

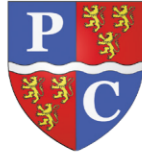
**Pozières
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SITUATION REPORT



Uzbek Succession

May 2016



UZBEK SUCCESSION BATTLE HEIGHTENS RISK

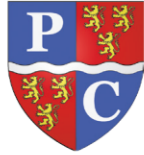
As we approach the 25th anniversary of President Islam Karimov's rule in Uzbekistan the issue of who will succeed the 73-year-old President is beginning to get ugly. Complicating the matter is the internal clan competition between Uzbekistan's three major clan groups. At the centre of this power struggle is the Tashkent clan leader Rustam Inoyatov, who heads the state intelligence agency and the National Security Service, and Shavkat Mirziyoyev who is the head of the Samakand clan and current Prime Minister of Uzbekistan.

Both men have been shoring up support within their respective power bases and attempting to marginalise the other. This has taken the form of numerous crack downs and arrests of loyalists from both clans as well as purges of high ranking government officials who have found themselves in departments controlled by the opposing clan.

Recent events in this power struggle have now started to affect one of the few remaining foreign investors in the country, General Motors. The US car manufacturer owns a 25% stake in GM Uzbekistan, a car-making joint venture with Uzbek firm Uzavtosanoat, which this week has been put under investigation for corruption and seen many of its senior management staff including the head of GM Uzbekistan, Tohirjon Jalilov, being detained on charges of fraud, money laundering and embezzlement.

According to Free Radio Europe, the charges are linked to a scheme that involved exporting cars bound for Russia to Kazakhstan before redirecting them back into Uzbekistan where they could be sold for a much higher price. However, conflicting reports are emerging as to the real charges with Reuters being told by senior officials in Tashkent that GM Uzbekistan was being investigated because of outstanding debts with a Russian distributor.

The added news this week that Deputy Prime Minister Ulugbek Ruzikulov, who is a close supporter of Shavkat Mirziyoyev, and who oversees domestic automotive



production, was also placed under house arrest suggests the entire affair is an overflow of the continuing battle between Mirziyoyev and his rival Inoyatov.

As head of the National Security Services, Rustam Inoyatov has not been shy in using his position to apply pressure to his rivals in the Samakand Clan and stake his claim as future President of Uzbekistan. Such moves only demonstrate further to foreign investors and analysts the weaknesses of judicial institutions and the rule of law in Uzbekistan.

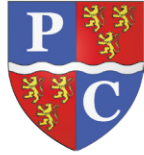
In the meantime, the GM Uzbekistan plant remains closed and production halted as investigators speak with key members of the management team. Investors should be aware of the risk of being caught in the middle of power struggles between domestic political elites in unstable political environments where institutions are weak and relationships unstable.

Moving Forward

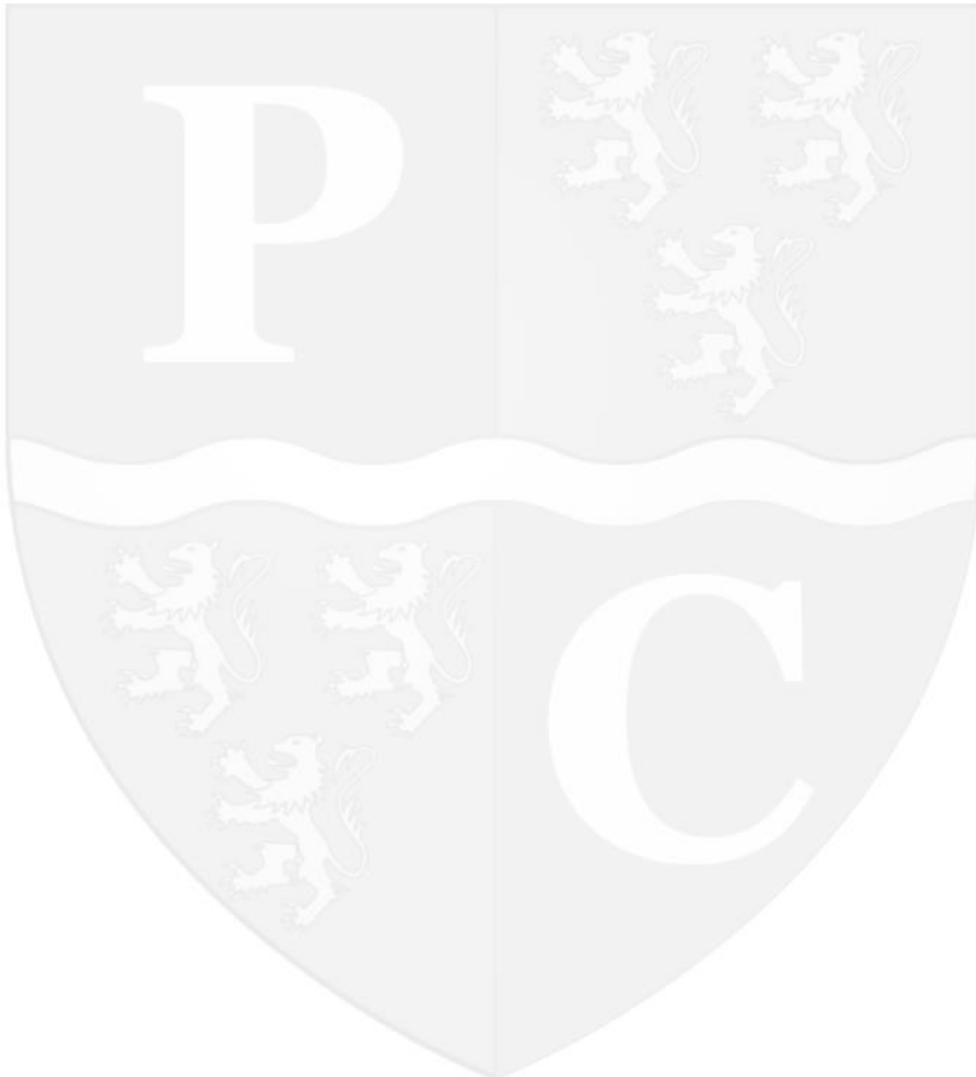
This latest turn in Uzbekistan's internal power struggle only demonstrates further the political risks faced by investors in Uzbekistan. With systemic corruption already a significant risk in Uzbekistan, the further destabilizing of the political landscape and an almost non-existent rule of law we are advising clients to be exercise extreme caution when exposed in any way to Uzbekistan. While the risk of political violence remains low, the risk of currency convertibility issues, expropriation and rent seeking remains extremely high. These risks will only intensify as the process of succession competition roles on.

Expect further destabilisation in the region as both Uzbekistan and Kazakhstan feel their way through their first transitions of power since the collapse of the Soviet Union.

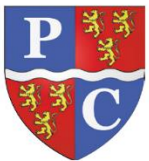
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