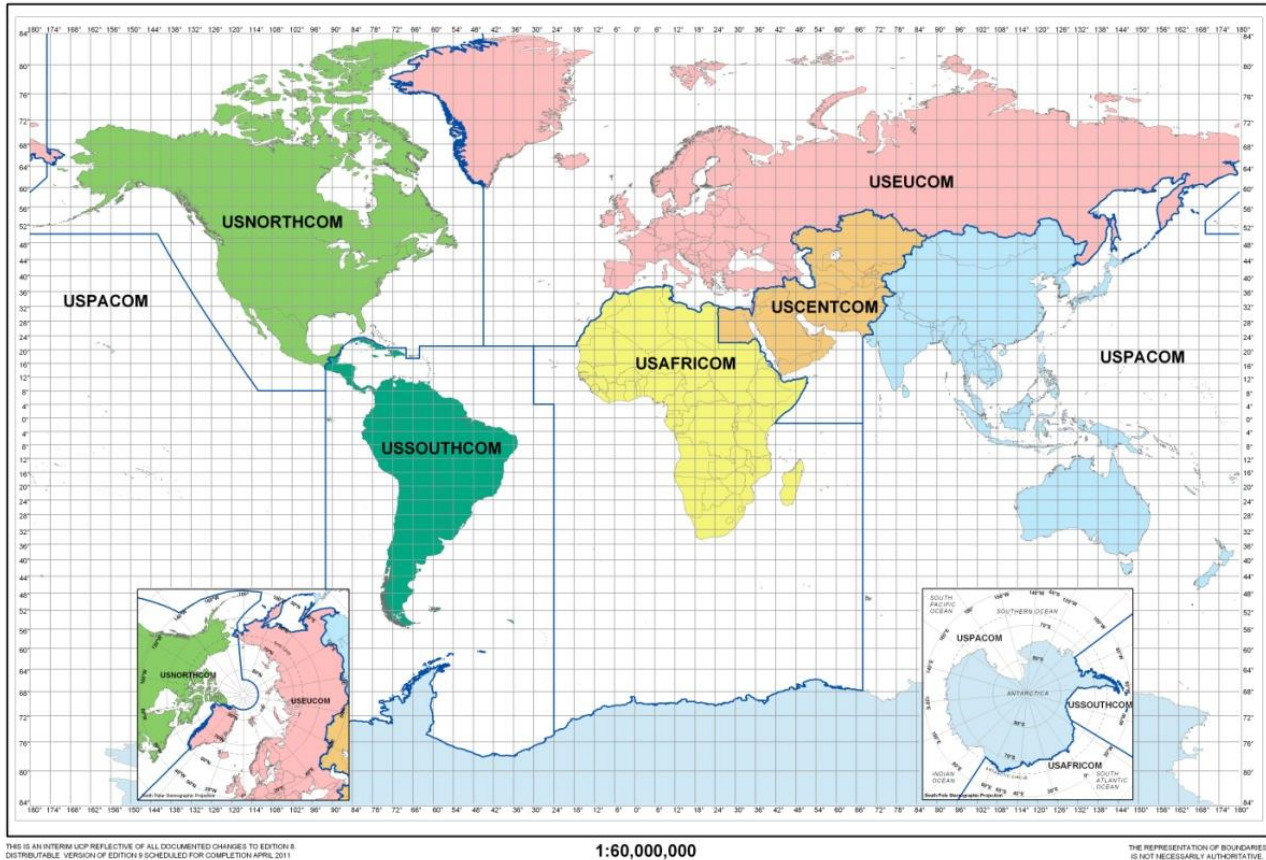


THE WORLD WITH COMMANDERS' AREAS OF RESPONSIBILITY

CAPSTONE 20-1 SWA Field Study

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Kenneth F. McKenzie, Jr.



General Kenneth F. McKenzie, Jr. is the Commander, United States Central Command.

A native of Birmingham, Alabama, upon graduation from The Citadel in 1979, Gen McKenzie was commissioned into the Marine Corps and trained as an infantry officer.

He has commanded at the platoon, company, battalion, Marine Expeditionary Unit (MEU), and component levels. As a LtCol, he commanded First Battalion, Sixth Marines. As the Commanding Officer of the 22d MEU (SOC), he led the MEU on combat deployments to Afghanistan in 2004 and Iraq in 2005-06. In 2006-07 he served as the Military Secretary to the 33rd and 34th Commandants of the Marine Corps.

In July 2007, upon promotion to BGen, he served on the Joint Staff as a Deputy Director of Operations within the National Military Command Center. In June 2008, he was selected by the Chairman of the Joint Chiefs of Staff to be the Director of the Chairman's New Administration Transition Team (CNATT). In this capacity, he

Representative to the Quadrennial Defense Review. In June 2014, he was promoted to LtGen and assumed command of U.S. Marine Corps Forces, Central Command. In October 2015, he was assigned to the Joint Staff to serve as the Director, J-5, Strategic Plans and Policy, Joint Staff. In July 2017, he was named the Director, Joint Staff. Gen McKenzie was promoted to his current rank and assumed command of U.S. Central Command in March 2019.

Gen McKenzie is an honors graduate of the Armor Officer Advanced Course, Marine Corps Command and Staff College, and the School of Advanced Warfighting. He was selected as a CMC Fellow in 1999, and served as a Senior Military Fellow within the Institute for National Strategic Studies at the National Defense University. He has a Masters in Teaching with a concentration in History.

STATEMENT OF
GENERAL JOSEPH L. VOTEL
COMMANDER, U.S. CENTRAL COMMAND
BEFORE THE SENATE ARMED SERVICES COMMITTEE
ON
THE POSTURE OF U.S. CENTRAL COMMAND
GREAT POWER COMPETITION: THE CURRENT AND FUTURE
CHALLENGES IN THE MIDDLE EAST
5 FEBRUARY 2019

Introduction

As 2018 came to a close, U.S. Central Command (CENTCOM) was engaged in critical events and catalysts for change across its area of responsibility (AOR). In the final two weeks of December, CENTCOM supported the U.N. Special Envoy in the establishment of a fragile cease-fire in Yemen, and enabled the efforts of the U.S. Special Representative for Afghanistan Reconciliation through military pressure on the Taliban. We began planning for the safe, professional withdrawal under pressure of U.S. forces from Syria, while maintaining our Defeat-Islamic State of Iraq and Syria (D-ISIS) efforts and accounting for the formation of a new governmental cabinet in Iraq. We monitored and mitigated the unprofessional acts of Iranian naval forces in international waters that threaten the global commons; which stood in stark contrast to the professional, mature actions of the U.S.-advised Lebanese Armed Forces as it de-escalated tensions along the border with Israel. While these events appear unconnected, they represent the swirling dynamics of the AOR – each event marking a pivotal point with the potential to impact the stability of the entire region.

Since 2001, in the aftermath of 9/11, CENTCOM has been charged with the responsibility of commanding multiple, often simultaneous combat missions in the Central Region. During that time, confronting terrorism and defeating violent extremist groups was the primary objective of U.S. national military power. Seventeen years later, CENTCOM is still the only geographic combatant command conducting multiple, active combat operations, but the strategic imperatives of a changing world have compelled us to rethink our priorities and assess our readiness for new challenges.

The 2018 National Defense Strategy (NDS) rightly recognized a return to competition between the great powers that now poses a greater long-term challenge to our nation than the violence of terrorism. We also noted that the National Security Strategy (NSS) directs that “The United States seeks a Middle East that is not a safe haven or breeding ground for jihadist terrorists, not dominated by any power

hostile to the United States, and that contributes to a stable global energy market,” and that “We will retain the necessary American military presence in the region to protect the United States and our allies from terrorist attacks and preserve a favorable regional balance of power.” We at CENTCOM understand how global disorder has created a security environment more complex and volatile than we have faced in our nation’s history. This assessment demands a clear-eyed appraisal of the threats, an acknowledgement of the changing character of warfare, and an understanding that challenges to our national interests will largely be transregional versus regional.

We approach our evolving role at CENTCOM with both humility and agility, acknowledging the priorities outlined in the NSS and NDS, and the fact that we will not be the main effort of our nation’s scarce resources in perpetuity. We must, therefore, posture ourselves as both the supported and supporting effort toward securing our national interests – many of which are still heavily impacted by activities in the CENTCOM AOR. While CENTCOM has been the primary focus of military assets for nearly two decades, we recognize maintaining an agile posture in the Central Region doesn’t necessarily require large concentrations of military personnel and equipment. Our strategic strength has never rested solely on the volume of materiel we bring to the fight, but rather on the partnerships, alliances and whole-of-government efforts no other country in the world could recreate.

Looking forward, our challenge will be to secure our hard-fought gains, and those of our allies and partners, while posturing for continuing change in the Central Region. We must be ready to compete with China, Russia, and Iran as they challenge us for regional influence and threaten our vital national interests. We must continue disrupting violent extremist organizations and preventing the acquisition or proliferation of weapons of mass destruction so they cannot be used against the U.S. or our allies. Regardless of the challenge or level of resources, CENTCOM is committed to defending the national interests of the U.S., and those of its partners and allies.

Operating Environment

Resolute Support (RS). Our current military efforts in Afghanistan in support of the South Asia Strategy are conditions-based and focused on two well-defined and complementary missions. First, through Operation Freedom's Sentinel, U.S. forces conduct counter-terror missions against al-Qaida, the Islamic State of Iraq and Syria-Khorasan (ISIS-K), and associated groups to prevent their resurgence and ability to plan and execute external attacks. Second, in partnership with NATO allies and operational partner nations in the Resolute Support Mission, U.S. forces advise and assist the Afghan National Defense and Security Forces (ANDSF) in their fight against the Taliban. The ANDSF have demonstrated exceptional resilience through a difficult and sustained fight.

The conditions-based South Asia Strategy is working. We continue to use military ways and means to achieve our end state of reconciliation, recognizing this conflict will not be resolved solely by military force. Our military and enabling missions in Afghanistan are designed to set conditions that will convince the Taliban to negotiate for a lasting peace, and allow Afghans to own the political and diplomatic solutions that will eventually bring an end to the conflict. Consistent, offensive military pressure helped bring about the first cease fires – local and national – between the Taliban and Government of the Islamic Republic of Afghanistan (GIROA) in 17 years, illustrating the Afghan people's weariness of war, and representing our first real opportunity for peace and reconciliation since the war began. While the Taliban continue to demonstrate the capability to mount spectacular attacks and inflict significant casualties on the ANDSF, the 2018 fighting season confirmed that the Taliban cannot win militarily. We recognize it will take a combination of sustained military pressure and diplomacy to bring an end to the hostilities. Our military pressure serves as an enabler to a whole-of-government process, and supports diplomatic efforts led by U.S. Special Representative for Afghanistan Reconciliation (SRAR), Ambassador Zalmay Khalilzad.

Operation Inherent Resolve (OIR). The unrelenting work of the 74-nation D-ISIS Coalition, determination and bravery of our Iraqi Security Force (ISF) and Syrian Democratic Force (SDF) partners, and support of multiple international governmental organizations has pushed the physical caliphate of ISIS to the verge of collapse. As a result, we are adjusting our military posture in Syria, planning and executing a deliberate, safe, and professional withdrawal of personnel and equipment while preserving sufficient power in the region to ensure that we can continue to destroy remnants of ISIS fighters and ensure it does not return. In Iraq, we work with the ISF to consolidate their gains, improve their security capability and help them evolve into the professional and representative force that the Iraqi people deserve.

We are grateful for the partnership of the SDF throughout our D-ISIS mission. A reliable partner since 2014, the SDF suffered tens of thousands of killed and wounded, and its leadership, sacrifice, and determination to drive ISIS from SDF homelands was instrumental in the liberation of the vast majority of ISIS' so-called physical caliphate. Of paramount importance now, the Coalition's hard-won battlefield gains must be secured by continued interagency efforts and mobilizing the international community to prevent a return of the conditions that allowed ISIS to arise.

Yemen. Conflict between the Iranian-backed Houthis and Republic of Yemen Government (ROYG) forces, supported by the Saudi-led Coalition (SLC), led to deteriorating humanitarian conditions in Yemen. The U.N. noted in August 2018 that the Houthis – trained, funded and armed in part by Iran – exacerbated the crisis by restricting food and aid access to civilian populations by controlling or threatening transportation and logistical routes to the city of Ta'izz, and the Ports of Aden and Hudaydah. The impact of conflict on the country and its people is catastrophic, despite best efforts by our own U.S. Agency for International Development (USAID), and other U.N. agencies and international aid organizations to mitigate humanitarian suffering. U.N.-brokered consultations in

Sweden in December 2018, and the resulting agreement on a prisoner exchange, ceasefire and redeployment of forces in the city and port of Hudaydah, and humanitarian access to Taiz demonstrated promising steps and a willingness on both sides to seek a negotiated settlement. Toward this end, CENTCOM supports the international diplomatic efforts and the work of U.N. Special Envoy (UNSE) Martin Griffiths to facilitate an end to the conflict, providing knowledge, advice, and serving as an interlocutor through our trusted relationships in the region to help ensure transparency, cohesion, and positive momentum. We will continue to support our regional partners developing processes and procedures to counter ballistic missiles (CBM) and counter unmanned armed aerial systems (C-UAS) to help mitigate threats to civilian populations and critical infrastructure.

Iran exerts its malign influence throughout the region, through its increased – often unprofessional – activities in the Arabian Gulf and Strait of Hormuz, engaging in proxy warfare through its sponsorship of violent extremist organizations (VEOs), and proliferating advanced conventional weapons, including theater ballistic missiles and weaponized unmanned aerial and maritime systems. Operating in the gray zone of competition below open conflict, Iran conducts unfettered information and cyber campaigns against its adversaries and actively attempts to influence or obstruct the mechanisms of effective governance and domestic policies of several of its sovereign regional neighbors.

Prolonged conflicts in Iraq, Yemen, Syria, and Afghanistan have produced instability and large-scale humanitarian crises within and beyond the CENTCOM AOR, creating millions of displaced persons, stressing fragile economies, opening space for the spread of extremism among disenfranchised peoples, and providing opportunities for adversaries to cultivate influence. Countering instability requires an alliance-based and whole-of-government approach that CENTCOM is uniquely positioned to support. The Department of State, USAID and CENTCOM are partnering to counter the influence of competitors and malign actors by addressing the drivers of instability and creating the economic,

political, and security conditions required to reverse these trends. To alleviate suffering, CENTCOM, in partnership with USAID, provides targeted foreign humanitarian assistance to internally displaced persons using our Overseas Disaster, Humanitarian, and Civic Aid appropriated funds. Stabilization and humanitarian assistance activities provide a significant tool to reduce human suffering, promote stability, sustain fragile governmental institutions, and provide critical support countering our competitors' gray zone activities.

While we maintain a strong, cooperative presence with our regional partners in the traditional warfighting domains, there is room for improvement in cooperative ventures with our regional partners in the information and cyber domains. Our competitors do not play by the same rules as the U.S. They have developed and employed asymmetric strategies to use in the information and cyber environment to weaken the U.S. to achieve their strategic objectives. The unconstrained and unregulated nature of their capabilities puts the U.S. at a disadvantage, while great power competitors like China and Russia, as well as adversarial regimes like Iran, operationalize these strategies – including information theft, media manipulation, and cyber-attack – to strike vulnerable U.S. assets, disrupt our information systems and those of our allies, and undermine the image of the U.S. in the region and around the world.

Our CENTCOM Partner Network, a secure coalition computer network, improves our capability to exchange crucial cyberspace threat intelligence and operational data with coalition and regional partners. We will pursue more opportunities to enable real-time exchanges of classified information to meet critical coalition collaboration and mission needs. The ability to dynamically share information with mission partners at the speed of relevance provides us a greater advantage against our adversaries.

Across the interagency, CENTCOM pursues whole-of-government solutions to address transregional threats. CENTCOM places increased command emphasis on an organizational approach to ensure interagency integration is a high priority in all planning. For example, CENTCOM supports

National Security Council-convened threat finance fusion cells to counter ISIS and Iran. We also provide personnel to support interagency efforts in our Regional Narcotics Interagency Fusion Cell.

The Defense Threat Reduction Agency's (DTRA) Joint Improvised Threat Defeat Organization (JIDO) provides a best-in-class example of a successful, nimble, and responsive capability in support of the warfighter. CENTCOM relies heavily on the critical, life-saving training, technology, and expertise JIDO provides to safeguard U.S. and allied forces from many of the most dangerous, emerging threats on the battlefield, including improvised explosive devices; unmanned, armed aerial and maritime vehicles; and other improvised threats. JIDO's functions are not replicated in any of the Services, demonstrate enormous value, and are worthy of continued resourcing through DTRA.

Strategic Importance

The CENTCOM AOR is one of the most complex, diverse regions in the world. Composed of nearly 600 million people dispersed among 20 countries, it is home to three of the world's five major religions, is the most energy-rich region in the world, and contains three strategic maritime choke points. The Suez Canal, the Bab al Mandeb, and the Strait of Hormuz are major transit points for energy and trade; the ability of commerce to transit these global commons freely being vital for the global economy.

Much like the rest of the world, almost 90 percent of businesses in the Central Region are small-to-medium-size enterprises. They are the key drivers of job creation, employ nearly 66 percent of the labor force, and help diversify their respective country's economies. Contrary to popular belief, not every country in the CENTCOM AOR is rich with oil and natural gas resources, and for those that are, their economies are highly susceptible to changes in the energy market. Strong economies, vibrant commerce, low unemployment rates, and decent standards of living are "must-haves" to promote and maintain stability. Military force cannot create strong economies. It can only help provide safe, secure conditions for them to develop.

There are multiple drivers of instability in the region, ranging from the toxic narrative of sectarianism, to brittle political and economic systems, to disenfranchised and disillusioned peoples. While drivers of instability can be addressed and mitigated through the application of elements of national power, many have roots spanning several generations. In our strategic approach, it is important to acknowledge with a degree of humility that there are some things that are beyond our power to change. Despite those challenges, we recognize the strategic importance of the Central Region to our national interests, and four key reasons why we must remain engaged here to preserve them.

First, we must not allow another attack on our homeland. The CENTCOM AOR is the world's epicenter for terrorism and VEOs. The 9/11 attacks were based from al-Qaeda's safe haven in Afghanistan and served as a wake-up call that terrorism could be exported from anywhere in the world.

Second, we cannot allow VEOs or rogue nations to acquire weapons of mass destruction (WMDs). Our active presence in this region prevents VEOs from coming together toward that purpose and helps prevent the proliferation of WMD materials.

Third, instability is contagious. It does not respect national borders and grows and spreads if left unchecked. A stable Middle East underpins a stable world. In an already volatile region, our steady commitment to our allies and partners provides a force for stability. As the President's National Security Strategy states, we must also "work with partners to neutralize Iran's malign activities in the region."

The fourth is the reemergence of great power competition, the main challenge highlighted in the NDS. China and Russia seek to dominate and influence not just their own geographic regions, but the Central Region as well. Just as great power competitors looked to influence energy and trade in the Middle East following the first World War, China and Russia are working very hard today to reshuffle the balance of power in the CENTCOM AOR, trying to displace the U.S from its position of influence.

The President's National Security Strategy directs that the United States seeks a Middle East that is "not dominated by any power hostile to the United States."

This is the reality of our world, and of the regional and transregional challenges we have to address in CENTCOM. We recognize the U.S. is rightly shifting its resources toward Europe and East Asia to balance great power competition, but remain mindful that the CENTCOM AOR represents a geopolitical crossroads and a principal zone for that competition as well. Of the five major threats identified in the NDS, four – competition with China; competition with Russia; Iran's rogue, malign activities; and combatting VEOs – reside or are contested on a significant scale in the CENTCOM AOR every day.

Many observers, and many of our partners and allies as well, hold misperceptions of the focus on great power competition in the NDS. They view the prioritization and alignment of efforts for long-term competition with China and Russia as a wholesale shift in emphasis away from the Middle East and Central Asia regions. However, that view fails to account for the global context of the NDS and how great power competition is not isolated to Europe or Asia, but often takes place in other strategically important regions like the CENTCOM AOR.

Currently, CENTCOM is conducting or supporting military operations with Coalition partners in Afghanistan, Iraq, Syria, and limited counter-terror operations in Yemen. We represent a U.S. presence with military basing and support in seven countries, have bilateral or multilateral military engagements with nearly a dozen countries, and security cooperation agreements with 16 countries. Across much of the AOR, however, where there is a U.S. presence, there is almost always an existing or developing presence by China, Russia, or both.

China uses its "One Belt – One Road" initiative as an economic lever to provide access and influence across the Central Region. China invested in Suez Canal development, the port of Haifa in Israel, and Jordan to provide access, relationships and leverage on the other side of the continent. In the

United Arab Emirates, it invested in the Free Trade Zone area and the Khalifa Port to create a regional hub in the Arabian Gulf. China built a naval support base in the country of Djibouti to expand its presence and access to the Red Sea, Suez Canal, and Bab al Mandeb. In Pakistan, China financed and gained access to the Gwadar Port enabling access to the Arabian Sea. In Oman, China is conducting port negotiations to obtain access to trade routes and energy transit corridors. For China, economic power is the primary tool, and while many “One Belt – One Road” projects do not pose direct threats to U.S. national interests, burgeoning Chinese economic power could support and mask longer-term military and political objectives.

Russia is focusing increasing attention to the Middle East, in part due to its geographical proximity, but also to reestablish its image as an influential global power. Russia invests in the Suez Canal development and is a co-member with China in the Shanghai Cooperation Organization. Russia has increased its engagement with and investment in Egypt, including construction of a 48 megawatt nuclear power plant in El Dabba, as well as development of a major trade and investment zone in east Port Said. Russia conducts bilateral and multilateral military exercises and provides economic and security support in more than half a dozen countries in the Central and South Asia (CASA) region, most of whom were part of the former Soviet Union and who remain reliant on Russia for their economic and security needs. Russia seeks to increase its own influence while limiting the influence of others, monopolize energy transit and pipeline routes, and provide a buffer zone against NATO enlargement. In Syria, Russia is establishing a permanent military and economic presence, with the goal of dominating infrastructure and energy commerce there in the coming years.

We also note the important role that nuclear deterrence plays within U.S. strategy, as the number one priority mission of the Department of Defense. It backstops all U.S. military operations and

diplomacy across the globe. A robust and modern U.S. nuclear deterrent helps ensure competition with Russia and China, regardless of where it originates, does not escalate to large-scale war.

The U.S. is able to exercise a great deal of control over its own economy because we exercise a great deal of political, military, and economic power around the world. Where we lose that power and influence, our competitors gain – and we will be more vulnerable at home because of it. Less than 100 years ago the Middle East puzzle came together with the U.S. influencing key pieces. Today, the puzzle is being remade and China and Russia are seeking new strategic pieces. We must recognize our old pieces may no longer fit, and stay engaged and agile enough to maintain our position as the dominant influence once this new puzzle comes together. In the CASA region, for example, our partner nations lie in close proximity to or share borders with Russia or China. We must realistically acknowledge this tyranny of distance, but continue to engage and compete in innovative ways that help build partnerships, grow our influence, and serve as a balance to the other great powers. The bottom line is simple: If left unchecked, the expanding global reach of China's economic and military initiatives, as well as Russia's objective to weaken or subvert Western security structures in the CENTCOM AOR will pose a significant challenge to U.S. prosperity, security, and regional stability.

As long as terrorism is exportable, as long as the Central Region remains a global supplier of energy, as long as we have allies and partners to whom we are committed, the U.S. cannot afford to cede our role as the dominant regional power. Without a continued strong presence and consistent engagement in the region, we risk our ability to secure the global commons, weaken our network of allies and partners necessary to eliminate potential safe havens for jihadist terrorists, and diminish our ability to maintain a stable global energy market.

Strategic Approach

CENTCOM's mission is to direct and enable military operations and activities with allies and partners to increase regional security and stability in support of enduring U.S. interests. Our strategic approach is founded in three principles: Prepare, Pursue, and Prevail. This approach drives our thinking, gives direction and intent to every level in the command, provides capabilities to our commanders, and creates decision space for military and civilian leadership. Each aspect of our approach enables the next, and collectively contributes to the successful achievement of our goals and objectives. CENTCOM uses these aspects as the cornerstone to advance our operational approach of "by, with, and through."

We prepare by forming enduring coalitions, cultivating relationships with partners and allies, and maintaining security, basing, and overflight agreements, or paving the way for those agreements to be established. It means we deepen our interoperability and expand our regional consultative mechanisms and collaborative planning with our partners, so we can increase their capabilities and our collective capabilities to operate more effectively in a joint and combined environment. We communicate the winning narrative of a free and open international order, national sovereignty, individual freedom and dignity, and the rule of law. We foster meaningful, sustainable, two-way relationships with people who share common interests and common values instead of engaging in the transactional relationships and predatory economic practices of our great power competitors. The alliances and partnerships we forge, rooted in mutual respect, reduce the price we pay for our position of leadership, and provide significant asymmetrical advantages over our geopolitical rivals. These aspects of preparation are crucial, and perhaps even more important than maintaining a large military footprint in the region. While personnel and equipment can be surged in a time of crisis, one cannot surge partnerships, trust, understanding, agreements, and commitment.

Pursuing opportunities means we are proactive, always alert for chances to seize the initiative and dictate events on favorable terms. Regardless of whether we are investigating a new partnership or considering a different operational approach, pursuing those openings requires empowerment at the lowest levels, transparency, flat communications, understanding and trust. Surrounding circumstances and shortened decision cycles for action may induce greater risk, which we must underwrite and manage through strong feedback loops between all levels of leadership, including our interagency partners and allies. Not every opportunity pans out, but an opportunity not explored is a potential advantage lost.

Prevailing takes on a meaning different than raising a banner or marching in a victory parade. It entails consolidating our gains, securing and stabilizing what we and our partners have fought for. We recognize there are no easy victories to be had in the CENTCOM AOR as ours is a region of historical, protracted struggle. In CENTCOM, prevailing means retaining flexibility and decision space for our leaders, preserving our national interests and those of our allies and partners, and maintaining a favorable balance of power for the U.S.

