Confluence INVESTMENT MANAGEMENT

# Weekly Geopolitical Report

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## After Karimov

On August 29, the president of Uzbekistan, Islam Karimov, died from a cerebral hemorrhage. Karimov had been in office since the founding of Uzbekistan following the fall of the Soviet Union. Given his long tenure in office and the uncertainty that always surrounds the transfer of power in an authoritarian regime, there are concerns about the stability of Uzbekistan, in particular, and Central Asia, in general.

In this report, we will frame the geopolitical importance of Uzbekistan. We will offer a short history of the country, focusing on how outside powers conspired to play various tribal groups against each other to support the effective colonization of the region. We will examine the role of clans in Uzbekistan and how managing clan relationships is key to maintaining power. We will use this analysis to discuss potential successors to Karimov and the likelihood of future stability. As always, we will conclude with potential market ramifications.

### Central Asia

This is a political map of Central Asia. When the Soviet Union dissolved in 1991, the "stans"[1] were established as independent nations. Kazakhstan has the largest land mass but Uzbekistan has the largest population.[2] Uzbekistan is a key nation in the region and is the only one that shares a border with all of the other stans.

(Source: Wikipedia.org)

As the map indicates, Central Asia is bound to be influenced by Russia and China, the two surrounding major powers. The plains region of Central Asia was along the famous "Silk Road" trade route that ran from China to Europe. In the 19th century, Great Britain had an interest in the region to protect India. From 1830 to the late 1800s, Russia and Britain jockeyed for control of the area in what was called the "Great Game." Tribes in the region became accustomed to outside invaders traversing this part of the world.

Imperial Russia eventually gained control of the region. After the Bolshevik Revolution, the Communist government created socialist republics. Stalin was responsible for creating the current borders for the stans. Using a time-honored method deployed by colonialists, Stalin intentionally drew the borders in such a manner as to separate tribal groups that would have naturally gravitated together and put groups together that would have preferred to be apart. This

[1] The "stans" encompass Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan.

[2] Kazakhstan has a population of 17.0 mm while Uzbekistan's population is 30.4 mm.

tactic was also used by the British and the French in the Middle East.[3]

(Courtesy of www.stratfor.com)

Uzbekistan is divided among seven clans. Surveys suggest that Uzbeks self-identify by clan, religion and nation, in that order. Three clans are considered the most powerful—Samarkand, Tashkent and Fergana. There are also four smaller clans—the Jizzakh, Kashkadarya, Khorezm and Karakalpak—who avoid engaging in power conflicts with the three powerful clans. The lesser clans are more interested in their regional businesses and local governments. During the Tsarist period, the Samarkand clan was culturally dominant, while the Fergana clan had the largest population. In 1930, Stalin moved the capital city from Samarkand to Tashkent to boost the weakest of the major clans.

During the Soviet era, Moscow tended to rotate Uzbek leaders from the three major clans into positions of power in order to prevent any single clan from becoming dominant. The fear was, of course, that if one clan became pre-eminent, it might opt for independence, á la Tito in Yugoslavia. This pattern began with Stalin in the late 1930s and continued through the devolution of the Soviet Union.

Islam Karimov was named party secretary in 1989 and was in power during the Soviet Socialist Republic of Uzbekistan when the Soviet Union dissolved in 1991. He was then appointed president when Uzbekistan declared its independence. He was a member of the Samarkand clan but as president he tried to build an independent power base with the other two major clans, which upset leaders within his own clan. Accordingly, throughout his administration, Karimov was concerned that powerful members of the Samarkand clan would foment a coup against him.

Karimov promoted Rustam Inoyatov, a member of the Tashkent clan, to the head of the Uzbek National Security Service, the successor to the KGB. This body was weaker than the other security force, the Interior Ministry. Karimov supported Inoyatov's decision to expand his group. This expansion created a security group that rivaled the Interior Ministry and allowed Karimov to pit the two against each other.

With the Fergana clan, Karimov focused on economic relationships. In return for supporting this clan, Karimov was able to instill his family members into several businesses. Karimov's sister-in-law, Tamara Sabirova, and her son either work with or have direct ownership of 70% of businesses in the Fergana region.

**Islamic Unrest?**

The Islamic Movement of Uzbekistan formed in the early 1990s, shortly after the country became independent. An ideologue, Tohir Yuldashev, and a former Soviet paratrooper, Juma Namangani, founded the

[3] One way to tell if this method was used is to observe borders. Straight borders that ignore natural boundaries, such as mountains and rivers, are often the work of colonial powers.

terrorist faction among Islamists in the Fergana Valley. Their original plan was to oust Karimov and create an Islamic state.

Initially, Karimov tolerated the group. But, as he consolidated power, he began to suppress the movement. In 1999, a series of explosions rocked the country. Six car bombs exploded in the Tashkent, targeting government buildings. The attacks were blamed on Islamist radicals; however, at the same time, elements of the Samarkand clan, unhappy with the president's perceived disloyalty, became openly hostile to the government. It has never been proven, but it is possible that the bombings were a coup attempt against Karimov.

Following the bombings, Karimov cracked down on political dissent, while also appointing senior members of the Samarkand clan to his government and the unrest was quelled. Five years later, rumors that members of the Samarkand clan were considering a coup led to the ouster of some members of this clan from the government. As before, a series of bombings took place, with attacks against the police in the spring and bombings of the U.S. and Israeli embassies in the summer. Although the Islamists were blamed again, a link was never proven and it isn't exactly clear that Islamists were even responsible. It might be the case that clans opposed to the president were using the Islamists as proxies. Still, the attacks triggered further government oppression.

