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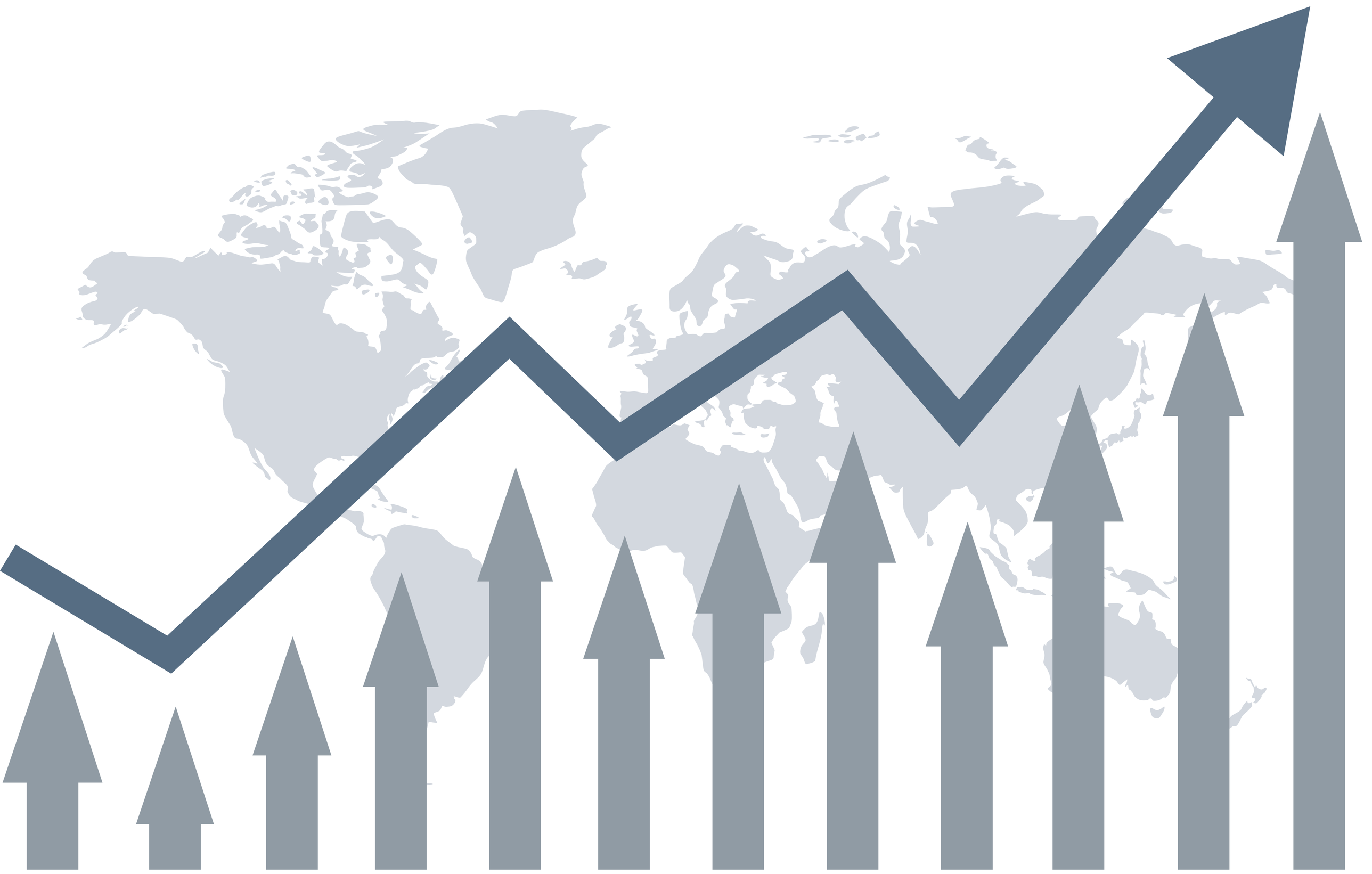
Managing Global Competition Through Economic Diplomacy



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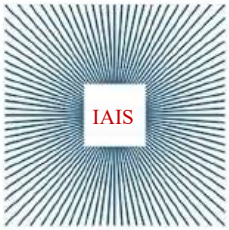

The University of World Economy and Diplomacy

Institute for Advanced International Studies

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FROM THE EDITOR

This Final Report has been prepared to provide a coherent, evidence-based assessment of Uzbekistan's external economic environment and its internal transformation agenda at a moment of accelerated global change. Fragmentation of world trade, geopolitical tensions, technological shifts, and the reconfiguration of global finance are redefining how mid-income economies integrate into global markets. For Uzbekistan, these changes are not abstract: they directly shape export earnings, investment flows, financial stability, and the long-term prospects for inclusive growth. The materials collected in this volume bring together analytical chapters that address these pressures from multiple angles—regional trade, global financial governance, digital transformation, and development strategy—using quantitative data and institutional analysis drawn from the report's underlying studies.

The first pillar of the report examines regional and bilateral economic cooperation. The ECO region, China–Central Asia relations, and US–Kazakhstan trade illustrate three different but interconnected logics of integration: regional value-chain building, infrastructure-led expansion, and geopolitically conditioned trade. Together they show that while Uzbekistan benefits from being embedded in multiple economic spaces, it also faces increasing risks of concentration—whether in commodity exports, logistics routes, or single-partner dependencies. The central editorial conclusion from this block is that diversification of trade geography, deeper regional production cooperation, and resilience of transport corridors are no longer optional; they are core macroeconomic stability tools.

The second pillar—global economic governance and finance—demonstrates that Uzbekistan is entering a more complex financial world. WTO accession is forcing a fundamental shift from subsidy-based export promotion to competitiveness-based growth. BRICS financial mechanisms and the New Development Bank are creating alternative sources of long-term capital and liquidity insurance. Islamic finance offers an additional channel to mobilize domestic savings and attract investment from the Global South and the Middle East. Taken together, these instruments give Uzbekistan a broader financial toolkit—but only if supported by strong regulation, transparency,

and risk management. This report consistently emphasizes that diversification of finance is as important as diversification of trade.

The third pillar—digital and innovation-driven cooperation—shows how technology has become a decisive factor of economic power. The OTS digital agenda and EU–Uzbekistan digital agriculture programs demonstrate two complementary pathways: regional digital integration and sector-specific technological upgrading. For Uzbekistan, digitalization is not just a modernization agenda; it is a productivity and competitiveness strategy, particularly in agriculture, logistics, and public services. The evidence presented in this report confirms that digital platforms, data systems, and innovation ecosystems will determine whether Uzbekistan can move from resource-based growth to a knowledge-based economy.

The fourth pillar brings these threads together in a development perspective. Poverty reduction, structural transformation, and macroeconomic stability are deeply interconnected. External shocks—whether from commodity prices, partner economies, or global financial tightening—translate into domestic vulnerability when export and financing structures are narrow. The strategic message of this volume is therefore clear: sustainable development for Uzbekistan requires a balanced combination of trade diversification, financial pluralism, digital upgrading, and institutional reform.

Thus, it is a unified analytical framework for understanding how Uzbekistan can navigate an increasingly complex global system while preserving economic sovereignty, social stability, and long-term growth. The recommendations implied across all sections point toward one consistent objective: to position Uzbekistan as a resilient, diversified, and technologically advanced economy integrated into multiple global and regional networks on its own terms.

EXECUTIVE SUMMARY

This Final Report assesses Uzbekistan's external economic positioning and internal transformation through four interlinked strategic pillars: regional and bilateral trade, global economic governance and finance, digital and innovation-driven cooperation, and long-term development and structural transformation. The analysis demonstrates that Uzbekistan's growth model is increasingly shaped by its ability to diversify partners, upgrade export structure, mobilize new sources of finance, and embed technology and sustainability into economic policy. The report is based on detailed empirical evidence and institutional analysis presented across all thematic chapters

I. Regional and Bilateral Trade and Economic Cooperation

• ECO intra-regional trade

• US–Kazakhstan economic relations

• China–Central Asia trade dynamics

The ECO region is gradually consolidating into a functional economic bloc. Between 2020 and 2024, intra-ECO trade grew by 1.7 times, reaching nearly USD 96 billion, but still accounts for only about 10% of member states' global exports. The trade structure remains dominated by energy, metals, cotton, and basic manufactures, with limited high-value industrial and technological goods. Turkey, Kazakhstan, and Uzbekistan account for over 65% of ECO exports and imports, underscoring a high level of internal asymmetry. Investment flows are also concentrated, with Turkey, Kazakhstan, and Uzbekistan receiving more than 70% of FDI into the ECO region. Infrastructure bottlenecks, regulatory fragmentation, and weak regional value chains continue to constrain deeper integration. The ECO 2025 and 2035 frameworks therefore prioritize trade facilitation, transport corridors, and production cooperation as the core drivers of regional resilience

US–Kazakhstan relations illustrate how geopolitics increasingly affects regional trade. Despite the introduction of 25% US tariffs on a narrow range of Kazakh exports in 2025, more than 95% of Kazakhstan's shipments to the US remain tariff-free, mainly because energy resources and uranium are exempted. Kazakhstan has become

strategically important for US energy security, supplying over 40% of US uranium imports and growing volumes of oil. At the same time, Kazakhstan's heavy reliance on commodity exports exposes it to price volatility and transit risks through Russia, reinforcing the need to diversify logistics routes via the Trans-Caspian corridor and to expand industrial cooperation with Western partners

China–Central Asia trade has reached USD 95 billion, making China the region's dominant economic partner. However, this relationship is structurally unbalanced: Central Asian countries export raw materials and import manufactured goods, machinery, and digital infrastructure. For Uzbekistan, this creates risks of technological dependence, import-driven deindustrialization, and rising external debt tied to Chinese-financed infrastructure. The report emphasizes that Uzbekistan must shift from passive resource exports toward a strategy that uses Chinese investment for technology transfer, domestic value creation, and regional manufacturing integration, while simultaneously diversifying toward EU, South Asian, and Middle Eastern markets.

II. Global Economic Governance and Financial Architecture

• WTO accession and export policy reform

• BRICS financial security mechanisms

• Islamic finance as a diversification tool

Uzbekistan's WTO accession process is reshaping its export policy framework. The elimination of export subsidies and the introduction of export duties on raw materials aim to stimulate domestic processing and align with WTO rules. Exports grew from USD 15.1 billion in 2020 to USD 26.9 billion in 2024, but remain highly concentrated, with gold, raw materials, and low-processed intermediates dominating. The country's export concentration index (0.735) is more than twice that of comparable middle-income economies. This makes Uzbekistan highly vulnerable to commodity price cycles and geopolitical disruptions. The National Export Strategy, cross-border e-commerce, trade facilitation reforms, and support for certification and standards are therefore central to achieving sustainable export growth

BRICS has become a new pole of global financial stability through the New Development Bank, the Contingent Reserve Arrangement, and the expansion of settlements in national currencies. Uzbekistan's accession to the NDB opens access to up to USD 5 billion in infrastructure and green finance, reducing reliance on Western

lenders and dollar-denominated funding. The gradual de-dollarization of global finance and the growing share of BRICS in global GDP provide Uzbekistan with strategic space to diversify financing sources, hedge geopolitical risks, and integrate into Global South capital flows while maintaining macroeconomic stability

Islamic finance offers Uzbekistan an additional channel for mobilizing domestic and foreign capital. With up to 68% of the population reluctant to use interest-based banking, Sharia-compliant instruments can significantly expand financial inclusion and SME financing. International experience from Malaysia and Bahrain demonstrates that Islamic banking, sukuk markets, and takaful systems can become powerful engines of investment and stability. For Uzbekistan, the projected growth of Islamic financial assets to USD 2.4 billion by 2033 can support infrastructure, entrepreneurship, and social development if backed by strong regulation, human capital, and Sharia governance

III. Digital and Innovation-Driven Economic Cooperation

• OTS digital transformation

• EU–Uzbekistan digital agriculture

Within the Organization of Turkic States, Uzbekistan is emerging as a key driver of the "Digital Turkic World." While internet penetration is high (over 80%), innovation performance remains uneven, with Turkey and Hungary far ahead of Central Asian members. Joint initiatives such as digital corridors, venture funds, startup valleys, and e-government integration are laying the foundations for a common digital space. Uzbekistan's leadership in e-trade, green corridors, and data-exchange platforms strengthens its position as a regional technology hub, but success depends on harmonized regulation, cybersecurity cooperation, and skilled human capital

EU–Uzbekistan cooperation in digital agriculture directly links technology with food security and climate resilience. Agriculture accounts for around one-quarter of GDP and 26% of employment, yet water productivity is among the lowest globally. EU grants, EBRD and World Bank financing, and Global Gateway investments are supporting satellite monitoring, smart irrigation, digital advisory services, and rural platforms. By integrating Copernicus data, EU agritech practices, and local reforms, Uzbekistan can sharply raise productivity, reduce water waste, and move from raw exports toward high-value agri-food chains aligned with EU standards

IV. Development Strategy and Economic Transformation

• Poverty reduction pathways

• Uzbekistan's 2025–2026 economic transformation

Uzbekistan's development trajectory is shifting from growth based on liberalization and commodities toward a model driven by diversification, technology, and human capital. Poverty reduction strategies across Central Asia show that inclusive growth depends on labor-intensive manufacturing, rural modernization, and access to finance. Uzbekistan's 2025–2026 reform agenda emphasizes macroeconomic stability, private investment, digitalization, and export upgrading. Without structural change, external shocks from China, Russia, or global commodity markets could translate into fiscal stress and social vulnerability. With coherent reforms, however, Uzbekistan can position itself as a resilient regional hub for logistics, manufacturing, digital services, and green growth

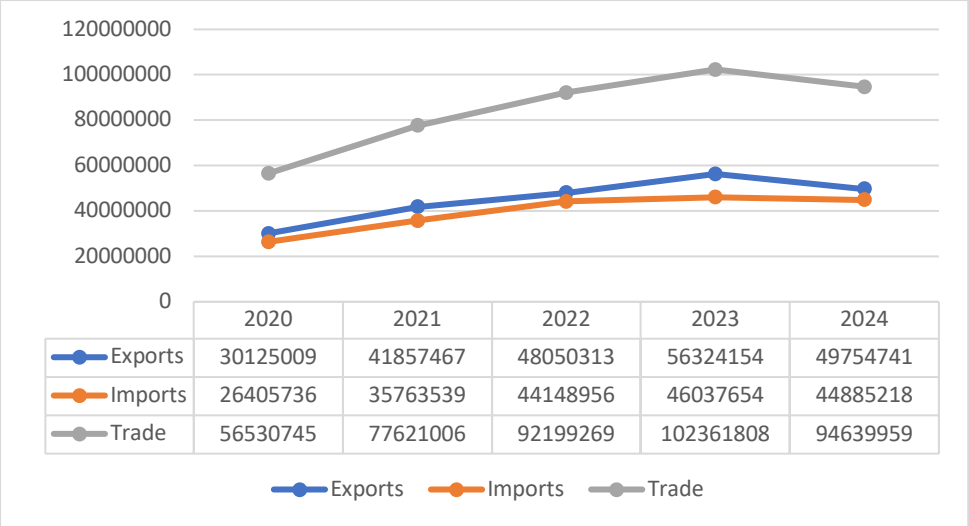
Overall, it demonstrates that Uzbekistan's future prosperity depends on managing external integration and internal transformation as a single strategic process. Diversified trade, WTO-compatible export policy, access to BRICS and Islamic finance, and deep digital and green cooperation with partners such as the EU and OTS provide a robust foundation for sustainable development. If supported by strong institutions, fiscal discipline, and innovation policy, Uzbekistan can convert global fragmentation into an opportunity to become a competitive, technologically advanced, and economically sovereign regional leader.

I. REGIONAL AND BILATERAL TRADE AND ECONOMIC COOPERATION

On Trade, Economic, and Investment Cooperation Between ECO Countries

Gavkhar Sultanova, *Head of the Centre for Economic Diplomacy (IAIS)*

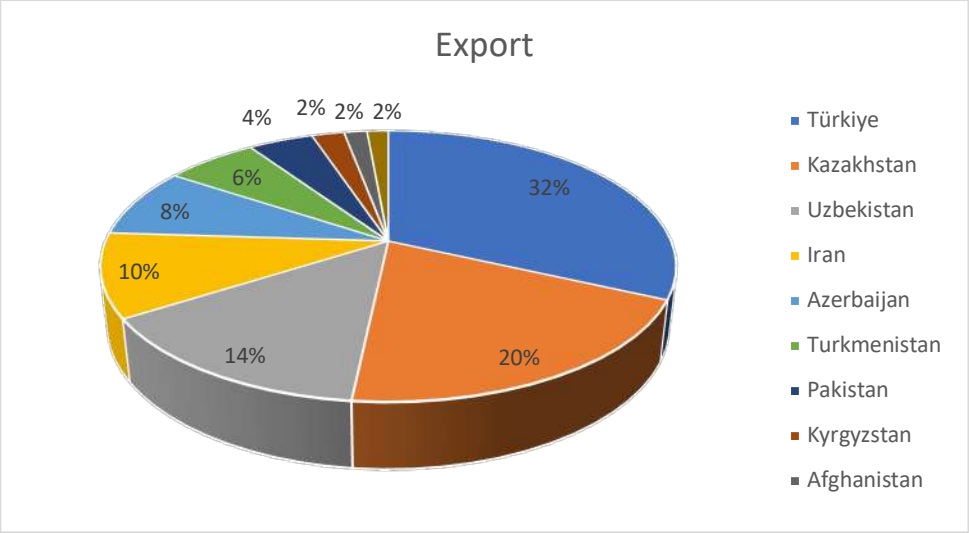
According to the policy document "Prospects for the ECO 2025" adopted in February 2017, the main areas for deepening cooperation among ECO member states are the development of intraregional trade, improvement of regional transport infrastructure, strengthening of energy security, development of tourism, promotion of mutual investment, and ensuring environmental sustainability in the region.

