

### **Uzbekistan Afghanistan economic relations**

Uzbekistan remained one of the main trading partners of Afghanistan of the five Central Asian countries even though the Taliban's swift takeover of Afghanistan has put the already tenuous relations between the two to a difficult test. The economic relations between them have progressively increased over the period of the Taliban rule in Afghanistan despite the absence of the official ties between two neighbours. Nevertheless, pragmatism has been a prevailing characteristic of the Uzbek-Afghan economic and diplomatic relations. Afghanistan is therefore a significantly important market for Uzbek export goods. In 2022, Uzbekistan exported more than [\\$750 million](#) worth of goods to Afghanistan. Whereas, the import was substantially less than the export to Afghanistan with [\\$9.3 million](#) in the same year, illustrating a huge trade imbalance between these countries. Uzbekistan also sees Afghanistan's geolocation as a potential trade route with the much sought after railroad project called Termez-Mazar-i-Sharif-Qobul-Peshawar which was [kickstarted](#) in March 2022, soon after Pakistan, Uzbekistan, and

Afghanistan agreed upon to a roadmap for the construction of this project on February 2, 2022, in [Tashkent](#).

Tashkent seems to be increasingly concerned about the huge trade imbalance with Afghanistan as it imports far less than it exports to Afghanistan. Thus, Uzbekistan is gradually drifting away from its traditional, more cautious approach to Afghanistan and is instead centring its relations with Afghanistan around its proactive trade policy – doing more trade as well as increasing import from its southern neighbour. For this reason, the Deputy Prime Minister of Uzbekistan, Jamshid Khodjaev's visit to Afghanistan in late October and presenting an action plan for increasing the importation of goods from Afghanistan up to [\\$3 billion annually](#) marks the importance of trade for Uzbekistan.

### **Qoshtepa dilemma**

The project seems to be a plan for the Taliban to potentially addresses multiple issues that the Taliban government is facing both at home and abroad. In addition to the canal project's potential in developing agriculture and the northern regions, the project could, at least in the Taliban's thinking, be a tool for the well addressing the foreign policy questions regarding gaining recognition first in the region and attaching itself even greater to its northern neighbours especially to Uzbekistan through greater engagement with it both economically and [pragmatically] politically. So far, we have seen the realisation of the latter as Uzbekistan, in its official stance, welcomed deepened engagement with Afghanistan in the construction of the Qoshtepa canal and minimising its possible economic consequences to Uzbekistan. In 2023, there were [several meetings](#) between Uzbek and Afghan officials specifically discussing Qoshtepa issue both in Afghanistan and Uzbekistan, the last of which held in mid-October 2023, [in Kabul](#).

Apart from posing deeper economic challenges coupled with the environmental ones, the canal project could push the Uzbek government towards taking political risks through having even deeper cooperation with the Taliban authority. Tashkent has obviously chosen the path of cooperation on addressing the Qoshtepa issue which accommodates Afghanistan's right to using the transboundary waters, whereas it requires some sort of political recognition for reaching an official agreement. This in turn might put some

strains on Uzbekistan's relations with those nations, especially western countries who are reluctant to recognise the Taliban regime. Without having an official tie though, it is almost impossible to enforce any legal responsibilities in using transboundary water resources.

### **Conclusion**

The overall economic situation in Afghanistan can be characterised as the epitome of the Taliban government's temporary measures such as tax collection, fighting corruption, preventing capital flight coupled with several practical moves involving constructions and mining industry. On the international arena, Kabul left the door open for both economic relations with its neighbours and distant powers. Moreover, international aid as well as humanitarian assistance was in part crucial for preventing possible large-scale famine in the country, and therefore supporting the economy. Therefore, the Taliban's economic future will possibly depend upon how successfully it can utilise those various possibilities in harmony.

Speaking of the Taliban-Uzbekistan relations, it is important to note that Uzbekistan has reimagined its affairs with the Taliban-run Afghanistan. And the Uzbek government seems to be inclined towards having deeper economic cooperation with Afghanistan since it came to the realisation that the core issue – Qoshtepa project – appears to be solved through intensive economic collaboration for several years to come with focusing more on growing imports from Afghanistan. However, this approach could also lead to some unexpected outcomes involving the dilemma which requires recognising the Taliban legitimacy in Afghanistan.