We operationalize this principle using a “by, with, and through” approach. We conduct operations primarily by indigenous partner forces, with enabling support from the U.S. and our coalition partners, working through U.S. and international authorities and partner agreements. While not yet a doctrine, a strategy, or a formal military program, it is a proven, successful, operational approach that pursues culturally acceptable and durable solutions. It is a way of conducting military activities and operations with reduced direct combat employment of U.S. forces, while developing and supporting partner capacity and participation. While indigenous forces may not conduct operations according to U.S. pace and doctrine, they take ownership of the fight. Their wins are not only theirs, but ours as well; and fighting for those wins builds legitimacy and resiliency. Currently, CENTCOM successfully applies the “by, with and through” operational approach in Operation Inherent Resolve, assisting our partners to

defeat ISIS; in Yemen, using a multilayered Arab/U.S. approach to counter VEOs; and with Operation Freedom's Sentinel and the NATO-led Resolute Support Mission to defeat VEOs and pressure the Taliban in Afghanistan. This approach is not limited to combat operations, however, as CENTCOM fulfills many peacetime objectives working "by, with, and through" other partner nations.

Employing a "by, with, and through" operational strategy supports the objectives and intent of the NSS and NDS – promoting regional stability and security, defeating terrorist threats to the U.S., and ensuring that common domains remain free and open – while addressing these challenges through a resource-sustainable approach, including strengthening the indigenous capacities of, and improving interoperability with, our regional partners and allies.

While this approach provides CENTCOM the ability to do "more with less," our ability to act decisively in the region becomes more contingent upon the full commitment of regional partners. We must therefore ensure transparent and contextual communication across our own government, and among our allies and partners. If we mistakenly or inadvertently signal we are "pulling back" or "refocusing" priorities to address great power competition elsewhere in the world, we risk undermining our trust and credibility with long-standing partners here.

Regional Overview – Central and South Asia

Afghanistan remains home to numerous terrorist organizations that threaten our interests. ISIS-K, in particular, maintains both the intent and the capability to inspire, direct, and conduct external operations, and if left unchecked, will continue to grow as a threat to our homeland. In support of the South Asia Strategy, Afghanistan became CENTCOM's main effort. U.S. support for the mission in Afghanistan evolved into a "by, with and through" operational approach as recognition of the need for domestic legitimacy and ownership increased. This ultimately strengthens the GIRoA's negotiating position toward reconciliation and reintegration.

Key Challenges: Years of conflict in Afghanistan have caused large-scale humanitarian crises exacerbated by porous national borders, and provided Iran, Russia, and China opportunities to expand their influence in the region. Russia has attempted to challenge U.S. influence in Afghanistan under the false pretense of supporting the Taliban's fight against ISIS-K, while Iran continues to use the Taliban to secure its own interests and to counter the ANDSF's attempts to improve security conditions across the country. Militants operating out of Pakistan and Afghanistan continue to threaten Afghan stability as well as stoke tensions between Pakistan and India. We look to regional actors such as Pakistan to cease behavior undermining regional stability and play constructive roles in achieving peace in Afghanistan as well as the whole of South Asia. Kabul's uncertain political situation remains the greatest risk to stability as the GIRoA prepares for the 2019 presidential elections, and continues to suffer from weak institutions and a political environment marked by a lack of unity on core issues.

Key Opportunities: The potential for a political settlement in Afghanistan is promising. In June, following GIRoA's call for a national ceasefire over Eid al Fitr, the Taliban responded with their own ceasefire, giving Afghans a glimpse of a future without conflict. October's parliamentary elections were the first run entirely by Afghans, with only limited logistical and security support from the Coalition. Despite Taliban and ISIS-K threats against voters and polling centers, the ANDSF oversaw a significant reduction in violence compared to previous election periods, with over 4 million Afghans participating in the parliamentary elections. Applying lessons learned will be critical to enabling successful presidential elections in 2019.

The Afghan Security Forces Fund appropriation has enabled us to increase the combat capabilities in the Afghan Air Force (AAF). Our security cooperation funds are used for procuring aircraft, training aircrews and maintainers as the AAF transitions from dated Russian platforms to modern U.S. aircraft. We are assisting the ANDSF in doubling the size of the Afghan Army's Special Operations Force,

currently the most effective combat element against the Taliban and terrorist organizations. In an effort to promote responsible development, we closely monitor ANDSF capability growth to ensure it is necessary, affordable, and sustainable. We continue to pursue opportunities to develop bilateral relationships with CASA nations to promote regional stability and encourage them, and our NATO allies, to contribute financial and advisory support to the GIRoA.

2019 Prognosis: The South Asia Strategy is working. While the Taliban continue to demonstrate resilience and the capability to inflict significant casualties on the ANDSF, the Coalition's sustained military, diplomatic, and social pressure will be instrumental in convincing the Taliban that reconciliation is the only path forward.

Pakistan presents the U.S. with challenges and opportunities in the execution of our South Asia Strategy. As a state possessing nuclear weapons that sits at the nexus of Russian, Chinese, Indian, Iranian, and U.S. geopolitical interests, Pakistan will always be a country of importance to the U.S. However, Pakistan's actions are often a source of frustration to U.S. regional efforts in Afghanistan. Our posture with Pakistan involves supporting our colleagues at the Department of State as they pursue a diplomatic solution with Islamabad to end the conflict in Afghanistan while ensuring that Pakistan's equities are acknowledged and addressed in any future agreement.

Key Challenges: Pakistan has not taken concrete actions against the safe havens of VEOs inside its borders. Similarly, VEOs located in Afghanistan conduct attacks inside Pakistan. This cross-border instability and violence generates tension along both sides of the border. The suspension of U.S. security assistance funds to Pakistan remains in place. Meanwhile, some U.S. Pakistan military cooperation activities have continued, demonstrating the importance of military cooperation, despite challenges in the bilateral relationship.

Key Opportunities: Pakistan has taken positive steps to assist SRAR Ambassador Khalilzad in support of Afghanistan reconciliation by facilitating talks with the Taliban but has avoided taking any concrete or irreversible steps such as arresting or expelling Taliban leaders who do not cooperate with reconciliation efforts. With our strategic focus on reconciliation and regional security, Pakistan has a unique opportunity to make good on its promises of support to U.S. efforts focused on finding a negotiated settlement to the Afghanistan conflict. If Pakistan plays a positive role in achieving a settlement to the conflict in Afghanistan, the U.S. will have opportunity and motive to help Pakistan fulfill that role, as peace in the region is the most important mutual priority for the U.S. and Pakistan.

2019 Prognosis: A peaceful resolution in Afghanistan and improved cross-border security between Afghanistan and Pakistan would strengthen the opportunity for mutual trade and increased economic flows not only between them, but also potentially with India and the Central Asian states. China is already partnering with Pakistan for the China-Pakistan Economic Corridor as a central piece of China's "One Belt – One Road" initiative. Central and South Asia cooperation between the U.S. and China offers opportunities for peaceful dialogue and a chance for the U.S. to balance China's economic rise and reinforce its commitment to global norms for the benefit all.

Uzbekistan and U.S. partnerships continue to improve, and we are increasingly optimistic that the government of Uzbekistan is promoting a constructive foreign policy, improving relations with its neighbors and becoming more involved in multilateral exchanges and exercises. Uzbekistan is fully supportive of our South Asia Strategy and a constructive partner in the Afghanistan peace process. Given its large population, strong security forces, central location, and a shared border with Afghanistan, Uzbekistan's willingness to partner with us and its neighbors can help promote stability in the region.

Key Challenges: Russia remains the dominant power in Central Asia, and Uzbekistan must balance cooperation with the U.S. carefully to avoid actions Moscow deems provocative. As we strengthen our partnership with Uzbekistan we must respect this balance, mindful of Uzbekistan's absorptive capacity.

Key Opportunities: Uzbekistan is hosting the Central and South Asian armed forces Chief of Staff conference in February, demonstrating its growing role as a regional leader. Our mil-to-mil efforts are focused on improving border security capacity, enhancing counter-narcotic and counter-terrorism capabilities, and assisting the Uzbeks with the potential return of domestic terrorist fighters returning from Iraq, Syria, and Afghanistan. The Uzbeks expressed interest in diversifying their military equipment and provided lists of U.S. systems and equipment they are interested in purchasing. This interest represents a unique opportunity to off-ramp Uzbekistan from Russian equipment and deepen our relationship as we negotiate increased air and land access through the Northern Access corridor.

2019 Prognosis: Uzbekistan will continue efforts to increase its capacity, using U.S. security assistance to maintain a balance between Russian and Chinese influences and to boost its professionalism in the areas of border security, counter-narcotics, counter-terrorism and defense institution building. U.S. security assistance will help maintain and potentially enhance access in support of U.S. and coalition forces in Afghanistan.

Tajikistan remains a target of both Russian and Chinese overtures. We continue to build our military relationship with Tajikistan, even as Moscow deepens its influence and increases its military posture at its base outside the capital. China's increased security cooperation, focused on border security, is coupled with an aggressive economic lending program. China seeks to minimize instability along their shared border, in its eastern provinces, and protect its economic investment in Tajikistan.

Key Challenges: The Government of Tajikistan is concerned with stability in northern Afghanistan and security along the mountainous, 800-mile Afghan border. The inability to secure their border

encourages smuggling and has a destabilizing effect on both Tajikistan and Afghanistan. These border concerns provide a strong nexus of mutual interests and we support development of Tajik counter-terrorism, counter-narcotics, and border security capabilities. We are also assisting Tajikistan to counter trans-national threats that impact both Tajikistan and the broader Central Asia region.

Key Opportunities: Tajikistan is eager for U.S. assistance and its modest funding for security services presents an opportunity for CENTCOM to help Tajikistan develop its capabilities and relationships to balance Russian influence. Exercise REGIONAL COOPERATION, a multilateral exercise Tajikistan expressed interest hosting in August 2019, will address border security and counter terror issues. Moving forward, CENTCOM will assist Tajikistan's efforts to counter violent extremism and emphasize the need for building stronger defense institutions.

2019 Prognosis: Economic investment and border security will continue to characterize China's relationship with Tajikistan. It is likely that both Russia and China will continue to exaggerate the terrorist threat to further entrench and justify their respective security relationships with Tajikistan. Russia will seek to continue to safeguard what it considers its "sphere of influence" in the region and China will continue to take actions it deems necessary to secure its border. U.S. security assistance for Tajikistan can provide a counter to this great power competition by enabling the Tajiks to maintain their border integrity with Afghanistan while supporting regional stability.

Kazakhstan and U.S. relations continue to be the most mature and forward-thinking in Central Asia, although Russia's proximity influences Kazakhstan's posture. Kazakhstan remains the most significant Central Asian contributor to Afghan stability, engaging in trade, providing electrical power, donating money to the ANDSF fund, providing educational opportunities, supporting programs for Afghan women, and offering technical support and services to the Afghans.

Key Challenges: Kazakhstan, like most CASA nations, must carefully balance cooperation with the U.S. to avoid actions Russia interprets as threatening. As we strengthen our partnership with Kazakhstan, we must respect this balance. The U.S. should continue assisting the Kazakhstan Ministry of Defense as it focuses on the necessary institutional reforms of its non-commissioned officer corps, training management, human resources administration, and its professional military education system. As we look to off-ramp Central Asian countries from Russian defense equipment, the higher price of U.S. systems will remain a challenge for nations like Kazakhstan.

Key Opportunities: Kazakhstan has expressed interest in working with the U.S. to improve its logistical, medical, and engineering branches. We will also continue our engagement with the Kazakhstani Peace Keeping Operations (PKO) training center to improve Kazakhstani PKO capabilities and foster regional integration by opening the center to Kazakhstan's neighbors. Exercise STEPPE EAGLE, an annual trilateral peacekeeping exercise sponsored by the U.S., United Kingdom and Kazakhstan, has expanded to include Tajikistan and Uzbekistan. In November 2018, with U.S. assistance, Kazakhstan deployed a company-level unit to Lebanon on a U.N. peacekeeping operations mission – a first for any CASA nation.

2019 Prognosis: Kazakhstan will continue to use U.S. security assistance to balance Russian and Chinese influences. U.S. security assistance enables access for sustainment of U.S. and coalition forces in Afghanistan. Maintaining mil-to-mil programs, with a focus on defense institution building and professional military education, will position us to maintain our comparative advantage with a country situated on the doorsteps of Russia and China.

The Kyrgyz Republic and U.S.'s strained bilateral relations impede security cooperation that would otherwise further military our objectives in Central Asia.

Key Challenges: The lack of a status of forces agreement with the Kyrgyz Republic severely limits CENTCOM's level of engagement. Until steps are taken to extend diplomatic protections for U.S. military operating in the Kyrgyz Republic, mil-mil exchanges and training are suspended.

Key Opportunities: The Office of Military Cooperation in Bishkek and the Montana National Guard through the National Guard State Partnership Program remain postured to renew programs aimed at developing military capabilities specifically in the areas of Field Medicine and Disaster Response, and Humanitarian Assistance as soon as political conditions permit.

2019 Prognosis: Any U.S. security assistance for the Kyrgyz Republic will help the Kyrgyz to maintain their national sovereignty in the face of Russian and Chinese jockeying for influence.

Turkmenistan has a U.N.-recognized policy of “positive neutrality” by which the government balances the demands of the regional powers by not taking sides in international conflict and not entering into alliances or economic organizations, necessitating a subtle and agile approach to Security Cooperation to be successful.

Key Challenges: A struggling economy, a rigid political system, and the Turkmen policy of positive neutrality largely limits international cooperation and Turkmenistan's security services.

Key Opportunities: We have focused our efforts on English language training, medical engagements and the development of Special Forces with Turkmenistan Ministry of Defense (MOD). We are encouraged by MOD's increased participation in our exchanges and conferences. Turkmenistan has expressed interest in enhancing its disaster response capability and border security, providing additional opportunities for CENTCOM.

2019 Prognosis: Turkmenistan remains concerned with the instability in Afghanistan and the potential for the flow of foreign terrorist fighters, therefore assistance will focus on enhancing border

security. Maintaining a small, consistent security cooperation portfolio in Turkmenistan has outsized impact and will help counter Russian and Chinese influence.

Regional Overview – Greater Levant

Iraq's mil-to-mil relationship with the U.S. is as strong as it has ever been, and Iraq has both the potential and desire to become a formidable ally in combatting terrorism. The Office of Security Cooperation-Iraq (OSC-I) is conducting programs to enhance professionalization of the ISF, coupled with prudent implementation and oversight of FMF and Foreign Military Sales (FMS). Transforming OSC-I into a permanent Title 22 Security Cooperation Office is key. Our authority for OSC-I to conduct training activities with ISF is more important than ever in the evolution of an ISF that is effective, inclusive, sustainable, affordable, and cements our long-term bilateral partnership.

Key Challenges: Reform of the Iraqi Security Forces (ISF) to achieve the goal of “One ISF” remains a challenge. Iraq's Popular Mobilization Forces (PMF) are officially part of the ISF, however, the forces are comprised of disparate groups, some of which are not totally responsive to the direction of the Government of Iraq (GoI), the worst of which are affiliated with Shia militia groups directed by Iran. Iraq's Ministry of Peshmerga Affairs (MoPA) is largely treated as a less-than-equal organization by the government. While some tensions between the Kurdish Regional Government and Baghdad have eased, challenges with revenue sharing, disputed territory and control of oil resources remain problematic. It is critical the ISF consolidate its gains against ISIS and evolve from a war footing to a steady state, which must be effective, affordable, and protect Iraqi people and their infrastructure from terrorism.

As ISIS continues to build a clandestine insurgency, the GoI must form an effective cabinet and government entities to manage the country and improve economic resilience and quality of life for its people. This includes meeting the needs of Iraq's youthful population who demand better economic opportunities, access to essential services, and an end to endemic corruption in the GoI. Failure by the

newly formed government to address the basic needs of Iraqi citizens may facilitate the reemergence of ISIS or other VEOs, which capitalize on public dissatisfaction to increase their support. Iran's meddling in the selection of Iraqi cabinet members, notably the Minister of Defense and the Minister of Interior, has prevented the GoI from addressing pressing national security issues

Key Opportunities: CENTCOM, through OSC-I, is working with our Iraqi partners to re-integrate the GoI with its Arab neighbors. These efforts have paid dividends in reinitiating cooperation between Iraq and countries such as Jordan, Saudi Arabia, Kuwait, Turkey, and Qatar; illustrated by the reopening of shared borders. OSC-I can leverage its authorities to support the ISF's evolution into an effective, sustainable, and affordable force through mil-to-mil relations, security sector reform, security cooperation, while coordinating broad-based reform with regional partners. Key objectives include the further professionalization of the ISF, rebalancing the ISF's force structure to meet future threats, and reforming the ISF's human resources and professional military education systems with increased emphasis on force design, force management, and policy development.

2019 Prognosis: Iraq's May 2018 elections resulted in the formation of a new, generally representative government. Newly elected Prime Minister Abd al-Mahdi vowed to improve public services and prioritize reconstruction of areas devastated by the conflict with ISIS. It is likely that Iraq will retool its budget to focus on Government goals however, Iraq must also rebuild its security forces, which are exhausted by four years of operations against ISIS.

Syria's President Bashar al Assad remains in power with the military support of Russia, Iran, and Lebanese Hezbollah (LH). Despite significant advances, the Syrian regime has insufficient forces to adequately secure recaptured territory. The U.S. withdrawal from Syria represents the most dynamic shift in the environment since ISIS lost its ability to govern major population centers and fight as a conventional force and could trigger a renewed race for influence, control, and for some, survival.

Turkey's strong national security concerns in Syria and standing as a NATO ally further complicates the battlespace. Israel's legitimate concerns about Iran's increasingly provocative actions in Syria, particularly the transshipment of advanced weapons systems into and through Syria, are driving increasingly forward leaning Israeli military actions. If the major actors and their proxies become embroiled in a competition for influence in Syria, this may create space for ISIS remnants or other terrorist groups to reform or reconstitute. Because the regime was incapable or unwilling to fight ISIS, the responsibility for D-ISIS fighting has been borne by the Coalition and our partnered force, the SDF, whose bravery and determination have been crucial to rolling back ISIS. The intervention of the Coalition in the Syrian conflict blocked Assad's ability to recapture all of northern Syria. As the U.S. executes a safe, professional withdrawal, we seek to help negotiate a secure future for the people of northeast Syria liberated from ISIS and our partners in the D-ISIS fight.

The international humanitarian community has achieved some success, but the Syrian regime's resistance to allow aid deliveries is largely driven by Assad's use of starvation as a weapon of war. As a result, there are more than 13 million Syrians who require humanitarian assistance, including 5.7 million internally displaced persons and 5.7 million refugees in neighboring countries. While U.S. humanitarian assistance reaches four million people throughout Syria monthly, security concerns and access constraints limit the reach of aid in some locations. Vulnerable populations in Syria will continue to require humanitarian aid until parties to the conflict reach a political solution.

Key Challenges: The civil war, combined with ISIS occupation and the subsequent fight to displace and destroy ISIS has led to vast destruction of infrastructure, degradation of government, lack of basic services, and other humanitarian challenges. Assad's reluctance to negotiate directly with the Syrian opposition, and Moscow's reluctance to force him to do so, indicates significant challenges ahead in forging a political resolution to the conflict and ending this humanitarian crisis. A political resolution is

key to the lasting defeat of ISIS, because unless fundamental drivers of domestic instability are addressed, conditions will remain for a resurgence of ISIS, or ISIS-like VEOs.

While CENTCOM's "by, with, and through" partnership with the SDF has been critical to the defeat of ISIS, it has created friction with Turkey, which views the Kurdish People's Protection Units (YPG) elements within the SDF as a terrorist group. Our assistance to the SDF focuses on defeating ISIS, as we have simultaneously sought to include measures to reassure our Turkish allies. In October 2018 the U.S. and Turkey began conducting combined joint patrols in key locations. CENTCOM will continue to assist the Turkish military in countering VEOs that threaten their border, maintaining our emphasis on the D-ISIS campaign.

The repatriation of ISIS foreign fighters to their home countries to face justice remains a challenge. Both SDF and Iraqi forces are holding hundreds of foreign fighters in prisons or temporary detention facilities, with no single process for prosecution or repatriation. This requires a concerted international effort involving law enforcement, intelligence sharing, and diplomacy.

Key Opportunities: The conflict in Syria has led to an increased demand from our regional allies and partners for improved border security as well as improved domestic counter-terrorism capabilities. CENTCOM is able to manage the development of these capabilities which supports our objectives of promoting stability and countering VEOs in the region. The U.S. withdrawal provides an opportunity to reset our relationship with our Turkish allies as well as an opportunity for us to focus on reinforcing Iraq's consolidation of its gains against ISIS. A strong, enduring partnership with Iraq will serve as stabilizing factor, helping mitigate concerns about long-term U.S. intentions in the region.

Jordan is one of our most committed partners in the Middle East and one of the most critical voices of moderate Islam in the region. We must be careful to not take their partnership for granted. Jordan's civilian and military leadership exemplifies professionalism and modernization within a region in crisis.

Jordan is the only country in the Levant to provide a platform for operations, in addition to unhindered access and overflight essential to U.S. interests. The Jordan Armed Forces (JAF) are a key contributor to the D-ISIS Coalition and OIR and is a major contributor to efforts to stabilize the region. Continued support to the Government of Jordan (GOJ) and the JAF is critical to ongoing D-ISIS efforts, and preventing the spread of instability in the region.

Key Challenges: Jordan currently hosts over 750,000 registered refugees from Syria, Iraq, and elsewhere, straining government resources, services, and infrastructure. The GOJ and the JAF have effectively balanced legitimate security concerns with the humanitarian imperative to care for these refugees, despite the strain on Jordan's resources. Simultaneously, regional turmoil, falling remittances, and declining tourism have led to rising unemployment and high national debt creating a volatile environment that threatens political stability.

Key Opportunities: CENTCOM, in conjunction with interagency partners, uses Section 333 and other Title 10 funds provided by Congress to build partner capacity and capability in Jordan. These funds and activities are in addition to the total assistance budget of \$1.275 billion annually from the State Department, as agreed upon with the Government of Jordan, that includes at least \$750 million dollars in Economic Support Funds and \$350 million dollars in FMF. In August 2019, Jordan will host nearly two dozen countries, including regional and NATO partners, for exercise EAGER LION, focusing on counter-terror, border security and humanitarian assistance missions.

2019 Prognosis: Jordan will face domestic pressure to move towards normalized relations and trade with Syria, but also seeks to avoid the risk of triggering the extensive U.S. sanctions on Syria. Russia will likely seek to capitalize on its role as a Syrian intermediary to increase its influence in Jordan and the region. Both domestic and external VEOs will remain a security threat, but continued funding from

Title 10 programs, in addition to FMF and economic support, will enable Jordan to develop critical capabilities and remain a key contributor to coalition efforts.

Egypt lies on the western edge of the CENTCOM area of responsibility, an anchor state for the region. The country is an important strategic partner whose location, size, enduring peace treaty with Israel, control of the Suez Canal, and moderate religious and cultural Pan-Arab influences are significant elements that support regional stability. Egypt is geographically positioned to counter the flow of foreign fighters, materiel, and financial support to extremists transiting from Libya through Egypt into the Central Region. The U.S.-Egypt security relationship is resilient and growing, exemplified by Egypt's formal request to participate in the National Guard State Partnership Program. Egypt supports our overflight requests, provides Suez Canal access affording short notice transits, and trains and deploys peacekeeping troops worldwide. In the spirit of our strong mil-to-mil partnership, in September 2018 we held a joint Defense Resourcing Conference to increase the orientation of U.S. security assistance to Egypt toward a counter-terrorism and sustainment focus.

Key Challenges: ISIS-Sinai continues to conduct attacks against the Egyptian Armed Forces (EAF) to bolster its influence over the local populace through intimidation. The EAF has contained most of the violence in the northeastern Sinai Peninsula and has begun to address societal and economic reforms to defeat ISIS-Sinai and prevent its spread to the Nile Valley.

Key Opportunities: Through our collaborative approach with the EAF we continue to see improvement in the security of their maritime and land borders. The EAF have improved their efforts to stem the flow of fighters and illicit material transiting from Libya through Egypt into Israel and the Central Region. Mindful of the complex environment of the Sinai, we continue our support to the Multinational Force and Observers in order to ensure the safety of these forces, allowing this crucial mission in support of the 1979 peace treaty to continue. We see the beginnings of improved

interoperability between the EAF, U.S., and other partner nations, exemplified in more Egyptian participation in multi-lateral exercises and strategic forums including exercise BRIGHT STAR 2018, the second joint military exercise held since 2009. Egypt has expressed plans to broaden its participation in coalition operations and has signed the Communications Interoperability and Security Memorandum of Agreement, allowing Egypt improved access to interoperability enabling acquisitions. We look to strengthen our security cooperation partnership through continued engagement and FMS programs.

2019 Prognosis: Our military assistance ensures that the U.S. remains a military partner of choice and counters Russia's efforts to expand its influence in the region. U.S. government aid and support to Egypt is crucial to our strategic partnership. CENTCOM will continue to support the EAF's efforts in the Sinai, and assist them with implementing a whole of government strategy that addresses the underlying political, economic, and social conditions that give rise to extremist elements.

Lebanon is a multi-confessional democracy that occupies a pivotal geostrategic position in terms of U.S. national security interests. Wedged between a key ally in the region, Israel, and a corridor of Iranian influence running from Tehran through Iraq and Syria, Lebanon has managed to remain relatively stable. Nevertheless, Hezbollah's manipulation of the Lebanese political process thwarts needed reforms while exacerbating sectarian tensions inside Lebanon.