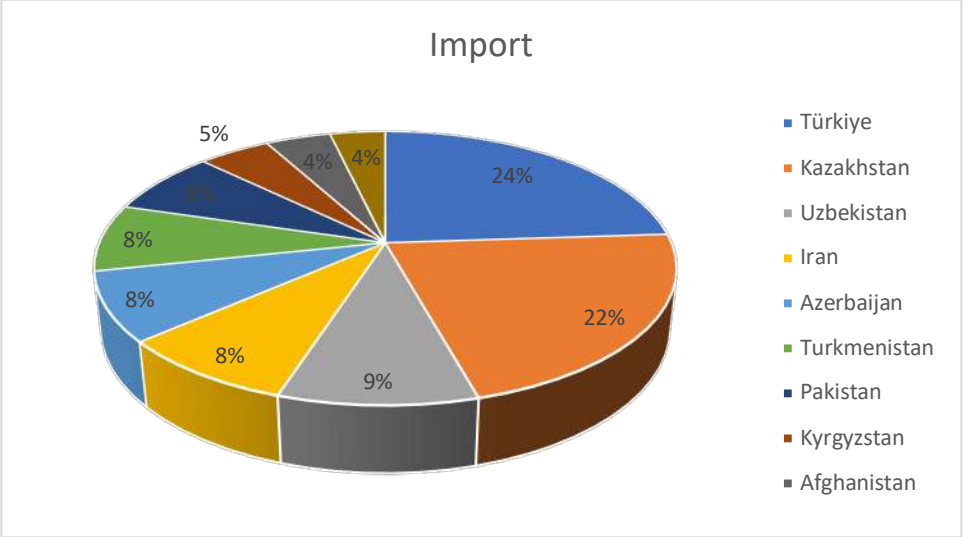


	2020	2021	2022	2023	2024
Exports	30125009	41857467	48050313	56324154	49754741
Imports	26405736	35763539	44148956	46037654	44885218
Trade	56530745	77621006	92199269	102361808	94639959

Dynamics of intra-regional trade between ECO member states for 2020-2024 (thousand US dollars)

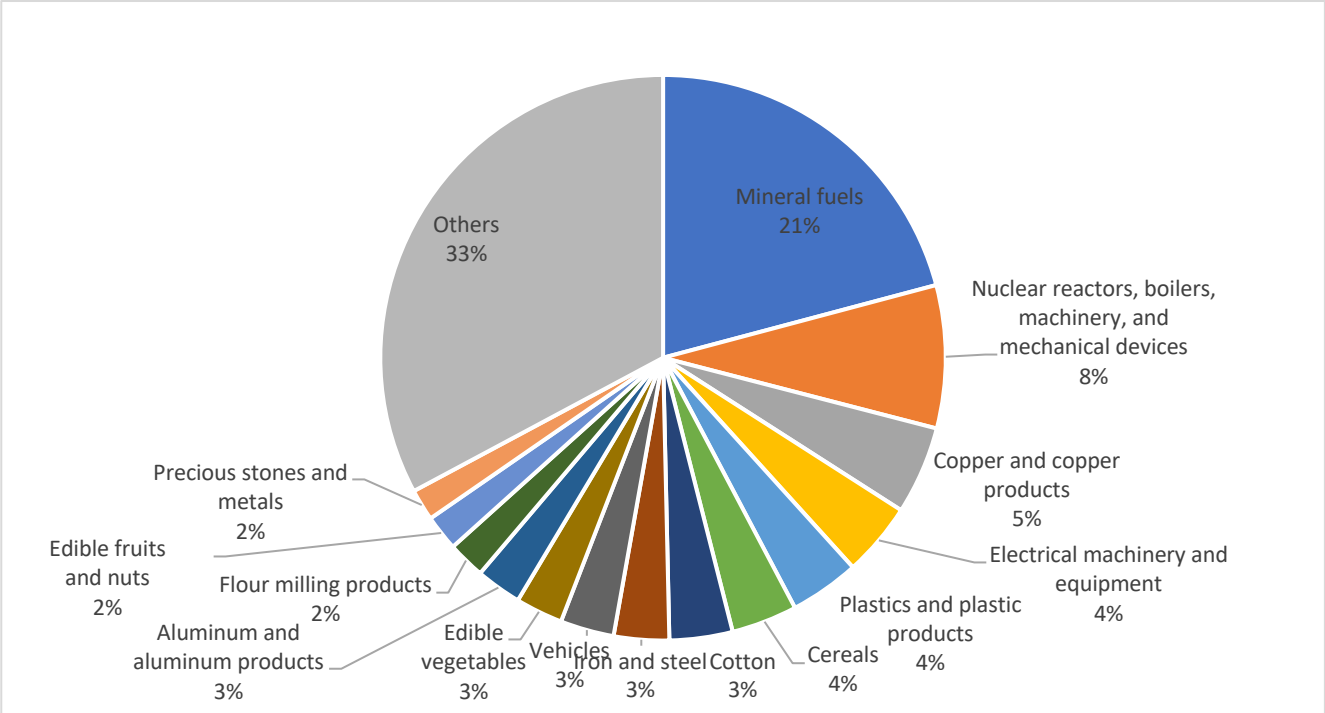
The strategic goal in the field of trade and economic cooperation is to double intraregional trade by 2025. According to the International Trade Centre, the volume of intra-regional trade between ECO countries grew 1,7 times between 2020 and 2024, reaching $95,8 billion. In 2024, the total volume of exports within intra-regional trade reached $49,7 billion, which accounted for 10,6% of the total exports of ECO member states to countries around the world. In 2024, the total volume of imports amounted to $45 billion, or 7,4% of the total imports of ECO member states from countries around the world.





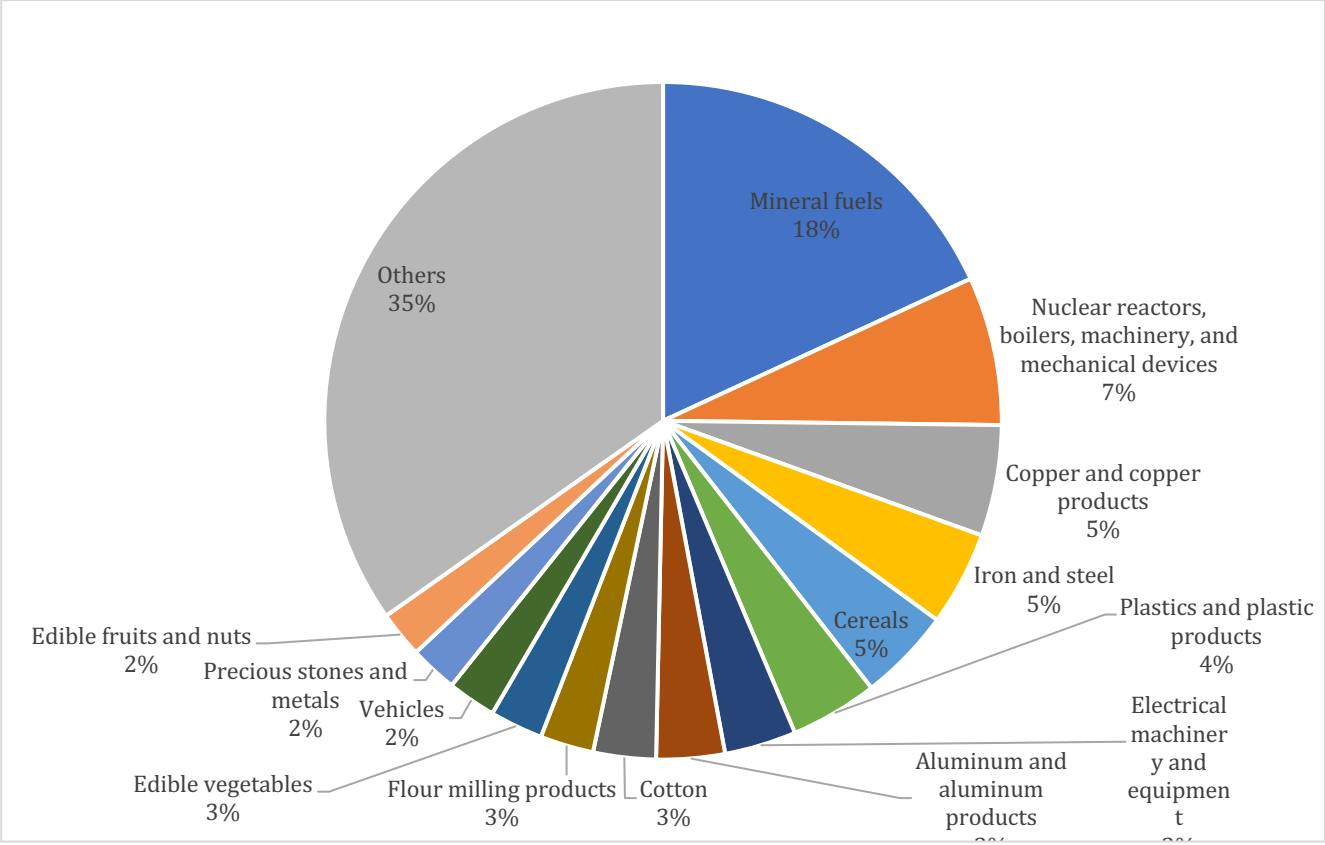
The share of member states in the total volume of exports and imports of ECO countries (in %)

In 2024, Turkey accounted for the largest share of total exports of the ECO member states (31,8%). It was followed by Kazakhstan (19,9%), Uzbekistan (14,3%), Iran (10%), Azerbaijan (8,3%), and other countries. Turkey (24%), Kazakhstan (21,7%), Uzbekistan (9,3%), Iran (8,5%), and Azerbaijan (8,1%) also accounted for a significant share of the total imports of the ECO region.



Commodity structure of exports of ECO member states within the framework of intra-regional trade in 2024 (in %)

In 2024, mineral fuels accounted for the largest share (20,9%) of the SEC countries' exports within intraregional trade. In addition, raw materials such as copper (5%), cotton (3,6%), iron and steel (3,2%), aluminum (2,6%), and precious metals (1,8%) accounted for a large share of total exports. Among processed products, mechanical devices (8,2%), electrical machinery and equipment (4,2%), plastics and plastic products (4%), and transport vehicles (3,2%) accounted for a significant share in exports was accounted for by mechanical devices (8,2%), electrical machinery and equipment (4,2%), plastics and plastic products (4%), and transport vehicles (3,1%). Among food products, grains (3,8%), vegetables (2,7%), flour milling products (2,1%), and fruits and nuts (2%) accounted for a relatively large share of exports.



Commodity structure of imports by ECO member states in intra-regional trade in 2024 (in %)

Imports by ECO member states within the framework of intraregional trade had a similar structure. In 2024, raw materials such as mineral fuels (18,1%), copper and copper products (5,3%), iron and steel (4,5%), aluminum and aluminum products (3,3%), cotton (3%), and precious stones and metals (2,3%). Imports of finished goods mainly consisted of machinery and mechanical devices (7,1%), plastics and plastic products (4,2%), electrical machinery and equipment (3,4%), and transport vehicles (2,3%). Food products in the import structure included cereals (4,4%), flour milling products (2,6%), vegetables (2,5%), fruits and nuts (2,2%).

For the further development of intraregional trade, the "SEEC 2025 Outlook" provides for the conclusion of several trade agreements between member states (the SEEC agreement on mutual administrative assistance in customs matters, the ECO Agreement on Trade Facilitation, etc.), implementation of measures to develop trade finance, and capacity building of trade promotion organizations of participating countries.

The member states of the ECO are also actively developing investment cooperation. Within the framework of the ECO Vision 2025, special attention is paid to improving legal regimes and mechanisms to strengthen investor protection and implement programs to build the capacity of member countries' investment promotion agencies.

According to the UNCTAD World Investment Report, the total inflow of foreign direct investment (FDI) to ECO member countries in 2023 amounted to $21,4 billion (no data for Afghanistan is not available), while total FDI outflows amounted to $8,7 billion (data for

Afghanistan and Turkmenistan is not available). The main FDI recipient countries in the ECO region are Turkey (49% of total FDI inflows), Kazakhstan (15,1%), and Uzbekistan (10,2%). The investment attractiveness of these countries is explained by their political stability, great opportunities for profitable investments, and effective policies to attract FDI.

The main FDI donor countries from the ECO region are Turkey (more than 66% of total FDI outflow), Azerbaijan (21,5%) and Kazakhstan (10,5%), which is explained by the significant amount of accumulated capital from the export of raw materials and finished products.

Despite significant progress in the development of trade and economic cooperation, the level of mutual investment and trade has not yet reached the full potential of the ECO region, which is associated with infrastructure, institutional, and political barriers.

To increase intra-regional trade volumes and maximize gains from trade development, ECO countries should continue to implement joint measures to liberalize trade policy and harmonize and simplify trade procedures. In addition, it is important to jointly develop transport, logistics, and digital infrastructure to facilitate trade and investment, as well as to improve the effectiveness of trade promotion and investment promotion institutions.

The implementation of joint programs and projects to form regional value chains through the development of production cooperation and the creation of industrial hubs. Improving mechanisms for financing R&D, supporting innovation and facilitating technology transfer between ECO member countries contributes to an increase in the share of high-tech goods in their export structure.

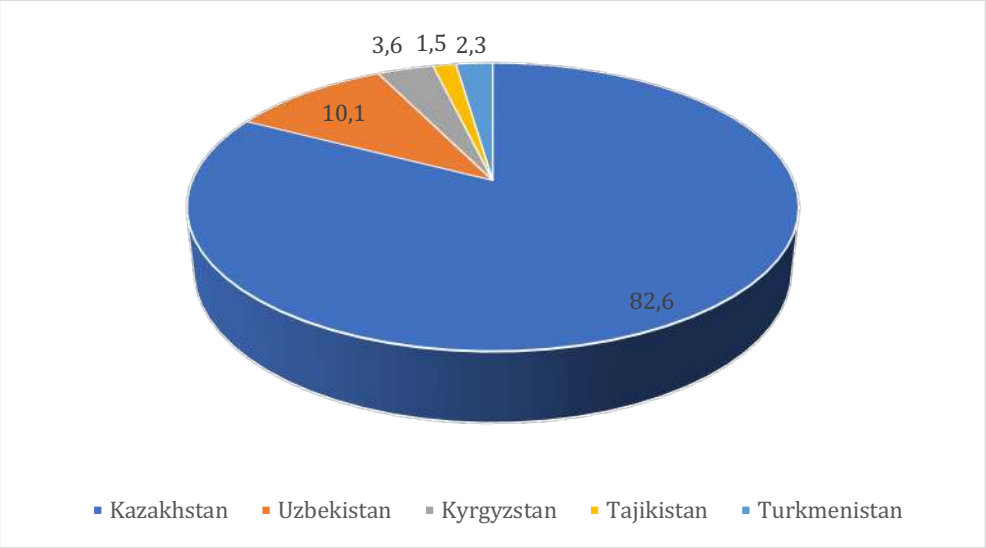
Overall, the implementation of strategic initiatives set out in the "ECS Outlook 2025" and subsequent documents (e.g., "Strategic Goals of Economic Cooperation – 2035") will significantly deepen trade and investment cooperation among ECS member states and strengthen regional interconnectivity.

On trade and economic cooperation between the United States and Kazakhstan

Gavkhar Sultanova, *Head of the Centre for Economic Diplomacy (IAIS)*

On July 7, 2025, US President Donald Trump announced the introduction of 25% tariffs on goods from Kazakhstan as part of efforts to reduce the trade deficit. In response, Kazakhstan expressed its readiness to engage in dialogue to find a mutually acceptable solution. In this regard, it is particularly important to analyse the current state and prospects of trade and economic cooperation between the two countries, including the possible consequences of the new tariff measures for Kazakh exports.

Kazakhstan is the United States' largest trade and economic partner in Central Asia. According to the US Census Bureau, in 2024, approximately 83% of US trade with Central Asia will be accounted for by Kazakhstan ($3,5 billion), followed by Uzbekistan (10%), Kyrgyzstan (3,6%), Turkmenistan (2,3%), and Tajikistan (1,5%). At the same time, in trade with Kazakhstan, the US had a deficit of $1.3 billion in 2024.



Share of individual countries in US trade with Central Asia in 2024 (in %)

Tariff policy. According to the International Trade Centre, in 2024, the US applied tariff rates ranging from 0 to 27% on imports from Kazakhstan, depending on the type of goods. For example, a customs tariff rate of 12% was levied on imports of footwear of 12% was levied on imports of footwear, and 17% on imports of dairy products.

As for the duties applied by Kazakhstan on imports of goods from the US, in 2024 their rates ranged from 0 to 29%. For example, a zero import tariff rate was applied to works of art and antiques, while a 29% tariff rate was levied on imports of meat and meat products. However, imports of raw materials from Kazakhstan were not subject to

customs duties when imported into the US. In his letter, Trump threatened to increase the size of the duties if Kazakhstan decided to raise its tariffs on American goods.

According to estimates by the Ministry of Trade and Integration of the Republic of Kazakhstan, the new 25% tariffs will affect only 4,8% of Kazakhstan's total exports to the US. Among the goods subject to restrictions are phosphorus ($15,9 million), ferrosilicon ($12,7 million), lenses ($4,1 million), wheat gluten ($4 million), ammonium nitrate ($2,4 million), and others, whose exports totalled $95,2 million in 2024. Goods that account for a significant share of Kazakhstan's exports to the US (oil, uranium, silver, ferroalloys, tantalum, and titanium) are included in the list of exceptions provided for by the US Presidential Decree "On regulating imports through tariffs to eliminate trade practices."

Thus, 95% of Kazakhstan's merchandise exports will continue to be shipped to the US without new tariffs. Duty-free access to the US market makes Kazakhstan a competitive supplier of strategic and raw materials, especially against the backdrop of restrictions imposed on a number of other countries. It also creates opportunities for the development of joint production chains in the fields of renewable energy, metallurgy, and nuclear energy.

After the start of the conflict in Ukraine and the tightening of sanctions against Russia, Kazakhstan's role as an alternative supplier of uranium and oil has grown significantly. Kazakhstan is the world's largest uranium producer, accounting for more than 40% of global production. The US, which consumes 28% of the world's uranium, is almost entirely dependent on imports (99% in 2023). In 2024, uranium supplies from Kazakhstan to the US increased fivefold (2600 tons).

Despite its insignificant share in the structure of US oil imports (0,5% in 2024), Kazakh oil supplies are becoming strategically important in the context of diversifying sources and ensuring US energy security. Kazakhstan remains a key US partner for oil exports among Central Asian countries. Exports are carried out through the Caspian Pipeline Consortium, which runs through Russian territory, which entails transit and political risks. Nevertheless, Washington's ban on Russian oil and gas imports did not affect supplies from Kazakhstan, despite Russian transit. Moreover, the volume of Kazakh oil imports to the US is growing – from 12,4 million barrels in 2022 to 15,7 million barrels in 2024, which indicates the US's continued interest in strengthening energy cooperation with Kazakhstan.

At the same time, the decree signed by the Russian president on July 21 this year, which provides for mandatory coordination with the FSB of ships arriving from foreign ports to Russian seaports, creates additional risks for the export of Kazakh oil, a significant part of which (about 80%) passes through Russian territory. Under the current circumstances, Kazakhstan is considering diversifying its export logistics and is stepping up cooperation with Turkey and Azerbaijan, including the Trans-Caspian transport corridor, whose construction is supported by the United States.

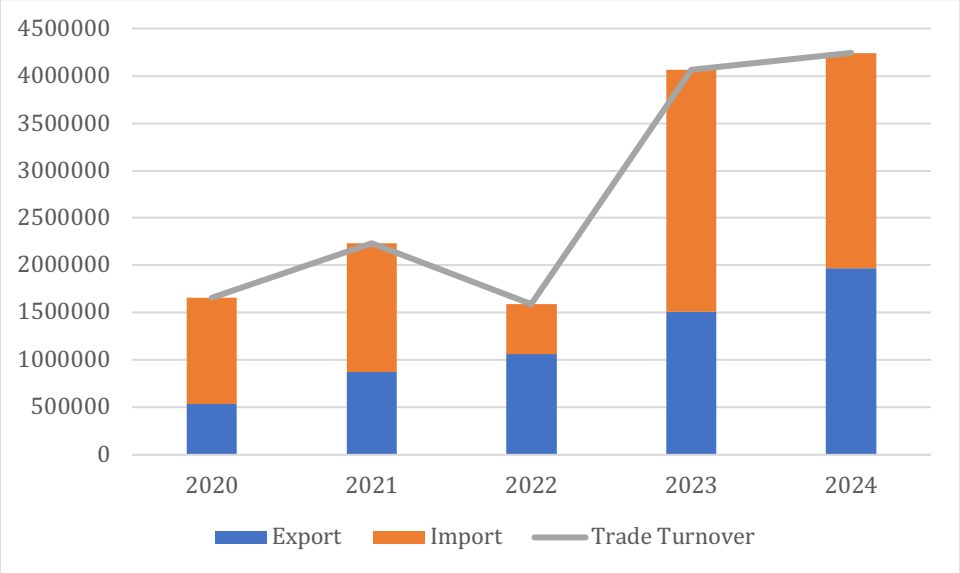
According to experts from Kazakhstan, the new tariffs may affect the profitability of certain local companies that are focused on the US market. However, the impact of the new tariffs on the economy as a whole will be insignificant. The US is not among Kazakhstan's five largest export markets, accounting for 2,4% of total merchandise

exports in 2024 and 3,8% of total merchandise imports. Accordingly, no significant direct negative impact from Trump's tariff policy on the Kazakh economy is expected. However, indirect damage is possible due to the state of the economies of Kazakhstan's main trading partners (the European Union, China, Russia) and the slowdown in global economic growth.