The following year, in 2005, there was an infamous attack called the Andijan massacre. In this event, security forces in both the Interior Ministry and the National Security Service fired on a crowd of protesters in the city of Andijan on May 13. The official death toll was 187; other sources indicate that up to 1,500 were killed. As the oppression spread, thousands of Uzbeks tried to cross borders into the surrounding states.

As with the previously mentioned events, Islamist terrorists were blamed for the attack. However, it appears that this could have been a case of inter-clan rivalry. As the head of the National Security Service, Inoyatov reportedly arrested nearly two dozen prominent businessmen. It appears that Inoyatov, a Tashkent, was trying to demolish the Fergana clan.

In addition, Karimov was worried that the protests could trigger a "color revolution." During this period, a number of revolutions broke out, including the Rose Revolution in Georgia (2003), the Orange Revolution in Ukraine (2004) and the Cedar Revolution in Lebanon (2005). Russia was worried that these color revolutions were a Western plot designed to oust friendly authoritarian regimes in Russia's near abroad and replace them with democratic governments hostile to Moscow. In the West, these uprisings were seen as citizens trying to throw off the yoke of oppressive governments.

The U.S. criticized the Uzbek government's harsh reaction. In response, Karimov closed the U.S. military base at Karshi-Khanabad, which was being used at the time for operations in Afghanistan.

Although there is clear evidence that an organized radical Islamic threat exists in Uzbekistan, the unrest seen over the past 17 years is most likely due to tensions between the clans. The history of post-colonial governments shows that most end up with authoritarian governments and that citizens often identify first with local and tribal groups or religions, and the national government second. Uzbekistan has all these characteristics. What makes ruling

these nations difficult is that it is easier for an outside power to manipulate subnational groups compared to an "insider." Karimov's attempt to build relationships with the other two clans, which unfortunately alienated Samarkand leaders, is similar to how a colonial government would manage such a nation. The persistent problems Karimov faced isn't a major surprise and his longevity in office suggests he had rather impressive political skills. Still, like rulers seen in Iraq, Syria, Libya and the other stans, authoritarian oppression becomes the most common response to the difficulties faced.

**Handicapping the Next President**

Transitions of power in authoritarian regimes are fraught with risk. The leader tends to purposely eliminate potential threats to power and usually appoints an "heir apparent" that poses no threat to his rule. This was the case in Venezuela, where Hugo Chavez appointed a lesser light, Nicolas Maduro. The latter was no threat to Chavez but, after Hugo died, the country was left in the hands of someone less than up to the task. Often, due to their lack of trust, the leaders will rely on family members to succeed them. This is what we saw in Syria and would have likely occurred in Iraq had Saddam Hussein survived. There isn't much evidence that Karimov had prepared a designated successor. However, three men have emerged as potential replacements.

**Rustam Inoyatov:** As noted above, he was appointed the head of the National Security Service in 1995 and is one of the longest-serving members of the regime. His position in national security gives him great power. He is considered to be conservative and would likely rule with continued or perhaps even increased oppression. He is a member of the Tashkent clan. His advanced age (72 years old) probably precludes him from the presidency, although he might be a compromise candidate due to the fact that his time in office will likely be short.

**Shavkat Mirziyoyev:** He is the current prime minister and a member of the Samarkand clan. According to reports, he has the backing of Putin. He is considered a political moderate and might move to ease the current level of political oppression. He is 58 years old.

**Rustam Azimov**: A member of the Tashkent clan, Rustam is the current deputy prime minister and the minister of finance. He has solid economic experience, representing Uzbekistan at the IMF and the Asian Development Bank. He is 57 years old and considered the most liberal of the three frontrunners. Recent reports indicate that Mirziyoyev has placed Azimov under house arrest, probably to prevent him from gaining the presidency.

The current front runner is Mirziyoyev, although the situation is fluid. Support from Moscow, his youth and his membership in Karimov's clan will likely help him secure the presidency. However, the other clans realize that their best opportunity to gain power is during this period of transition, so Mirziyoyev must move quickly if he is going to win out.

**Ramifications**

In general, most Americans don't pay much attention to Central Asia. Although the U.S. has worked to gain influence in this region since the end of the Cold War, the wars in Iraq and Afghanistan have reduced America's foreign policy "bandwidth." With the pivot to the Far East, the continued conflict with IS, worries about Europe and the U.S. elections, it is doubtful that the Obama administration will be able to become involved in Uzbekistan. If the

situation in Uzbekistan becomes unstable, it could cause significant regional problems. As noted, Uzbekistan borders all the stans and other important states. If civil unrest develops, we could see refugee problems arise. All the stans are commodity producers; the drop in commodity prices has hurt their economies and so none of them have the financial stability to deal with widespread turmoil.

We would also expect China and Russia to move to stabilize the region, which could become a flash point for both nations. Although Putin has been trying to improve relations with China, Moscow knows that China is a menace in parts of its near abroad. Central Asia is one of those regions. Both Moscow and Beijing would view aggressive actions by the other in Central Asia as a threat.

We would not expect a major event from Central Asia to move developed markets. However, given the degree of fragility in the developed world, outlier events such as these can sometimes surprise investors. For now, we expect Mirziyoyev to gain control. However, he will have to be ruthless to maintain control. Due to Karimov's long tenure, Mirziyoyev is generally untested, adding to uncertainty. This is a region of the world that bears watching.

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