Key Challenges: Lebanon faces a confluence of problems. The stagnant economy is worsened by regional conflict and exacerbated by the fact that nearly a quarter of the total population are refugees. Additionally, both Russia and China are increasing their efforts to gain access and influence in the country because of its key location on the Mediterranean and proximity to Syria. Hezbollah holds political clout which gives it a de-facto veto on Lebanese policy decisions, fields an armed militia that does not act on the behest of an elected government and builds popular support by acting as a social service provider – all undermining the role of the legitimate Lebanese government and armed forces.

Hezbollah has also engaged in provocative actions with Israel, risking unpredictable escalatory actions that threaten Israeli security and could undermine Lebanon's stability. Through its Hezbollah proxy, Iran continues to meddle in Lebanon's internal affairs. While the Lebanese Armed Forces (LAF) were able to drive ISIS from all Lebanese territory in 2017, the threat from remnants of ISIS and other extremists crossing into Lebanon from Syria remains present.

Key Opportunities: Our efforts to strengthen the LAF are a critical aspect of our policy to promote Lebanese sovereignty and security. The U.S. is the LAF's top security assistance partner. Our modest, consistent, long-term commitment and investments has led to the LAF becoming a successfully modernized, legitimate fighting force. The LAF is innovative, professional, and have proven their capabilities to protect the Lebanese people from internal and external threats through successful counter-VEO operations. It established itself as the most trusted and respected institution in the country, undercutting Hezbollah's claim that its armed militia is necessary to protect Lebanon, while providing a mature, apolitical, stabilizing influence. The even-handed, professional response of the LAF, assisted by the professional mediation of the United Nations Interim Force in Lebanon, was key in de-escalating the Israeli counter-tunnel operation in December 2018.

2019 Prognosis: Successful, consistent partnership with the LAF forms the backbone of U.S. influence in Lebanon, providing a bulwark against growing Russian and Chinese interest in the country, a reliable partner capable of fighting and defeating remnants of ISIS and other extremist groups attempting to regroup in Lebanon. The LAF has the potential to eventually form a deterrent to increased Iranian activity, and a vital counterbalance to Hezbollah influence. While Lebanese security and sovereignty is enhanced every day through our robust relationship with the LAF, Hezbollah continues to risk the stability and security of Lebanon by maintaining an armed militia and advanced weapons outside the authority of the State.

Regional Overview – Central Gulf

Iran's unpredictable and reckless behavior remains a threat to our partners, global commerce, and U.S. vital interests in the Middle East. While supporting the fight against ISIS in Iraq and Syria, Iran foments instability and chaos in the region through the proliferation of advanced weapon technology and a destabilizing ideology. To conceal its culpability, the Iranian regime masks its malign activities through proxies and surrogates enabled by the Iran Threat Network (ITN) in Yemen, Syria, Iraq, and Lebanon. Iran is also attempting to build ground lines of communication through Iraq and Syria into Lebanon to support its proxy Hezbollah. Iran has gained influence within Iraq's armed forces with the formalization of the Popular Mobilization Forces, and also exerted influence in Lebanon, Iraq, and Yemen, oftentimes affecting established sovereign governance.

Key Challenges: Iran's military is composed of approximately 700,000 personnel, the largest in the region. Both of its military arms, the Islamic Republic of Iran Armed Forces, and the Islamic Revolutionary Guard Corps (IRGC), are improving their abilities to quickly mobilize and deploy in response to internal and external threats. Iran postures its forces and supports proxies to threaten – or be able to threaten - strategic locations like the Bab al Mandeb and the Strait of Hormuz. With little warning, Iran could impede commercial traffic in these key maritime chokepoints. Iran seeks to gain hegemonic influence through the resulting chaos of its proxies and the threat of force. Iranian surface to air missiles pose a significant threat to U.S. intelligence, surveillance, and reconnaissance assets operating in international airspace. Iran also has the region's largest ballistic missile force, which continues to increase in capability, range, and lethality. In November 2018, Iran demonstrated its ballistic missile capability, striking ISIS targets in Syria and Kurdish militant targets in Iraq.

Key Opportunities: Since the U.S. withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and the subsequent re-imposition of pre-JCPOA nuclear-related sanctions, Iran has sought to

demonstrate its resolve and counter U.S. pressure while trying to mitigate the impact of sanctions.

However, longstanding vulnerabilities in Tehran's fiscal policy are reducing its ability to alleviate the impact of U.S. sanctions and Iran's already fragile domestic economy will likely further decline. While Iran's strategy is to sow chaos through its malign activities, CENTCOM will continue to develop means of maintaining order to combat Iran's chaos. Our mil-to-mil relationships help build local credibility in many partner nations, while bi- and multilateral efforts – such as maritime exercises and developing integrated ballistic defense – with our regional partners helps create baffles to stifle Iranian ambitions.

2019 Prognosis: Iran will continue to seek to expand its political influence and military presence in Iraq, Syria, Lebanon, and Yemen, and to threaten international trade and regional stability throughout the Central Region. Leaders in the IRGC–Qods Force will continue to use surrogates, businesses, and logistics entities to execute direct action, intelligence, influence building, terrorism, and cyber operations against the U.S. and our partner nations. Iran intends to expand its regional influence, counter Saudi Arabia, threaten Israel, and maintain a capability to threaten strategic maritime transit routes. Iran will continue to acquire and develop increasingly lethal weapons to raise the cost of direct military conflict, and seek to pursue policies that threaten U.S. strategic interests and goals throughout the region.

The Kingdom of Saudi Arabia (KSA) suffered challenges to its international reputation over the past year but remains a key strategic partner. The ambitious reform agenda set forth by Mohammed bin Salman is meant to modernize and diversify the Saudi economy and encourage foreign direct investment. To date, however, these reforms have met with mixed success.

Key Challenges: The conflicts in Yemen, Syria, Iraq and Libya have challenged Saudi Arabia's partners in the region, beset by malign influence driven by experienced and well-funded Iranian proxies. The Gulf Rift, pitting KSA, UAE, Egypt, and Bahrain against Qatar, complicates unified deterrence to Iranian malign activity. The ballistic missile threat and armed UASs emanating from Yemeni territory

continue to pose a significant risk, as the Houthi's consider civil infrastructure as legitimate military targets. High-profile civilian casualty incidents on behalf of the Coalition in Yemen and international backlash resulting from the murder of Saudi dissident Jamal Kashoggi have damaged Saudi Arabia's international standing.

Key Opportunities: The Yemen conflict provided lessons learned on military operations and tactics, adding greater urgency to institutional defense transformation efforts. We continue to share our own experiences and processes in an effort to improve Saudi Arabia's operational performance and reduce civilian casualties. CENTCOM's security cooperation with Saudi Arabia remains a critical link in our efforts to strengthen partners in the region and meet current and future challenges. The work of U.S. advisors is essential to the success of our mission, and Saudi Arabia underwrites the lion's share of their presence. Helping build Saudi Arabia's security forces reflects our commitment to increase partner capacity, sustain effective defense institutions, increase professionalism, interoperability, and capability in order to deter aggression in the region and protect critical infrastructure.

2019 Prognosis: Saudi Arabia plays an important role ensuring regional stability. Despite recent strains, the U.S. – Saudi Arabia security relationship is resilient and this strategic partnership with the Kingdom is a foundational point of CENTCOM's ability to execute our national defense strategy. Our ongoing relationship with the Kingdom regarding regional basing and access, interoperability, freedom of movement – exemplified by Saudi support for CENTCOM's expansion of the Trans-Arabian Network as a primary distribution route across the Arabian Peninsula - remains critical, and our defense institution-building endeavors represents the operationalization of our “by, with, and through” approach.

Yemen is beset by strife and riven with internal fractures. The civil war continues unabated and the humanitarian crisis worsened in the last year. Saudi Arabia and the UAE continue to lead the coalition supporting the Republic of Yemen Government (ROYG). While some elements of the ROYG are

reestablished in Aden, a portion of the ROYG, including President Hadi, remains in Riyadh, Saudi Arabia. The Houthis retain control over Yemen's capital, Sana'a, and other key territory, and the civil war has severely affected Yemen's population, with nearly three quarters percent requiring urgent humanitarian assistance. Similarly, Yemen's economy has been devastated by rising food and fuel prices, lack of a regular salary, the depreciation of the Yemeni Rial. Neither the Houthis nor the ROYG are able to effectively govern within the areas they control.

Key Challenges: Terrorist groups like AQAP and ISIS-Yemen continue to maintain a presence in Yemen and focus on attacks against ROYG, SLC, and Houthi targets. The conflict in Yemen opened opportunities for Iran, which continues to provide support to the Houthis aimed at building a proxy force designed to pressure the SLC and expand Iranian regional influence. This support enables Houthis to launch missiles at its neighbors and target ships in the Bab al Mandeb and Red Sea; threatening Americans and our partners and raising the risk of broader regional conflict. The prolonged conflict deepened the humanitarian crisis, and much of the population faces severe food shortages, a cholera epidemic and other outbreaks of disease.

Key Opportunities: Following years of fighting, security sector reconstitution will be a priority, and any peace agreement will require functioning, unified Yemeni security forces in which both the ROYG and Houthis work together to maintain Yemen's stability. Leveraging existing mil-to-mil ties with the ROYG and a supportive relationship with the UNSE, CENTCOM is positioning itself to provide the necessary assistance to conduct security cooperation in Yemen while continuing not to engage in hostilities between the Saudi-led coalition and the Houthis. The Yemeni Coast Guard resumed control of six ports from the SLC in late 2018, with training provided through the Department of State's Export Controls and Related Border Security program. Implementing the existing 505 agreement with Yemen will allow CENTCOM to significantly deepen and broaden assistance and training opportunities.

2019 Prognosis: The U.S. and ROYG will continue to maintain a nascent but increasingly productive mil-to-mil relationship with the goal of enabling Yemeni security forces to secure national borders, defeat VEOs, and respond to existing and emerging threats in order to provide an environment that facilitates the reconstruction of a stable economy and reconstitution of Yemen's government institutions and civil functions.

Kuwait is a key strategic partner for regional security, indispensable facilitator of the D-ISIS campaign, multinational partner on U.N. Security Council, and linchpin of the region in humanitarian, diplomatic, and economic stability. The Government of Kuwait provides tremendous support for U.S. and Coalition operations. Kuwait hosts the fourth largest presence of U.S. troops overseas – including CENTCOM's army component, U.S. Army Central. The U.S. military presence is viewed as essential to the defense of Kuwait, and Kuwait reimburses the U.S. for its presence.

Key Challenges: Given the large military U.S. presence in Kuwait, the implementation of the NDS, the evolution of missions in Syria and Afghanistan, and the unknown of potential missions to come, we must ensure we maintain flexibility and clear communications with our strategic Kuwaiti partner.

Key Opportunities: Vigilant to numerous regional threats, Kuwait sought resolution to the Gulf Rift dispute, while promoting a regional response to the crises emanating from Iraq, Syria and Yemen. Kuwait continues to play an important role for Iraq's future. Kuwait hosted the International Conference for the Reconstruction of Iraq last February, raising \$30 billion toward Iraq's reconstruction – including \$2 billion dollars in Kuwaiti loans and investments.

2019 Prognosis: Kuwait remains a key partner, combat support and logistical hub, and enabler for CENTCOM. Our strong mil-mil relationships with the Kuwaiti military underscores our commitment to the defense of Kuwait. This will also allow U.S. access to Kuwait ranges and training facilities and

enable the U.S. to realign to the NDS, while simultaneously providing flexibility to surge forces into Kuwait as needed to preserve regional stability and U.S. interests.

Bahrain is a strong security partner and a major non-NATO ally. The Government of Bahrain (GOB) has welcomed the broader effort to confront Iran's destabilization activities in the region. Bahrain is a strong partner in countering threat financing, especially helping curtail Iran's efforts to circumvent financial sanctions. Bahrain has also been part of the GCC-wide effort to rebuild ties with Iraq and provide a counterweight to Iran's influence. Bahrain's strong partnership with the U.S. is most evident by its hosting of the U.S. Fifth Fleet, the only operating U.S. naval base in the Central Region, and multiple U.S. command and control facilities located at the Naval Support Activity in Bahrain.

Key Challenges: Changes in oil prices have posed a formidable challenge to Bahrain's economy, as over 75 percent of government revenue comes from hydrocarbon sales. Despite the GOB's attempts to shore up its fiscal position by cutting public spending and increasing non-oil revenues, the country continues to confront significant annual fiscal deficits and will consequently continue to rely on its neighbors to provide financial lifelines.

Key Opportunities: Bahrain's access, basing, and overflight support to U.S. and Coalition forces in the region are essential to our force posture. Its contribution to regional security, maritime patrols, intelligence sharing, counter-mine, and counter-piracy efforts are an integral part of the region's overall security. Bahrain continues to pursue military modernization initiatives that will result in a Bahrain Defense Force more able to contribute to and lead regional coalition military operations. Bahraini Land Force, SOF, and Air Force support to the SLC campaign in Yemen is providing Bahraini forces with experience in expeditionary operations, while ongoing efforts to improve the BDF's capabilities will enable Bahrain to play a more critical role in regional security.

2019 Prognosis: The mil-to-mil relationship between Bahrain and the U.S. remains strong.

Qatar is a critical partner in the Arabian Peninsula, providing CENTCOM with invaluable regional access, and hosting approximately 10,000 U.S. service members and aircraft, and is home to the Combined Air Operations Center, U.S. Special Operations Command Central Forward Headquarters, and the CENTCOM Forward Headquarters. The access, basing, and overflight that Qatar provides would be costly to replicate anywhere else in the region. The Gulf Rift has a detrimental effect on joint training and interoperability between the U.S. and its Gulf Cooperation Council (GCC) partners. Qatar's recent withdrawal from OPEC and lower-level attendance at the December 2018 GCC Summit indicate Qatar is pursuing economic and political policies more independent of Saudi Arabia.

Key Challenges: While the Gulf Rift had little direct impact on CENTCOM operations, it has imposed significant restrictions on Qatar's freedom of movement through the closure of land borders and air space. It impacted Qatar's participation in GCC-hosted multilateral exercises, eroded coalition building efforts, and increased Qatari reliance on Iran to overcome the economic and commercial shipping constraints – specifically, Qatar relies heavily on Iranian land, sea, and airspace for transshipment of foodstuffs.

Key Opportunities: The Gulf Rift reaffirmed Qatar's commitment to make the U.S. its primary defense partner. While Qatar has one of the smallest militaries in the region, it is also, per capita, the richest country in the world. Despite its relatively small size, Qatar has been a major contributor to coalition operations throughout the region and against ISIS, and seeks to expand its participation in other regional coalitions. Qatar is the second largest FMS customer in the world with \$26 billion dollars in new cases and is on track to surpass \$40 billion dollars in the next five years with additional FMS purchases. This investment demonstrates a clear desire to partner exclusively with U.S. and NATO allies and become a reliable contributor to coalition operations.

2019 Prognosis: Qatar's efforts to expand their military both in size and capacity will result in increased bilateral military engagements between CENTCOM and the Qatari Armed Forces. This will give the U.S. an opportunity to make a positive impact on the military development of a key partner in a turbulent region. Qatar will continue to play a vital and necessary role in the region and has spent nearly \$9 billion dollars on U.S.-led Coalition basing infrastructure.

United Arab Emirates (UAE) is one of the U.S.' staunchest partners and non-NATO allies in the Central Region. The UAE's strategic location, vast natural resources, willingness to engage VEOs, proven expeditionary capabilities of its military, and drive to be at the forefront of military innovations makes them an ideal partner. The UAE has repeatedly supported U.S. objectives in both Syria and Afghanistan and has taken a leading role in the fight against terrorism – being among the first countries to join the D-ISIS coalition. It remains active in pursuing many of the coalition's lines of effort, including D-ISIS messaging, stabilization, and assisting in stemming the flow of foreign fighters.

Key Challenges: Yemen is the UAE's top near-term security concern. The UAE sees the Huthis as Iranian proxies, paving the way for a new and unwelcome Iranian role in southern Arabia and in the seas surrounding the peninsula. The UAE is a key partner in the SLC in Yemen, conducting offensive operations in cooperation with Yemeni forces around Hudaydah since May 2018.

Key Opportunities: The U.S. and UAE cooperate under a strong bilateral framework to prevent and respond to conflicts and crises, and the UAE has clearly indicated a desire to forge even stronger military relationships with the U.S. The UAE is active in an operational partnership to disrupt terrorist networks and reduce terrorist attacks and is the only member of the Saudi-led Coalition in Yemen to expand its military objectives to include counter-terrorism alongside the U.S. Robust training and exercise programs with the UAE increase the level and quality of cooperation between our nations. The

UAE also provides substantial access and is willing to burden-share the costs of basing and infrastructure.

2019 Prognosis: The UAE expressed a desire to strengthen our relationship through a nine-point Defense Cooperation Roadmap, which supports our NDS through increased burden sharing in its own defense. A continued robust exercise and engagement program will strengthen our military-to-military relationships, and UAE's purchase of U.S. produced weapon systems will help secure interoperability with U.S. units. We expect the UAE to continue their partnership to U.S. efforts in Syria, Yemen, and Afghanistan, in addition to supporting freedom of navigation in the Red Sea.

Oman is a bastion of stability in the Central Region. The long-standing relationship between the U.S. and Oman, based on shared security and stability interests, remains strong – each service chief of the Sultan of Oman's Armed Forces a graduate of U.S. military schools via our International Military Education and Training program. Oman serves as an interlocutor with other GCC members, factions in Yemen, and Iran. Oman faces some political and economic uncertainty due to the eventual leadership transition from Sultan Qaboos, and the continued budgetary dependence on limited hydrocarbon revenues to fuel Omani development and employment.

Key Challenges: Oman's economy continues to experience recurring fiscal deficits, growing unemployment, and stagnant growth. Economic diversification is increasingly seen as a national security priority for Oman, as reliance on the hydrocarbon sector and a growing population result in rising unemployment, growing debt, and a diminishing capacity to pay for the costly security apparatus that keeps Oman safe and secure. Progress toward achieving the goal of diversification has been slow. This economic insecurity combined with an untested succession plan to follow Sultan Qaboos' decades of stable rule represent significant challenges.

Key Opportunities: Oman's strategic location, outside of the maritime chokepoints of the Bab el Mandeb and Straits of Hormuz, provides CENTCOM with key logistical, operational, and contingency capabilities. The U.S. and Oman have shared interests in allowing increased United States access to Oman's military and commercial ports and bases as the country looks to modernize its infrastructure and diversify from an oil-based economy.

2019 Prognosis: A stronger economy in the Sultanate of Oman will ensure a politically stable country with adequate employment opportunities for its citizens. The U.S. and Oman will continue to maintain a strong mil-to-mil relationship and Oman will provide crucial access in the form of thousands of aircraft overflights, landings, and dozens of port-calls in Oman. Negotiations for enhanced access to Duqm port offer the prospect of deeper military cooperation. Oman will participate in numerous bilateral exercises and training events with U.S. Forces. Oman will continue to develop an FMS portfolio that already includes over \$2.7B in open FMS cases, though Omani budgetary constraints may significantly slow new acquisitions in coming years.

Conclusion

Maintaining our competitive advantage in the Central Region relies on more than simply overmatching those who would challenge us with a higher volume of forces and equipment. CENTCOM's strategic approach has never relied on physical overmatch, but on our people, our strategic partnerships, and the ability to creatively leverage our combined capabilities to achieve our mission. As we operate more and more in the gray zone of competition short of combat, our people and partnerships – based on foundations of respect, trust, and shared values – will continue to be our source of strategic strength and key to maintaining our edge in the region.

The CENTCOM team – our component commands, our combined and joint task forces, our country teams, and all of our interagency partners – more than 90,000 uniformed military and civilian strong, is

the engine that drives everything we do toward securing our national interests. They represent America's greatest treasure. In an era of austerity and change when we consistently ask our people to do more with less, the service and sacrifice of these men and women and their families in support of their nation is both humbling and inspirational. For nearly 18 years of sustained conflict across the CENTCOM AOR, our Soldiers, Sailors, Airmen, Marines, Coast Guardsmen, and Civilians have answered the call with an unwavering commitment and devotion matched only by the families who support them. We could not accomplish what we do without all of them and they deserve the very best capabilities and support we can provide them, from weapons and communications systems, to healthcare and housing. As CENTCOM continues to fulfill its current missions and evolves to face new challenges, we appreciate the efforts of our civilian leadership at the Department of Defense, the interagency, and especially members of Congress and their staffs, who work tirelessly to provide our people everything they need to accomplish their vital missions and lead healthy, fulfilling lives in continued service to our nation.

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Afghanistan

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U.S. Embassy in Afghanistan

Ambassador John Bass



Term of Appointment: December 2017 to present

John Bass was confirmed by the U.S. Senate on September 28, 2017 as the U.S. Ambassador to Afghanistan.

A career Senior Foreign Service officer, he served as U.S. Ambassador to Turkey from 2014 to 2017, Executive Secretary of the State Department from 2012 to 2014, and U.S. Ambassador to Georgia from 2009 to 2012. He began his diplomatic career in 1988 and has also served in positions in U.S. missions in Iraq, Italy, Belgium, and Chad.

In Washington, Ambassador Bass's assignments have included service on Vice President Cheney's staff, as Chief of Staff and advisor to Deputy Secretary of State Strobe Talbott, as Director of the State Department's Operations Center and in several assignments focused on European security issues. He has received numerous State Department performance awards.

The son of a public servant and a U.S. Air Force officer, Bass was born and raised in upstate New York. A graduate of Syracuse University, he speaks Italian and French. He is married to U.S. diplomat Holly Holzer Bass.

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U.S. Department of State

Diplomacy in Action

U.S. Relations With Afghanistan

Bilateral Relations Fact Sheet

BUREAU OF SOUTH AND CENTRAL ASIAN AFFAIRS

July 8, 2019

U.S.-AFGHANISTAN RELATIONS

Afghanistan remains an important partner of the United States in the fight against terrorism, working with us to eliminate al-Qaeda, ISIS-Khorasan (ISIS-K) and their affiliates in Afghanistan. In order to strengthen Afghanistan's capabilities as a partner, and to improve the lives of the Afghan people, we continue to invest U.S. resources to help Afghanistan improve its security, governance, institutions and economy. Our strong bilateral partnership is guided by the Enduring Strategic Partnership Agreement between the Islamic Republic of Afghanistan and the United States of America (SPA) signed in May 2012, which outlines respective economic and political commitments, as well as by the Bilateral Security Agreement (BSA) signed in September 2014, which outlines mutual security understandings. In July 2012, following the entry into force of the SPA, President Obama designated Afghanistan a Major Non-NATO Ally (MNNA). President Trump's conditions-based South Asia Strategy, announced in August 2017, seeks to set conditions for a political process between the Taliban and the Afghan government that ultimately leads to a peace agreement and an end the conflict in Afghanistan. President Trump was clear that military power alone will not end the war but can set the conditions for a political process that leads to lasting peace.

U.S. Security Support for Afghanistan

The United States military has been engaged in Afghanistan since shortly after the 9/11 attacks in 2001. In 2003, NATO assumed leadership of the United Nations-mandated International Security Assistance Force Mission (ISAF). At its height, ISAF included more than 130,000 troops from 51 NATO and partner nations. ISAF forces fought alongside the Afghan National Defense and Security Forces (ANDSF) as the international community worked to improve ANDSF capabilities. U.S. force levels peaked at roughly 100,000 in 2011, and began to decrease through 2014, as the ANDSF gained strength. There have been more than 2,400 U.S. military deaths in Afghanistan since 2001, and over 20,000 U.S. service members have been wounded in action. U.S. casualties in Afghanistan peaked at 499 in 2010 and dropped sharply after January 2015, when Afghan forces assumed full responsibility for combat operations against the Taliban.

ISAF officially ended on December 31, 2014, with the ANDSF taking over full responsibility for security in Afghanistan on January 1, 2015, when the United States and NATO formally ended their combat role in Afghanistan and transitioned to a new mission. On January 1, 2015, NATO launched the Resolute Support Mission (RSM), a non-combat mission focused on providing train, advise, and assist support to the ANDSF. In addition to the United States, there are 39 NATO Ally and partner nations contributing troops to RSM and helping Afghan forces become more effective, professional, and sustainable. The BSA and a NATO Status of Forces agreement signed in September 2014 provide the legal basis for U.S. and NATO forces to remain in Afghanistan.

The United States has approximately 14,000 troops in Afghanistan engaged in two missions: 1) a bilateral counterterrorism mission in cooperation with Afghan forces; and 2) participation in RSM. U.S. troops in Afghanistan serve alongside almost 8,000 troops from NATO allies and partners. U.S. forces continue to disrupt and degrade the Taliban's combat operations, ISIS-K, and al-Qaeda activities in Afghanistan, through partnered operations with Afghan forces, as well as unilateral operations. The United States is

committed to maintaining military pressure on the Taliban to reverse their battlefield gains and provide leverage at the negotiating table. Additionally, combatting ISIS-K and the remnants of al-Qaeda continues to be a priority for the United States.

U.S. Assistance to Afghanistan

The United States is part of a coalition of more than 100 countries and organizations that provide both security and civilian assistance to Afghanistan. The United States and more than 30 other nations provide financial support to the ANDSF. The international community made almost \$5 billion available for the ANDSF in 2019, with the United States providing the greatest share. At the Brussels ANA Trust Fund Plenary June 2019, NATO Allies and Operational Partners reaffirmed their commitment to financial sustainment of the Afghan forces through 2024.

Similarly, at the Brussels Conference on Afghanistan in October 2016, the United States and other international donors committed to provide Afghanistan \$15.2 billion in civilian assistance through 2020. In its turn, Afghanistan committed to strengthen governance, rule of law, fiscal sustainability, and human rights. The United Nations hosted donors in Geneva in 2018 to assess Afghan progress on reform and reaffirm their Brussels commitments. In addition, donors at Geneva noted their intent to continue civilian assistance after a political settlement and agreed to urgently develop a post-settlement economic action plan to help prepare for an eventual peace agreement. Reform commitments are codified in the "Geneva Mutual Accountability Framework (GMAF).