Mechanisms of interaction. Trade and economic cooperation between the US and Kazakhstan is developing on the basis of an expanded strategic partnership. The main mechanisms for strengthening bilateral cooperation are the Commission on Enhanced Strategic Partnership, the Strategic Energy Dialogue, the Business Council at the US Chamber of Commerce, and the Kazakhstan-US Working Group on economic cooperation.

Kazakhstan also actively participates in the development of multifaceted cooperation between the United States and Central Asia within the framework of the C5+1 initiative and the Framework Agreement on Trade and Investment in Central Asia (TIFA).

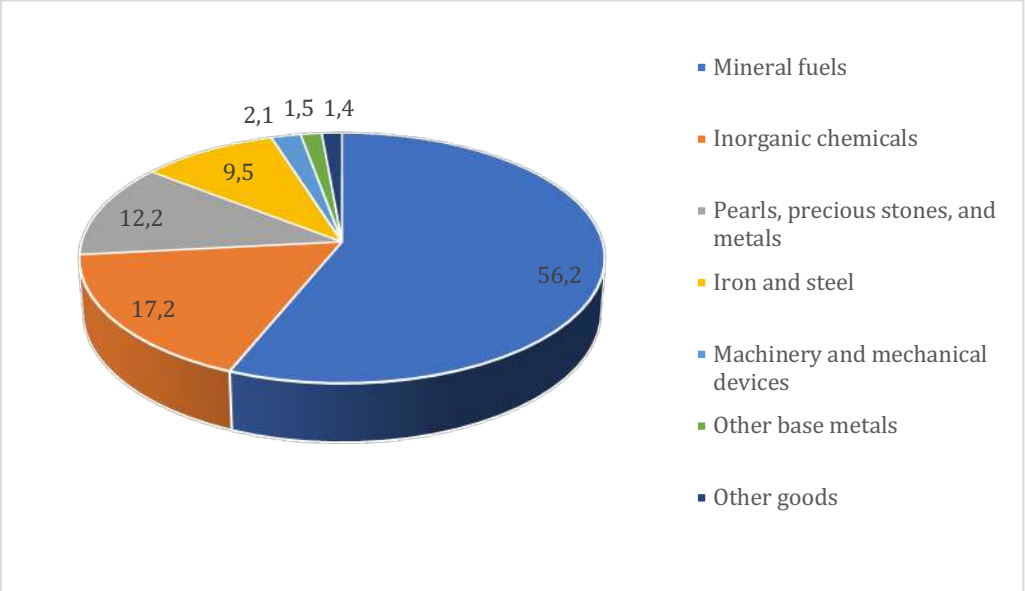
According to data from the National Statistics Bureau of the Agency for Strategic Planning and Reforms of Kazakhstan, trade between Kazakhstan and the US has generally shown positive growth over the past five years. Exports of goods from Kazakhstan to the US have shown steady growth, while imports of goods from the United States have shown unstable dynamics. In 2024, Kazakhstan's trade turnover with the United States reached $4,2 billion. At the same time, the volume of merchandise exports from Kazakhstan to the US amounted to about $2 billion, and the volume of imports of goods from the US amounted to about $2,3 billion.



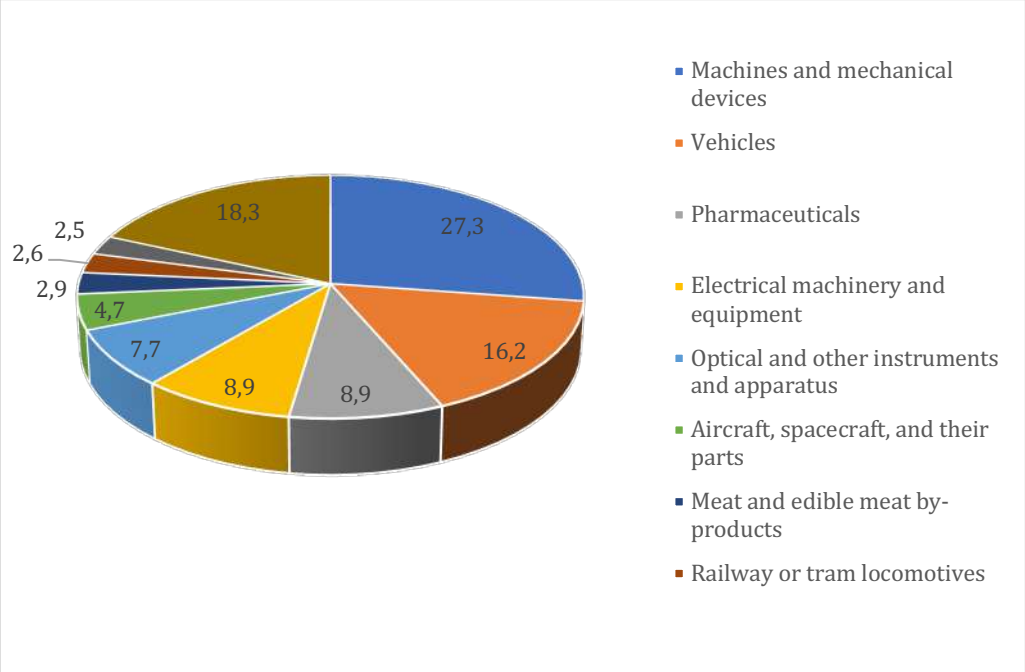
Trade dynamics between Kazakhstan and the US in 2020-2024 (thousand US dollars)

In 2024, more than half of Kazakhstan's merchandise exports to the US consisted of mineral fuels (crude oil – $1,1 billion). Inorganic chemicals (uranium – $322,7 million) accounted for a significant share of exports. Precious metals accounted for 12,2% of Kazakhstan's exports to the US (silver – $240 million). Ferroalloys

(9.5%, $188,2 million), machinery and mechanical devices (2,1%, $40 million), and other base metals. Thus, about 75% of Kazakhstan's exports to the US are raw materials.



Share of individual goods in Kazakhstan's total exports to the US in 2024 (in %)



Share of individual goods in Kazakhstan's total imports from the US in 2024 (in %)

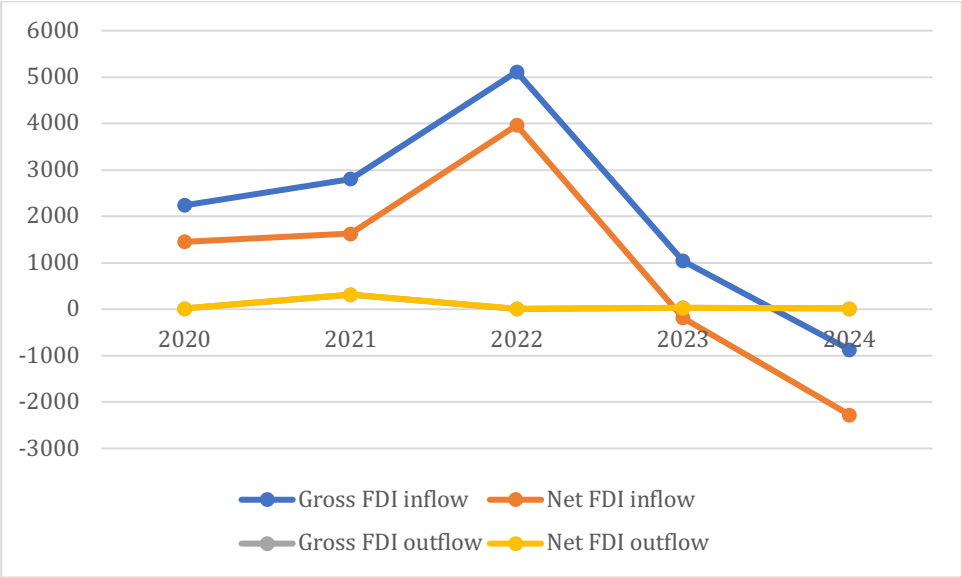
While raw materials dominate Kazakhstan's exports to the US, finished goods with high added value and technological sophistication. Thus, finished products account for 56,2% of Kazakhstan's imports from the US, and semi-finished products account for 41,4%.

Investment cooperation. Kazakhstan's export revenues depend on the dynamics of world prices for raw materials, primarily oil. According to forecasts by experts at the Eurasian Development Bank (EDB), the average price of Brent crude oil

in 2025 will be around $67 per barrel, and in the following two years it will fall to $63. This could lead to a decline in export revenues, depreciation of the national currency, an increase in the general price level, and a slowdown in economic growth in Kazakhstan.

According to EDB experts, large-scale support for investment projects is a key factor in the stability of Kazakhstan's economy in the face of external challenges. However, an analysis of gross foreign direct investment (FDI) inflows in 2024 shows a 28,4% decline in volume compared to 2023 (from $23,9 billion to $17,1 billion).

The United States is a major investor in Kazakhstan's economy, accounting for more than 18% of the total net FDI inflow ($5,1 billion) in 2022. However, in subsequent years, there has been a decline in both gross and net FDI inflows into Kazakhstan from American investors. In 2024, net FDI inflows from the US amounted to -$2,3 billion.



FDI flows between Kazakhstan and the US in 2020-2024 (in millions of US dollars)

There are 719 enterprises with US capital operating in Kazakhstan. The bulk of FDI from the US is directed to the mining sector. The oil and gas industry employ major US companies Chevron and Exxon Mobil, which account for about 30% of all oil production in Kazakhstan.

As for FDI in the US economy by Kazakh investors, in 2024, their gross volume amounted to $15,1 million, which is 60% less than in 2023. The US share of net FDI outflows abroad was only 0,8% in 2024, which shows the weak interest of Kazakh investors in opening businesses in the US market. In this regard, Donald Trump's proposal to produce goods in the US to avoid paying import duties is unlikely to serve as an incentive to increase the flow of FDI to the US from investors from Kazakhstan. In the future, the US and Kazakhstan intend to expand and deepen trade, economic, and investment cooperation. For example, the US is interested in partnership opportunities in the development of Kazakhstan's reserves of critical minerals used in the green energy sector.

Thus, the 25% tariffs introduced on August 7 this year are more of a symbolic gesture than a tool capable of causing significant damage to Kazakh-American relations. The limited effect of this decision is due to the growing dependence of the US and its allies on supplies of uranium and other energy resources from Kazakhstan.

A negative scenario could materialize if competing geopolitical centres increase pressure on Kazakhstan, which could lead to a weakening of political dialogue and a narrowing of the formats of interaction with the US. A positive scenario is possible if Kazakhstan maintains a balance of foreign policy interests and expands cooperation with the US in areas such as energy, high technology, and infrastructure projects.

On the Development of Trade Relations between China and Central Asia Countries

Khulkar Karimova, *Senior Research Specialist of the Centre for Economic Diplomacy (IAIS)*

China views Central Asia as a crucial region for access to energy, natural resources, and new market opportunities. Beijing is successfully implementing its Belt and Road Initiative in the region. Trade between China and Central Asia has grown to $95 billion, significantly up from $0.46 billion in 1992, making China the region's largest partner.

Specifically, China's current total trade volume with Kazakhstan is $43.82 billion, Kyrgyzstan $22.71 billion, Uzbekistan $13.78 billion, Turkmenistan $10.65 billion and Tajikistan $3.86 billion. Furthermore, China has signed a multilateral good-neighborliness agreement with all Central Asian countries (June 2025) to formalize the Belt and Road infrastructure projects in the legal framework.

Kazakhstan dominates regional trade, accounting for almost half of the trade turnover between China and Central Asia, primarily through the export of oil, metals and minerals, while also actively importing Chinese equipment and electronics.

Uzbekistan remains China's second-largest trading partner. However, foreign trade with China is clearly imbalanced: imports far exceed exports, and Chinese manufactured goods dominate its structure.

Kyrgyzstan has recorded one of the highest growth rates in bilateral trade: Chinese data show that in 2024 it would amount to $22.7 billion; however, significant discrepancies with Kyrgyzstan's national statistics highlight the role of re-exports rather than domestic production.

Turkmenistan is the only country with a trade surplus, thanks to large-scale gas exports ($9.6 billion), making China the most important export destination.

Tajikistan, by contrast, has the smallest trade volume, primarily due to imports of machinery and consumer goods, while its exports remain limited to mineral ores and agricultural products.

China has strengthened customs integration and simplified trade procedures to reinforce its financial investments. Optimized trade agreements, including visa-free agreements with Uzbekistan (effective June 2025) and Kazakhstan (2024), aim to expand economic and tourism exchange.

The comprehensive approach to simplifying procedures under the "Belt and Road – 2025" initiative includes jointly initiated infrastructure investments and streamlined customs clearance to ensure the uninterrupted flow of Chinese goods, capital, and energy resources in and through Central Asia.

Furthermore, China's growing influence extends to digital and institutional spheres. The latest "Belt and Road" initiative outlines the "Digital Silk Road" concept,

aimed at supporting the creation of digital infrastructure and expanding cooperation in e-commerce.

Special economic zones and logistics corridors financed by China, especially along the Xinjiang–Kazakhstan axis, are being developed according to Chinese technological standards, gradually integrating regional regulatory and production infrastructure into Beijing's digital and industrial systems.

China's deepening economic presence in Central Asia continues to yield significant economic benefits. At the same time, it creates structural risks that could limit the region's resilience and strategic autonomy in the long term. A direct economic consequence has been the increased dependence of regional countries on China in trade. In 2024, China accounted for nearly 24% of the region's total trade volume, compared to 17.7% in 2020, highlighting its rapidly growing position as the region's main trading partner. This expansion has been highly unbalanced: Chinese exports significantly exceed imports, indicating Central Asia's dependence on resource-based trade.

A slowdown in China's economy or a change in its export strategy—such as flooding European markets with cheap Chinese goods—could intensify price competition and reduce demand for Uzbek products, resulting in unsold goods, decreased export revenue, and additional budgetary pressure.

The massive inflow of Chinese goods and capital equipment could pose risks to Uzbekistan's economic development.

Cheap imports make local production less competitive and reduce incentives to invest in domestic industrial and technological capacity, including engineering, spare parts, services, and R&D.

At the same time, dependence on Chinese equipment and standards makes the economy vulnerable to external price, logistical, and geopolitical shocks, limiting technological autonomy, reducing opportunities for export diversification, and putting pressure on the trade balance if imports are not accompanied by growth in high-value exports.

China's financial model, based on large-scale lending for infrastructure projects through state-owned banks and quasi-state institutions, has led to slower economic growth and high levels of debt, particularly in the real estate sector. Combined with demographic challenges (aging and population decline), environmental issues, energy crises, and political pressures arising from trade tensions, these factors create a critical situation for recipient countries.

For Uzbekistan, this means the potential accumulation of debt obligations for projects that do not generate sufficient economic returns, which could limit budgetary

stability, sovereign space for economic policy, and infrastructure development in the long term.

This also underscores the need for strict financial risk management and transparent auditing, especially given Kazakhstan's undisclosed debt obligations, estimated at approximately 16% of GDP, which constrain fiscal flexibility and limit government investment. Without reliable institutional guarantees, Uzbekistan could face similar challenges, threatening its ability to achieve sustainable economic growth.

Ultimately, China's growing influence generates strategic and socio-environmental challenges, including indirect economic consequences.

Beijing's approach combines the principle of non-interference with mandatory economic interdependence, creating a system of asymmetric power relations.

The rapid expansion of Chinese projects in Central Asia has sparked public dissatisfaction and resistance from environmentalists, especially in Kazakhstan, where the 2016 initiative to lease one million hectares of agricultural land to Chinese investors provoked nationwide protests. Chinese-led development in mining and hydroelectric sectors in Tajikistan and Kyrgyzstan has raised environmental and equity concerns.

Such social tensions threaten the long-term viability of foreign initiatives and may deter future investment. Uzbekistan faces a choice between balancing economic benefits from deepening engagement with China and preserving national control and long-term economic sustainability.

At the same time, policies focused on Chinese finance and markets threaten the country's economic diversification. Uzbekistan's excessive dependence on Chinese loans and markets could force the country to send a significant portion of its commodity exports, such as gas, gold, and cotton, primarily to China on less favorable terms. This strengthens the role of Chinese companies in strategically important sectors, including energy, infrastructure, and extractive industries, reducing the space for developing their own production chains. This ultimately creates financial and institutional dependency, limiting Uzbekistan's fiscal and foreign economic autonomy.

A more progressive strategy involves targeted economic diversification with the goal of positioning Uzbekistan as a regional hub for transit and manufacturing services, serving markets beyond China.

The development of the Trans-Afghan Corridor, linking Uzbekistan with Pakistan and India, opens up opportunities to access new consumer markets and attract investment from Western and Middle Eastern countries in high-return sectors such as digital infrastructure, renewable energy, and logistics.

By aligning these efforts with sustainable development criteria established by the EU and the UN, Uzbekistan can attract green investment while simultaneously

improving governance protocols and transparency. Cooperation with international financial institutions, including the Asian Development Bank (ADB) and the EU's Global Gateway initiative, can strengthen Chinese-financed projects, leading to a diversified spectrum of infrastructure and industrial investments. This model requires strong institutional capacity, a clear regulatory framework, and macroeconomic discipline to effectively manage various funding sources.

Uzbekistan can draw valuable lessons from Kazakhstan's extensive experience in China's "Belt and Road" initiative over the past decade, as well as from advanced international practices, to maximize economic benefits from cooperation with China.

First, negotiations should focus on jointly high-efficiency projects that deliver measurable benefits. Accordingly, Uzbekistan should attract investments that ensure economic efficiency through technology transfer, involvement of local enterprises, and transparent conditions that facilitate domestic value creation.

A key lesson concerns the preservation of core assets and natural resources. Uzbekistan must retain stakes in joint projects and insist on strict environmental and social oversight in all resource-related agreements.

Long-term economic sustainability depends on using natural assets to stimulate industrial diversification rather than pledging them for short-term loans. At the same time, Uzbekistan needs to diversify its trade geography to reduce overdependence on a single trading partner.

Second, it is important to align legal, digital, and infrastructure standards with internationally recognized benchmarks to ensure a continuous flow of investment. Establishing open digital customs regimes, harmonizing e-commerce and data security policies with UN and WTO standards, and participating in international financial reporting networks will enhance the competitiveness and credibility of Uzbek enterprises as partners.