The United States uses the bilateral Afghanistan Compact and the multilateral GMAF to hold the Afghan Government accountable to mutually agreed reform commitments. We focus our development assistance on promoting peace, self-reliance, and stability including through programs to increase economic growth via an export-oriented trade strategy, capacity of civilian institutions, improving the performance of the justice system, and helping the government maintain and improve upon the gains made over the last decade in health, education, and women's rights. The United States also provides support for Afghan civil society, promotes increased respect for human rights, helps to fight the illegal trade in narcotics, and continues to provide significant humanitarian support. Since 2001, the United States has allocated approximately \$29 billion in civilian assistance for Afghanistan.

Bilateral Economic Relations

Afghanistan signed a Trade and Investment Framework Agreement with the United States in 2004. The TIFA is the primary forum for bilateral trade and investment discussions between the two countries. Exports from the United States to Afghanistan increased 525% from \$150 million in 2004 to \$937 million in 2017. Efforts are underway to improve the business climate, including strengthening Afghanistan's commercial regulatory and legal framework to attract foreign trade and investment, as well as to stimulate additional trade with the United States through trade capacity development. Implementation of new, WTO-compliant legislation and policies will improve Afghanistan's business environment and trade regime, and provide an international legal framework that will help further Afghanistan's regional integration.

Political Relations

Following the controversial 2014 presidential election in Afghanistan, the United States called for and financially supported the United Nations audit of the vote, and helped mediate a political agreement that resulted in the creation of the National Unity Government. The United States remains committed to political stability and the democratic transfer of power in Afghanistan. After a three-year delay, the Afghan government held parliamentary elections in October 2018, and the next presidential election is scheduled for September 2019. The United States fully supports efforts to reform Afghanistan's electoral institutions in order to hold timely, credible, and transparent elections.

Afghanistan's Membership in International Organizations

Afghanistan and the United States belong to a number of the same international organizations, including the United Nations, International Monetary Fund, and World Bank. Afghanistan also is a Partner for Cooperation with the Organization for Security and Cooperation in Europe and joined the World Trade Organization in 2016.

Bilateral Representation

Ambassador John Bass was confirmed as U.S. Ambassador to Afghanistan in September 2017; other principal embassy officials are listed in the Department's Key Officers List.

Afghanistan maintains an embassy in the United States at 2341 Wyoming Avenue, NW, Washington, DC 20008 (tel: 202-483-6410). Ambassador Roya Rahmani has served as Afghanistan's Ambassador to the United States since December 2018.

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Country Report

Afghanistan

Generated on September 9th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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Briefing sheet

Editor: **Kamal Madishetty**

Forecast Closing Date: **May 24, 2019**

Political and economic outlook

- Political stability will be undermined by tensions between political factions and insurgent forces. The Economist Intelligence Unit expects progress on policymaking to remain difficult, at least until the presidential election, which is due to be held in September.
- In 2019-20 political stability will continue to be adversely affected by an ongoing campaign of insurgency by the Taliban and Islamic State. Despite multiple efforts towards peace with the Taliban, militant activity will continue largely unabated.
- The US-led peace process in Afghanistan is unlikely to result in a sustainable solution to the Taliban insurgency. We forecast that the US will nonetheless start to draw down its troops from Afghanistan in 2019-20, as a result of domestic US political pressures.
- Progress on reining in corruption will be limited, and this will be a major factor behind public disenchantment with the government. Despite progress on fiscal reform, government financing will remain reliant on lending and aid from international sources.
- Economic prospects will be constrained throughout 2019-20 as the difficult security situation limits investor interest. Poor connectivity and sluggish progress on the implementation of structural reforms will weigh on the growth outlook.
- The trade deficit will remain large in 2019-20. The potential for a rise in Afghanistan's traditional exports is limited, although the country will start to play a greater role in regional transit trade during the forecast period.

Key changes since February 25th

- We have revised our forecast for inflation in the light of changes to our exchange-rate forecast. We now believe that consumer prices will increase at a faster pace in 2019-20 than 2018, instead of the easing that we expected previously.
- We have revised our exchange-rate forecast for the local currency, the afghani, to depreciate further against the US dollar in 2019, following a persistent depreciatory trend since early this year. This is in contrast with our previous forecast of currency stabilisation.

The quarter ahead

- **September 28th—Presidential election:** After multiple delays, the Independent Election Commission will hold the presidential election, in which 18 candidates are in the fray. We expect the incumbent, Ashraf Ghani, to be voted out of power.

Basic data

Land area

652,100 sq km (World Bank)

Population

36.4m (2018; UN)

Main towns

Population in '000 (2013; Central Statistics Organisation estimates)

Kabul (capital): 3,435

Kandahar: 505.3

Herat: 449.6

Climate

Continental (wide extremes of temperature)

Weather in Kabul (altitude 1,815 metres)

Hottest month, July, 16-33°C (average daily minimum and maximum); coldest month, January, minus 8-2°C; driest month, September, 1 mm average monthly rainfall; wettest month, April, 102 mm average rainfall

Main languages

Pashto and Dari (Persian)

Measures

Metric system. Local measures include:

1 gazi jerib = 0.7366 metres

1 jerib = 0.195 ha

1 charak = 1.7665 kg

1 seer = 9.066 kg

Currency

The afghani (Af). Average exchange rate in 2018: Af72.1:US\$1

Time

4.5 hours ahead of GMT

Fiscal year

December 21st-December 20th, from 2012/13; previously March 21st-March 20th

Public holidays

February 15th (Liberation Day); March 21st-22nd (Nawroz, New Year's Day); April 28th (Victory Day); May 1st (International Workers' Day); May 6th (Awal Ramadan, start of Ramadan, approximate); June 5th-6th (Eid al-Fitr, end of Ramadan, approximate); August 19th (Independence Day); August 11th-12th (Eid al-Adha, Feast of Sacrifice, approximate); September 9th (Ashura); November 10th (Mawleed al-Nabi, birth of Prophet Mohammed)



Political structure

Official name

Islamic Republic of Afghanistan

Form of state

Islamic republic

The executive

The president is both head of state and leader of the government. The cabinet is appointed by the president and approved by the lower house of parliament

National legislature

The National Assembly, which comprises a 249-seat lower house, the Wolesi Jirga, and a 102-seat upper house, the Mushrano Jirga

National elections

Presidential and provincial council polls were held in April 2014, but Ashraf Ghani was not declared the winner of the presidential vote until September of that year. He formed a unity government with a rival candidate, Abdullah Abdullah, after a disputed election that involved an extensive vote audit for fraud. The final results for provincial council elections were announced in October 2014. An election for the lower house of parliament was held on October 20th 2018, having been postponed multiple times since 2015 (the originally scheduled date), owing to delays with the electoral reform process and security concerns. The next presidential poll is due to be held in September 2019

National government

The president appoints the government, which reflects Afghanistan's ethnic mix

Main political organisations

A number of factions exist (some dating from the war against the Soviet Union in the 1980s), including: the Taliban (Sunni Pashtun); the United National Front, primarily consisting of Jamiat-i-Islami (Tajik), Hezb-i-Wahdat (Shia Hazara), Junbish-i-Milli (Uzbek) and the National Islamic Front; Hizb-e-Haq wa Edalat (Right and Justice Party); Jabha-e Milli-e Afghanistan (National Front of Afghanistan); Hezb-i-Islami (Pashtun); and the National Coalition of Afghanistan

Key ministers

President: Ashraf Ghani

Chief executive officer: Abdullah Abdullah

First vice-president: Abdul Rashid Dostum

Second vice-president: Sarwar Danish

Agriculture, irrigation & livestock: Nasir Ahmad Durani

Borders & tribal affairs: Mohammad Shafiq Gul Agha Sherzai

Commerce & industry: Humayoon Rasa

Counter-narcotics: Salamat Azimi

Defence: Asadullah Khalid (acting)

Economy: Mohammad Mustafa Mastoor

Education: Assadullah Hanif Balkhi

Energy & water: Ali Ahmad Osmani

Finance: Eklil Ahmad Hakimi

Foreign affairs: Salahuddin Rabbani

Internal affairs: Wais Ahmad Barmak

Justice: Abdul Basir Anwar

Mines & petroleum: Nargis Nehan (acting)

Refugees & repatriation: Sayed Hussain Alemi Balkhi

Rural rehabilitation & development: Mujiburahman Karimi

Transport & aviation: Hameed Tahmasi

Central bank governor

Khalil Sediq

Economic structure

Annual indicators

	2013 ^a	2014 ^a	2015 ^a	2016 ^a	2017 ^a
GDP at market prices (Af bn) ^b	1,138.8	1,176.5	1,222.8	1,314.2	1,375.5
GDP (US\$ bn)	20.6	20.6	20.0	19.4	20.2
Real GDP growth (%) ^b	5.6	2.7	1.5	2.3	2.7
Consumer price inflation (av; %)	7.4	4.7	-0.7	4.4	5.0
Population (m)	31.7	32.8	33.7	34.7	35.5
Exports of goods fob (US\$ m)	505.8	641.8	577.9	614.2	784.0
Imports of goods fob (US\$ m)	-8,664.2	-7,002.0	-7,571.1	-6,536.1	-7,023.8
Current-account balance (US\$ m)	-5,628.1	-3,935.9	-4,643.2	-3,322.8	-4,227.1
Foreign-exchange reserves excl gold (US\$ m)	6,441.9	6,680.7	6,231.8	6,476.3	7,185.8
Exchange rate (av) Af:US\$	55.38	57.25	61.14	67.87	68.03

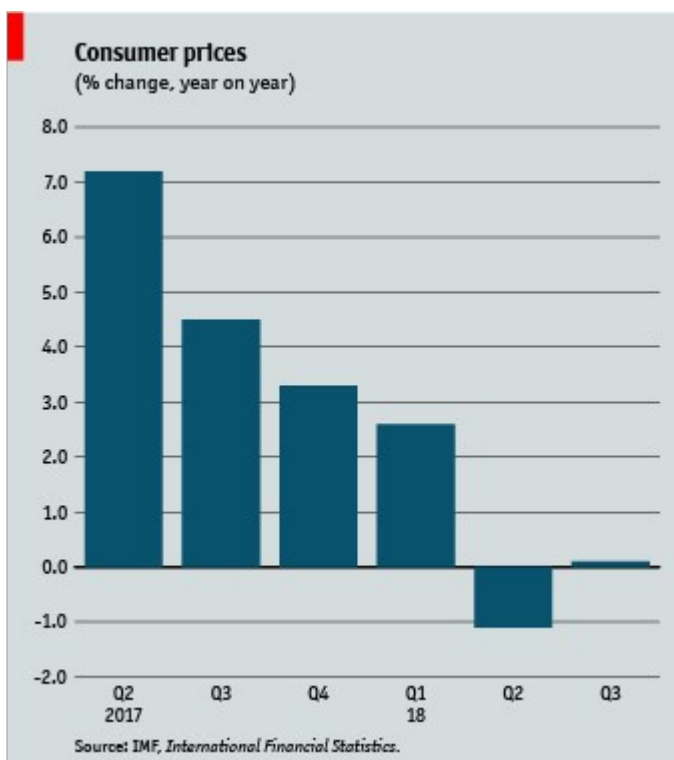
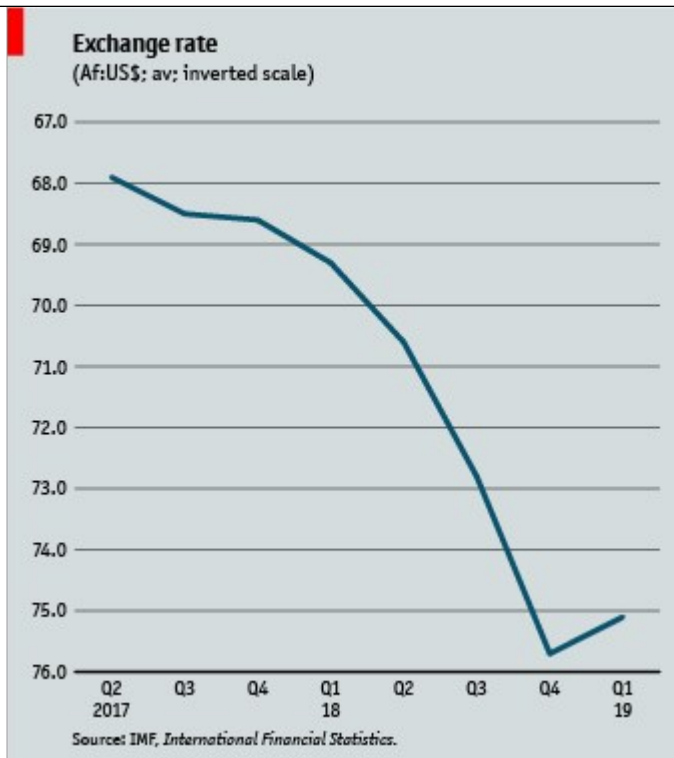
^a Actual. ^b Fiscal years.

Origins of gross domestic product 2016		% of Components of gross domestic product total 2016		% of total
Agriculture	22.0	Private consumption		112.7
Industry	22.7	Government consumption		12.4
Services	55.0	Fixed investment		17.8
		Exports of goods & services		5.9
		Imports of goods & services		41.7
Principal exports 2015		Principal imports 2015		% of total
Fruits & nuts (excluding oil nuts)	17.2	Petroleum oils or bituminous minerals		8.6
Cotton	10.1	Telecommunication equipment		5.1
Crude vegetable materials	8.6	Meal & wheat flour		3.8
Coal	6.4	Measuring apparatus		3.5
Main destinations of exports 2017		Main origins of imports 2017		% of total
Pakistan	44.5	Iran		21.1
India	34.4	China		20.7
UAE	11.3	Pakistan		12.3
Iran	2.8	Kazakhstan		10.9

Quarterly indicators

	2017			2018				2019
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Central government finance (Af bn)								
Revenue	72.0	100.7	107.1	n/a	n/a	n/a	n/a	n/a
Expenditure	74.8	72.1	96.0	n/a	n/a	n/a	n/a	n/a
Balance	-2.8	28.5	11.2	n/a	n/a	n/a	n/a	n/a
Prices								
Consumer prices (av; 2005=100)	146.9	145.4	146.7	147.3	145.3	145.5	n/a	n/a
Consumer prices (% change, year on year)	7.2	4.5	3.3	2.6	-1.1	0.1	n/a	n/a
Financial indicators								
Exchange rate Af:US\$ (av)	67.9	68.5	68.6	69.3	70.6	72.8	75.7	75.1
Exchange rate Af:US\$ (end-period)	68.1	68.4	69.5	69.1	71.6	75.6	75.0	75.5
Lending rate (av; %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Savings rate (av; %)	2.8	2.3	2.4	2.4	1.5	1.2	1.4	1.9
M2 (end-period; Af bn)	437.4	450.4	473.8	441.2	464.6	466.7	486.0	465.0
M2 (% change, year on year)	7.1	6.0	4.1	1.1	6.2	3.6	2.6	5.4
Foreign reserves (US\$ m)								
Reserves excl gold (end-period)	6,824	7,049	7,186	7,219	7,095	7,214	7,306	7,304

Sources: IMF, International Financial Statistics.



Outlook for 2019-20

Political stability

Fierce rivalry within the political leadership, the impact of tribal alliances on the fragile security environment and growing discontent with government policy will undermine the political environment in 2019-20. Disagreement among the major political forces over electoral processes will also weigh on the establishment and expansion of a democratic political system.

Insurgent groups will continue to pose severe challenges to the government in 2019-20. Foremost among these groups is the Taliban, a militant group that has carried out a 17-year insurgent campaign against a US-led international military coalition and Afghanistan's own local security services. Complicating the security situation further is the increasing number of insurgent attacks perpetrated by militants who claim allegiance to Islamic State (IS), an extreme jihadi group.

Despite an offer by Afghanistan's president, Ashraf Ghani, in February 2018 to hold peace talks with the Taliban, the militant group has refused to enter negotiations with the government. The president has offered to recognise the Taliban as a legitimate political party that would be allowed to contest elections. He has also indicated that the government would provide passports for the group's representatives, and support for the removal of international sanctions against the Taliban. Regardless of these overtures, we do not believe that the Taliban will engage seriously with the government in the medium term. Its strategy has focused instead on maximising its military gains and eroding the government's credibility. Mr Ghani's insistence that women be represented and consulted at all stages of the peace process will continue to be seen as unacceptable to the Taliban, as the group opposes equal rights for women. Efforts by foreign powers such as the US or Russia to facilitate peace talks will continue over the forecast period, but with limited success.

The Taliban has nevertheless taken part in a number of meetings organised by foreign governments. Most notably, it has participated in six rounds of talks with the US held since September 2018, when Zalmay Khalilzad, a former ambassador of the US to Afghanistan, was appointed special envoy of the US government to Afghanistan. These discussions have mainly focused on counter-terrorism assurances by the Taliban, as well as troop withdrawal by the US, but have similarly had limited success.

Although the Taliban's engagement with the US is a welcome development, we believe that the latter's display of urgency in finding a negotiated settlement—in order to pave the way for a subsequent troop withdrawal—has weakened its position. The Taliban has little incentive to make significant compromises, given its understanding that the US's ultimate goal is to pull out its troops. The perception of an imminent US withdrawal will also complicate attempts at enforcing any finalised agreement.

As a result, the prospects for a peace deal between the US government and the Taliban remain bleak. Although we expect the US to start drawing down its troop levels in 2019-20, owing to domestic US political pressure, we expect this ultimately to be only a partial withdrawal. Instead, the US will maintain some of its troop presence for counter-terrorism and training purposes for Afghanistan's own security forces.

This withdrawal, however, will ultimately undermine much of the Afghan government's ability to strike militarily against the Taliban. However, we expect the US troop withdrawal to occur over a phased period, allowing Afghan security forces time to adjust to the transition. This will help to cushion against some of the political risk in the country, which will inevitably increase as the security situation changes. The US will also ramp up its air power capabilities inside Afghanistan as part of this withdrawal, in order to offset the impact of its reduced on-the-ground security presence. Once a new administration assumes office in Afghanistan by the second half of this year, we expect the US and other international players to supply more military equipment to the Afghan security forces. Nevertheless, insurgent attacks are expected to continue across the country in 2019-20.

Election watch

Mr Ghani inaugurated the 17th legislative term of the Wolesi Jirga, the lower house of the Afghan parliament, in late April. The members of the new parliamentary term were elected in the October 2018 parliamentary election, but repeated delays in the announcement of the results, as well as unresolved electoral disputes, delayed the inauguration by almost six months. Nevertheless, the holding of the much-delayed parliamentary poll last year was a significant step towards strengthening the country's democratic system, notwithstanding concerns about how free and fair the election was. It was a particularly important test for the election authorities in view of the upcoming (and more significant) presidential election, which is now scheduled to be held in September 2019. We expect the government to adhere to this schedule, despite the organisational and security challenges that holding the election will present. A total of 18 candidates have filed nominations for the presidential race.

As the polls approach, the political scene will become increasingly volatile. In May, members of the Council of Presidential Candidates, an association representing 13 presidential candidates, stated that the incumbent government's legal tenure has ended. As a result, they argued that Mr Ghani must step down to allow for the establishment of a consensus-based interim government in advance of the presidential contest in September. We do not expect Mr Ghani to acquiesce to these demands, however, and we believe that he will remain in office until the presidential elections are formally held. In response, we expect some public protests in support of his resignation in the coming weeks, although social unrest will be limited and largely non-violent, and will not be a significant challenge to the government's grip on power.

We expect key political players to seek to deepen alliances to bolster their support bases in what is likely to be a divisive election. Mr Ghani is seeking a second term in office, and we anticipate that Hanif Atmar, a former national security advisor who parted ways with the current government in August 2018, will emerge as the most serious challenger to Mr Ghani. Mr Atmar has had a long political career, ranging from grassroots politics to occupying top posts in the executive, which he has coupled with a corruption-free image. We believe that he will win the presidential election.

International relations

Afghanistan's foreign policy will be shaped largely by security concerns. This will give Pakistan, which has significant influence over Afghanistan's security dynamics, a crucial role. Relations with that country have traditionally been strained: border crossings are subject to regular closures amid mutual accusations over the harbouring of militants. There has been an increase in high-level diplomatic engagement between the two governments since February 2018, when Mr Ghani offered to hold peace talks with the Taliban. However, deep mistrust remains between the security establishments on both sides. This will weigh heavily on the bilateral relationship.

The Afghan government has sought Pakistan's support by calling on its authorities to use their leverage over the Taliban to persuade the insurgent group to come to the negotiating table. However, an expected continuation in insurgent attacks by the Taliban will push the government to take a hard line against Pakistan, making rapprochement politically infeasible. The Afghan government will instead look to the US and its NATO allies to pressure Pakistan into a committed crackdown on the Taliban.

Beyond Pakistan, Afghanistan will seek to include other players, such as India—already an important political and economic partner—in the peacebuilding process. Apart from co-operating on security issues such as counter-terrorism, India has extended assistance in infrastructure, energy and capacity-building projects. Robust engagement between the private sectors of both countries will also continue, as evidenced by a number of trade and investment events that have been held for this purpose.

Afghanistan has important relationships with the US and NATO, and with other countries that provide significant financial and aid assistance, such as Japan. Russia has also shown an increasing interest in Afghanistan, apparently motivated by concerns about the possible impact of unrest in northern areas on neighbouring Central Asia, in which it has political and economic interests. Afghanistan's relations with China will strengthen during the forecast period, as China is increasingly concerned that ethnic-Uighur militants from the adjoining western Chinese region of Xinjiang could use an unstable Afghanistan as a haven from which to conduct attacks. China's assistance will focus chiefly on economic support as part of its Belt and Road Initiative, which could lead to an expansion of regional trade. However, the impact of this will not be evident within our two-year forecast period.

Policy trends

The Afghan National Peace and Development Framework (ANPDF), which is the government's strategy to achieve self-reliance and other developmental plans in 2017-21, will broadly guide development projects in the country. International aid providers, too, will have a say on the nature of projects to be undertaken, but their role will remain consultative.

The government, and the international donors and agencies that provide it with financial and security support, will continue to focus on containing the worsening security problems and promoting economic development. This will keep the country dependent on international aid. Donors will closely monitor the government's implementation of reforms. Progress on this front under the current government has been limited, and an improvement in policymaking and implementation is not expected in the two-year forecast period.

Fiscal policy

In late December 2018 parliament approved the budget presented by the government for 2018/19 (December 21st-December 20th). The government targets total revenue of Af399bn (US\$5.3bn), up from Af361bn in the previous fiscal year. Of total revenue, 47% is expected to come from domestic sources. The fragile security situation and weak government control over large parts of the country will make the task of raising revenue difficult. The gradual decline in revenue from grants will be the main challenge in the medium term, while the worsening security situation caused by the US troop withdrawal could put a heavier burden on expenditure in 2019-20.

Monetary policy

The primary objective of Da Afghanistan Bank (DAB, the central bank) is maintaining price stability. It will thus continue to monitor monetary aggregates such as reserve money. However, the DAB's influence over monetary policy will remain limited, given the undeveloped nature of Afghanistan's financial system. This will hinder prospects for economic development. In April 2018 the DAB granted the Islamic Bank of Afghanistan a licence to become the country's first lender to have all its operations in compliance with the interest-free principles of Islamic finance. We believe that the introduction of Islamic finance will have limited success in attracting more people into the financial system in the medium term, however, and expect Afghanistan to remain underbanked.

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2017	2018	2019	2020
GDP growth				
World	3.1	2.9	2.6	2.6
US	2.2	2.9	2.2	1.7
China	6.8	6.6	6.4	6.1
EU28	2.6	2.0	1.5	1.6
Exchange rates				
US\$ effective (2010=100)	114.1	113.0	116.1	114.7
¥:US\$	112.1	110.4	110.0	108.7
US\$:€	1.13	1.18	1.13	1.18
Financial indicators				
US\$ 3-month commercial paper rate	1.07	2.05	2.56	2.21
¥ 3-month money market rate	0.04	0.11	0.06	0.07
Commodity prices				
Oil (Brent; US\$/b)	54.4	71.1	66.5	60.5
Gold (US\$/troy oz)	1257.6	1269.2	1323.6	1361.3
Food, feedstuffs & beverages (% change in US\$ terms)	-1.0	1.6	-5.8	4.8
Industrial raw materials (% change in US\$ terms)	20.2	2.2	-2.8	1.9

Note. GDP growth rates are at market exchange rates.

Economic growth

The World Bank projects real GDP growth of 2.5% and 3.2% in 2019 and 2020 respectively, following an estimated outturn of 1% in 2018. The IMF also projects growth to expand from an estimated 2.3% in 2018 to 3% in 2019, rising further to 3.5% in 2020. Both multilaterals, nevertheless, remain concerned that the fragile security situation and uncertain political environment pose risks to economic expansion. Further downside risks include an increase in social tensions resulting from rising unemployment and dissatisfaction with the government. Ongoing military and financial support from international governments and organisations will provide some support to the economy, but prospects for investment will remain weak amid only limited reforms. Nevertheless, a favourable demographic profile and untapped natural resources—including oil and gas, metals and minerals—are among the positive factors that will help to attract investment. Although a proportion of the substantial Afghan diaspora is now returning to the country, we believe that Afghanistan will continue to feel the ramifications of the exodus of young Afghans in recent years, which will make rebuilding the economy more difficult over the longer term.

Inflation

Inflationary pressures cooled in 2018, following a fast pace of inflation in 2017, aided by base effects and a contraction in global food prices. Although an expected drop in global energy prices in 2019-20 will ease inflationary pressures to an extent, we believe that the ongoing depreciation of the local currency against the US dollar will still keep price pressures high. Consequently, consumer prices will increase at a faster pace in 2019-20 than in 2018. Significant variation in food prices across different parts of the country is also likely, owing to supply disruptions caused by insurgent activity. The return of refugees from Pakistan and Iran is likely to push up consumer prices in border areas adjoining those countries. Given the importance of food products in determining inflation trends, inclement weather that reduces agricultural output could cause prices to rise sharply in any given year.

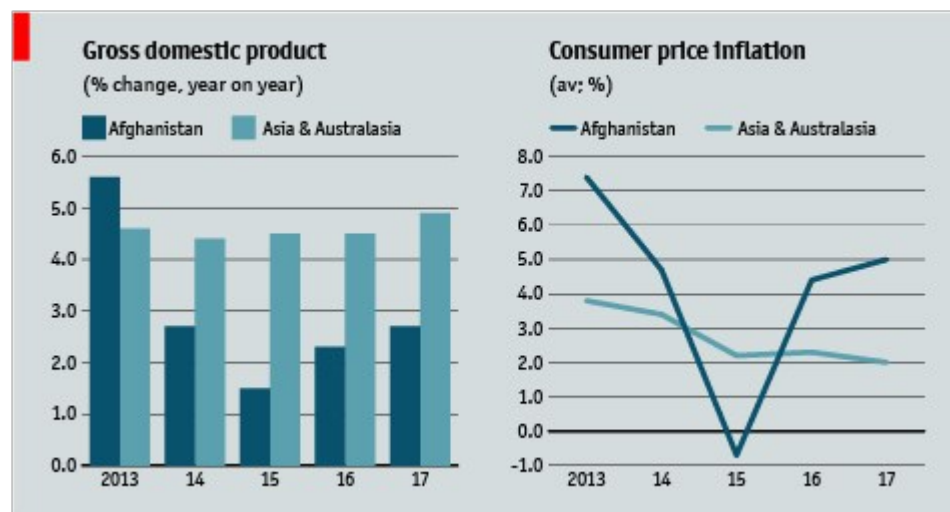
Exchange rates

The local currency, the afghani, has continued to weaken against the US dollar in 2019, after losing 8.2% of its value in 2018. This depreciatory trend has partly been driven by increased global risk aversion towards emerging-market investments. Moreover, there has been a rise in illicit transactions of US dollars across Afghanistan's porous border with Iran, following the imposition of US economic sanctions on that country. The DAB has expressed concern about these activities, as they could further reduce demand for the afghani and deplete foreign-exchange reserves. Although inflows of foreign aid will help the central bank to maintain a comfortable level of reserves, we believe that this depreciatory trend will continue to persist in 2019-20, causing the currency to trend weaker against the US dollar (in average annual terms) than in 2018.

External sector

Afghanistan will continue to run wide trade deficits in 2019-20. After a rise in global commodity prices in 2018 increased pressure on the trade account, the deficit is likely to stabilise in 2019. Weak domestic demand, on account of the poor security situation, will compress the import bill in 2019-20. The potential for a rise in Afghanistan's traditional exports—such as fruit, nuts and cotton—is also limited. Afghanistan's trade will benefit increasingly from investment in infrastructure links with neighbours, which will improve rail, road and sea connectivity to world markets. In February 2019, for instance, Afghanistan signed agreements with Turkmenistan for the construction of rail links.

Also in February, Afghanistan sent its first shipment to India through the strategic Chabahar port in Iran. This came exactly a year after India signed an 18-month lease that gives it operational control over part of the port. The port is important to Afghanistan, as it forms part of a new land-to-sea trade route linking India, Iran and Afghanistan. The opening up of the route has the potential to diversify Afghanistan's trade relationships. Diversification will be supported by the Trump administration's decision in November 2018 to exempt Chabahar from sanctions associated with the US withdrawal (six months earlier) from the Iran nuclear deal. However, difficulties in the banking sector owing to these sanctions will negatively affect the passage of goods through the port. Afghanistan's external sector would also be supported by plans to build a natural-gas pipeline connecting Turkmenistan to Afghanistan, Pakistan and India. However, financing challenges, coupled with security problems, will continue to delay the project.



Recent analysis

Generated on September 9th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

Afghan security issues dominate SCO summit

June 18, 2019: International relations

Event

On June 13th-14th a summit of the Shanghai Co-operation Organisation (SCO) was held in Bishkek, the capital of the Kyrgyz Republic.

Analysis

The meeting was attended by the leaders of the eight member countries—China, Kazakhstan, the Kyrgyz Republic, India, Pakistan, Russia, Tajikistan and Uzbekistan. The Bishkek declaration of the SCO's Head of State Council addressed two security issues. First, the need to extend co-operation between the SCO and other multilateral bodies such as the UN to combat terrorism. The declaration highlighted the goal of expanding the relations of the organisation's core permanent group, the Regional Anti-Terrorist Structure (RATS). Second, the need to address the security situation in Afghanistan. SCO countries currently engage with Afghanistan in a multilateral format through the SCO-Afghanistan Contact Group, and the declaration reiterated the importance of an Afghan-led peace settlement.

The SCO summit joint communication also implicitly criticised recent US foreign policy, emphasising the group's "opposition to the fragmentation of global trade and protectionism" and stating that "unilateral protectionist actions" undermined the trade system—a reference that was clearly aimed at the US. It also mentioned the [Joint Comprehensive Plan of Action \(JCPOA\)](#), the nuclear deal struck between Iran and world powers, calling on all participants to "fulfil their obligations" for the plan's implementation.

The SCO was originally conceived as a forum to manage the Sino-Russian rivalry and collaborate against terrorism in Central Asia. Originally founded by China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan in 1996 (Uzbekistan joined in 2001), the group has in recent years evolved to include managing South Asian security affairs, with Pakistan and India joining in June 2017. The SCO has the potential to become an important multilateral format for Eastern security co-operation (with four of the world's eight nuclear powers); however, it is limited by strained ties between some of its member nations, such as the rivalry between India and Pakistan, and the unwillingness of India to support the Belt and Road Initiative (BRI), China's flagship foreign policy initiative.

Impact on the forecast

The SCO is unlikely to emerge as a significant global security co-operation initiative. However, SCO countries—especially China, Russia and the Central Asian states—will continue their efforts to prevent the conflict in Afghanistan from spilling over into their territories.

Violence continues unabated despite peace efforts

July 4, 2019: Political stability

Event

On July 1st the Taliban carried out multiple attacks in the capital, Kabul, killing at least 40 people and injuring more than 100.

Analysis

Insurgent attacks in Afghanistan have continued unabated in 2019, even in reputedly safer parts of the country. The latest attacks in Kabul came against the backdrop of a fresh round of negotiations between the US government and the Taliban, which began in Doha, the capital of Qatar, on June 30th. Following the appointment of Zalmay Khalilzad as its special envoy in September 2018, the US government has held six rounds of talks with representatives of the Taliban, with the seventh currently underway. These discussions have mainly focused on assurances that the Taliban will not allow terrorist activities against the US and its allies under its watch, in exchange for troop withdrawal by the US. However, the talks have not yielded a breakthrough. Given the urgency displayed by the US government in seeking a negotiated settlement, in order to pave the way for a subsequent troop withdrawal, the Taliban's position stands strengthened. The Taliban has little incentive to make significant compromises, given its understanding that the US's ultimate goal is to pull out its troops.

We believe that the Taliban will continue to carry out terrorist attacks across the country in order to strengthen its strategic position. The US's ongoing diplomatic efforts—supposedly aimed at negotiating a deal with the Taliban before the presidential elections in Afghanistan are held in September—are likely to fail. We nevertheless expect the US to start withdrawing its troops by early 2020, owing to domestic political pressure in the US. We expect this to be only a partial withdrawal, as the US is likely to maintain some of its troop presence for counter-terrorism and training operations with Afghanistan's security forces. The US is also likely to ramp up its air power capabilities inside Afghanistan as part of this withdrawal, in order to offset the impact of its reduced on-the-ground presence.

Impact on the forecast

The latest developments reinforce our long-held view that insurgent attacks will continue unabated across Afghanistan, and that a negotiated settlement to the Taliban insurgency is unlikely over the next two years.

Incumbent likely to be the front-runner in upcoming poll

August 13, 2019: Election watch

Event

On August 8th the Peace and Moderation election campaign team led by Hanif Atmar—the most serious challenger to the re-election bid of the incumbent president, Ashraf Ghani—announced the suspension of its campaign activities.

Analysis

The presidential election, which has been delayed several times, is due to be held on September 28th. The Economist Intelligence Unit believes that the government will adhere to the scheduled date, despite expected organisational and security challenges. A total of 18 candidates have filed their nominations, although on August 6th one of these candidates, Zalmay Rasul, withdrew and pledged his support to Mr Ghani. Each candidate has two running mates, who would be appointed as the first and second vice-presidents following their respective presidential candidate's victory.

The official reason for Mr Atmar's team suspending its campaign was uncertainty over the ongoing [peace process](#) and a perceived lack of transparency in the election process. However, local media reports suggest that the suspension was also due to internal differences between Mr Atmar and another member of the Peace and Moderation team, Atta Mohammed Noor, a highly influential politician and former governor of Balkh province, over the composition of Mr Atmar's planned future administration.

The disarray in Mr Atmar's camp bodes well for Mr Ghani's re-election campaign, which he launched in late July, with his running mates, Amrullah Saleh and Sarwar Danish. It also runs contrary to our earlier expectation that Mr Atmar would emerge as the winner in the presidential poll. Despite public discontent with Mr Ghani's administration, the latest developments have now placed the incumbent as the front-runner. His firm stance that a genuine peace dialogue with the Taliban must involve the Afghan government—and not just the US and other foreign players—will win him support among the electorate. The inclusion of Mr Saleh as Mr Ghani's running mate will also boost the president's re-election prospects; the former intelligence chief has a corruption-free image and is hugely popular for his strong stance against insurgent groups. Therefore, even in the unlikely event that Mr Atmar resumes his campaign, he will not pose a significant challenge to Mr Ghani's re-election bid.

Impact on the forecast

In light of recent developments, we will amend our forecast for the upcoming presidential election; we now expect Mr Ghani to return as president for a second term.

A deal, but no peace

September 4, 2019: Political stability

Event

On September 2nd the US government's special envoy to Afghanistan, Zalmay Khalilzad, said that the US and the Taliban had agreed in principle to a deal that allows for a drawdown of US troops deployed in Afghanistan and paves the way for intra-Afghan peace negotiations to begin.

Analysis

Mr Khalilzad's comments came during his latest visit to the Afghan capital, Kabul, just days after completing a ninth round of negotiations with the Taliban, the militant group that has carried out an insurgent campaign in Afghanistan over the past 18 years. Mr Khalilzad said that as part of the deal, the US would reduce the number of its troops in Afghanistan by 5,400 (from the 14,000 currently deployed) over a period of 20 weeks after the signing of the agreement. The deal will also lead to the start of intra-Afghan peace negotiations, in which the Taliban are expected to engage with a wide representation of Afghan society, including government officials. However, Mr Khalilzad added that the deal is subject to approval by the US president, Donald Trump.

The latest development is a positive step towards finding a negotiated settlement to the conflict in Afghanistan. Although not entirely factored into our [core forecast](#), such a scenario was flagged as a risk with high probability. Moreover, the US government's drawdown of troops would be in line with our long-held view that the US will undertake only a partial withdrawal in 2019-20, leaving behind a significant presence for counter-terrorism and training purposes.

Despite the latest deal, which is likely to be approved by both Mr Trump and the Taliban leadership, we maintain our view that the security situation in Afghanistan is unlikely to improve significantly in the near term. Intra-Afghan negotiations are likely to be protracted, and the Taliban will not integrate into Afghanistan's political system under the current constitutional framework; they will seek a greater share of power than will be acceptable to the Afghan government. Insurgent attacks—by the other major insurgent group, Islamic State, as well as the Taliban—are thus expected to continue across the country in 2019-20.

Impact on the forecast

We will factor the latest development into our political forecast for Afghanistan. Nevertheless, we maintain that ongoing diplomatic efforts by the US government will not result in a sustainable solution to the Taliban insurgency.

Analysis

Is there a deal coming in Afghanistan?

August 5, 2019

On July 29th the US secretary of state, Mike Pompeo, stated that the country's president, Donald Trump, aims to draw down US troops in Afghanistan before the US presidential election scheduled for November 2020. The comments by Mr Pompeo came a day before the eighth round of talks between the US government and the Taliban began in Doha, the capital of Qatar. Although The Economist Intelligence Unit continues to expect a logjam in these negotiations, there is a significant chance that the two sides will be able to agree on a preliminary framework agreement, which would serve to provide the diplomatic cover for a troop withdrawal by the US.

The US government, represented by its special envoy, Zalmay Khalilzad, has held [seven rounds](#) of talks since September 2018 with the Taliban, the militant group that has carried out an insurgent campaign in Afghanistan over the past 18 years against a US-led international military force and the local security services. These discussions have focused on four key issues: counter-terrorism assurances by the Taliban; troop withdrawal by the US; an intra-Afghan dialogue that involves all of the country's key stakeholders; and a comprehensive ceasefire. However, the talks have not yielded a breakthrough so far, and we forecast this impasse to continue.

Can an improvement in US-Pakistan ties make a difference?

Although we remain pessimistic, there is a significant chance that the ongoing round of negotiations may result in a preliminary framework agreement between the US and the Taliban. This potential has been heightened by an emerging diplomatic détente between the US and Pakistan—as evidenced by the outcomes of a visit to the US by Pakistan's prime minister, Imran Khan, on July 21st-23rd. The US has sought Pakistan's co-operation in persuading the Taliban to agree to a negotiated settlement to the conflict and to engage in talks with the Afghan government. The US recognises the influence of the Pakistani military on the Taliban and hence the need for its co-operation.

Mr Khan's recent visit, which marked his first official meeting with Mr Trump, appeared to mark a thaw in the frosty nature of bilateral ties in recent months, which have seen high-level government officials on both sides often criticising the other's policies towards the region, particularly in connection with the conflict in Afghanistan. During Mr Khan's visit, the US administration largely sheathed its usual criticism of Pakistan's failure to crack down on militant groups operating on its soil. Both sides also vowed to co-operate with the ongoing talks between the US government and the Taliban.

Even if the current round of negotiations between the US government and the Taliban were to result in a framework agreement (which is not our core forecast), a negotiated settlement of the conflict between the Taliban and the Afghan government's security forces would remain very unlikely. Any potential agreement between the US and the Taliban would be limited in scope and would effectively address only two of the four issues on the table—assurances that the Taliban will not allow terrorist activity against the US and its allies under its watch, in exchange for troop withdrawal by the US. We would expect any US-Taliban agreement to skirt over the other two key issues—a genuine intra-Afghan dialogue and a comprehensive ceasefire—with only passing references.

The Afghan government is unlikely to be satisfied with such a deal, insisting that the Taliban must join it at the negotiating table in order to arrive genuinely at a peace deal. An agreement at this stage, therefore, would only serve to provide diplomatic cover for the US to finally announce its troop withdrawal. This goal is important for Mr Trump, who we believe intends to use the issue to garner votes in the 2020 US presidential election.

Peace is not coming

Notwithstanding recent developments, we still believe that an agreement between the US and Taliban is unlikely to be achieved in our forecast period (2019-20), owing to the myriad [conflicting interests](#) at play. We expect that the Taliban will continue to refuse to negotiate directly with the Afghan government, dampening the prospects for a political power-sharing agreement. Such a deal would, in any case, be difficult to enforce. Pakistan's security-driven policy of tacitly supporting the Taliban as a buffer against Indian influence will also weigh on the prospects for a negotiated settlement. Insurgent attacks—by the Taliban, as well the other major insurgent group, Islamic State—are thus expected to continue across the country in 2019-20.

Although the likelihood of a US-Taliban deal has risen in recent weeks, The Economist Intelligence Unit retains its view that the US's ongoing diplomatic efforts will not result in a sustainable solution to the Taliban insurgency. We forecast that the US will nonetheless draw down its troops by mid-2020, in order to ease domestic political pressure. However, we expect this to be only a partial withdrawal, with the US retaining some of its troops within Afghanistan for counter-terrorism and training purposes.



Kazakhstan

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U.S. Ambassador to Kazakhstan William H. Moser

U.S. Ambassador to Kazakhstan William H. Moser



The Senate confirmed Ambassador Moser to be the next Ambassador to Kazakhstan on January 2, 2019. Previously, he was Acting Director of the Bureau of Overseas Buildings Operations since January 2017. He is the former Ambassador to the Republic of Moldova where he served from 2011 to 2015.

Ambassador Moser has had a distinguished career as a member of the U.S. Foreign Service. Since joining the diplomatic corps in 1984, he has served in Ukraine, Kazakhstan, Egypt, Suriname, and Mali. He served as the Principal Deputy Director for Overseas Buildings Operations (2015 to 2017) and

Deputy Assistant Secretary for Logistics Management (2006 to 2011). Other Washington assignments include the Director of Global Support Services and Innovation, the Deputy Executive Director for European and Eurasian Affairs, Post Management Officer in the Bureau of Near Eastern and South Asian Affairs, and Political-Military Affairs Officer in the Bureau of Political Military Affairs.

Ambassador Moser's overseas assignments have included tours as the Management Counselor at U.S. Embassy Kiev, Energy Attaché/Economic Officer and Management Officer at U.S. Embassy Almaty, Administrative Officer at U.S. Embassy Paramaribo, Financial Management Officer at U.S. Embassy Cairo and Consular Officer/Staff Assistant at U.S. Embassy Bonn. Ambassador Moser began his diplomatic career as a General Services Officer at U.S. Embassy Bamako, Mali. He is fluent in Russian, German, and French.

A dedicated public servant, Ambassador Moser has won numerous commendations throughout his career for his contributions to international affairs, management, and public policy. In July 2011, Ambassador Moser was awarded the Secretary of Defense's Medal for Distinguished Civilian Service. In 2003, he won the Leamon R. Hunt Award for Administrative Excellence.

Born and raised in North Carolina, Ambassador Moser received a B.A. in Political Science from the University of North Carolina at Chapel Hill. He is married and has three children.

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U.S. Department of State

Diplomacy in Action

U.S. Relations With Kazakhstan

Bilateral Relations Fact Sheet

BUREAU OF SOUTH AND CENTRAL ASIAN AFFAIRS

JUNE 21, 2019

U.S.-KAZAKHSTAN RELATIONS

Following the dissolution of the Soviet Union, the United States, on December 25, 1991, was the first country to recognize Kazakhstan's independence. The United States opened its Embassy in Almaty in January 1992 and then relocated to Astana (renamed Nur-Sultan in 2019) in 2006. The United States opened a Consulate General in Almaty in 2009. In the years since Kazakhstan's independence, the two countries have developed a strong and wide-ranging bilateral relationship.

U.S.-Kazakhstani cooperation in security and nuclear non-proliferation is a cornerstone of the relationship, as evidenced by Kazakhstan's participation in the Nuclear Security Summits in Washington, DC (2010, 2016), Seoul (2012) and The Hague (2014). Kazakhstan showed leadership when it renounced its nuclear weapons in 1993 and closed the Semipalatinsk Test Site (STS). The United States assisted Kazakhstan in the removal of nuclear warheads, weapons-grade materials, and their supporting infrastructure. In 1994, Kazakhstan transferred more than a half-ton of weapons-grade uranium to the United States. In 1995 Kazakhstan removed its last nuclear warheads and, with U.S. assistance, completed the sealing of 181 nuclear test tunnels at the STS in May 2000. In the following decade, the United States and Kazakhstan worked together to seal 40 more nuclear test tunnels at the STS. Kazakhstan signed the Conventional Armed Forces in Europe Treaty (1992), the START Treaty (1992), the nuclear Non-Proliferation Treaty (1993), the Chemical Weapons Convention, and the Comprehensive Test Ban Treaty (2001). In 2015, the government concluded an agreement with the International Atomic Energy Agency to host a low-enriched uranium bank in Kazakhstan. Under the Cooperative Threat Reduction program, the United States spent \$240 million to assist Kazakhstan in eliminating weapons of mass destruction and weapons of mass destruction-related infrastructure. Kazakhstan's security forces receive funds from the U.S. International Military Education and Training program, the Foreign Military Financing program, the Overseas Humanitarian Disaster and Civic Aid program, the Wales Initiative Fund, the Global Peace Operations Initiative, and the Building Partner Capacity program. Kazakhstan's military participates in U.S.-funded military exercises like Steppe Eagle, Viking, Eager Lion, and Shanti Prayas.

Bilateral Economic Relations

Kazakhstan is the 79th largest trading partner of the United States, with a total of \$2.1 billion in two-way trade in 2018. U.S. firms have invested tens of billions of dollars in Kazakhstan, concentrated in the oil and gas sector. Kazakhstan has made some progress in creating a favorable investment climate, although serious problems remain, including corruption and arbitrary enforcement of laws and contracts. A U.S.-Kazakhstan Bilateral Investment Treaty and a Treaty on the Avoidance of Dual Taxation have been in place since 1994 and 1996, respectively. In 2001, Kazakhstan and the United States established the U.S.-Kazakhstan Energy Partnership. Kazakhstan became a member of the World Trade Organization on November 30, 2015.

Sections 402 and 409 of the United States 1974 Trade Act require that the President submit semi-annually a report to Congress on continued compliance with the Act's freedom of emigration provisions by those countries, including Kazakhstan, that fall under the Trade Act's Jackson-Vanik Amendment. The U.S.

Commercial Service provides support to U.S. businesses trying to enter the Kazakhstani market through counseling, market research, and a matchmaker program with Kazakhstani businesses.

U.S. Assistance to Kazakhstan

U.S. Government assistance to Kazakhstan focuses on combating transnational threats (trafficking in persons, narcotics, terrorists, and weapons of mass destruction materiel), improving the functioning of the judiciary, promoting an increased public role for civil society and mass media, maintaining Kazakhstan's open investment and trade environment, helping the government provide effective social services, and supporting Kazakhstan's efforts to increase its production of low-cost clean energy.

Kazakhstan's Membership in International Organizations

Kazakhstan and the United States belong to a number of the same international organizations. Kazakhstan is a member of the United Nations, Organization for Security and Cooperation in Europe (OSCE), and North Atlantic Cooperation Council. Kazakhstan held a nonpermanent seat on the UN Security Council in 2017-2018, held the chairmanship of the OSCE in 2010 and held an OSCE summit in Astana in December 2010. It is an active participant in the North Atlantic Treaty Organization's (NATO) Partnership for Peace program. Kazakhstan also engages in regional security dialogue with the Association of Southeast Asian Nations (ASEAN). Kazakhstan founded the Conference on Interaction and Confidence Building Measures in Asia (CICA). Kazakhstan is also a member of the Collective Security Treaty Organization (CSTO) and the Shanghai Cooperation Organization (SCO). Kazakhstan is a signatory to the Convention on International Trade in Endangered Species (CITES).

Bilateral Representation

The U.S. Ambassador to Kazakhstan is William H. Moser; other principal embassy officials are listed in the Department's Key Officers List.

Kazakhstan maintains an embassy at 1401 16th Street, NW, Washington, DC 20036 (tel. 202-232-5488), as well as its Permanent Representative's Mission to the UN in New York.

Country Report

Kazakhstan

Generated on September 9th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

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London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

Kazakhstan

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Briefing sheet

Editor: **Adeline van Houtte**

Forecast Closing Date: **August 6, 2019**

Political and economic outlook

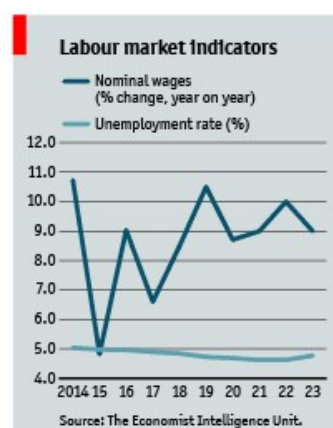
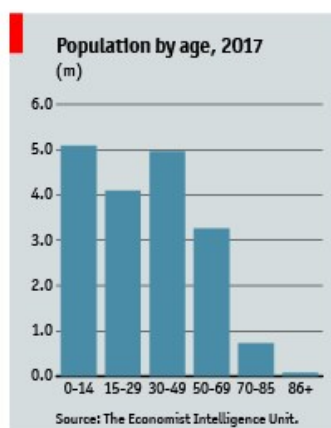
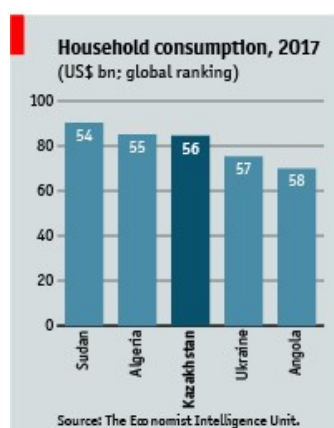
- Kassym-Jomart Tokayev, the interim president, won a snap election on June 9th. This was deemed neither free nor fair by international observers, with protests in several cities.
- Uncertainty surrounding Mr Tokayev's legitimacy in the shadow of Nursultan Nazarbayev, the former president, is the main risk to political stability in The Economist Intelligence Unit's 2019-23 forecast period.
- The government will be concerned that the transition may provoke disaffected elements to protest in demand for change in various spheres. The authorities would undoubtedly clamp down on such protests; the Tokayev government will not be reform-minded.
- The relationship with Russia will remain of primary importance, but Kazakhstan will resist further political or economic integration, such as via the Eurasian Economic Union. Kazakhstan will pursue a multi-vector foreign policy, and ties with China will strengthen.
- Following real GDP growth of 4% in 2018, we forecast average annual growth of 3.6% in 2019-20, rising slightly to 3.9% in 2023, in line with trends in oil output. Public, and foreign, capital spending on transport and energy infrastructure will be substantial.
- The government will undertake limited reforms to improve the business environment. The privatisation programme, even if successfully executed, is unlikely to have a significant impact on productivity or competitiveness.
- The state will provide support to the banking sector. However, deficiencies in financial oversight persist, and there is a risk that further serious problems will emerge in the sector.