By rigorously applying cost-benefit analysis, independent audit requirements, and encouraging international organizations such as the ADB and the World Bank to co-finance, Uzbekistan can ensure that Chinese investments contribute to inclusive economic growth while avoiding excessive debt burdens.

Thus, China's expanded trade approach to Central Asia opens significant economic opportunities for Uzbekistan, while simultaneously creating complex structural challenges. Continued Chinese demand and access to concessional financing could accelerate Uzbekistan's infrastructure modernization, industrialization, and its integration into international value chains.

Through expanded cooperation with the European Union and international financial organizations, as well as strict adherence to sustainability and fiscal ethics standards, Uzbekistan can leverage Chinese investment as a driver of long-term competitiveness rather than dependence. The inflow of foreign investment should be linked to national development programs to ensure that economic liberalization promotes resilience, technological modernization, and balanced growth across all sectors.

This requires a targeted focus on economic diversification, institutional stability, and strategic independence. With prudent management, the partnership with China

can support Uzbekistan's ambition to become a dynamic, self-sufficient trade, logistics, and industrial hub based on a model of inclusive and sustainable development.

II. GLOBAL ECONOMIC GOVERNANCE AND FINANCIAL ARCHITECTURE

Adaptation of Uzbekistan's export capabilities to WTO requirements and foreign economic challenges

Gavkhar Sultanova, *Head of the Centre for Economic Diplomacy (IAIS)*

An important direction for the further development of Uzbekistan's foreign economic activity at the present stage is the expansion of export opportunities and their adaptation to foreign economic challenges, which include intensified competition in world markets, increased protectionism on the part of the United States, and disruptions in transport and logistics chains due to political instability in the Middle East, economic sanctions against Russia, and others.

Uzbekistan has significant export potential based on its production capacity and comparative advantages. According to UNCTAD, Uzbekistan has identified comparative advantages in the production and export of the following groups of goods: **a)** food products: wheat flour, fruits, nuts, vegetables; **b)** raw materials: silk, uranium ore concentrate, cotton, sulfur, synthetic fibers; **c)** fuel: natural and coal gas, electricity; **d)** chemical products: radioactive substances, fertilizers, ethylene polymers, plastic monofilaments; **e)** industrial goods: textile yarn, knitted fabrics, cotton fabrics, knitted clothing and accessories, zinc, copper, silver, platinum, building clay; **f)** machinery and transport equipment: household appliances; **g)** other goods: non-monetary gold.

Based on existing production capabilities and technologies, Uzbekistan has significant potential for expanding and diversifying exports of chemical products, metals, textiles, construction materials, agricultural products, machinery, and electronics.

In order to fully realize Uzbekistan's export potential in the medium term, it is important to stimulate the development of export-oriented industries and improving the institutional support system for export activities as part of the ongoing reforms related with Uzbekistan's accession to the WTO.

Currently, Uzbekistan is actively working to bring national legislation into line with WTO rules with a view to joining the organization before the 14th Ministerial Conference, which will be held in Cameroon in 2026. Negotiations with 23 countries have been completed, and work is underway on the draft report of the Working Group.

As part of these preparations, export subsidies and incentives, including tax breaks and cost compensation, have been abolished since January 1, 2025. In this regard, the study of non-actionable support measures within the framework of WTO rules.

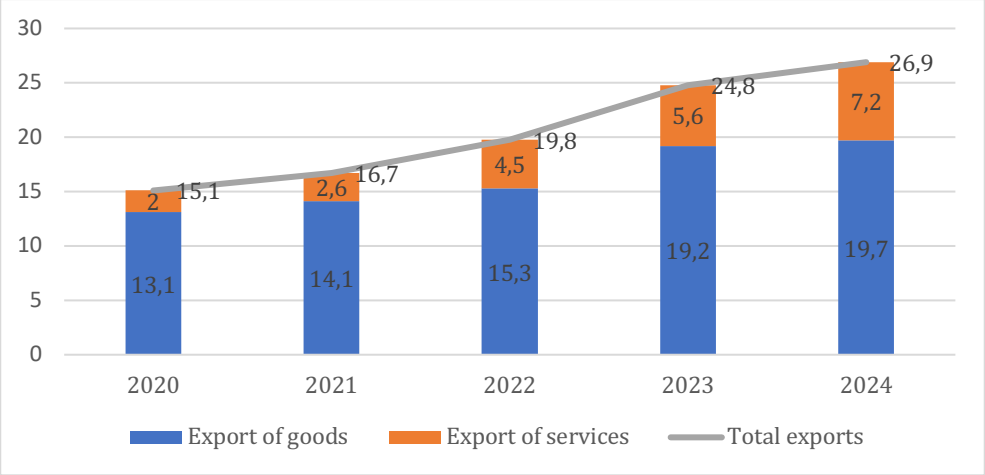
For reference: According to the WTO Agreement on Subsidies and Countervailing Measures, the reduction or refund of import duties levied on imported raw materials and supplies consumed in the production of export goods does not constitute an export subsidy. This rule applies when the reduction or refund of import charges upon export of finished products does not exceed the amount of duties paid on the import of raw materials and materials used in their production.

The refund or exemption from import duties for intermediate goods used in the production of export goods is one of the most common tools for stimulating export production in foreign countries. The application of this practice in Uzbekistan could become an important mechanism for reducing costs and increasing the competitiveness of export goods manufacturers, in accordance with WTO rules.

The WTO requires that the export of goods and services be carried out based on the principles of non-discrimination, transparency and minimization of restrictions.

In order to bring export procedures into line WTO rules and stimulate the production of high-value-added goods, export duties will be introduced on 86 types of raw materials and socially significant products. This measure will ensure the transparency of export procedures, stimulate deeper processing of local raw materials, and help to balance demand and supply in the domestic market for socially significant products. The implementation of these measures is necessary to bring Uzbekistan's export policy into line with WTO rules.

Over the past five years, there has been a positive trend in Uzbekistan's exports. The total volume of exports increased 1,8 times from $15,1 billion in 2020 to $26,9 billion in 2024. In 2024, the volume of goods exports amounted to $19,7 billion, and the volume of services exports amounted to $7,2 billion. At the same time, the growth rate of services exports *(28.6%)* significantly outpaced the growth rate of goods exports *(2.6%)*.

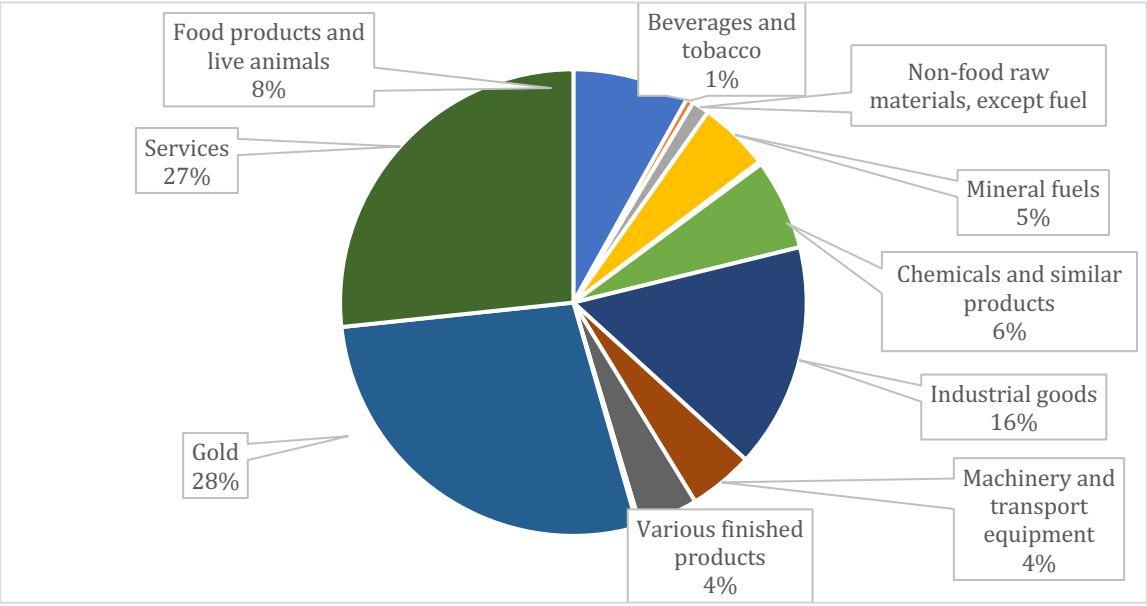


Dynamics of Uzbekistan's export volume for 2020-2024. (in billion US dollars)

In the export structure for 2024, non-monetary gold accounted for the largest share (about 28%), followed by services (26,7%). Industrial goods accounted for 15,6%,

food products and live animals for 8,1%, chemicals for 6,3%, mineral fuels for 4,9%, machinery and transport equipment – 4,5%, various finished products – 4,1%, non-food raw materials – 1,2%, beverages and tobacco – 0,5%, animal and vegetable oils – 0,2%.

According to IMRI data, the share of raw materials in exports decreased from 36% in 2017 to 17% in 2024. At the same time, intermediate goods with a low degree of processing predominate in the export structure.



Structure of Uzbekistan's exports in 2024 (in percent)

Transport services *(35,7%)* and tourism *(48,8%)* accounted for a significant share of the structure of service exports in 2024.The share of construction services exports was relatively small *(0,5%)*, while other services accounted for 15%. With transport costs rising as a result of disruptions in transport and logistics chains and the need to use alternative trade routes, the role of service exports as an important source of foreign exchange earnings and a factor in increasing the competitiveness of the economy is growing.

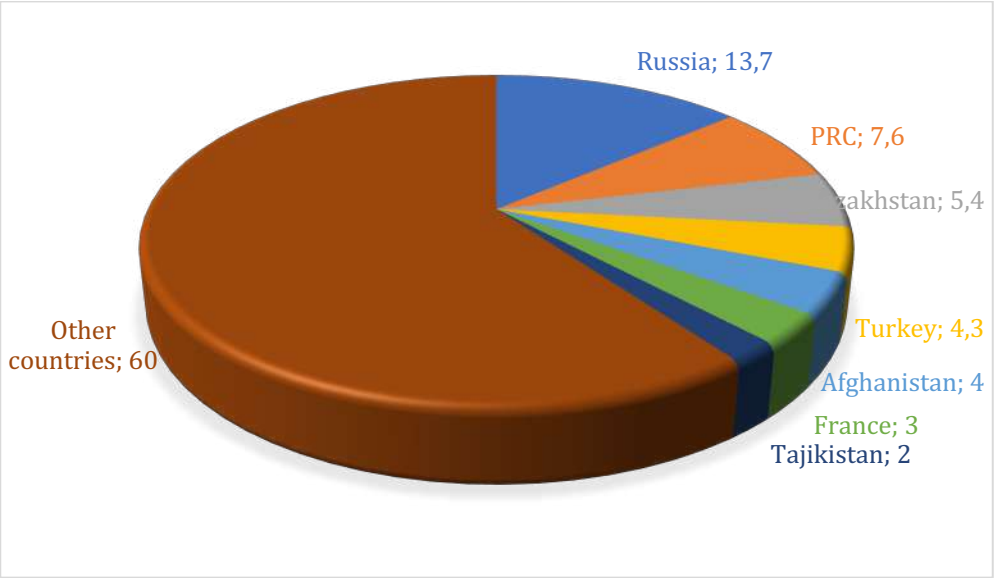
The commodity structure of Uzbekistan's exports is characterized by a relatively high degree of concentration, as evidenced by a comparison of the export product concentration index calculated by UNCTAD for Uzbekistan *(0,735 in 2023)* with its average value for countries with average per capita income *(0,346 in 2023)*. According to the World Bank, the technological structure of the country's exports is dominated by resource-based products *(55%)*, with low-tech goods *(19%)* and primary products *(17%)* accounting for a significant share, while the shares of medium-tech and high-tech goods remain low *(7% and 2%, respectively)*.

Accelerating the diversification of the export structure with a focus Increasing the share of high-value-added and high-tech goods will help ensure stable export revenues amid fluctuations in global commodity prices.

An important direction for deepening export diversification and increasing the share of high-tech goods in it is the development of innovative activities of enterprises and organizations by increasing the volume of R&D and innovation financing, including venture capital investment, developing innovative

infrastructure, attracting foreign investment in R&D, creating technology clusters and technology parks, and ensuring reliable protection of intellectual property rights.

In addition to diversifying the export structure, accelerating the diversification of the export geography is important for ensuring stable export revenues. Uzbekistan's export revenues are relatively highly dependent on the state of the economies of its main trading partners *(Russia, China, Kazakhstan, Turkey, Afghanistan, Tajikistan, and Kyrgyzstan)*, which accounted for about 40% of exports in 2024.



Geography of Uzbekistan's exports in 2024 (in %)

Ensuring sustainable export growth requires increasing supplies to countries with high potential demand for products from Uzbekistan. For example, according to the International Trade Centre, there is relatively high unrealized export potential from Uzbekistan to Poland, Lithuania, Germany, Italy, the United Kingdom, Singapore, Vietnam, Indonesia, India, Pakistan, and Brazil. To successfully realize the existing export potential, it is necessary to develop strategies for entering new markets, including analysis of potential demand and consumer preferences, as well as conditions for access to foreign markets.

Another direction for realizing Uzbekistan's export opportunities in the current environment is to expand the participation of national exporters in cross-border e commerce. To this end, it is necessary to conduct training for entrepreneurs on working with marketplaces, including logistics optimization, product promotion, and market analysis, as well as providing them with financial support for registration on cross-border e-commerce platforms, and developing logistics hubs in conjunction with marketplaces to reduce delivery times to foreign markets.

According to calculations by the International Trade Centre, 50% of Uzbekistan's export potential remains unrealized. In order to fully utilize the country's export potential, it is necessary to accelerate the adoption of Uzbekistan's National Export Strategy, which will include measures to train highly qualified specialists for export industries, apply modern trade finance instruments (e.g., export factoring), expanding insurance for exporters against political and economic risks, and providing effective

institutional support for export activities. In addition, Uzbekistan's accession to the WTO Agreement on Trade Facilitation and the implementation of its provisions are important for the development of exports. According to WTO estimates, full implementation of the agreement could reduce a member country's trade costs by an average of 14,3%.

The development of export-oriented industries in the country will be facilitated by the organization of free export-production zones based on the application of advanced international experience.

In order for domestic manufacturers' products to comply with international standards, it is necessary to increase the availability of certification and standardization services, provide entrepreneurs with information on the main stages and requirements for obtaining international quality certificates, and expand partnerships with international bodies and companies in the field of harmonizing local and international standards. In order to promote the "Made in Uzbekistan" brand abroad, it is important to expand opportunities for national manufacturers to participate in international exhibitions and fairs and to open national pavilions on international digital platforms.

For reference: in 2022, Uzbekistan's national online pavilion was launched on the Chinese marketplace Alibaba, featuring more than 4800 products from 50 local companies, which opened up access to 190 countries around the world where Alibaba operates.

Uzbekistan's National Export Strategy should include a program of measures to develop exports in priority manufacturing sectors, developed on the basis of an analysis of the current state of the industry, assessment of its competitiveness, analysis of the global market for products, foreign practices of state support for export activities, and priority areas for the development of exports in the industry, with an emphasis on expanding the product range and developing new markets. This will make it possible to identify barriers to the development and diversification of exports in priority sectors and to develop measures to remove them.

The adoption and implementation of Uzbekistan's National Export Strategy contributes to the dynamic development of exports and increase their contribution to ensuring sustainable economic growth and improving the well-being of the population.

On BRICS Initiatives to Create a Global Financial Security Network

Gavkhar Sultanova, *Head of the Centre for Economic Diplomacy (IAIS)*

Over the past decade, BRICS has evolved from a discussion platform into a significant institutional actor shaping elements of a new global financial architecture. The BRICS financial track aims to reduce the vulnerability of developing economies to external shocks and sanctions risks, expand sources of long-term financing for infrastructure and sustainable development, and gradually moving away from the US dollar.

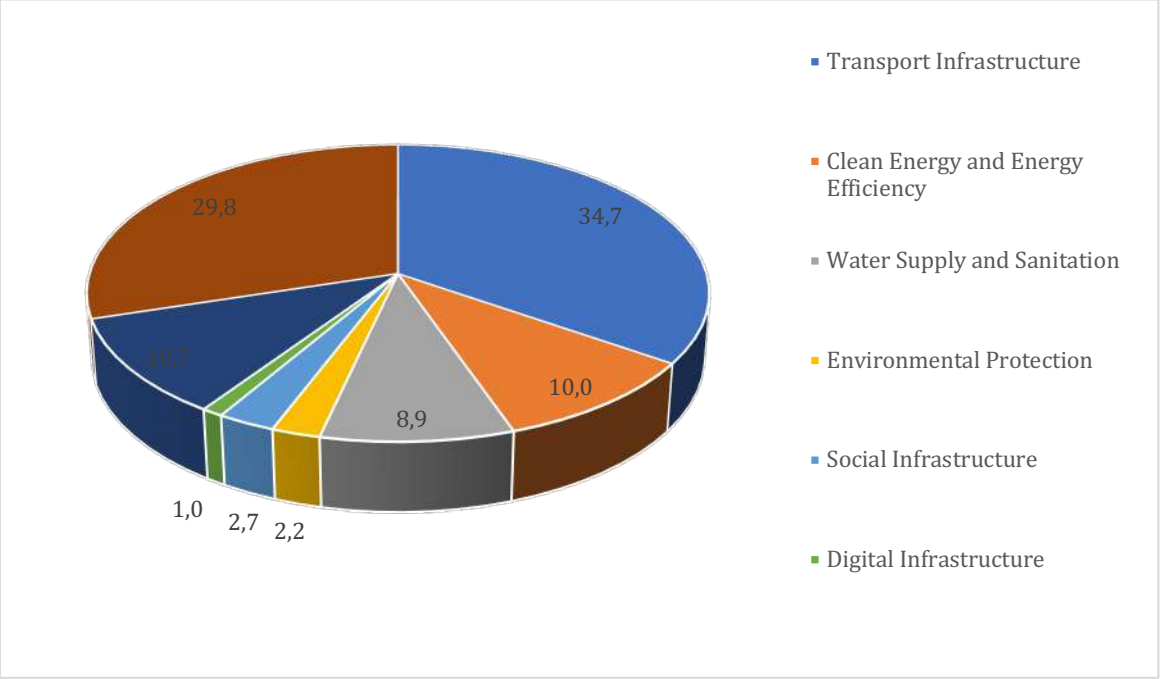
Historical milestones in the creation of BRICS financial security mechanisms. In order to ensure financial security and reduce dependence on external financial centres, the BRICS countries promoted an agenda of reforming the IMF and the World Bank, expanding mutual settlements in national currencies, and the creation of their own development and stabilization institutions. The turning point came at the 6th BRICS summit in Fortaleza *(Brazil, July 2014)*, where the New Development Bank *(NDB)* and the Contingent Reserve Arrangement *(CRA)* were established each with $100 billion.

A distinctive feature of the NDB was the principle of equal participation of the founders *(20% each)*, which contrasts with the hierarchy of voting rights in the IMF and the World Bank. The CRA mechanism was conceived as an insurance "buffer" in case of balance of payments crises and short-term currency shocks. The largest participant in the the mechanism is China with $41 billion, followed by Brazil, Russia, and India with $18 billion each, and South Africa with $5 billion. While remaining a reserve mechanism, the BRICS CRA mechanism is regularly tested by the central banks of the BRICS countries, demonstrating its operational readiness to provide emergency liquidity support.