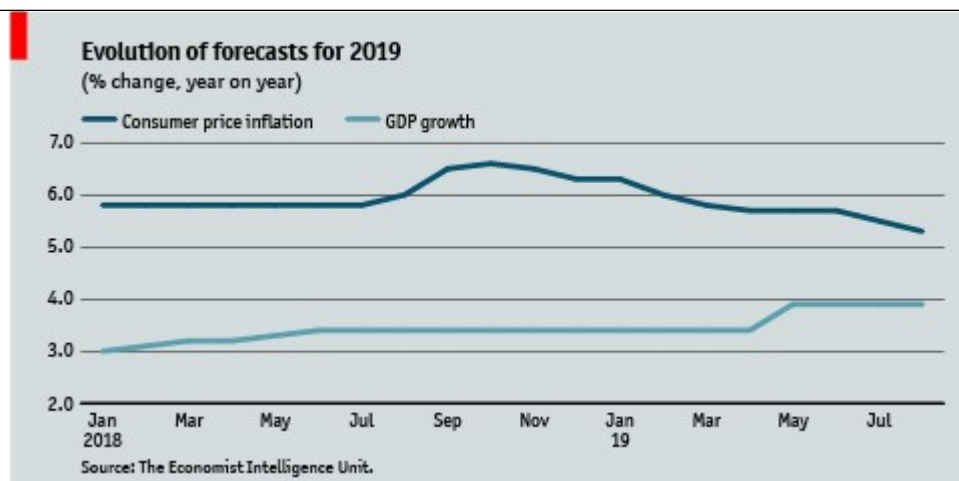
Key indicators

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth (%)	4.0	3.9	3.3	3.5	3.6	3.9
Consumer price inflation (av; %)	6.0	5.3	5.2	5.1	5.4	5.1
Government balance (% of GDP)	-0.9	-1.1	-0.6	-0.4	-0.2	-0.1
Current-account balance (% of GDP)	0.0	-1.1	-2.3	-1.9	-0.8	0.2
Money market rate (av; %)	8.7	8.7	8.4	8.0	7.9	7.6
Unemployment rate (%)	4.9	4.7	4.7	4.6	4.6	4.8
Exchange rate Tenge:US\$ (av)	344.71	379.22	382.39	383.71	376.29	368.88

^a Actual. ^b Economist Intelligence Unit forecasts.

Market opportunities





Key changes since July 3rd

- We have revised up our forecast for nominal and real wage growth, and private consumption, in 2019. This reflects the impact of a substantial rise in the wages of the lowest-paid public workers, which came into effect in July.
- Following the easing of monetary policy in Russia and the US Federal Reserve, we believe that there are lower potential inflationary risks through the currency channel. We have revised down slightly our forecast for inflation for 2019-20, to 5.3% a year, from 5.5%.
- The threat of further trade tariffs by the US on Chinese goods represents a new downside risk to our growth forecast. For now our forecast is unchanged, however.

The month ahead

- **August 15th—Industrial production (July):** The industrial production index contracted by 2% year on year in the first quarter and by 5% in the second, owing to scheduled repairs at important oil fields. We expect industrial production growth to recover in the second half of the year.
- **September 9th—Monetary policy committee meeting:** We expect the National Bank of Kazakhstan (NBK, the central bank) to maintain its policy rate at 9% on September 9th as inflation remains close to the midpoint of the central bank's target 4-6% range.

Major risks to our forecast

Scenarios, Q2 2019	Probability	Impact	Intensity
Economic diversification fails to advance	Very high	Moderate	15
The banking system requires further bail-outs	Very high	Moderate	15
Despite accession to the World Trade Organisation (WTO), the government retains de facto "local-content" rules	High	Moderate	12
Efforts to fight corruption are unsuccessful	High	Moderate	12
Impact of WTO entry is blunted by non-tariff barriers and ad hoc trade restrictions	High	Moderate	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

The Economist Intelligence Unit expects the 2019-23 forecast period to be characterised by uncertainty surrounding the ability of Kassym-Jomart Tokayev, the successor to Nursultan Nazarbayev, the former president, to establish legitimacy in the eyes of the elite and the broader population. Mr Nazarbayev announced that he was stepping down as president in March 2019, after nearly three decades in office. We believe that Mr Nazarbayev's decision was primarily motivated by a desire to secure his legacy by installing his chosen successor as president, as well as controlling—and influencing—the political transition and the period that follows.

Mr Nazarbayev—whose rule began before Kazakhstan's independence in 1991—has made it clear that he will be exercising his constitutional prerogatives to remain involved in the running of the state after his retirement. He will chair the Security Council, a position that he holds for life under legal amendments enacted in 2018. Under the constitution, he is entitled to have a say in policy-making after his retirement. He has also said that he will remain chairman of the ruling Nur Otan (Radiant-Fatherland) party, which dominates parliament.

A snap presidential election was held on June 9th, in which Mr Tokayev won a landslide victory. On that day peaceful protests took place in Nur-Sultan, the capital (renamed from Astana following Mr Nazarbayev's retirement), Almaty and several other cities. The authorities clamped down on these dissenting voices, with protesters and journalists being detained. Sporadic protests have continued in major cities since the election, with the police continuing to indiscriminately detain demonstrators.

The main risk to political stability during the transition period will be the new government's ability to monitor the public mood and control manifestations of dissent. The period preceding Mr Nazarbayev's resignation was characterised by signs of rising disaffection over living standards, corruption and a lack of public accountability. The administration will be concerned that the transition may provoke disaffected elements to protest in demand for change in various spheres. Our baseline forecast is that the authorities will continue their heavy-handed approach towards dispersing all signs of malcontent. This could further spur opposition activists, increasing the risk—albeit a low one—of sustained anti-government protests.

During the transition period the administration will test the (as yet untried) governance mechanisms put in place for the post-Nazarbayev era, including the constitutional role of the ex-president, the abolition of certain presidential powers, and giving parliament and government greater influence over public administration. However, we expect the presidency to remain the strongest institution. If Mr Tokayev were to try to strengthen his own power base or redistribute assets within the elite, this could lead to instability.

Election watch

Formal political opposition has been marginalised. Since Kazakhstan gained independence in 1991 none of its elections have been judged free or fair by credible international observers. Mr Tokayev obtained 70.8% of the total vote in the June presidential election. According to the Office for Democratic Institutions and Human Rights (ODIHR), there were irregularities in the conduct of the election, including incidences of ballot-box stuffing and disregard for counting procedures.

International relations

Kazakhstan has been relatively successful in pursuing a multi-vector foreign policy; it has retained good relations with the West, China and Russia. Avoiding excessive dependence on any country or bloc by diversifying trade and investment links will remain a priority. There is a broad elite consensus on foreign policy strategy and we do not expect this to change significantly under Mr Tokayev's presidency. Kazakhstan will be an enthusiastic participant in China's Belt and Road Initiative to boost regional connectivity and infrastructure, but China's growing economic footprint will remain controversial domestically, and will be complicated by China's treatment of ethnic Kazakhs in Xinjiang. Russia's cultural, economic and political influence over Kazakhstan is declining, but Russia will remain Kazakhstan's paramount diplomatic and security partner in 2019-23. The Kazakh leadership will seek to maintain strong ties in almost all circumstances.

Kazakhstan is a member of the Eurasian Economic Union (EEU), which also includes Armenia, Belarus, the Kyrgyz Republic and Russia. The EEU aims to create a common market and regulatory regime. In practice, institutional harmonisation is limited, and a significant number of formal and informal barriers to trade persist.

Policy trends

We do not expect Mr Nazarbayev's resignation to affect the course of economic policy; Mr Tokayev will maintain the policy course taken by Mr Nazarbayev. This involves boosting productivity, diversifying the economy away from hydrocarbons, reducing the role of the state and increasing the efficiency of the bureaucracy. In 2019-23 we expect limited progress in these areas, given the government's poor record on reform, the ineffectiveness of the bureaucracy, and overlapping political and economic interests. With limited progress on structural reform, the government may resort to greater public investment from the National Fund of the Republic of Kazakhstan (NFRK, the sovereign wealth fund) to support demand and investment.

Following the partial privatisation of Kazatomprom, the state nuclear agency, in November 2018, the government is seeking to list eight other major state-owned companies in 2019-20 to deepen its capital market and to develop a new regional financial hub in Nur-Sultan. By 2020 the government plans to sell stakes in about 900 companies, totalling more than US\$7bn. According to government statistics, it has so far sold stakes in 498 firms, raising Tenge329trn (US\$865m). The privatisation process is likely to face delays. There is a risk of weak investor appetite for future initial public offerings (IPOs), owing to investors' concerns about corruption, corporate governance and the fact that the state retains large shares in the companies, as it has for Kazatomprom (85% is still held by Samruk-Kazyna, the state holding company). Given the symbiotic relationship between the government and major businesses, the transfer of assets from public to private ownership may not in itself have a significant effect on productivity or competitiveness.

The banking sector continues to struggle as a result of the consequences of the 2008-09 financial crisis and the tenge's sharp depreciation against the US dollar in 2014-15. The sector's stability remains a significant systemic risk. The government has used public funds from various sources—including the NFRK and the state pension fund—to bail out some financial institutions. Most recently, in January 2019, the authorities announced a second bail-out for Tsesnabank, Kazakhstan's second-largest lender.

Fiscal policy

In 2018 the budget posted a deficit of Tenge537bn (US\$1.39bn), compared with a deficit of Tenge918bn in 2017, mainly driven by higher tax receipts, which rose by 15.9% to Tenge7.9trn, supported by rising oil production and a pick-up in the services sector. The budget deficit narrowed to 0.9% of GDP in 2018 as a result.

The government has launched a new fiscal stimulus to ease the political transition. At end-February 2019 Mr Nazarbayev announced a Tenge2.35trn package to fund 25-30% increases of the lowest public-sector salaries from July 1st and larger social security benefits for low-income groups. He also announced Tenge50bn per year for seven years to build 40,000 new rental homes for large and low-income families, and additional infrastructure spending for 2019-21. We forecast a slight widening of the budget deficit to 1.1% of GDP this year. We expect that the deficit will gradually return to near balance by 2023 as the government cuts expenditure as a percentage of GDP and as oil prices recover in 2021-23. Dependence on oil revenue—estimated at one-third of total fiscal revenue—remains a risk. The government intends to reduce the size of the NFRK transfer—from Tenge2.6trn in 2018 to Tenge2trn by 2020. NFRK assets were at US\$58.7bn at the end of March 2019—equivalent to about one-third of forecast 2019 GDP. Past experience suggests that it may revise its fiscal rules again to allow greater transfers, particularly if economic growth weakens.

Monetary policy

Since mid-2015 the NBK has shifted away from a managed peg of the tenge to inflation targeting. The end-2019 inflation target is 4-6%; from end-2020 this declines to "below, but close to, 4%". Dollarisation of the economy remains high, and the limited level of financialisation constrains the NBK's ability to influence interest rates, money supply and inflation expectations (through open-market operations). The oil price and movements in the Russian rouble are pivotal to the exchange rate, money supply and inflation expectations.

After raising its policy rate by 25 basis points to 9.25% in October 2018, the NBK cut the rate back to 9% on April 16th 2019. It noted that inflation in March 2019 (4.8%) was marginally less than the midpoint of its 4-6% target corridor. The cut was a surprise, given that in early March the NBK stated that its monetary policy stance was appropriate. That the move came after Mr Tokayev's call for the NBK to support bank lending raises questions about the NBK's independence. This also followed the resignation of Daniyar Akishev as head of the central bank in late February. In its April rate decision the NBK said that, despite the rate cut, monetary conditions remained neutral and the move would keep inflation on target while sustaining economic growth "as much as possible".

After the meeting of the monetary policy committee in early June 2019 the central bank kept the policy rate at 9%, stating that inflation expectations remained low, with inflation in 2019 firmly in the target 4-6% band. We do not expect additional rate changes this year, but a shock to the tenge could prompt a rise, or government pressure could force another cut. The NBK's case for easing monetary policy has been helped by interest rate cuts by the Central Bank of Russia and the US Federal Reserve (Fed, the US central bank). In 2020-23, given the NBK's stated floating tenge policy and our forecast for average inflation of 5.2%, we expect monetary policy to stay relatively tight to maintain positive real interest rates.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
Russia GDP	2.2	1.2	1.5	1.3	1.4	1.5
EU28 GDP	2.0	1.3	1.5	1.7	1.8	1.7
World GDP	2.9	2.4	2.5	2.8	2.9	2.8
World trade	4.4	3.1	3.5	3.8	3.9	4.0
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.0	1.4	2.2	2.1	1.8
Russia CPI	2.9	4.9	4.3	4.0	4.1	4.0
EU28 CPI	1.9	1.9	1.9	1.9	2.0	2.0
Manufactures (measured in US\$)	5.1	1.0	3.0	3.8	3.2	3.3
Oil (Brent; US\$/b)	71.1	67.7	62.0	67.0	73.2	75.0
Non-oil commodities (measured in US\$)	1.8	-4.7	4.0	3.5	1.4	0.7
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.0	2.4	1.7	1.7	2.2	2.5
€ 3-month rate	-0.3	-0.3	-0.4	-0.2	0.1	0.2
US\$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24
Tenge:US\$ (av)	344.71	379.22	382.39	383.71	376.29	368.88

Economic growth

Kazakhstan has a growing labour force and considerable catch-up potential, but the poor business environment, weak competition in some sectors and large distances to global markets will remain significant constraints. Growth since the early 2000s has largely been driven by the expansion of the extractive sector and high commodity prices, which have supported growth in consumption and government spending.

Real GDP grew by 4% in 2018, driven by exports. Oil output reached a record 90.3m tonnes in 2018, owing to an increase in production from the Kashagan oilfield, and this generated near record export volumes of crude oil and gas condensate (69.8m tonnes). Disinflation for most of 2018, as well as pension and wage increases, returned real cash income to growth, which supported private consumption. However, public spending contracted significantly as the government pursued fiscal consolidation.

We forecast that real GDP growth will slow to 3.9% this year owing to lower global oil prices and temporary maintenance shutdowns at Kazakhstan's three largest oilfields, Kashagan, Karachaganak and Tengiz, which will result in lower oil output. However, a 50% increase in the minimum wage, increases of 25-30% in the lowest public-sector salaries from July 1st and the planned increase in subsidies will help to boost household demand.

We expect economic activity to slow further in 2020, in line with slower global growth and lower oil prices in that year. We forecast that growth will increase to 3.9% in 2023, driven by higher oil prices in 2021-23, and a significant pick-up in oil production and exports owing to the expansion of the Tengiz oilfield. However, Kazakhstan's trend growth rate is likely to be significantly lower than in the past decade.

Economic growth

%	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
GDP	4.0	3.9	3.3	3.5	3.6	3.9
Private consumption	5.3	5.0	2.9	3.8	3.9	3.0
Government consumption	-14.0	0.9	1.0	2.0	2.0	2.0
Gross fixed investment	3.9	3.7	4.0	4.1	4.0	4.0
Exports of goods & services	11.5	4.0	3.4	4.9	4.8	7.3
Imports of goods & services	3.2	5.1	4.2	7.1	5.9	6.0
Domestic demand	2.4	2.6	3.3	4.2	4.0	3.4
Agriculture	3.2	3.0	2.8	2.8	2.9	2.9
Industry	4.1	6.2	4.7	4.2	4.2	5.0
Services	4.2	2.8	2.5	3.2	3.4	3.4

^a Actual. ^b Economist Intelligence Unit forecasts.

Inflation

Consumer price inflation slowed to 6% in 2018, down from 7.4% in 2017. In the first half of 2019, despite a sharp acceleration in food price growth, inflation decelerated to 5.1% year on year, compared with 6.4% in the year-earlier period, although it picked up slightly, to 5.4% in July. The decline was mainly driven by a sharp deceleration in services inflation owing to the government's decision to lower tariffs for electricity, natural gas, coal, water and telecommunications from January 1st. We expect headline inflation to ease to an average of 5.3% in full-year 2019, with risks to the upside as the weak tenge may boost imported inflation and core inflation remains high. In 2020-23 we expect external inflationary pressures (global food and non-oil commodity prices) to remain relatively strong compared with historical trends, and we do not expect the NBK to reduce inflation to its medium-term target (at less than 4%) given the substantial impact of the price of oil on Kazakhstan's exchange rate, money supply and inflation expectations.

Exchange rates

The tenge's movements partly reflect those of oil prices and the Russian rouble, which is correlated with oil prices and is sensitive to Western sanctions. After depreciating steadily against the US dollar in April-December 2018 owing to sanctions-induced shocks to the rouble, the tenge has remained broadly stable in the first seven months of 2019. After depreciating from Tenge375.2:US\$2 at end-2018 to Tenge380.1:US\$1 at end-March 2019, the currency remained broadly close to this level at end-July.

In 2019 we expect the currency to average Tenge379.2:US\$1, and that global oil prices will decline by about 4.3%, to an average of US\$67.7/barrel. We believe that this year the rouble will weaken to an average of Rb65.91:US\$1, from Rb62.67:US\$1 in 2018. This will put moderate depreciatory pressure on the tenge, which will be exacerbated by the NBK's rate cut in April. The effects of the rouble depreciation and the NBK rate cut are likely to be offset by two factors: first, oil prices will remain much higher than during the two-year period following the slump in oil prices in mid-2014; second, we expect the US dollar to weaken against the euro from mid-2019 and into 2020 as the Fed has taken a more dovish stance in response to weaker domestic economic growth. The NBK may also decide to intervene, given the risks arising from high levels of foreign-currency-denominated debt and government pressure to avoid the inflationary effect of a further depreciation during the early months of a Tokayev presidency. With a dip in oil prices in 2020, we expect the tenge to weaken against the dollar in that year, before it appreciates in 2022-23 as oil prices and domestic output rise.

External sector

In 2018 the current account almost returned to balance. Higher oil prices and export volumes drove 26% growth in merchandise export revenue last year, outpacing an 8.8% expansion in merchandise import values. Primary income outflows increased, reflecting higher profits for foreign investors in the hydrocarbons sector. Significantly, the errors and omissions accounting line, which in recent years has tended to show large unaccounted outflows, recorded a net inflow of US\$881m.

In January-March 2019 the current account recorded a surplus of US\$361.4m, following a surplus of more than US\$1.5bn in October-December 2018—the first consecutive quarters in which the current account has recorded a surplus since 2013. We believe that the current account will move into deficit in full-year 2019 owing to higher imports and weaker oil prices. We forecast a deficit of 1.1% of GDP this year, widening to 2.3% in 2020 as oil prices decline. A recovery in oil prices, and strong performance of exports, will narrow the deficit in 2022 and push the current account into surplus in 2023. Net income flows will remain negative owing to high foreign involvement in Kazakhstan's oil sector. There is a risk that direct investment, credit and private portfolio inflows will be lower than the average of the past decade owing to perceptions of higher economic and political risk, and lower commodity prices than before 2014.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth	4.0	3.9	3.3	3.5	3.6	3.9
Industrial production growth	3.0	-0.8	1.7	1.7	3.2	8.0
Gross agricultural production growth	3.2	3.0	2.8	2.8	2.9	2.9
Crude oil & NGL production ('000 b/d)	1,813.3	1,796.9	1,813.1	1,816.7	1,840.3	2,024.4
Unemployment rate (av)	4.9	4.7	4.7	4.6	4.6	4.8
Consumer price inflation (av)	6.0	5.3	5.2	5.1	5.4	5.1
Consumer price inflation (end-period)	5.3	5.8	5.0	5.0	5.1	4.9
Government balance (% of GDP)	-0.9	-1.1	-0.6	-0.4	-0.2	-0.1
Exports of goods fob (US\$ bn)	59.6	60.6	61.6	67.7	76.4	87.2
Imports of goods fob (US\$ bn)	33.3	34.7	37.0	41.4	45.4	49.1
Current-account balance (US\$ bn)	-0.1	-1.9	-4.0	-3.7	-1.8	0.5
Current-account balance (% of GDP)	0.0	-1.1	-2.3	-1.9	-0.8	0.2
External debt (end-period; US\$ bn)	161.1 ^c	165.6	170.1	174.3	177.6	180.0
Exchange rate Tenge:US\$ (av)	344.7	379.2	382.4	383.7	376.3	368.9
Exchange rate Tenge:US\$ (end-period)	375.2	387.9	395.7	382.6	372.9	365.6
Exchange rate Tenge:Rb (av)	5.50	5.75	5.61	5.73	5.73	5.63
Exchange rate Tenge:Rb (end-period)	5.40	5.78	5.75	5.80	5.71	5.58

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Quarterly forecasts

Quarterly forecasts

	2018				2019				2020			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	4.1	4.3	3.9	3.7	3.8	3.8	3.9	4.1	3.7	3.3	3.0	3.1
Private consumption												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	–	–	–	–	–	–	–	–	–	–	–	–
Government consumption												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	–	–	–	–	–	–	–	–	–	–	–	–
Gross fixed investment												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	–	–	–	–	–	–	–	–	–	–	–	–
Exports of goods & services												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	–	–	–	–	–	–	–	–	–	–	–	–
Imports of goods & services												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	–	–	–	–	–	–	–	–	–	–	–	–
Domestic demand												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	–	–	–	–	–	–	–	–	–	–	–	–
Consumer prices												
% change, quarter on quarter	1.9	1.2	0.5	1.5	1.6	1.4	0.8	1.4	1.3	1.3	1.4	1.3
% change, year on year	6.6	6.2	6.0	5.3	5.0	5.2	5.5	5.4	5.0	4.9	5.4	5.4
Producer prices												
% change, quarter on quarter	8.2	3.2	4.8	2.2	-1.2	4.9	3.6	4.3	-0.7	0.1	1.9	0.6
% change, year on year	12.7	19.0	24.5	19.7	9.2	11.0	9.7	11.9	12.5	7.4	5.6	1.9
Exchange rate												
Tenge:US\$												
Average	323.22	329.75	356.02	369.83	377.73	380.55	380.02	378.58	383.03	378.54	381.89	386.12
End-period	319.02	341.31	361.82	375.15	380.06	379.85	379.30	387.94	380.78	380.22	384.00	395.68
Interest rates (%; av)												
Money market rate	9.0	8.7	8.6	8.6	8.7	8.9	8.6	8.6	8.5	8.4	8.4	8.3
Long-term bond yield	9.2	9.2	9.3	9.3	9.3	9.5	9.7	9.9	10.0	10.3	10.5	10.7

Data and charts

Annual data and forecast

	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^b
GDP							
Nominal GDP (US\$ bn)	218.5	179.3	133.7	158.7	168.7	163.7	174.5
Nominal GDP (Tenge bn)	39,150	39,757	45,740	51,732	58,136	62,069	66,716
Real GDP growth (%)	4.3	1.0	0.9	3.9	4.0	3.9	3.3
Expenditure on GDP (% real change)							
Private consumption	1.4	1.8	1.2	1.3	5.3	5.0	2.9
Government consumption	9.8	2.4	2.3	1.9	-14.0	0.9	1.0
Gross fixed investment	4.4	4.2	3.0	4.0	3.9	3.7	4.0
Exports of goods & services	-2.5	-4.1	-4.5	6.4	11.5	4.0	3.4
Imports of goods & services	-4.0	-0.1	-2.0	-1.4	3.2	5.1	4.2
Origin of GDP (% real change)							
Agriculture	1.3	3.5	5.4	3.2	3.2	3.0	2.8
Industry	1.8	0.1	1.7	6.3	4.1	6.2	4.7
Services	5.7	3.1	0.9	2.4	4.2	2.8	2.5
Population and income							
Population (m)	17.3	17.6	17.8	18.1	18.3	18.6	18.8
GDP per head (US\$ at PPP)	24,573	24,390	24,600	25,748	27,458	28,748	29,884
Recorded unemployment (av; %)	5.0	5.0	5.0	4.9	4.9	4.7	4.7
Fiscal indicators (% of GDP)							
General government budget revenue	18.7	19.2	20.4	22.4	18.6	19.2	18.9
General government budget expenditure	19.9	20.7	20.6	24.1	19.5	20.3	19.5
General government budget balance	-1.2	-1.5	-0.3	-1.8	-0.9	-1.1	-0.6
Public debt	14.8	23.4	25.7	27.0	27.6	27.1	26.0
Prices and financial indicators							
Exchange rate Tenge:US\$ (end-period)	182.35	339.47	333.28	331.31	375.15	387.94	395.68
Exchange rate Tenge:€ (end-period)	221.97	371.31	348.94	395.29	427.52	444.20	474.81
Consumer prices (end-period; %)	7.3	13.8	8.5	7.0	5.3	5.8	5.0
Producer prices (av; %)	9.4	-20.5	16.9	15.6	18.9	10.5	6.7
Stock of money M2 (% change)	-8.2	8.0	46.2	7.5	7.1	1.6	8.8
Lending interest rate (av; %) ^c	10.9	13.2	15.3	14.2	12.5	12.8	13.8
Current account (US\$ m)							
Trade balance	36,619	11,627	9,253	16,728	26,359	25,812	24,605
Goods: exports fob	79,073	44,826	35,486	47,301	59,630	60,550	61,592
Goods: imports fob	-42,454	-33,199	-26,232	-30,573	-33,271	-34,739	-36,986
Services balance	-6,844	-4,720	-3,762	-3,578	-4,596	-5,465	-5,622
Primary income balance	-22,701	-11,618	-13,450	-18,149	-22,087	-21,995	-22,778
Secondary income balance	-961	-1,301	-173	-103	272	-227	-242
Current-account balance	6,114	-6,012	-8,132	-5,102	-52	-1,874	-4,036
External debt (US\$ m)							
Debt stock	157,695	153,395	163,715	167,485	161,127 ^d	165,634	170,119
Debt service paid	31,165	34,953	20,312	27,966	42,527 ^d	34,076	33,973
Principal repayments	27,854	31,266	17,414	24,529	35,400 ^d	26,691	27,395
Interest	3,311	3,687	2,898	3,437	7,128 ^d	7,386	6,578
International reserves (US\$ m)							
Total international reserves	29,209	27,871	29,713	30,747	30,927	30,595	32,465

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Interbank loans. ^d Economist Intelligence Unit estimates.

Sources: IMF, International Financial Statistics; Statistics Agency of the Republic of Kazakhstan; World Bank, International Debt Statistics.

Quarterly data

	2017		2018		2019			
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
General government finance (Tenge bn)								
Revenue	3,783.4	2,774.1	2,652.8	2,598.9	3,053.2	2,503.7	2,926.9	3,275.9
Expenditure & net lending	4,704.2	3,114.1	2,416.6	2,699.6	3,021.1	3,208.8	2,811.7	3,166.4
Balance	-920.7	-340.0	236.2	-100.7	32.1	-705.1	115.3	109.5
Output								
GDP at current prices (US\$ bn)	38.2	54.1	35.3	38.4	41.7	52.0	33.6	n/a
GDP at constant 2005 prices (Tenge bn)	3,364.0	3,795.7	3,215.7	3,443.1	3,495.6	3,937.7	3,337.9	n/a
Real GDP (% change year on year)	4.2	3.1	4.1	4.3	3.9	3.7	3.8	n/a
Industrial production (% change, year on year)	11.6	6.4	5.2	3.7	3.1	0.4	-2.0	-5.0
Employment, wages and prices								
Unemployment ('000)	441.0	439.3	439.6	441.4	441.6	441.9	442.9	442.4
Unemployment rate (% of labour force)	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.8
Monthly earnings (Tenge)	148,493	155,786	153,223	156,733	159,433	168,456	168,620	173,850
Monthly earnings (% change, year on year)	4.8	6.6	7.6	10.9	7.4	8.1	10.0	10.9
Consumer prices (% change, year on year)	7.0	7.4	6.6	6.2	6.0	5.3	5.0	5.2
Producer prices (% change, year on year)	7.6	13.7	12.7	19.0	24.5	19.7	9.2	11.0
Financial indicators								
Exchange rate Tenge:US\$ (av)	332.4	334.4	323.2	329.8	356.0	369.8	377.7	380.6
Exchange rate Tenge:US\$ (end-period)	340.4	331.3	319.0	341.3	361.8	375.2	380.1	379.9
Deposit rate (av; %)	9.2	8.6	7.6	6.5	6.3	5.3	6.5	n/a
Lending rate (av; %) ^a	13.8	13.5	12.8	12.8	12.1	12.4	12.9	n/a
3-month real money market rate (av; %)	2.9	1.8	2.2	2.4	2.5	3.1	3.6	3.5
Long-term government bond yield (av; %)	9.0	9.2	9.2	9.2	9.3	9.3	9.3	n/a
M1 (end-period; Tenge bn)	5,477	4,968	4,807	5,577	5,123	5,605	5,402	5,508
M1 (% change, year on year)	35.6	8.2	-2.4	11.3	-6.5	12.8	12.4	-1.2
M2 (end-period; Tenge bn)	14,096	13,514	13,351	14,433	13,677	14,467	14,642	14,549
M2 (% change, year on year)	25.7	7.5	4.7	6.0	-3.0	7.1	9.7	0.8
Sectoral trends								
Coal (m tonnes)	27.2	32.4	29.7	25.1	29.4	33.3	29.7	24.3
Natural gas (bn cu metres)	5.5	5.9	6.0	6.1	5.4	5.6	5.9	5.8
Crude oil (m tons)	366.4	378.8	382.2	391.5	383.6	398.8	398.1	364.4
Electricity (m kwh)	24,035	28,104	29,414	25,448	24,306	28,002	28,105	24,785
Foreign trade (US\$ m)								
Exports fob	11,471	13,865	13,906	15,038	15,650	16,363	13,314	n/a
Imports cif	7,501	8,290	7,241	8,109	8,524	8,661	6,983	n/a
Trade balance	3,970	5,575	6,665	6,929	7,126	7,702	6,331	n/a
Foreign payments (US\$ m)								
Trade in goods balance	3,372	5,021	6,192	6,379	6,528	7,259	6,721	n/a
Services balance	-846	-1,152	-924	-1,023	-1,289	-1,360	-924	n/a
Primary income balance	-4,055	-4,692	-6,183	-5,843	-5,612	-4,450	-5,540	n/a
Current-account balance	-1,534	-865	-893	-469	-220	1,530	361	n/a
Reserves excl gold (end-period)	20,239	18,249	17,451	17,162	17,222	16,536	12,029	11,131

^a Interbank loans.

Sources: Statistics Agency of the Republic of Kazakhstan; IMF, International Financial Statistics; Ministry of Finance; National Bank of Kazakhstan.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Tenge:US\$ (av)												
2017	331.1	320.2	316.1	312.2	313.5	318.4	325.3	332.7	339.2	337.1	332.5	333.7
2018	327.0	321.9	320.7	324.9	328.3	336.1	344.2	356.5	367.3	367.2	370.5	371.8
2019	378.1	377.4	377.6	379.4	380.0	382.3	383.7	n/a	n/a	n/a	n/a	n/a
Exchange rate Tenge:US\$ (end-period)												

2017	326.3	312.5	314.8	313.9	311.2	321.5	326.7	334.7	340.4	334.0	331.6	331.3
2018	322.4	318.7	319.0	327.9	330.7	341.3	347.1	361.3	361.8	368.6	371.3	375.2
2019	380.5	377.3	380.1	381.9	381.4	379.9	384.6	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (1997=100; CPI-based)												
2017	87.3	90.1	91.2	91.5	90.3	88.5	86.3	83.4	80.4	82.6	85.1	84.6
2018	84.8	85.8	86.0	86.3	87.9	86.8	85.5	84.7	82.4	82.5	83.0	83.3
2019	81.7	81.7	81.4	81.3	82.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Budget revenue (Tenge bn)												
2017	554.8	898.9	852.9	904.4	964.5	834.7	2004.6	914.4	864.4	770.6	889.7	1113.8
2018	883.3	925.4	844.1	809.7	895.1	894.0	997.1	931.1	1125.0	695.6	985.0	823.1
2019	-9955.5	1148.4	925.5	1045.9	1372.3	857.8	n/a	n/a	n/a	n/a	n/a	n/a
Budget expenditure (Tenge bn)												
2017	641.1	832.8	652.3	791.9	908.6	840.3	2991.9	850.5	861.8	873.9	911.3	1329.0
2018	814.2	800.6	801.8	843.7	859.1	996.7	1101.6	926.1	993.3	869.5	1018.6	1320.7
2019	10450.0	1030.6	884.9	993.4	1401.9	771.1	n/a	n/a	n/a	n/a	n/a	n/a
Budget balance (Tenge bn)												
2017	-86.4	66.1	200.6	112.5	55.9	-5.6	-987.3	63.9	2.6	-103.3	-21.6	-215.1
2018	69.1	124.8	42.3	-34.0	36.0	-102.7	-104.6	5.0	131.7	-173.9	-33.6	-497.6
2019	494.5	117.7	40.5	52.5	-29.7	86.7	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	10.3	10.5	9.5	9.4	9.0	8.8	9.0	9.1	9.4	8.5	8.6	8.6
2018	7.9	8.0	6.8	6.7	6.5	6.2	6.2	6.8	5.9	5.6	5.9	4.3
2019	5.8	6.9	6.8	6.1	6.4	6.6	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)^a												
2017	16.7	15.3	14.9	15.1	12.0	14.3	14.4	14.3	12.6	13.9	13.1	13.4
2018	13.8	11.2	13.4	13.2	12.7	12.6	12.8	10.2	13.4	13.2	12.7	11.2
2019	12.4	13.1	13.1	12.2	12.7	12.9	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2017	45.1	41.8	37.4	30.5	29.7	18.7	21.7	17.7	35.6	16.5	12.9	8.2
2018	15.9	7.9	-2.4	-3.0	-1.6	11.3	7.3	10.8	-6.5	6.3	28.4	12.8
2019	28.4	14.6	12.4	10.6	14.2	-1.2	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2017	41.5	36.4	30.9	33.0	29.8	27.3	18.1	18.6	25.7	19.3	14.3	7.5
2018	10.0	11.0	4.7	3.9	2.9	6.0	10.4	6.4	-3.0	1.9	18.8	7.1
2019	18.8	11.5	9.7	7.8	11.3	0.8	n/a	n/a	n/a	n/a	n/a	n/a
Industrial production (% change, year on year)												
2017	4.9	4.0	8.3	10.9	10.7	7.5	7.4	14.4	6.9	0.6	5.0	5.4
2018	5.2	6.1	4.7	4.5	6.4	4.2	4.4	1.9	5.5	4.2	2.3	0.1
2019	1.9	3.5	4.2	1.9	-1.6	5.9	n/a	n/a	n/a	n/a	n/a	n/a
Retail sales (% change, year on year)												
2017	3.5	5.6	7.3	5.7	9.0	4.6	9.2	5.4	7.3	5.0	4.8	8.1
2018	4.3	3.8	5.8	7.1	5.1	6.7	6.1	11.6	10.8	3.0	5.2	7.4
2019	4.6	3.8	6.3	6.7	4.0	7.5	n/a	n/a	n/a	n/a	n/a	n/a
Unemployment rate (%)												
2017	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
2018	4.9	4.9	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.8	4.8	4.8
2019	4.8	4.8	4.8	4.8	4.8	4.8	n/a	n/a	n/a	n/a	n/a	n/a
Kazakhstan stock exchange index KASE (end-period; Dec 7th 2000=100)												
2017	1,500	1,558	1,554	1,547	1,563	1,660	1,800	1,970	2,049	2,043	2,057	2,163
2018	2,329	2,362	2,437	2,384	2,503	2,412	2,362	2,232	2,195	2,205	2,250	2,305
2019	2,278	2,366	2,461	2,333	2,257	2,289	2,274	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	7.9	7.8	7.7	7.5	7.5	7.5	7.1	7.0	7.1	7.7	7.3	7.1
2018	6.8	6.5	6.6	6.5	6.2	5.9	5.9	6.0	6.1	5.3	5.3	5.3
2019	5.2	4.8	4.8	4.9	5.3	5.4	n/a	n/a	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2017	25.3	31.2	26.7	18.4	15.3	9.6	4.8	7.7	9.5	12.1	11.6	17.6
2018	12.2	13.7	13.5	15.8	18.3	22.2	24.3	24.6	23.9	22.9	24.0	12.4
2019	9.6	7.7	11.2	12.5	12.2	8.2	n/a	n/a	n/a	n/a	n/a	n/a
Average monthly wages (% change, year on year)												
2017	7.7	15.1	7.6	1.8	4.9	9.1	3.7	4.1	6.5	5.6	5.0	8.8
2018	9.9	3.6	9.6	9.0	10.0	13.8	6.4	7.4	8.3	9.8	11.4	3.8
2019	10.6	10.7	9.0	11.9	12.2	8.8	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (US\$ m)												

2017	3,267	3,630	3,977	3,977	4,160	4,157	3,828	3,483	4,160	4,035	4,591	5,240
2018	4,148	4,747	5,011	4,828	4,714	5,496	5,179	5,095	5,376	5,551	4,686	6,126
2019	5,339	4,549	3,426	5,187	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (US\$ m)												
2017	1,988	1,908	2,230	2,302	2,715	2,665	2,448	2,493	2,560	2,666	2,739	2,885
2018	2,178	2,265	2,798	2,719	2,680	2,710	2,798	2,884	2,841	3,102	2,897	2,662
2019	2,249	2,151	2,582	3,176	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US\$ m)												
2017	1,279	1,722	1,746	1,675	1,445	1,492	1,380	990	1,600	1,368	1,852	2,355
2018	1,970	2,483	2,213	2,110	2,034	2,786	2,380	2,211	2,535	2,449	1,789	3,465
2019	3,089	2,398	844	2,011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ m)												
2017	19,363	19,071	19,054	18,775	18,998	18,858	21,508	20,649	20,239	19,527	18,884	18,249
2018	18,265	17,960	17,451	18,023	17,365	17,162	18,046	17,689	17,222	15,687	16,592	16,536
2019	15,562	13,954	12,029	11,941	12,596	11,131	n/a	n/a	n/a	n/a	n/a	n/a

^a Interbank loans.

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts

Annual trends charts

Real GDP growth
(% change)



Source: The Economist Intelligence Unit.

Consumer price inflation
(% change, year on year; av)



Source: The Economist Intelligence Unit.

Budget balance
(% of GDP)



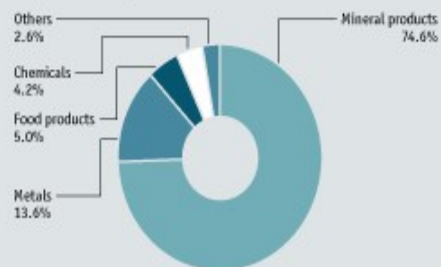
Source: The Economist Intelligence Unit.

Public debt
(% of GDP)



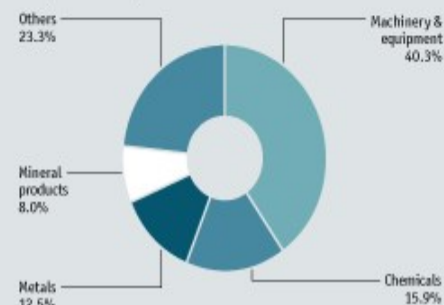
Source: The Economist Intelligence Unit.

Major exports, 2018
(share of total)



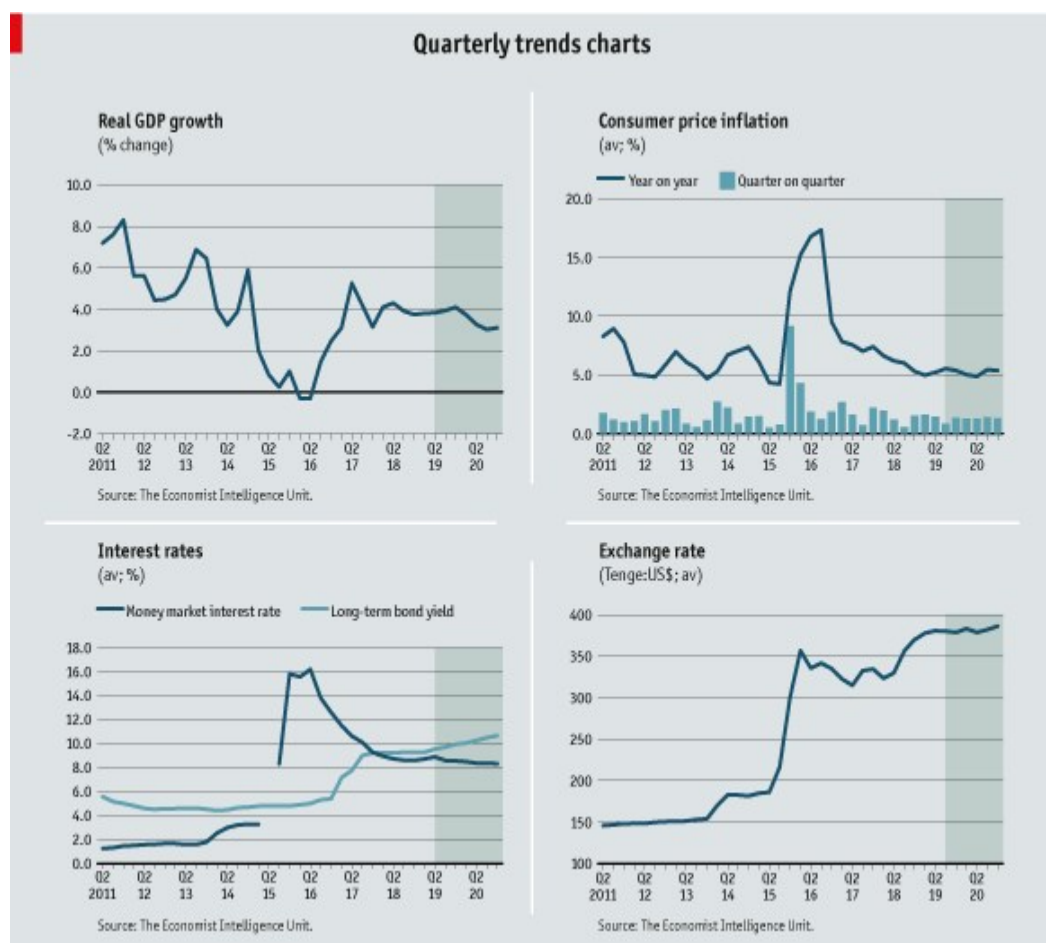
Source: The Economist Intelligence Unit.

Major imports, 2018
(share of total)

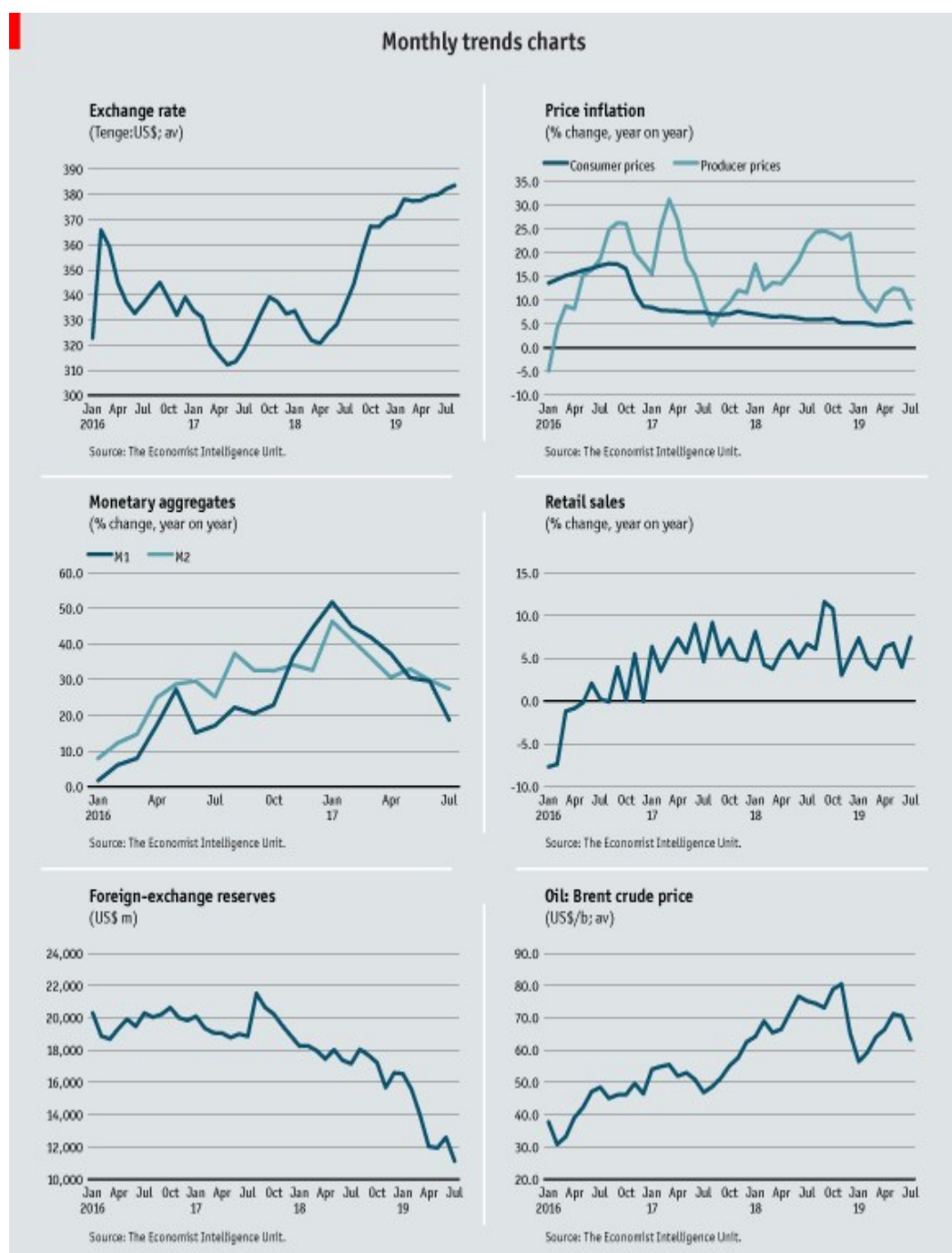


Source: The Economist Intelligence Unit.

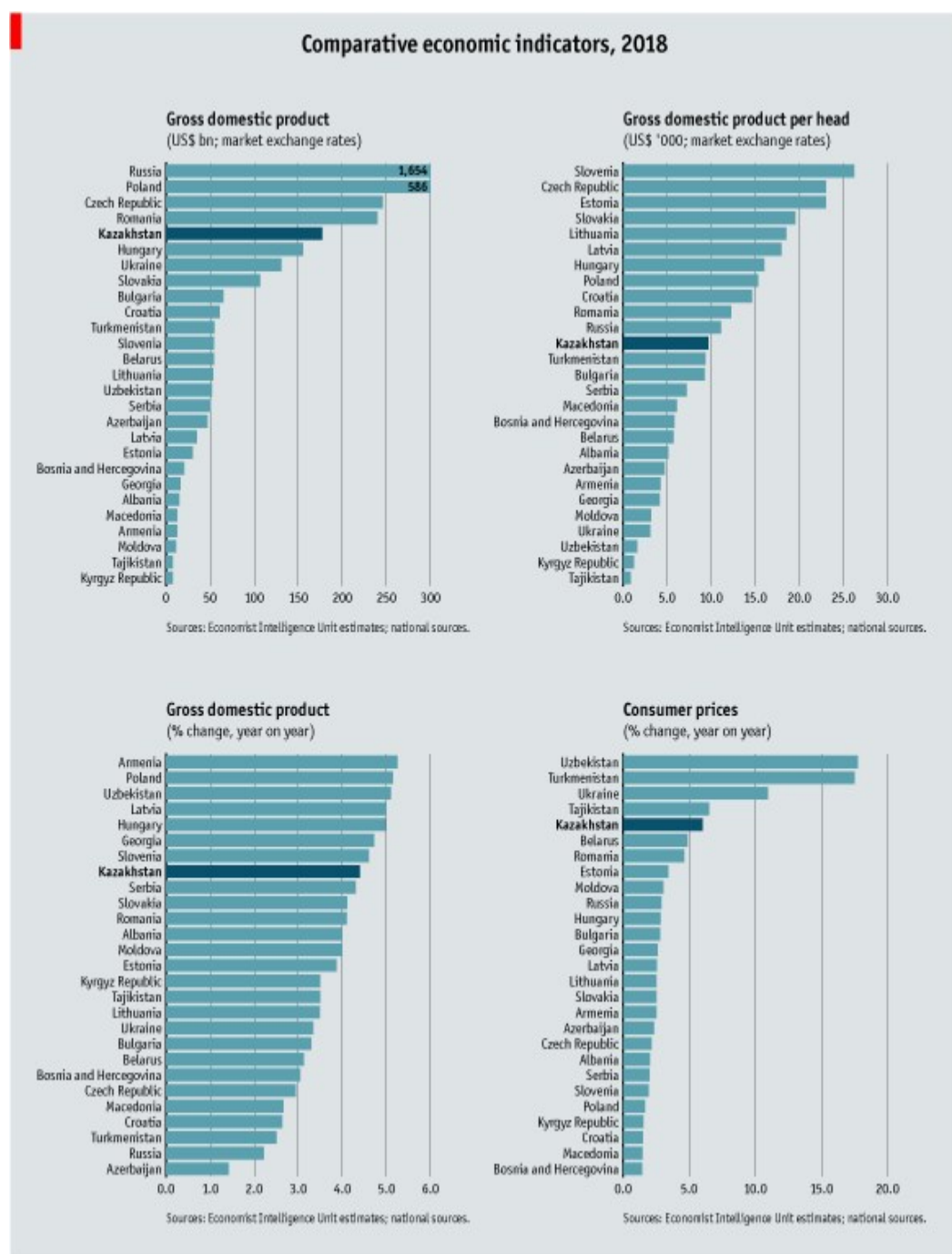
Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

2,717,300 sq km

Population

18.2m (2017 UN estimate)

Main towns

The capital was moved from Almaty to Astana (formerly Akmola) on December 10th 1997. Astana was renamed Nur-Sultan in March 2019

Population in '000 (2009 census)

Almaty: 1,366

Nur-Sultan: 613

Shymkent: 603

Karaganda: 460

Aktobe: 346

Taraz: 321

Pavlodar: 318

Ust-Kamenogorsk: 304

Climate

Continental. Average temperature in Astana in winter: -18°C; in summer: 20°C. Average temperature in Almaty in winter: -8°C; in summer: 22°C

Languages

Kazakh is the state language. Russian has the status of an official language and is the de facto language of administration

Weights and measures

Metric system

Currency

Tenge

Fiscal year

Calendar year

Time

Six hours ahead of GMT; five hours ahead of GMT in western Kazakhstan

Public holidays

January 1st-2nd (New Year's Day); January 7th (Orthodox Christmas Day); March 8th (Women's Day); March 21st-25th (Novruz); May 1st (Unification holiday); May 7th (Defender's Day); May 9th (Victory Day); July 6th (Capital City Day); August 11th (Kurban Ait); August 30th (Constitution Day); December 2nd (First President's Day); December 16th-17th (Independence Day)



Political structure

Official name

Republic of Kazakhstan

Legal system

On December 16th 1991 the Republic of Kazakhstan became the last of the former Soviet republics to declare its independence following the collapse of the Soviet Union. Parliament approved amendments to the 1995 constitution in 2007, ostensibly aimed at redistributing the balance of power away from the presidency in favour of the legislature

National legislature

Bicameral: 107-seat Mazhilis (lower house), 47-seat Senate (upper house)

Electoral system

Universal suffrage over the age of 18 for the presidential and Mazhilis elections; senators are partly elected by the regions and partly appointed by the president

National elections

April 2015 (presidential); March 2016 (Mazhilis); June 2017 (half of the Senate). Next elections: June 2019 (snap presidential); 2020 (half of the Senate); 2021 (Mazhilis)

Head of state

The president, Kassym-Jomart Tokayev, appointed in March 2019 following the resignation of Nursultan Nazarbayev, and elected on June 9th

National government

Council of Ministers, headed by a prime minister (appointed by the president). In practice, Mr Nazarbayev exercises extensive control over the political and economic spheres

Main political parties

Nur Otan (Radiant-Fatherland); Communist Party of Kazakhstan (KPK); Ak Zhol (Bright Path); Republican People's Party of Kazakhstan (RNPK); Party of Patriots; Communist People's Party of Kazakhstan (KNPK)

Council of Ministers

Prime minister Askar Mamin

First deputy prime minister & finance minister: Alikhan Smailov

Deputy prime minister: Zhenis Kassymbek

Deputy prime minister: Gulshara Abdykalikova

Agriculture: Saparkhan Omarov

Culture & sport: Arystanbek Mukhamediuly

Defence: Nurlan Yermekbayev

Economy: Ruslan Dalenov

Education & science: Kulyash Shamshidinova

Energy: Kanat Bozumbayev

Foreign affairs: Beibut Atamkulov

Health: Elzhan Birtanov

Internal affairs: Yerlan Turgumbayev

Industry & infrastructure development: Roman Sklyar

Justice: Marat Beketayev

Labour & social protection: Berdibek Saparbayev

Social development: Darkhan Kaletayev

Head of the presidential administration

Aset Isekeshev

Speakers of parliament

Nurlan Nigmatulin (Mazhilis)

Central bank chairman

Yerbolat Dossayev

Recent analysis

Generated on September 9th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

US-Central Asia summit held in Nur-Sultan

August 27, 2019: International relations

Event

On August 21st a high-level summit of the C5+1 group, a multilateral forum consisting of the US and the five Central Asian states (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) was held in Nur-Sultan, Kazakhstan's capital.