Country	**Contribution *($ billion)***	**Share *(%)***
China	41	41
Brazil	18	18
Russia	18	18
India	18	18
South Africa	5	5

Contributions to the BRICS Contingent Reserve Arrangement

By 2024, the New Development Bank's portfolio of approved projects reached approximately $40 billion *(120 projects in total)*. As part of improving infrastructure and ensuring sustainable development, the NDB's activities focus on financing projects in areas such as clean energy and energy efficiency, transport infrastructure, water supply and sanitation, environmental protection, social and digital infrastructure.



Distribution by sector of projects approved by the NDB, as of 2024

Against the backdrop of geopolitical instability in 2018–2024, projects to expand settlements in national currencies and integrate payment infrastructure have intensified (BRICS Pay initiative, the pairing of the Russian financial messaging system and the Chinese Cross-Border Interbank Payment System). The idea of a common settlement unit, the "R5" (a basket of reais, rubles, rupees, yuan, and rands), remains a medium-term goal, while the practical focus is on mutual settlements in national currencies and the development of payment system interoperability.

This is ensured by central bank swap lines and settlements in local currencies, the issuance of NDB bonds in national currencies and local currency loans, central bank digital currency pilots for cross-border transactions, and the BRICS Pay platform for instant payments.

According to estimates for 2023–2024, thanks to the implementation of these measures, the total share of mutual settlements in national currencies within BRICS has reached about 30–35% with high differentiation by direction. For example, in trade between Russia and China, the share of settlements in national currencies (ruble/yuan) is very high (about 80-90% in trade in goods). The increase in settlements in national currencies reduces the influence of the US dollar on global finance and gradually strengthens the position of the currencies of the BRICS countries.

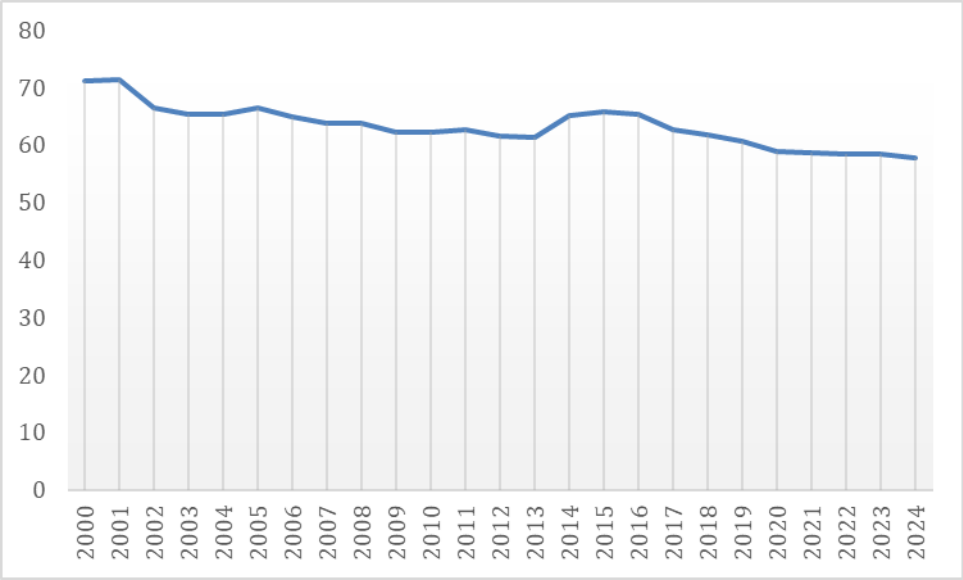
Outcomes of the BRICS Summit in Rio de Janeiro (July 6–7, 2025). The 17th summit in Rio de Janeiro was the first since the expansion of BRICS. The Rio de Janeiro Declaration enshrines the principles of global governance reform: redistribution of quotas and votes in the IMF in favour of underrepresented economies, and increasing the role of the Global South countries in decision-making. The leaders supported

strengthening the RBMF and conducting regular joint exercises by central banks to maintain the readiness of the mechanism.

A key practical step was the approval of a framework for a multilateral investment guarantee mechanism under the NDB. This measure is designed to reduce the risks for private and institutional investors in infrastructure and green projects in BRICS+ countries and stimulate the associated flow of capital. In addition, statements were adopted on climate finance, the digital agenda (including approaches to regulating artificial intelligence) and healthcare, broadening the understanding of financial security to include social and environmental dimensions.

De-dollarization and a new monetary and financial architecture. The share of the US dollar in global currency reserves has been declining since the early 2000s: from 71,1% (2000) to 57,8% (2024, according to IMF data).

Central banks are increasing their holdings of non-traditional currencies and gold, while cross-border trade is increasingly being conducted in national currencies. The BRICS countries are showing the greatest momentum in this direction: China has switched more than half of its foreign trade settlements to the yuan; the ruble and yuan dominate Russia's trade with its BRICS partners; India is expanding the use of the rupee in payments for energy imports.

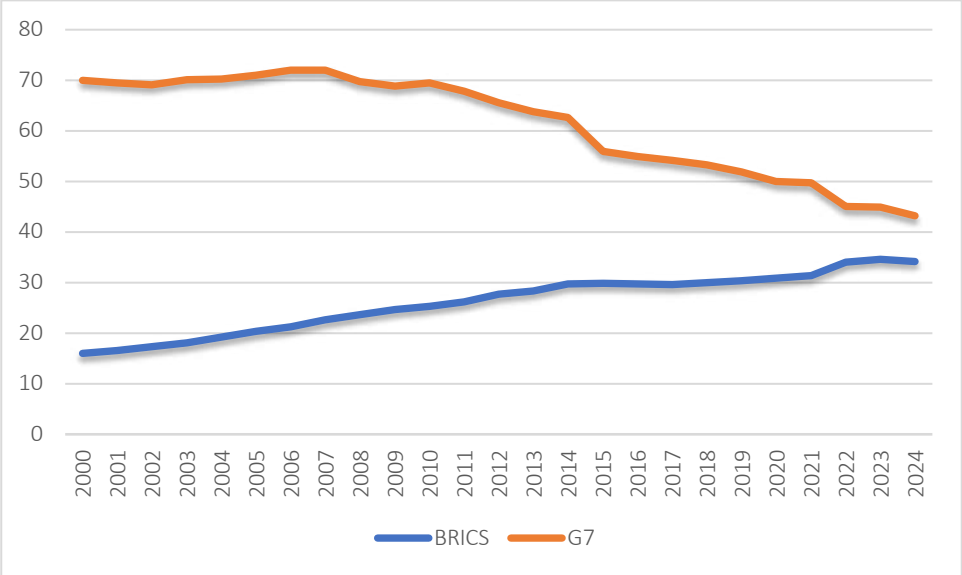


The share of the US dollar in global currency reserves (2000–2024).

There is a gradual but steady diversification of global currency reserves, driven mainly by sanctions risks, global interest rate volatility, the growth of "southern" financial centres, and the expanding use of the yuan. According to publications of Foreign Policy, in the coming years, the global currency landscape may shift from a dollar monopoly to a multi-block configuration: the formation of a "yuan bloc" around China and a gradual increase in the share of the euro bloc at the expense of the dollar. Against the backdrop of political uncertainty, foreign central banks are rationally "hedging their bets" and diversify their reserves.

The global economy is undergoing a long-term structural shift: the share of BRICS in global GDP *(PPP)* is growing from 16% in 2000 to 34% in 2024, and a decline in the share of the G7 from 70% to 43% over the same period.

The driving factors are demographics, strengthening of the industrial base *(expansion of production clusters, localization of supply chains, increased processing of raw materials),* and consistent investment programs for modernization *(infrastructure, energy transition, digitization of public services and business)*. The impact of these factors, along with the achievements of the BRICS countries on the financial track, are leading to a redistribution of centres of demand and capital accumulation from a monocentric to a polycentric model, strengthening the "southern" weight in the global financial system.



Share of BRICS and G7 in global GDP (PPP), 2000–2024

This year, Uzbekistan joined the NDB, opening access to financing for priority projects *(estimated at up to $5 billion)*. Potential areas include the modernization of irrigation systems and water management facilities, solar and small hydropower, digital platforms for public services, and transport and logistics corridors. Membership in the NDB strengthens Uzbekistan's financial stability by diversifying sources of capital and offering more flexible terms compared to traditional lenders.

BRICS+ partner status in 2024–2025 and active participation in summits, give Tashkent a channel for entering Global South projects, as well as for promoting Central Asian initiatives *(e.g., linking the North-South and China-Central Asia-West Asia corridors)*.

From the perspective of full membership, the key tasks will be: developing the domestic financial market, increasing the convertibility of the national currency, and integrating the payment infrastructure with BRICS systems.

The reaction of the US and the West to the BRICS financial initiatives. The official position of the US emphasizes that BRICS is not considered a "geopolitical rival." At the same time in practical terms, Washington warns its partners about the risks of abandoning dollar settlements, allows for the application of increased import tariffs and

other restrictive measures, increases sanctions pressure, and tightens control over dollar transactions through the correspondent banking system. At the same time, the US is promoting alternative proposals for countries in the Global South *(the Global Infrastructure and Investment Partnership project)* and, through the IMF and the World Bank, is linking access to resources to compliance and transparency requirements.

At the expert level, there is widespread scepticism about a single BRICS currency due to the heterogeneity of the economies and the lack of a supranational issuer. At the same time, the objectivity of the trend towards diversification of reserves and settlements, which reduces the systemic risks of single-currency dependence, is recognised. According to Foreign Policy, following its expansion and amid internal disagreements, BRICS has become less "manoeuvrable" and more cumbersome, which reduces its ability to quickly address global challenges. This indirectly confirms that instead of a single currency, pragmatic steps such as settlements in national currencies, infrastructure cooperation, and liquidity lines are more realistic.

Thus, BRICS has formed the framework of a global financial security network: the NDB and the PUVR provide long-term capital and liquidity insurance; initiatives on settlements in national currencies and payment system interconnectivity reduce cross-border transaction costs and sanction risks. In the coming years, the key will be to increase the practical use of these instruments and expand the participation of BRICS+.

Taking into account current trends and risks, two scenarios for the development of the BRICS financial track for 2025–2030 are envisaged. **Optimistic scenario:** 1) the share of settlements in national currencies in BRICS trade grows to 40–45%; 2) The NDB increases its portfolio to $70–90 billion, actively uses the investment guarantee mechanism, attracting private capital; 3) The PUVR is tested on a limited case and confirms its effectiveness; 4) An integrated platform, BRICS Pay, is gradually created, providing direct payments between BRICS banking systems; 5) The share of the US dollar in the reserves of the Global South decreases by another 2–4%. This scenario will be realized through a combination of political coordination within BRICS, strengthening of financial institutions, technological interoperability of payment systems, and a favorable external environment without the expansion of sanctions restrictions.

Pessimistic scenario: 1) due to internal disagreements and external pressure, progress slows down; 2) the share of settlements in national currencies stalls at *28–33%*; 3) the NDB portfolio grows only slightly *($55–65 billion)*, and the guarantee mechanism is used selectively; 4) mutual integration of payment systems is fragmented; 5) the share of the dollar in reserves stabilizes at 58–60%. This scenario is possible if internal disagreements intensify, institutional and technological delays occur, macroeconomic conditions deteriorate, and sanctions pressure remains severe.

Overall, both scenarios remain positive for Uzbekistan: even with moderate progress, BRICS+ provides access to infrastructure financing, trade diversification, and a "safety net" channel for settlements. In the optimistic scenario, Uzbekistan will accelerate its "green" modernization and transport connectivity, strengthening its position as a regional transport and logistics hub.

On Foreign Experience in Islamic Finance and the Possibilities of Its Application in Uzbekistan

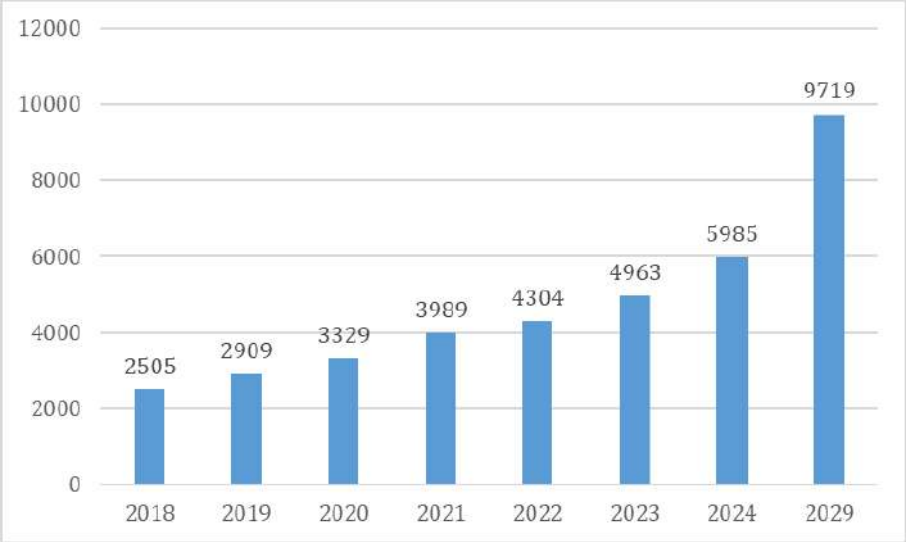
Gavkhar Sultanova, *Head of the Centre for Economic Diplomacy (IAIS)*

Islamic finance is a financial system based on the principles of Sharia. It excludes elements prohibited in Islam, such as usury and interest rates (riba), transactions involving a high degree of uncertainty and risk (gharar), and investments in prohibited sectors of activity (haram). It is founded on the principles of transparency, partnership, and social justice. The key mechanisms include equity financing (musharaka), trust-based management (mudaraba), deferred payment sales (murabaha), and leasing (ijara). The system also includes Islamic insurance (takaful) and Islamic bonds (sukuk).

As a relatively young and rapidly growing segment of the global financial system, Islamic finance plays an important role in ensuring sustainable economic development. Its popularity increased in particular after the global financial crisis of 2008, when risk-sharing models demonstrated greater resilience compared to traditional debt instruments. The experience of foreign countries shows a significant contribution of Islamic finance to the mobilization of domestic investment, the attraction of foreign capital, and job creation.

The Islamic finance sector in Central Asia is at an early stage of development. Kazakhstan and Kyrgyzstan have achieved certain progress in developing the regulatory framework, while in Uzbekistan the legislative foundations of Islamic banking are still being formed. Notably, the "Uzbekistan–2030" Strategy sets the task of introducing Islamic finance criteria and procedures in at least three commercial banks in the country.

Since its emergence in the 1970s, Islamic finance has been developing at an accelerated pace. Currently, Islamic finance is present in 98 countries worldwide. In 2024, the total volume of Islamic financial assets grew by 21% compared to 2023 and reached USD 6 trillion. According to forecasts by the Islamic Corporation for the Development of the Private Sector, if the average annual growth rate of 10% is maintained, the global volume of Islamic financial assets could exceed USD 9.7 trillion by 2029.



Dynamics of global Islamic financial assets (2018–2024, USD billion)

In 2024, Islamic banking accounted for the largest share of Islamic financial assets (72%), which is explained by the widespread presence of Islamic banks and "Islamic windows" in the Middle East and North Africa, as well as Southeast and South Asia. The top ten countries by asset volume include Iran, Saudi Arabia, Malaysia, the UAE, Kuwait, Qatar, Bahrain, Turkey, Indonesia, and Bangladesh.

The second-largest market segment is the sukuk market (17.2%), which exceeded USD 1 trillion in 2024. Unlike conventional bonds, which represent a debt obligation, sukuk are Islamic financial certificates confirming ownership shares in an underlying asset or project. The key difference is that the holder of a traditional bond is a creditor who receives interest income, which is prohibited by Sharia, whereas the holder of sukuk is an investor who receives a share of the profit generated by the asset.

Thus, sukuk returns are directly linked to real economic performance rather than a fixed interest rate. This instrument is becoming a key tool for sovereign and corporate financing in many developing markets.

Islamic funds and other non-bank financial institutions account for 5.1% and 3.2% of assets, respectively. A relatively small segment of the global industry is the takaful market, whose total assets amounted to USD 38 billion in 2024. Takaful, or Islamic insurance, operates on the principles of mutual assistance and solidarity.

The experience of Malaysia and Bahrain in developing Islamic finance is illustrative. Malaysia ranks first in the world according to the Islamic Finance Development Indicator. In 2024, Islamic finance accounted for more than 46% of the country's total financial assets. Malaysia's success is explained by consistent government policy, the formation of a comprehensive regulatory framework, and institutions coordinating sector development. The country has established a robust Sharia governance system, ensured tax neutrality for Islamic products, and developed a strong educational system for human capital training.

The deep development of the sukuk market, the takaful sector, and the availability of liquidity support instruments have enabled Malaysian Islamic banks to

effectively manage risks and expand their product range. Together, this has formed an effective ecosystem that attracts both domestic and international capital, making Kuala Lumpur one of the global centers of Islamic finance.

Bahrain has also created one of the world's leading Islamic finance ecosystems. Over the past four decades, the country has become a regional and international hub of Islamic banking. Bahrain's achievements are associated with clear regulation by the Central Bank, which acts as a single regulator for the entire financial sector, as well as with a developed infrastructure and specialized platforms for Islamic fintech. Bahrain's experience demonstrates how institutional interaction and investment in human capital ensure the sector's steady development.

Against the background of the success of Malaysia and Bahrain, the contribution of Central Asian countries to the global Islamic finance industry remains insignificant. By early 2024, the total volume of assets in the region amounted to USD 699 million, representing only 0.01% of the global total.

At the same time, the presence of a large Muslim population in Central Asian countries and high demand for Sharia-compliant financial instruments determine significant development potential. According to forecasts, Islamic banking assets in Central Asia could reach USD 2.5 billion by 2028.

Kazakhstan is the regional leader in this field. Since 2009, a number of laws regulating Islamic financial operations have been adopted in the country. Currently, two Islamic banks ("ADC Islamic Bank" and "Zaman Bank") operate in Kazakhstan, with combined assets of USD 547 million in 2025. The Astana International Financial Centre plays an important role in promoting sector development. The first-ever issuance of sukuk in tenge took place in 2023.

In Kyrgyzstan, a legislative framework regulating Islamic finance has been gradually formed. Currently, five financial and credit institutions are engaged in this activity, including banks with "Islamic windows" (specialized divisions of conventional banks offering Sharia-compliant services without charging interest income or investing in prohibited sectors). The volume of Islamic financing in Kyrgyzstan reached USD 103 million in 2024.

Tajikistan adopted a law on Islamic banking in 2014, and the first Islamic bank was opened in 2019. The country also has microcredit and leasing companies offering Islamic products. The total volume of sector assets reached USD 36 million by 2025.

The main challenges hindering the development of Islamic finance in Central Asia include a low level of public awareness, a shortage of qualified specialists, a limited range of Islamic financial instruments, and the need to harmonize regulatory documents at the regional level.

The potential for developing Islamic finance in Uzbekistan is particularly high. The country seeks to actively develop this industry in order to provide financial services to a large segment of the population. According to a UNDP survey, 68% of Uzbekistan's population and 60% of business representatives are unwilling to use traditional banking services due to their religious beliefs.

Taking into account demographic growth, economic development, and the scale of the banking system, Uzbekistan has significant potential. According to forecasts by the Islamic Development Bank Institute, the volume of Islamic banking assets in Uzbekistan could reach USD 1.1 billion by 2028 and USD 2.4 billion by 2033.

Currently, active work is underway to form a regulatory framework. A draft law on the introduction of Islamic banking developed by the Central Bank is under discussion in the Legislative Chamber of the Oliy Majlis. Under current legislation, non-bank credit institutions are already permitted to provide Islamic financial services. The country's first Islamic leasing company ("Taiba Leasing") is operating, and the insurance company "Gross" has launched takaful services.

The introduction of Islamic finance in Uzbek banks will allow them to expand their customer base and increase revenues through product diversification. In addition, opportunities for financing small and medium-sized enterprises will expand significantly. The potential volume of financing that Islamic banking could unlock for businesses is estimated by experts at several billion US dollars per year; however, exact figures will depend on the pace of development of the legislative framework and market infrastructure.

At the same time, when assessing prospects, a number of risks must be taken into account. First, the creation of a parallel financial system requires significant regulatory and supervisory costs and may lead to arbitrage between conventional and Islamic segments. Second, there is the complexity of fully harmonizing Sharia principles with existing secular civil and tax legislation. Finally, a shortage of qualified personnel at the initial stage may become a serious barrier.

To ensure the accelerated development of Islamic finance in Uzbekistan, the following measures are proposed:

1. **Formation of a favourable regulatory environment:** adoption of a core law on Islamic banking; amendments to the Tax Code and Civil Code, as well as to a number of laws regulating banking activities; establishment of a Sharia governance system and ensuring tax neutrality of Islamic transactions.
2. **Human capital development and public awareness:** introduction of university programs to train specialists in Islamic finance; establishment of an Islamic Finance Academy under the Central Bank; enhancement of financial literacy to familiarize the population with key Islamic finance instruments.
3. **Liquidity provision and fintech development:** introduction of Sharia-compliant liquidity instruments at the Central Bank level; provision of deposit

protection schemes for Islamic accounts; establishment of regulatory sandboxes for Islamic fintech.

4. **Development of the Islamic capital market:** creation of conditions for debut issuances of sovereign, green, and corporate sukuk through enhanced cooperation with the Islamic Development Bank and other international financial institutions.

5. **Financial inclusion and social development:** expansion of the Islamic microfinance ecosystem with targeted support for women's entrepreneurship and micro firms; establishment of waqf funds to finance projects in education and healthcare with transparent reporting.

Overall, the development of Islamic banking and the Islamic capital market in Uzbekistan will help attract foreign investment from the Middle East and Southeast Asia and will contribute to the country's deeper integration into the global financial system.

III. DIGITAL AND INNOVATION-DRIVEN ECONOMIC COOPERATION

On the Current State and Prospects of Cooperation Among OTS Countries In The Field of Digital Transformation and Innovation

Gavkhar Sultanova, *Head of the Centre for Economic Diplomacy (IAIS)*

The Organization of Turkic States (OTS) serves as a key platform for multilateral cooperation among the countries of the Turkic world. In recent years, digital transformation and innovation have taken an important place on the OTS agenda.

At the highest level, strategic decisions have been adopted with the aim of strengthening cooperation in the field of digitalization. These include the formation of a "Digital Turkic World" and the implementation of joint projects to develop ICT infrastructure. Cooperation in this area enables OTS member states to enhance their level of technological development, contributes to sustainable economic growth, and improves the well-being of the population.

The current state of digital transformation and innovation in the OTS countries. The OTS countries demonstrate a high level of readiness for the digital economy; at the same time, their innovation potential varies significantly. Internet access in the OTS member states has reached fairly high levels in recent years, with about 81–96% of the population being internet users.

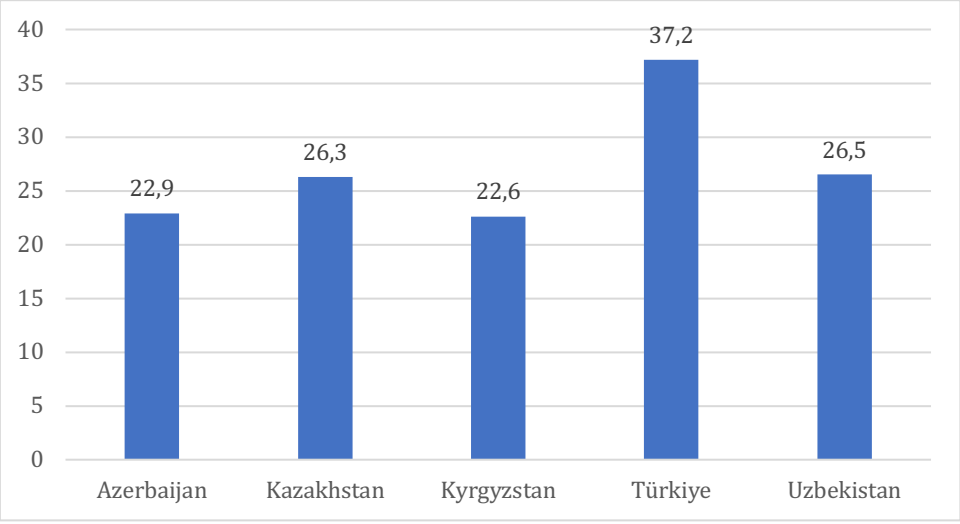
Despite the fact that innovation activity has been growing (according to the Global Innovation Index (GII) 2024), its distribution across countries remains uneven. Hungary (36th place) and Turkey (37th place) are among the leaders within the top 40 most innovative economies, while Kazakhstan ranks 78th and Uzbekistan 83rd. Azerbaijan and Kyrgyzstan significantly lag behind in terms of the level of innovative development, occupying 95th and 99th positions, respectively, in the GII ranking among 133 economies.

At the same time, all these countries are pursuing active policies aimed at accelerating digital transformation and building a knowledge-based economy.

Country	ICT Index	Rank in the Global Innovation Index (GII)
Participating countries		
Azerbaijan	79	95
Kazakhstan	88,9	78
Kyrgyzstan	84,7	99
Turkey	85,8	37
Uzbekistan	81,7	83
Observer countries		
Hungary	86,8	36
Turkmenistan	no data	no data
Turkish Republic of Northern Cyprus	no data	no data

Level of digital development and position in the Global Innovation Index (2024) of participating and observer countries of the OTS

Digital engagement of the population in the Turkic states is at a fairly high level; however, their innovation activity still lags behind that of leading developing countries. The gap is most pronounced between Turkey and the smaller-scale economies of the region, which highlights the need to expand joint efforts to stimulate innovation. The exchange of digitalization best practices, as well as the implementation of joint research and projects, can accelerate the development of high-tech industries and enhance the innovation potential of the OTS member states.



Innovation Development Index (Global Innovation Index 2024, Scores)

Today, the governments of all OTS member states are coordinating their strategies for the digitalization of the economy, placing emphasis on the development of e-government, e-commerce, startup ecosystems, and the implementation of artificial intelligence technologies. Initiatives in this area largely complement each other and are aimed at creating a unified digital space of the Turkic world.

A special role in this process belongs to the more advanced countries in terms of innovation, primarily Turkey and Kazakhstan, which can share their experience in digital modernization and in supporting scientific and technological development. Kazakhstan already demonstrates leadership in certain areas, ranking 8th in the world in terms of the level of online government services and 15th in the indicator of e-participation of citizens.

Uzbekistan, Azerbaijan, and Kyrgyzstan are actively developing digital infrastructure. For example, the share of the population covered by 4G/LTE mobile networks in these countries has already exceeded the global average (82.9%) and continues to grow rapidly. Such dynamics create favourable conditions for digital transformation, the success of which will be determined by the effective implementation of joint initiatives in the field of innovation.

Key initiatives and projects of digital cooperation among OTS countries. Over the past decade, the OTS member states have implemented a number of strategic initiatives aimed at accelerating the digital transformation of the region. A key initiative has been the concept of the "Digital Turkic World," proposed by Uzbekistan. The development and implementation of this concept will facilitate the exchange of advanced achievements and best practices in the field of ICT, promote the creation of digital systems for innovation, infrastructure, and science, as well as large data centers..

Azerbaijan is actively developing the "Digital Silk Road" project, which envisages the creation of a Trans-Caspian high-speed digital corridor. Its implementation will make it possible to increase internet bandwidth in the Caucasus, Central Asia, and South Asia, reduce costs, and enhance the resilience of regional networks. At the 11th OTS Summit in Bishkek, an Agreement on Cooperation in the Digital Economy was signed, providing for the simplification of cross-border e-commerce, the introduction of digital payments and electronic invoices, strengthened protection of personal data, and the development of digital infrastructure. At the same summit, the city of Bishkek was declared the Digital Capital of the Turkic World for 2025.

The OTS is also shaping innovation ecosystems: a "Startup Valley" is being established, a Turkic Venture Fund has been created, and the concept of a "Turkic

Metaverse" is being developed. Their goal is to stimulate the development of startups, attract investment, and support digital entrepreneurship. To exchange experience, OTS countries regularly hold forums and seminars: at Innoweek.Uz (November 2021), the forum "The Role of Innovation and Technological Development in the Turkic Region" was held; in 2022, Kazakhstan hosted the international Digital Bridge forum in Astana; in 2023, delegations from OTS countries studied best practices at technoparks and innovation centers in Turkey.

Financial support for digital cooperation projects is provided by the Turkic Investment Fund, established in 2023, which Hungary later joined. International organizations also support OTS initiatives in the field of digitalization.

In November 2024, the OTS and the United Nations Industrial Development Organization (UNIDO) signed a Joint Declaration of Cooperation, in which digital transformation and innovation were identified as key areas of interaction.

Uzbekistan seeks to become one of the leaders in the digital and innovation agenda within the OTS by applying a comprehensive approach to digital modernization, the development of high technologies, and the formation of a knowledge-based economy. Within the OTS framework, Uzbekistan proposed the establishment of a Research Center for Human Capital Development and initiated projects aimed at stimulating the knowledge economy and the creative economy. Priority areas include the introduction of advanced technologies (electronics, quantum computing, robotics), training specialists for Industry 4.0, and forming highly qualified human capital.

At the first meeting of OTS Ministers of Industry, Science, and Technology (Istanbul, October 2024), the Uzbek side identified among the priorities research cooperation, digital transformation, the development of technoparks, and space technologies. To stimulate youth initiatives, Tashkent proposed opening a Creative Youth Center of the Turkic World, which would serve as a platform for talent development, idea exchange, and the formation of a creative ecosystem. Uzbekistan also holds leading positions in the digitalization of trade and transport procedures by promoting e-Permit systems and "green corridors", as well as initiating a joint data-exchange platform and a single electronic trade space to reduce bureaucracy and accelerate cargo transportation.

As a result, Uzbekistan not only strengthens its position as a technological hub within the OTS but also actively participates in creating a unified digital space of the Turkic World, which contributes to increased innovation activity and the international competitiveness of all countries in the region.

Prospects for the development of OTS cooperation in digitalization. Cooperation among OTS countries in the field of digital transformation and innovation demonstrates steady positive dynamics and may become one of the key factors of

regional development in the coming decades. By 2030, one can expect the formation of an almost unified digital space of the Turkic states, with mutual recognition of electronic signatures and documents, simplification of cross-border operations, and integration of government information systems.

An important direction will be the growth of joint innovation projects. The establishment of research centers in areas such as artificial intelligence, renewable energy, and biotechnology will enable the development of competitive products and strengthen the role of the OTS as a regional innovation hub.

Modern digital technologies—such as smart grids, the Internet of Things, big data analytics, artificial intelligence, blockchain, cloud computing, and virtual reality technologies—will be widely used in large-scale energy and transport projects.

Significant changes are also expected in the humanitarian sphere: the development of online education, digital projects for preserving cultural heritage, shared media portals, and youth initiatives will strengthen Turkic identity and trust among peoples. In the long term, OTS countries will strive to harmonize **common** rules in digital policy, ensuring data protection and internet security and regulating electronic commerce.

At the same time, the development of the OTS digital agenda faces several challenges. First, substantial investments in infrastructure are required: building modern communication networks, creating large data centers, and implementing digital solutions demand significant financial resources, which national budgets cannot always provide.

Second, differences in legislation among OTS countries remain: personal data protection standards, e-commerce rules, and digital payment regulations vary, complicating the formation of a unified digital space.

Third, there is a shortage of qualified personnel in information technology and cybersecurity, and a digital divide between urban and rural regions persists.

Fourth, the issue of cyber threats is becoming increasingly urgent in the absence of a common response mechanism

Despite these challenges, OTS countries have already laid a solid foundation for digital interaction. Jointly overcoming these obstacles will enable them to become one of the regional centers of technological development, ensuring economic growth and improved quality of life for the population.

Recommendations for deepening OTS digital cooperation

To deepen digital and innovation cooperation within the OTS, the following measures are proposed:

1. **Establish a permanent OTS Committee on Digital Transformation and Innovation.**

The Committee would coordinate national programs, eliminate duplication of initiatives, and form joint projects. It would also attract external financing, prepare analytical reviews, and develop unified progress indicators.

2. **Create an OTS Cyber Threat Response Center.**

The Center would ensure information exchange on cyberattacks, develop common standards for protecting digital infrastructure, and train specialists. This would enhance

the resilience of OTS digital systems and enable countries to jointly counter cyber threats.

3. **Develop joint research centers in high technologies.** OTS countries could pool efforts in areas such as artificial intelligence, quantum computing, robotics, and biotechnology. These centers would operate at leading universities and technoparks with support from the Turkic Investment Fund and focus on creating innovative goods and services for both regional and global markets.

4. **Launch unified digital platforms for businesses and citizens.** An important step would be implementing a common mechanism for recognizing electronic signatures, electronic invoicing systems, and digital payment services. This would create conditions for cross-border e-commerce and simplify interaction among companies in OTS countries. It is also possible to establish a digital startup platform to attract investors and facilitate idea exchange.

Thus, digital and innovation partnership within the OTS creates a solid foundation for the long-term sustainable development of the Turkic World. In the coming years, it will contribute to strengthening economic potential, improving population well-being, and enhancing cultural and humanitarian ties among OTS countries. Uzbekistan should continue to actively participate in this process by proposing new initiatives and promoting them within the OTS framework. This will enable OTS member states to reach a new level of digital and innovative development and strengthen their positions in the global economy.

On the Prospects for EU–Uzbekistan Cooperation in Digital Agriculture

Khulkar Karimova, *Senior Research Specialist of the Centre for Economic Diplomacy (IAIS)*

The agricultural sector of Uzbekistan is a critical pillar of the economy and a focal point for modernisation. It accounts for approximately one quarter of GDP and employs around 26% of the labour force. In recent years, Uzbekistan has embarked on ambitious reforms (including the abolition of crop quotas and the liberalisation of prices) to stimulate the production of higher value-added goods and to raise rural incomes. Under the "Digital Uzbekistan 2030" programme, the Government aims to achieve the broad-based integration of digital technologies across all sectors, including agriculture.

Digital solutions are regarded as vital for enhancing productivity, managing scarce water resources, and strengthening resilience to climate change in Uzbekistan's arid environment. The European Union, for its part, has identified sustainable agriculture and digital development as priority areas of its partnership with Tashkent, aligning its support with Uzbekistan's national strategies. The signing of the Agreement on Enhanced Partnership and Cooperation in October 2025 provides a new overarching framework for deepening cooperation in areas such as trade, innovation, "green" growth and digitalisation. Within the framework of initiatives such as the EU's "Global Gateway" programme and Uzbekistan's "Digital Uzbekistan 2030" programme, both sides are allocating resources to modernise agriculture through technology and knowledge transfer.

Trade and Economic Cooperation between Uzbekistan and the EU in the Agricultural Sector. Trade and economic relations between Uzbekistan and the EU have demonstrated steady growth, although the potential for mutual trade – particularly in the agri-food sector – remains underutilised. In 2023, bilateral trade turnover reached €6.1 billion, and in 2024 it amounted to approximately €4.8 billion – more than twice the 2020 level.

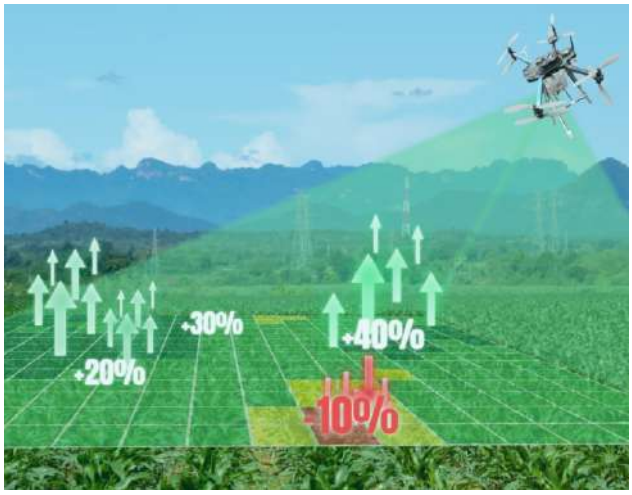
At the same time, the structure of trade remains asymmetric: Uzbekistan's exports to the EU account for less than 5% of the country's total exports, whereas the EU remains an important source of goods, technologies and investment. Agricultural products represent a relatively small share of bilateral trade: in 2024, Uzbekistan's exports of agricultural goods to the EU reached €73 million, compared with €397 million in imports of such products from the EU.

Against this backdrop, the EU's financial and technical assistance plays a significant role: from 2020 to 2023, Uzbekistan received €32.5 million in grants to support reforms in the agricultural sector, and in 2024 an additional €6 million was allocated for the implementation of the Food Security Strategy. For the period 2024–2027, the EU has approved a new assistance package of €30 million, maintaining its status as the largest donor supporting agricultural reforms in Uzbekistan.

Cooperation in agriculture is expanding through large-scale programmes with a combined investment budget of €119 million for 2021–2027. Projects are being implemented to increase rural employment, digitalise agricultural services, and expand farmers' access to electronic platforms.

The current GSP+ arrangement grants duty-free access to the EU market for around 66% of Uzbekistan's export product lines and encourages the alignment of national standards with European ones.

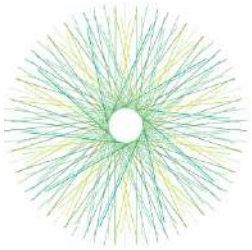
In parallel, Uzbekistan is actively engaging with international organisations: the European Bank for Reconstruction and Development (EBRD) has built up an investment portfolio of €5.8 billion; the World Bank is financing digitalisation and livestock development; the International Fund for Agricultural Development has channelled more than US$600 million to support 205,000 rural households; and the Food and Agriculture Organization of the United Nations (FAO) is advancing digital solutions through the "Digital Villages" project.



European Practices for the Digital Transformation of Uzbekistan's Agricultural Sector. A range of flexible approaches applied across EU Member States could support the digital transformation of Uzbekistan's agriculture. In European farms, drones, GPS-enabled equipment and soil sensors are widely used to optimise fertiliser application and irrigation; the Netherlands and Spain are particularly illustrative examples in this field.

EU initiatives such as the Common Agricultural Policy and the "Farm to Fork" programme provide examples of targeted grants and subsidies that could be leveraged to facilitate the adoption of ICT in agriculture.

The EU's advanced practices are further reinforced by satellite technologies and advisory systems. Uzbekistan could incorporate free Earth observation data from the EU's Copernicus programme into its national geoportal to improve crop monitoring and yield forecasting.



Another area for cooperation is water resources management: weather-based drip irrigation methods – such as those applied in citrus and olive cultivation across Southern Europe – are promoted through EU-supported initiatives such as EIP-AGRI.

Structural Barriers to Digital Transformation in Uzbekistan's Agricultural Sector. Uzbekistan faces complex, interlinked obstacles to fully realising the potential of digital agriculture.

The most significant challenges are water scarcity and inefficiency: more than 90% of the country's freshwater is used in agriculture, yet productivity remains critically low, amounting to just US$6 of agricultural GDP per cubic metre – well below the global average of US$15.

A significant share of irrigation infrastructure is obsolete, and investment of US$826 million is required to modernise 299 pumping stations by 2026. Ineffective metering systems, fixed water charges and rigid scheduling have resulted in water losses and conflicts. Despite the availability of digital solutions – such as smart meters and satellite monitoring – their nationwide deployment is costly and logistically challenging.

At the same time, physical and digital infrastructure in rural areas remains weak: limited broadband access, unstable electricity supply and underdeveloped agrologistics prevent farmers from adopting advanced tools and accessing global markets.

Although Uzbekistan plans to double food-processing capacity by 2026, slow digitalisation in rural areas and a lack of competition in the telecommunications sector are constraining progress. These conditions risk producing isolated pilot successes rather than scalable transformation.

Moreover, constraints in human capital and fragmented data ecosystems create serious institutional and social barriers. Many rural farmers – particularly older ones – lack digital literacy, and the provision of professional upskilling courses in this area remains insufficient. There is also a shortage of specialists capable of deploying and maintaining technologies such as the Internet of Things or satellite-based irrigation systems.

Although training courses delivered by the FAO and the EU have begun to address this gap, a more systematic integration of digital agriculture into education, vocational training and lifelong learning is essential to prevent exclusion – particularly among women and remote communities.

Furthermore, agricultural data remain fragmented and non-interoperable across agencies. Initiatives such as the establishment of the State Water Cadastre and a digital agriculture platform are already under way, but they require closer coordination and formal data-sharing protocols.

Policy development and regulation also lag behind: unresolved issues of data ownership and privacy, as well as weak PPP mechanisms, constrain investor confidence. Environmental risks further compound these obstacles: soil salinisation, biodiversity

loss and extreme weather events may undermine digital gains unless they are complemented by restoration measures and climate-responsive policies.

Overall, Uzbekistan's challenges span infrastructure, institutions, regulation, the environment and equality of opportunity. They cannot be addressed through technology alone; comprehensive reforms and partnerships – particularly with the EU – are required to ensure that digital agriculture delivers both higher productivity and sustainability.

Scenarios for the Development of Digital Agriculture under the EU–Uzbekistan Partnership. Looking ahead, the trajectory of digital agriculture in Uzbekistan – and the extent to which cooperation with the EU proves successful – may unfold under two scenarios. These scenarios envisage differing levels of commitment, investment and reform implementation over the next 5–10 years, illustrating a range of possible outcomes.

In the optimistic scenario of accelerated digital transformation, Uzbekistan and the EU fully leverage the framework of the Agreement on Enhanced Partnership and Cooperation to scale digital agriculture nationwide by 2030. Strong political backing and substantial investment enable the widespread deployment of smart irrigation systems, precision agriculture tools, and the integration of real-time satellite data through a fully operational "Digital Agriculture" platform.

High-speed internet and upgraded power grids would extend even to remote areas, while research collaboration would enable the development of climate-resilient crop varieties and digital services such as pest-diagnosis applications. These advances would improve water-use productivity, making it possible to save up to 7 billion cubic metres of water per year, raise agricultural GDP growth to 6–7%, and contribute to doubling smallholder farmers' incomes by 2026.

Rural poverty would decline as new jobs and start-ups emerge in agri-tech and processing, while sustainability would be strengthened through lower emissions and more efficient resource use.

In the moderate scenario of gradual progress, Uzbekistan achieves a partial digital transformation in agriculture, with tangible advances concentrated in specific regions such as the Fergana Valley and Karakalpakstan, where targeted projects supported by the EU or the World Bank are being implemented.

In these areas, productivity gains of 20–30% and water savings of up to one third can be expected; however, nationwide scaling is constrained by limited budgets, infrastructure gaps and uneven local capacity.

Internet coverage may reach 97% by 2030, although quality and affordability would remain uneven in remote areas. Farmers would widely adopt basic tools (e.g., price applications and SMS alerts), while systemic reforms – such as comprehensive water pricing or public–private partnership frameworks – would progress slowly.

Ultimately, Uzbekistan would develop promising "islands of innovation"; however, partial digitalisation and incomplete reforms would leave the sector vulnerable to climate shocks, and the country would risk missing a critical window for full-scale transformation.

Recommendations for Advancing Digital Agriculture under EU–Uzbekistan Cooperation. To enable an effective transformation of Uzbekistan's agricultural sector, a multi-pronged strategy is recommended, beginning with the development of digital infrastructure in rural areas.

This includes achieving near-universal broadband coverage by 2027 through satellite connectivity, fibre-optic networks and 5G, as well as exploring the use of renewable-energy microgrids to ensure reliable electricity supply.

Water resources management is another key area in which nationwide deployment of smart irrigation technologies, satellite monitoring of evapotranspiration, and volumetric water pricing could increase water productivity by at least 50% by 2028.

In parallel, an effective human capital development strategy is required, including the establishment of a Digital Agriculture Innovation Centre, the expansion of regional innovation clusters, and increased participation in the Erasmus+ and Horizon Europe programmes to strengthen skills in digital farming methods. These integrated measures are intended to position Uzbekistan as a regional leader in smart and sustainable agriculture.

Uzbekistan has demonstrated its commitment to digital transformation through the implementation of strategies such as "Digital Uzbekistan 2030" and sectoral reforms, while the EU has shown its readiness to provide support through financing and expertise. By deepening this cooperation, both sides can achieve mutually beneficial outcomes. Uzbekistan would strengthen its food security by making agriculture smarter, more productive and more resilient to climate impacts.

IV. DEVELOPMENT STRATEGY AND SOCIO-ECONOMIC TRANSFORMATION

Different Paths to a Common Goal: How Central Asian Countries Are Tackling Poverty

Gavkhar Sultanova, *Head of the Centre for Economic Diplomacy (IAIS)*

By the end of 2025, the socio-economic architecture of Central Asia has undergone significant change, marked by the emergence of fundamentally different national strategies for adapting to global challenges.

Against the backdrop of a slowdown in global progress on poverty eradication and a complex crisis environment, the region has demonstrated notable macroeconomic resilience. While globally the number of people living in extreme poverty has increased to 817 million, Central Asia in 2024 and 2025 reached a historic low extreme-poverty rate of 0.5% (measured against the US$2.15-per-day threshold).

This indicator points to the virtual disappearance of extreme poverty in its traditional sense. However, behind the aggregated statistics lies a complex pattern of regional disparities. Countries operating under broadly similar climatic and geopolitical conditions display differing levels of institutional maturity and effectiveness in social protection.

The shift in analytical focus in the current period is driven by the need to assess quality of life through the lens of real human needs. The Global Multidimensional Poverty Index applies an approach that conceptualises poverty as an accumulation of deprivations. A person is considered multidimensionally poor if they experience deprivations in more than one third (33.3%) of the full set of indicators.

This set of indicators covers three key dimensions: health, education and living standards (including access to electricity, water, fuel and adequate housing). The Index also captures the category of the "vulnerable" – people who have not yet crossed the poverty threshold but remain at risk. This group experiences deprivations ranging from 20% to 33%, which makes their situation highly fragile in the face of external shocks.

New Welfare Metrics and the Quality of Statistics

Alongside the assessment of quality of life, monetary indicators have also evolved. As the challenge of physical survival has largely been addressed in the region, international institutions now use the "Global Prosperity Gap" metric. It measures how far household incomes fall short of the US$25-per-day level (the standard for high-income countries).

In this context, Uzbekistan's indicators – where a typical resident has a daily income of around US$12.50 (2017 PPP) – suggest the emergence of a model characteristic of sustainably growing markets. To reach the global standard of prosperity, the country's incomes would need to increase by an average of 2.0 times.

This compares favourably with Turkmenistan, which is classified among the countries with the widest gaps: there, the shortfall is roughly ninefold, indicating a substantial distance from contemporary consumption standards.

The quality of statistical data is becoming a new criterion for regional development. Uzbekistan's provision of updated, validated household survey data has enabled international institutions to revise historical poverty series for the region as a whole.

The use of accurate statistics from Uzbekistan led to a recalculation and a reduction of the poverty rate in the macro-region by approximately two percentage points. This implies that the real situation in the region's most populous part proved substantially more favourable than previously assumed on the basis of projections that relied on outdated information.

Country-Level Models of Multidimensional Poverty

An examination of multidimensional poverty dynamics reveals substantial differences in the nature of social deprivation that cannot be captured through the lens of GDP.

Analysis of Uzbekistan's data indicates a specific profile that confirms the effectiveness of state regulation in basic infrastructure. With a Multidimensional Poverty Index of 0.006 and a poverty headcount of 1.7% (around 617,000 people), Uzbekistan exhibits a distinctive feature: an exceptionally small share of people in the "at-risk" category (just 0.2%). This suggests a clear divide: the overwhelming majority of the population is provided with the necessary minimum, and the intermediate stratum between those who are secure and those who are poor is virtually absent.

Even more indicative is the structural composition of the Index, i.e., the factors on the basis of which individuals are classified as poor. In Uzbekistan, 94.5% of multidimensional poverty cases are driven exclusively by deprivations in the health dimension (primarily nutrition and access to specialised medical care).

By contrast, the contribution of education is 0.0%, and living standards account for only 5.5%. This indicates that the country has largely resolved issues of universal access to school education and to basic communal infrastructure (electricity, water and housing).

The remaining pockets of poverty are not systemic but highly localised, allowing the state to concentrate resources on specific health-sector priorities.

The comparison with income poverty is also instructive: the multidimensional poverty headcount (1.7%) is more than twice lower than the income poverty rate (4.1%). This suggests that even people with low earnings retain access to basic services, which helps prevent them from falling into severe deprivation.

A different picture is observed in Kazakhstan, which is officially classified as an upper-middle-income country. An interesting feature is recorded there: the income poverty rate, according to international standards, is 0.0%, while deprivation-based poverty stands at 0.5% (around 92,000 people).

This points to the presence of a group of citizens who are not formally poor in monetary terms but are, de facto, deprived of access to certain services – predominantly healthcare (the health dimension contributes 90.4% to the Index). The share of the

vulnerable population in Kazakhstan is 1.8% (366,000 people), which is higher than in Uzbekistan.

Kyrgyzstan is characterised by a "hidden risk" model. Despite a relatively low official multidimensional poverty rate (1.0% of the population), the key feature is a pronounced imbalance: the share of the vulnerable population hovering on the brink of deprivation stands at 5.1% (around 363,000 people).

The number of people in the risk zone far exceeds the number of those officially classified as poor. This points to fragile welfare outcomes: even a minor change in external or internal conditions could worsen the situation for a significant share of citizens.

The drivers of deprivation in Kyrgyzstan are distributed more evenly than in neighbouring countries: health (49.9%), living standards (27.7%) and education (22.4%). The high share of household and education-related deprivations indicates that social infrastructure is under strain across multiple dimensions.

The most challenging situation is observed in Tajikistan. It is the only country in the regional overview where severe multidimensional poverty is recorded (0.7%), and the overall poverty headcount reaches 7.4% (773,000 people).

The scale of the risk zone is the highest in the region: 20.1% of the population – more than 2 million people – are one step away from deprivation. In total, nearly 28% of the country's population are either poor or vulnerable.

A critical factor in Tajikistan is the contribution of education to the poverty structure – 26.5%, the highest figure in Central Asia. This correlates with evidence that around 70% of adults living in poverty have no vocational education. Such a situation creates a self-reinforcing cycle of poverty and constrains prospects for high-quality economic growth.

Turkmenistan reports statistically low levels of multidimensional poverty (0.2%). However, the structure of these indicators (82.4% attributable to the health dimension) and limited transparency warrant a cautious interpretation of official data.

Drivers of Inequality and Climate-Related Risks

In terms of economic inequality, countries across the region also exhibit differing trends. In Kazakhstan, despite its high-income status, inequality has been increasing. The gap in consumption expenditure between the richest and poorest 10% of the population has reached a threefold difference.

The poverty profile is "getting younger": children account for 40% of the total number of people in need, and one in eight children in the country (13%) lives in conditions of financial deprivation. Regional disparities remain acute: in Turkistan Region, the poverty rate has increased over the past 15 years from 14.4% to 24%, indicating the emergence of areas where the country's economic growth is not being felt.

In Uzbekistan, inequality is also a pressing issue. The World Bank notes that recent economic growth has been skewed in favour of better-off groups: the incomes of the richest 10% have risen by more than 30%, whereas those of the poorest have increased by only 6%. This is reflected in the Gini coefficient, which stands at 31.2.

For reference: the Gini coefficient is a statistical measure of income inequality, capturing how unevenly income is distributed; a value of 0 indicates perfect equality, while 100 indicates absolute inequality.

The energy transition is becoming another important dimension of poverty reduction, particularly in the context of climate-related risks. The latest data indicate that, in Central Asia, low-income groups are exposed to substantial environmental threats: 41.6% of the poor live in areas at risk of drought. Against this background, the World Bank characterises Uzbekistan's strategy for transforming its energy systems as the most economically cost-effective solution.

Investment in renewable energy is viewed here as a tool for expanding energy access in remote areas. Decentralised generation (solar panels, wind turbines) provides reliable lighting and heating where extending conventional grids is prohibitively expensive. This directly improves the quality of life in rural communities and reduces non-monetary poverty associated with energy deprivation.

At the other end of the regional spectrum is Turkmenistan, which faces challenges stemming from limited transparency. The absence of verifiable statistics (GDP data have not been published by international institutions since 2020) obscures imbalances that become visible through alternative indicators. Independent observations record high food inflation (14.5% over the first 11 months of 2025), which significantly exceeds official projections.

The existence of a dual exchange-rate regime – where the market value of the currency may exceed the official rate by multiples – places a heavy burden on ordinary citizens. It materially reduces their ability to purchase imported goods and foodstuffs. The decision to suspend the traditional annual indexation of wages and pensions at the end of 2025 likewise creates significant risks of declining real household incomes.

A Typology of Poverty Models in the Region

Analysis of the 2025 results makes it possible to systematise the regional landscape by distinguishing three indicative poverty models.

The first model, characteristic of Uzbekistan and – partly – Kazakhstan (with due allowance for income levels), may be described as "Health as the Primary Barrier". In these countries, basic infrastructure challenges (electricity, water and housing) have largely been addressed, and access to school education is ensured. People are classified as poor primarily due to health and nutrition-related indicators. Uzbekistan is distinguished by a minimal "risk zone" and by the robustness of these indicators even when cross-checked against income measures.

The second model – "Hidden Risk" – is observed in Kyrgyzstan. Despite low official poverty figures, there is a sizeable stratum of people in a precarious position. The drivers of deprivation are mixed, affecting both living conditions and education.

The third model – "Systemic Challenges" – is characteristic of Tajikistan. It is marked by the highest poverty levels, the presence of severe forms of deprivation, and significant weaknesses in education, requiring long-term structural solutions.

National Strategies for Social Support

At the same time, countries across the region have developed differentiated approaches to poverty reduction, reflecting their economic capacities and institutional

priorities. In Kazakhstan, which relies on monetary and digital instruments, poverty-reduction programmes are centred on Targeted Social Assistance (TSA).

As of 1 January 2023, the country has launched the "Digital Family Card", enabling the proactive assignment of 11 types of benefits without the submission of applications. Since the beginning of the year, more than 463,300 people have received notifications about available services, and 246,400 have exercised their entitlement to receive payments.

TSA, as the principal support mechanism, combines unconditional assistance for households unable to work with conditional assistance for those who are able to work but require support in gaining employment. In 2024, 413,700 people received such assistance, requiring budget expenditures of KZT 39.5 billion. In addition, a guaranteed social package for children is in place, covering transport costs and meals.

This model demonstrates high administrative efficiency and transparency; however, its impact on long-term exits from poverty is constrained by fiscal limits. Although 50,900 families formally left the poverty zone, the mechanism primarily addresses consequences (insufficient income) rather than causes (a lack of assets).

In Kyrgyzstan and Tajikistan, policy is shaped under tighter budget constraints and a greater dependence on donor assistance. Kyrgyzstan is implementing a hybrid model that combines traditional child benefits with active labour market measures. A key instrument is the "Social Contract" project, aimed at overcoming dependency. Under the programme, families receive a grant of KGS 150,000 to start a small business, conditional on completing training in entrepreneurship fundamentals and financial literacy. Over 2022–2024, KGS 3.3 billion was allocated for these purposes, enabling coverage of 35,226 families and improvements in living conditions for 190,000 people.

In Tajikistan, the poverty reduction strategy to 2030 is being implemented with substantial support from international institutions (including a US$50 million World Bank grant). However, the scale of national support remains modest: the annual targeted benefit equals 11 calculation indicators (TJS 825), representing a small amount supplemented by child-related payments.

In 2025, this programme covered around 223,000 families. The establishment of a unified registry and an electronic system has improved targeting, but the overall volume of resources does not allow one to speak of a large-scale structural impact.

Uzbekistan is pursuing a qualitatively different strategy in which poverty reduction has been elevated to a matter of state policy and is grounded in the comprehensive creation of assets for the population. At the end of 2024, a programme was launched to engage community elders in the mentoring of low-income families.

For these purposes, the budget allocated UZS 504 billion (over US$39 million). Assigning respected community representatives to vulnerable families makes it possible to combine material assistance with social adaptation.

This targeted-impact policy is reinforced by a large-scale land reform: the allocation of 235,000 hectares of land among 800,000 families has already created a basis for income generation, and a new programme provides for the allocation of a further 50,000 hectares of arable land. The "From Poverty to Prosperity" programme is grounded in the principle of "Seven Opportunities", going beyond cash transfers.

The institutional foundation is provided by the "Inson" social service centres and the mahalla-level delivery system. Particular attention is paid to the gender dimension: substantial resources amounting to US$1.5 billion were allocated in 2024 to support the development of women's entrepreneurship.

The effectiveness of this approach is also evidenced by specific macroeconomic results. In the President's Address to the Oliy Majlis and the people of Uzbekistan, the final indicators for 2025 were presented: the unemployment rate declined from 5.5% to 4.9%, and 5 million citizens were provided with an income.

As a result of targeted measures, around 1.5 million families moved out of poverty, while 1,435 mahallas were designated for the first time as "poverty-free territories". At the national level, this ensured a reduction in the poverty rate from 8.9% at the beginning of the year to 5.8%, exceeding the planned targets. These measures directly improve multidimensional poverty outcomes, delivering a more sustainable and longer-term effect than purely monetary transfers in neighbouring countries.

Comparative Analysis in the Asian Context

To provide a more comprehensive assessment of the sustainability of the national development model, it is advisable to move beyond regional comparisons and benchmark the country's indicators against Asian economies with a similar income level and economic structure. Data from the World Bank's *Poverty, Prosperity, and Planet* report (2024) make it possible to gauge the effectiveness of ongoing reforms against the backdrop of countries facing comparable challenges.

Mongolia serves as the closest structural analogue. Like Uzbekistan, it is a landlocked, post-socialist state exposed to similar climate-related risks. Inequality indicators are also nearly identical: in both cases, the Gini coefficient falls within the "moderate inequality" range (around 31.2–31.4), pointing to broadly comparable underlying income-distribution patterns.

However, comparison with fast-growing South-East Asian economies – Viet Nam and Indonesia – highlights the advantages of the approach pursued in Uzbekistan. Viet Nam, often cited as a successful industrialisation case, exhibits inequality around five points higher (Gini coefficient of 36.1). At a stage of active structural transformation, Uzbekistan has managed to distribute incomes more evenly, avoiding the sharp social stratification that accompanied Viet Nam's economic boom.

Particularly instructive is the comparison with Indonesia, selected for analysis as a large resource-extracting economy addressing similar challenges related to a complex energy transition. Whereas in Indonesia the "green" transformation is largely shaped by external climate pressure amid a continued high reliance on coal, the World Bank assesses Uzbekistan's energy-sector modernisation as an economically advantageous solution driven by internal necessity and resource constraints.

This motivation makes Uzbekistan's energy-transition strategy more pragmatic. Moreover, Indonesia also has a higher level of inequality (36.1), reinforcing the conclusion that Uzbekistan occupies a distinctive position among lower-middle-income countries – delivering a more equitable distribution of benefits than a number of dynamic Asian economies.

Prospects for Regional Integration and Joint Measures

At the same time, the presence of cross-border drivers of poverty that are common to countries across the region – such as climate change, landlocked logistics constraints and migration – necessitates moving beyond purely national measures. To ensure long-term resilience and overcome structural limitations, it is advisable to implement a package of intergovernmental initiatives, with Uzbekistan, given its geographic position and economic potential, able to act as a key integrator.

First, the formation of a belt of "Transboundary Prosperity Zones" appears critically important. The initiative envisages a shift from basic trade formats towards the establishment of joint industrial and logistics parks in border areas (for example, in the Fergana Valley). The introduction of "green" corridors for perishable goods and the deployment of processing capacity based on shared infrastructure would create jobs directly in labour-surplus rural areas and reduce crop losses among small farmers, thereby exerting a direct impact on poverty reduction in the most vulnerable locations.

Second, in the financial sphere, there is a growing need to integrate digital payment systems. Connecting national platforms (such as Uzcard, Humo, Elcart and Korti Milli) into a single system for instant direct transfers – without international intermediaries – would materially reduce transaction costs. This would help preserve the real incomes of households that are critically dependent on cross-border remittances and would improve financial inclusion for vulnerable groups.

Third, given the commonality of environmental threats, it would be appropriate to establish a "Regional Climate Risk Insurance Pool". This measure envisages the creation of a joint fund for index-based insurance of the agricultural sector against drought and water scarcity. An automatic payout mechanism based on objective satellite data would prevent vulnerable farmers from losing assets in crisis years without complex bureaucratic procedures, thereby breaking the vicious cycle of rural impoverishment during natural shocks.

Fourth, to address energy poverty, the "Energy in Exchange for Development" programme is proposed. The mechanism is based on seasonal synchronisation of energy systems to exchange winter energy supplies for the accumulation of irrigation water. A key condition should be the mandatory allocation of these supplies to rural areas in order to improve living conditions for households compelled to rely on primitive fuels – an issue that directly affects health and economic opportunities.

Finally, to improve the quality of policy decisions, it is recommended to establish a "Central Asian Observatory on Poverty and Inequality". The project would aim to harmonise welfare measurement methodologies and create a unified digital platform for monitoring the Global Multidimensional Poverty Index. This would enhance the precision of targeted programmes, facilitate the exchange of effective practices (for example, the mahalla-based delivery system), and simplify the mobilisation of donor funding for large-scale regional projects.

In sum, Uzbekistan is demonstrating a transition towards an effective model of sustainable development. Despite objective constraints, the country has shown the capacity to address fundamental infrastructure challenges, removing them from the list of drivers of poverty. Statistical openness, a focus on resolving health-sector gaps, the

creation of productive assets for the population, and the rollout of targeted support instruments through mahalla institutions together provide a foundation for further improvements in quality of life.

At the same time, the persistence of high vulnerability indicators and education-related problems in a number of neighbouring countries, as well as shared regional challenges, points to the need to recalibrate social policy approaches across the region towards deeper integration.

On Economic Transformation In 2025–2026 And Strategic Recommendations for Uzbekistan

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At present, the global economy is undergoing a period of significant change and increasingly sombre medium-term prospects. According to the IMF's October 2025 forecast, global growth is expected to slow from 3.3% in 2024 to 3.2% in 2025, and further to 3.1% in 2026.

Although these figures represent a marginal improvement relative to mid-2025 expectations, they remain, in aggregate, 0.2 percentage points below the projections made prior to the recent major shifts in trade policy. This indicates that, while the global economy has avoided an immediate collapse, structural shocks driven by new policy measures and heightened uncertainty have left the world on a weaker growth path than previously envisaged.

The resilience observed in early 2025 was largely underpinned by temporary factors that are now beginning to fade. These include a surge in trade and investment as firms rushed to move goods ahead of potential tariff measures, as well as temporary stockpiling.

As inventory replenishment cycles normalise and the volume of industrial orders brought forward declines, demand is easing in many countries in late 2025. As a result, while the near-term outlook has improved slightly, the medium-term trajectory remains well below the pre-pandemic average of around 3.7% per annum.

I. Regional Economic Indicators and Domestic Outlook. Economic performance worldwide is becoming increasingly uneven. Advanced economies are projected to grow by around 1.5% in 2025–2026, while emerging and developing economies are expected to maintain growth slightly above 4%. The United States remains a relatively positive case, but is entering a phase of slower growth.

After expanding by 2.8% in 2024, the US economy is projected to slow to 2.0% in 2025 and then edge up slightly to 2.1% in 2026. This deceleration reflects the fading of one-off stimulus measures and a weakening fiscal impulse.

For the euro area, growth is expected to rise moderately to 1.2% in 2025 following a solid 0.9% expansion in 2024. However, it is then projected to ease to 1.1% in 2026. Germany is showing improvement, but the budget deficit is widening due to higher defence and infrastructure spending.

Emerging Asia remains the strongest driver of global growth. China's economy is expected to expand by 4.8% in 2025, helping to offset adverse trade effects through stronger consumption and higher public spending. India continues to grow rapidly, with 2025 growth forecast at 6.6%, supported by rising external demand.

Sub-Saharan African countries also face challenges. For example, trade preferences under the African Growth and Opportunity Act are set to expire at the end of 2025, which will have a significant impact on manufacturing exporters in these economies.

II. Analysis of Volatility and Fragmentation in Trade Policy. The IMF's assessment places global trade policy volatility at the centre of attention, as it has become one of the key sources of uncertainty for the world economy. Although the realised impact of tariff measures in 2025 proved less extensive than previously expected, the overall environment remains unstable and difficult to forecast.

The IMF's baseline scenario assumes that tariffs in place by early September 2025 will remain in force for an indefinite period, while further announced increases will not be implemented. In effect, this implies an entrenchment of trade policy at a level that is significantly more protectionist than the historical norm.

Such uncertainty exerts a persistent dampening effect on investment and productivity. Firms are increasingly postponing investment decisions or reconfiguring supply chains, prioritising reliability over cost minimisation. This reduces the flexibility of global trade and limits the gains from international specialisation. As a result, global trade growth in 2025–2026 is expected to reach only 2.9% per year, well below historical levels.

For the US economy, this trade volatility is already having tangible effects: the forecast for global economic growth in 2025 has been revised down by 0.2 percentage points precisely due to protectionist measures. An additional risk is that previously introduced tariffs are increasingly being passed through to consumer prices, which could weaken purchasing power at a time when inflation has only just begun to stabilise.

III. Inflation Trends and Divergence in Monetary Policy. Global inflation is on a downward trajectory. Inflation is projected to slow to 4.2% in 2025 and to 3.7% in 2026 as commodity prices stabilise. The United States, however, stands out as a notable exception, with inflation remaining above target.

At the same time, many other major economies – including the euro area and China – are experiencing subdued inflation or even price developments below target. US inflation is projected to stabilise above the Federal Reserve's 2% target. This persistence is underpinned by robust wage growth and the lagged effect of tariffs on import prices.

These inflation differentials require different monetary-policy paths. In the United States, the Federal Reserve is expected to keep interest rates higher for longer than in other economies, with the federal funds rate projected to fall only to around 3.5% by end-2025.

By contrast, the European Central Bank is likely to maintain its policy rate at the post-cut level of 2%, while the Bank of Japan is distinctive in exiting ultra-loose policy through a gradual rise in rates towards a neutral level of 1.5%.

Policymakers must also contend with an "AI investment boom", which has supported equity markets but may contribute to elevated asset valuations and a higher neutral interest rate. This optimism creates a risk of an abrupt repricing of technology

stocks, which would tighten financial conditions and potentially undermine overall macro-financial stability.

IV. Fiscal Challenges and Long-Term Debt Sustainability. Fiscal policy in advanced economies has been looser than previously planned, raising serious concerns about debt sustainability. Advanced economies have broadly shifted towards a neutral fiscal stance rather than the tightening that had been expected earlier this year. The United States is a prominent example of this trend.

The "One Big Beautiful Act", adopted in 2025, led to substantial tax cuts and higher spending, widening the federal deficit. Even allowing for roughly 0.7% of GDP in new customs revenues, the US fiscal deficit is projected to deteriorate further in 2026.

Under current policies, public debt ratios are rising globally. US public debt is on an unsustainable path, projected to increase from 122% of GDP in 2024 to 143% by 2030 – a marked upward revision relative to earlier projections. Similarly, euro area debt is expected to approach 92% of GDP by 2030.

High debt levels imply deep vulnerability: if interest rates remain elevated, governments face rising rollover risks and higher interest costs, which can destabilise financial markets.

Such expansionary fiscal policy complicates monetary policy, forcing central banks to "lean against the wind" by keeping rates higher for longer in order to prevent the economy from overheating.

V. The Strategic Role and Risks of Industrial Policy. Governments worldwide are increasingly turning to industrial policy to develop "strategic" sectors such as semiconductors and green energy. While such measures aim to spur innovation, enhance national security and increase resilience to supply-chain disruptions, they involve significant trade-offs.

Industrial policy can help nascent industries overcome market failures or accelerate the transition to clean energy, but it is often risky given the inherent difficulty of "picking winners" in a rapidly evolving technological landscape.

Risks associated with industrial policy include higher consumer prices over extended periods and substantial fiscal costs, which add to already elevated debt burdens. Perhaps the most concerning risk is the misallocation of resources.

By favouring certain sectors, governments may divert capital and labour away from more productive, market-driven activities. Evidence suggests that while some sectors may experience localised gains, the adverse effects can reduce overall economic output.

Available findings indicate that horizontal policy initiatives – such as improvements in infrastructure and governance – tend to deliver larger and more durable growth impacts than narrowly targeted sector-specific interventions.

VI. Resilience of Emerging Markets and Policy Frameworks. The 2026 outlook suggests that the global economy has, overall, proved more resilient than expected. Even amid higher US interest rates and broader financial volatility, many emerging and developing economies have avoided severe dislocations. This has been made possible by more prudent economic management, timely policy decisions, and the maintenance of confidence in public policy.

Flexible exchange rates and accumulated reserves have helped absorb external shocks and preserve stability. As a result, a number of countries not only navigated a difficult period without major losses, but also retained scope for continued development and growth.

VII. Industrial Policy in a Changing World: Strategic Considerations for Uzbekistan. Against the backdrop of a slowing global economy and rising concerns about supply-chain resilience, many countries have renewed their interest in industrial policy. At the same time, the IMF report underscores that such measures are not a universal solution and often involve significant trade-offs.

This is particularly relevant for countries undergoing deep structural reforms, including Uzbekistan. In today's conditions, subsidies have become a core instrument of industrial policy, used to pursue multiple objectives simultaneously: raising productivity, fostering new technologies, preserving jobs, and achieving self-sufficiency in strategically important areas – above all in energy.

Approaches, however, differ markedly. In advanced economies, industrial policy is typically concentrated on high-technology industries and green energy, whereas in developing economies it spans a broader range of sectors.

The IMF's analysis indicates that the effectiveness of industrial policy depends on multiple factors and is accompanied by substantial risks. In theory, it can be useful in supporting so-called "infant industries", particularly where output expansion leads to efficiency gains.

In practice, however, the success of such measures hinges on conditions that are difficult to predict – such as the pace of technology absorption, the potential size of the market, and the scale of the technological gap vis-à-vis global leaders.

Industrial policy also requires significant budgetary resources and may be accompanied by higher prices for goods and services during the transition period. The most serious risk is inefficient resource allocation: capital and labour may flow from more productive sectors into subsidised yet less efficient industries, ultimately reducing the economy's overall growth potential.

According to the report's conclusions, direct state support – including subsidies – can indeed generate some improvement in target sectors, but the effect is typically limited. Moreover, in developing economies, subsidised financing can impede resource reallocation and may reinforce structural imbalances.

In conclusion, the IMF emphasises that the decisive factor for the success of industrial policy remains the quality of public governance and institutional capacity. Where institutions are weak, risks of corruption, lobbying and inefficient use of public funds rise substantially, reducing the potential benefits of such policy to a minimum.

The IMF's findings clearly indicate what Uzbekistan should do in this area. It is necessary to compare "vertical" policy (targeted support for specific firms or sectors) with "horizontal" policy (improving the business environment for all). Uzbekistan should prioritise "horizontal" reforms, as they are often more effective and entail lower risks.

Such reforms include investing in education and human capital; supporting public research; building public infrastructure; ensuring good governance and the rule

of law; maintaining macroeconomic stability; and establishing a supportive regulatory environment.

If "vertical" industrial policy is adopted, it should be carefully designed, transparent, focused on addressing specific and clearly defined market failures, and underpinned by strong institutions to reduce the likelihood of corruption and inefficiency. It is not possible to choose the right development strategy without a thorough assessment of the concrete risks and opportunities facing Uzbekistan's economy in today's world.

VIII. Strategic Policy Recommendations for Uzbekistan. The IMF's general recommendations, together with Uzbekistan's unique position as a fast-growing economy in Central Asia, can be used to define three core and interlinked policy priorities for the coming years. These priorities directly address challenges arising from fragmented global trade, fiscal vulnerability, and uncertainty in monetary policy.

i. Strengthening macroeconomic stability as the foundation for sustainable development. A strong macroeconomic base supports long-term growth and improves the capacity to absorb external shocks. It is therefore important to continue policies aimed at safeguarding stability.

To maintain stable inflation and well-anchored inflation expectations, it is essential that the Central Bank remains independent and that monetary policy is clear and consistent. On the fiscal side, a credible medium-term fiscal consolidation plan is needed to rebuild fiscal buffers.

This plan should be based on a balanced approach, combining expenditure rationalisation and revenue mobilisation, while protecting the most vulnerable groups. Any new state support measures should be highly targeted, time-bound, and backed by clearly identified funding sources.

Stronger domestic resource mobilisation is a cornerstone of fiscal capacity. This can be achieved by strengthening tax administration and broadening the tax base. Focusing on simple, broad-based taxes that are easier to collect can deliver immediate gains and pave the way for the future introduction of more advanced tax systems.

ii. Enhancing competitiveness and diversification to mitigate external risks. The global economy is becoming increasingly volatile and fragmented as countries adopt protectionist policies, impose trade restrictions, and prioritise the protection of domestic markets.

In these conditions, Uzbekistan cannot rely on a limited number of trading partners or markets. The greater the dependence on a small set of countries, the more vulnerable the economy becomes to external shocks. Trade policy should therefore aim to broaden the geographic scope of exports.

This includes gaining access to new markets, expanding trade with other regions, and concluding bilateral and regional trade agreements. At the same time, trade procedures should be simplified, restrictions reduced, and cross-border trade flows accelerated.

However, external diversification is not achievable without domestic reforms. To compete successfully in global markets, a key prerequisite is a supportive business environment at home. This requires simplifying regulation, ensuring consistent

protection of property rights, and promoting fair competition. These horizontal reforms improve operating conditions across the economy.

As a result of these efforts, Uzbekistan will be able to attract greater private investment – both domestic and foreign – raise productivity, and strengthen the economy's resilience to external crises.

iii. Investing in the Future: Digital Transformation and Human Capital. To secure long-term growth, policy should focus on the fundamental drivers of labour productivity. To prepare the workforce for the evolving technological requirements of the global economy, the Government should increase investment in education and skills upgrading.

At the same time, it is important to facilitate the adoption of digital technologies and artificial intelligence, which can significantly raise labour productivity. This agenda should include investment in new, interoperable digital infrastructure, as well as support to small and medium-sized enterprises in adopting digital tools.

It is critical to ensure that the regulatory framework keeps pace with the rapid development of digitalization and artificial intelligence. Creating a competitive environment that encourages the diffusion of new technologies can generate substantial productivity gains across the economy. Implementing these multi-dimensional proposals will require policy consistency, a long-term vision, and strong political will.

IX. Conclusion. Despite the complex and uncertain global economic environment in 2025, Uzbekistan has a genuine opportunity not only to overcome existing obstacles but also to strengthen its position.

Economic success will require proactive and well-designed policy, integrated across three key directions: strengthening the country's macroeconomic fundamentals; clearly prioritising horizontal structural reforms that improve the economic climate for all; and exercising extreme caution in the use of vertical industrial policy, limiting it to the mitigation of specific and clearly defined market disruptions.

Such an approach will not only reduce exposure to global instability, but will also lay the foundation for a more autonomous, diversified and resilient economy in line with global trends.

ACKNOWLEDGEMENTS

This Final Report demonstrates that Uzbekistan stands at a critical junction where external integration and internal transformation must be managed as a single, coherent strategy. The analysis of regional trade dynamics, global financial restructuring, digital cooperation, and development pathways shows that the country's traditional growth model—based on commodities, limited export geography, and concentrated financing sources—is no longer sufficient in an era of geopolitical fragmentation and technological acceleration. At the same time, Uzbekistan now has access to an unprecedented range of opportunities: expanding regional markets within ECO and the Turkic world, strategic partnerships with the European Union, growing connectivity with China and South Asia, new financing instruments through BRICS and Islamic finance, and digital technologies that can radically improve productivity in agriculture, industry, and public administration. The decisive factor will not be the availability of these opportunities, but the country's ability to integrate them into a disciplined, forward-looking policy framework.

The central conclusion of this report is that resilience and competitiveness must become the core principles of Uzbekistan's economic policy. Diversified exports, transparent and WTO-consistent trade rules, pluralistic sources of finance, and deep digital and innovation capacity together form the foundation of sustainable development. If these elements are implemented in a coordinated manner—supported by strong institutions, sound macroeconomic management, and inclusive social policy—Uzbekistan can reduce its vulnerability to external shocks while positioning itself as a regional hub for trade, logistics, green growth, and technological services. In doing so, the country will not only secure higher and more stable growth, but also create the conditions for lasting improvements in living standards and national economic sovereignty.

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