Analysis

The summit was attended by David Hale, the under-secretary for political affairs of the US State Department, and by the foreign ministers of the five Central Asian countries. There were no items on the agenda and no major developments during the course of the summit. However, according to the joint statement released by the parties, the representatives "exchanged views" on efforts to strengthen economic co-operation and regional security (including in Afghanistan). The joint statement also said that the parties had reaffirmed their support for the C5+1 framework as a multilateral forum to discuss "common challenges".

When the C5+1 forum was launched in 2015 it was the only multilateral forum where all five Central Asian countries were present together. However, with the ascension of Shavkat Mirziyoyev to Uzbekistan's presidency, and the ensuing opening up of that country—both economically and in relations with its immediate neighbours—the usefulness of the C5+1 format as a forum for Central Asian co-operation has diminished. However, the format remains important, as it is the only format where the Central Asian countries can engage with the US. The US is a relatively minor actor in the region compared with China and Russia, which both engage more actively (both in economic and security spheres) with the Central Asian states.

In 2019-23 we expect regional integration and security (with a growing emphasis on relations with Afghanistan) to continue to dominate multilateral discussions among the Central Asian countries. Although the US is unlikely to supplant the dominance of Russia and China in the region, we expect it to improve economic engagement steadily, especially with Kazakhstan and Uzbekistan, the largest economies in the region. With their emphasis on pursuing a multi-vector foreign policy, these Central Asian countries will also want to maintain relations with the US.

Impact on the forecast

Our forecast remains that the Central Asian states will continue to prioritise regional integration and collaborate on security issues.

Economy

Forecast updates

Industrial production up by 0.5% in June

August 12, 2019: Economic growth

Event

According to data from the Statistical Agency of Kazakhstan, industrial production increased by 0.5% year on year in June, a sharp improvement compared with a year-on-year contraction of 6.4% in the previous month.

Analysis

Industrial production returned to positive growth in June after three consecutive months of contractions. The boost to industrial production was driven by a moderation of the recent sharp contraction in mining sector output. Mining sector output fell by more than 22% year on year in March-May. This moderated to 12.4% in June. A sharp acceleration in manufacturing output, which grew by 30.4% year on year June (compared with 19.6% in May) also contributed to the boost to annual industrial production growth.

Industrial production in Kazakhstan is mainly driven by the country's hydrocarbons sector (which comprises a large share of mining sector output). The hydrocarbons sector is also a key determinant of the overall health of the economy, as it is a major source of export earnings and government revenue. The jump in industrial production growth in June was driven by a 6.1% year-on-year increase in oil production in June.

Oil production contracted by an average of 13.2% year on year in April-May owing to a maintenance shutdown at the Kashagan oil field, which was carried out during the same period. Kazakhstan's other large oil fields—Tengiz and Karachaganak—also have maintenance work scheduled, with the Tengiz field to follow in August and October, and the Karachaganak field in September-October.

The contraction in mining sector output in the first half of 2019 was exacerbated by contractions in other components of the sector. Coal production totalled 54m tons in January-June, a year-on-year contraction of 1.5%, versus an increase of 4.1% in the same period in 2018. Similarly, production of natural gas output totalled 11.7bn cu metres, a 3.1% drop compared with January-June 2018.

Despite the increase in industrial production in June, we still expect output in the sector to contract in full-year 2019. With maintenance on two other oilfields to follow in the coming months, oil production is likely to dip, leading to a fall in overall industrial production.

Impact on the forecast

We maintain our forecast that industrial production will contract by 0.8% year on year in 2019.

Current-account deficit widens sharply in Q2

August 23, 2019: External sector

Event

In the second quarter of 2019 the current account registered a deficit of US\$2.4bn, according to the National Bank of Kazakhstan (NBK, the central bank), compared with a much smaller deficit of US\$468.6m in the year-earlier period.

Analysis

Kazakhstan's current account usually has a large trade surplus, offset by a sizeable primary income deficit and a small deficit on the services account. The widening of the current-account deficit in April-June—to a total of US\$2bn in the first half of 2019, from US\$1.4bn in the year-earlier period—was primarily due to a sharp increase in import costs in the second quarter. The import bill for the second quarter of 2019 rose sharply, to US\$10.1bn, from US\$8.3bn a year earlier. By contrast, export earnings fell slightly, mostly driven by price effects, as global oil prices have fallen this year. Over the first half of 2019 the trade surplus totalled US\$11.3bn—10.3% smaller than in the first half of 2018.

The services deficit widened to US\$1.3bn in April-June, from US\$1bn in the second quarter of 2018, owing to higher service imports. Service import growth was primarily driven by business services, including professional and management consulting services, and technical and trade-related services. The primary income deficit narrowed slightly, by US\$196m to US\$5.7bn. This was driven by a fall in primary income outflows, which was mainly due to a fall in investment income outflows.

The widening of the current-account deficit in the second quarter (and in the year so far) is in line with our forecast that the current account will move back into deficit this year, after remaining close to balance in 2018. This will be driven by a widening trade deficit as merchandise import costs continue to rise. Export growth will be muted in 2019 because of reduced oil production, due to maintenance shutdowns at three of Kazakhstan's largest oilfields, and lower global oil prices.

Impact on the forecast

We maintain our forecast that the current-account deficit will widen in 2019, to 1.1% of GDP.

Real GDP up by 4.1% in H1

August 27, 2019: Economic growth

Event

In the first half of 2019 real GDP grew by 4.1% year on year, according to preliminary data from the Statistics Agency of the Republic of Kazakhstan (SARK). This was broadly in line with growth in the year-earlier period.

Analysis

The preliminary data do not provide a breakdown of real GDP growth by expenditure. However, a breakdown by production shows that the main driver of economic growth in the first half was the services sector, which accounted for 53.9% of total GDP and grew by 4.2% year on year in January-June.

The construction sector showed the strongest growth, expanding by 11.1% year on year. However, the sector is fairly unimportant in driving overall GDP growth, accounting for only 4.6% of total GDP. Output in the agriculture sector (including forestry and fisheries) grew by 3.8%. The main drag on growth came from industry, which grew by 2.7% year on year in the first half of 2019—a sharp deceleration compared with 5.2% in the year-earlier period; in particular, mining (and quarrying) output growth decelerated to 2.1% year on year, from 5.6% in January-June 2018.

Real GDP growth in the first half of 2019 has been stronger than our forecast for full-year 2019. However, despite the fairly robust expansion in January-June, we maintain our forecast that real GDP growth will decelerate slightly, to 3.9% in full-year 2019. The deceleration will be due to reduced oil output at three of Kazakhstan's largest oilfields—Tengiz, Kashagan and Karachaganak. Over the rest of the year we expect industry output growth to fall further, as maintenance work on Karachaganak and Tengiz has not yet begun. Hence, real GDP growth will dip in the second half. However, with the authorities ramping up social spending (by raising the minimum wage and public-sector salaries), an acceleration in private consumption growth will support real GDP growth and dampen the effect of the maintenance shutdowns.

Impact on the forecast

We maintain our forecast for a slight deceleration in real GDP growth in 2019, to 3.9%, from 4% in 2018.

Nominal wages grow sharply in H1

August 28, 2019: Economic growth

Event

Nominal wage growth accelerated sharply in January-June, according to data from the Statistics Agency of the Republic of Kazakhstan (SARK), with wages in the agricultural sector showing particularly strong growth.

Analysis

In the first half of 2019 nominal wages averaged Tenge 177,513 (US\$468.1)—an increase of 12.6% year on year. Wages in the agricultural sector (which are significantly lower than wages in the manufacturing and mining sectors) grew at the fastest rate, averaging 18.6% year on year, compared with an increase of 8.6% in the year-earlier period. Wage growth in manufacturing averaged 11.8% year on year, only a slight deceleration compared with an increase of 11.4% in the same period in 2018. Average wage growth in industry, construction and the mining (and quarrying) sector also decelerated.

The sharp acceleration in overall wage growth follows the ramping up of social spending by the government in 2019, with the authorities raising minimum wages and increasing public-sector salaries (effective from the start of July). Mining and industry, which traditionally have higher average wages, have not been affected by the increase in minimum wages; the deceleration of wage growth in these industries is likely to have been owing to maintenance shutdowns at some of Kazakhstan's oilfields. By contrast, the sharp acceleration in wages in the agricultural sector reflects the fact that this sector has the lowest average wages in the economy.

The sharp acceleration in overall wage growth has supported household spending, with retail trade turnover rising. Private consumption grew robustly in the first quarter of 2019 (latest available data), with household spending growth accelerating to 5% year on year, from an increase of 3% in the year-earlier period. This was probably driven by the sharp acceleration in agricultural sector wage growth (despite the deceleration in mining and construction sector wage growth), as agriculture is an extremely important source of employment, accounting for more than 14% of the total jobs in the economy. Over the rest of 2019 we expect private consumption to continue to show strong growth, supported by strong real wage growth.

Impact on the forecast

We forecast that nominal wage growth will accelerate sharply, to 10.5% in 2019, from 8.5% in 2018.

Budget deficit widens in January-July

August 30, 2019: Fiscal policy outlook

Event

In the first seven months of 2019 the budget recorded a deficit of Tenge631.5bn (US\$1.6bn), according to the Ministry of Finance, a sharp widening compared with Tenge202.7bn in the same period of 2018.

Analysis

The widening of the deficit was driven by a sharp increase in expenditure, which came to US\$18.6bn, compared with US\$16bn in January-July 2018. The increase in expenditure was driven by higher spending on social security and social aid, which is the largest expenditure item. This came to US\$5bn, an increase of almost US\$1bn compared with the year-earlier period. Spending on education, the second-largest expenditure item, also increased sharply, by US\$489.8m, to US\$3.5bn. It is likely that a large share of this increase went towards salaries of employees of the public-sector education system.

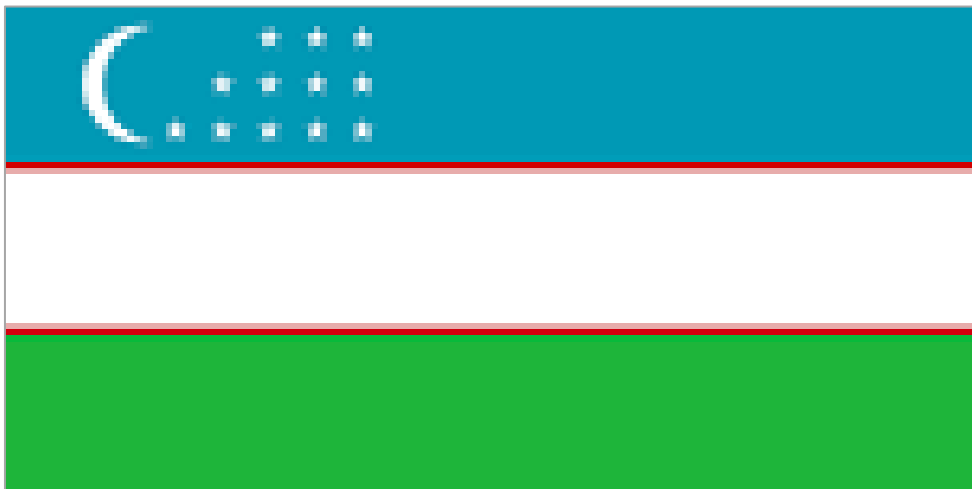
Government revenue also increased on a year-on-year basis in January-July (although at a less rapid pace than spending). Government revenue totalled US\$18.2bn in the first seven months of 2019, an increase of 13.2% (US\$2.1bn) compared with the year-earlier period. The main driver behind this increase was a sharp rise in tax receipts.

The sharp widening of the budget deficit is in line with our forecast and is driven by higher social spending by the government to cover a hike in minimum wage and a rise in public-sector wages (which was implemented from July). Before leaving office in March, Nursultan Nazarbayev, the former president, announced a Tenge2.35trn package to fund 25-30% increases in the lowest public-sector salaries from July 1st, along with larger social security benefits for low-income groups. Mr Nazarbayev also announced an allocation of Tenge50bn per year over the next seven years to build rental homes for large low-income families. It is likely that these measures were announced in order to defuse dissatisfaction as the country went through a managed political transition.

Impact on the forecast

Owing to the government's expansionary fiscal stance, we maintain our forecast that the budget deficit will widen to 1.1% of GDP this year. However, we expect the deficit to narrow from 2020 onwards.

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Uzbekistan

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U.S. Embassy in Uzbekistan

Ambassador Daniel Rosenblum



Daniel Rosenblum was sworn in as U.S. Ambassador to Uzbekistan on May 9, 2019. From July 2014 until July 2018, Mr. Rosenblum served as Deputy Assistant Secretary in the State Department's Bureau of South and Central Asian Affairs. His responsibilities included managing U.S. policy and diplomatic relations with the five Central Asian states: Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. He directed State Department support for six diplomatic missions in the region, helped set policy and programmatic priorities, and frequently served as public

spokesperson. During his last year in this position, Mr. Rosenblum also oversaw all the Bureau's regional and public diplomacy activities, including transnational economic and security issues, educational and cultural exchanges, and outreach to the media in both South and Central Asia.

From 2008-2014, Mr. Rosenblum was Coordinator of U.S. Assistance to Europe, Eurasia and Central Asia, responsible for ensuring the strategic and efficient allocation and spending of foreign aid budgets averaging over \$1 billion annually. He and his team coordinated the efforts of more than a dozen U.S. government agencies working in more than 30 countries, supporting economic reform, the development of democratic institutions and rule of law, building the capacity of security sector institutions, and relieving human suffering through humanitarian aid. He also served as the primary U.S. government liaison with other international donors, including the European Union and multilateral development banks.

From 1997-2008, Mr. Rosenblum held a variety of other positions in the Assistance Coordinator's office, including Deputy Coordinator, Director of the Eurasia Division, and Special Advisor for Economic Programs. He developed economic initiatives for several regions of Russia; served as the State Department liaison to ten US-backed investment funds operating in the region; and was instrumental in designing assistance packages for Ukraine, Georgia and the

Kyrgyz Republic following internal upheavals, and for Kosovo following its declaration of independence.

Before coming to the State Department, Mr. Rosenblum spent six years as Senior Program Coordinator at the Free Trade Union Institute (FTUI). With grants from the US Agency for International Development and National Endowment of Democracy, FTUI conducted educational programs and provided technical assistance to independent labor unions in the former Soviet Union and Eastern Europe. Mr. Rosenblum managed the operation of field offices in Moscow, Kyiv, Almaty and Warsaw. Mr. Rosenblum also served as a public spokesman on the labor movement in the former Soviet Union, and social problems associated with the transition to a market economy.

From 1985-89, Mr. Rosenblum worked as a legislative assistant to Senator Carl Levin, advising the Senator on foreign policy, trade, transportation, judiciary and veterans affairs. He helped the Senator promote the interests of his constituents in a wide range of areas, including the competitiveness of the American automotive industry, ensuring that trade agreements provided reciprocal access for U.S. exports to foreign markets, assessing judicial nominations, protecting veterans benefits, and defending international human rights.

Mr. Rosenblum has a BA in History from Yale University and an MA in Soviet Studies and International Economics from the Johns Hopkins School of Advanced International Studies. He is married and has a son, age 20 and a daughter, age 16.

U.S. Department of State

Diplomacy in Action

U.S. Relations With Uzbekistan

Bilateral Relations Fact Sheet

BUREAU OF SOUTH AND CENTRAL ASIAN AFFAIRS

JULY 9, 2019

U.S.-UZBEKISTAN RELATIONS

The United States established diplomatic relations with Uzbekistan in 1992 following its independence from the Soviet Union. Since then, the United States and Uzbekistan have developed a broad-based relationship, cooperating in such areas as border and regional security programs, economic relations, political and civil society issues, and English language training. Uzbekistan is important to U.S. interests in ensuring stability, prosperity, and security in the broader Central Asian region. Regional threats include illegal narcotics, trafficking in persons, terrorism, and violent extremism. Uzbekistan is a key partner supporting international efforts in Afghanistan, primarily through provision of electricity, economic assistance, and development of Afghanistan's infrastructure.

U.S. Assistance to Uzbekistan

U.S. assistance goals are to improve livelihoods of citizens through support to enhance overall economic conditions and boost investment in key sectors, add value to horticulture products, diversify economic markets, and address the threats of infectious disease and transnational crime. Assistance is also targeted at increasing citizen access to justice and input into government decision-making, promoting the rule of law, public education reform, defense cooperation, and encouraging government efforts that ensure respect for human rights and fundamental freedoms.

Bilateral Economic Relations

Uzbekistan's economy was historically based primarily on agriculture and natural resource extraction. While the country remains a major producer of energy and minerals, the manufacturing sector has grown in recent years and now accounts for approximately one quarter of GDP, surpassing agriculture. Uzbekistan has signed a trade and investment framework agreement with the United States and other Central Asian countries, establishing a regional forum to discuss ways to improve investment climates and expand trade within Central Asia. For the first time ever, in June 2019 the Department of Commerce led a certified trade mission to Uzbekistan, to increase trade between the two countries and open up new markets for American businesses.

Uzbekistan's Membership in International Organizations

Uzbekistan and the United States belong to a number of the same international organizations, including the United Nations, Organization for Security and Cooperation in Europe, International Monetary Fund, and World Bank. Uzbekistan is a member of the North Atlantic Treaty Organization's Partnership for Peace and an observer to the World Trade Organization, which it is now preparing to join.

Bilateral Representation

The U.S. Ambassador to Uzbekistan is Ambassador Daniel Rosenblum; other principal embassy officials are listed in the Department's Key Officers List.

Uzbekistan maintains an embassy in the United States at 1746 Massachusetts Ave., NW, Washington, DC 20036; tel.: (202) 887-5300.

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Country Report

Uzbekistan

Generated on September 9th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

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London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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Briefing sheet

Editor: **Samten Bhutia**

Forecast Closing Date: **June 6, 2019**

Political and economic outlook

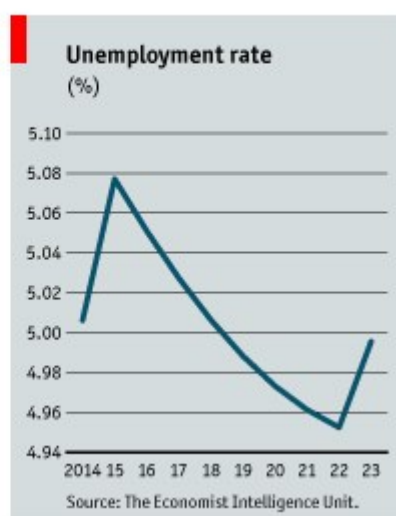
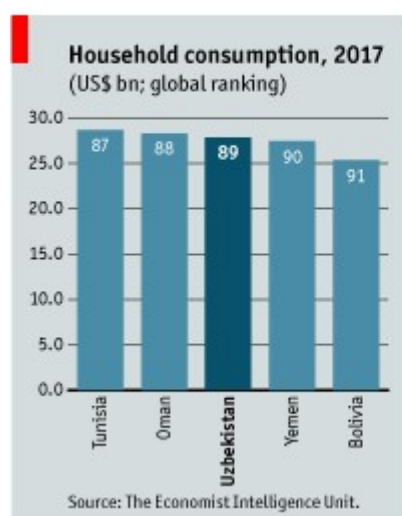
- The president, Shavkat Mirziyoyev, who came to power in September 2016, will dominate the political scene in the forecast period (2019-23). The Economist Intelligence Unit does not expect any significant progress in democratisation.
- Russia and China will remain Uzbekistan's main economic partners. The authorities will seek to improve relations with other Central Asian countries, which were strained under the previous administration.
- The convergence of the official exchange rate with the black-market rate in September 2017 marked a significant step in economic liberalisation. We expect further market reforms, such as tax reforms and improvements to the investment climate, in 2019-23.
- Real GDP growth will remain steady, at a forecast 5.2% in 2019, rising to an annual average of about 5.7% in 2020-23, driven by investment and private consumption.
- We expect the government to implement a policy of fiscal expansion in 2019-23 in order to support its economic reforms. This will take the form of tax reforms, increased investment and social spending. The budget will record a deficit of 1.1% of GDP in 2019
- We expect that the som will appreciate slightly against the US dollar in 2021-23. A pick-up in foreign capital inflows and productivity gains will support a slight appreciation of the som, to an average of Som7,915.1:US\$1 in 2023, from Som8,071.6:US\$1 in 2018.

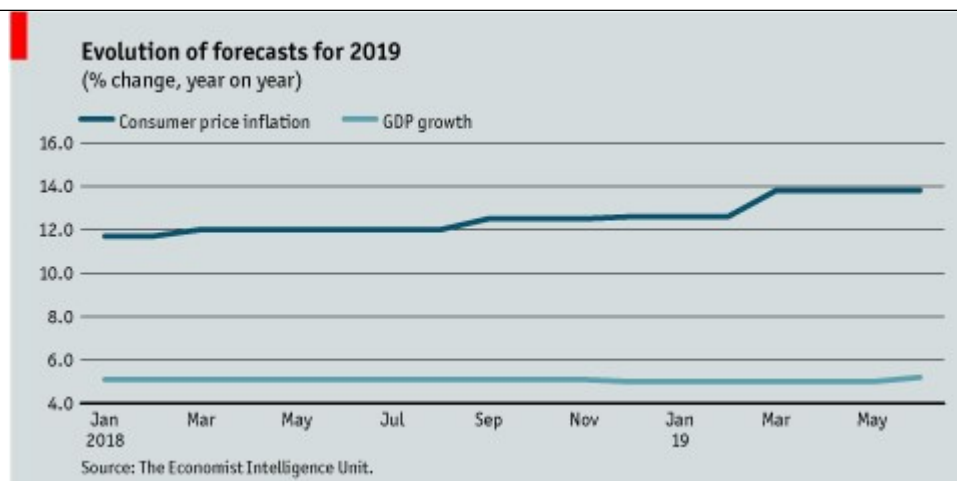
Key indicators

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth (%)	5.1	5.2	5.4	5.5	5.8	5.9
Consumer price inflation (av; %)	17.7 ^c	13.8	11.9	10.2	9.4	9.3
Government balance (% of GDP)	-0.2	-1.1	-1.2	-1.0	-1.2	-1.0
Current-account balance (% of GDP)	-6.9	-5.2	-5.1	-5.5	-5.2	-5.2
Money market rate (av; %)	14.7	16.0	14.0	12.0	9.0	9.0
Unemployment rate (%)	5.0	5.0	5.0	5.0	5.0	5.0
Exchange rate Som:US\$ (av)	8,071.6 ^c	8,496	8,527.2	8,320.4	8,115.2	7,915.1

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

Market opportunities





Key changes since March 6th

- The government budget recorded a deficit of 0.2% of GDP in 2018, contrary to our previous expectation of a small surplus of 0.4%.
- We have also revised up our budget deficit forecast for 2019 owing to a larger than expected deficit in the first quarter. We now expect the budget to record a deficit of 1.1% of GDP in 2019, from 0.5% previously.
- The current account entered a deficit of US\$3.6bn (6.9% of GDP) in 2018 from a surplus of US\$1.5bn in 2017 (compared with our previous 2018 estimate of 4.3%). Merchandise imports rose sharply in 2018, from US\$12.4bn in 2017 to US\$19.9bn in 2018.
- We have therefore revised up our forecast for the current-account deficit to an annual average of 5.2% of GDP in 2019-23 (from 3.7% previously) owing to an upward revision to our merchandise imports forecasts.

The quarter ahead

- **TBD—Current account (Q1):** After recording a deficit of US\$3.6bn in 2018 we expect the current account to remain in deficit in 2019. However, we expect import growth to slow down slightly, leading to a slightly narrower deficit (as a share of GDP) in 2019.
- **TBD—Consumer price inflation (Q2):** Inflation decelerated to 13.7% year on year in the first five months of 2019 compared with 19.7% in the year-earlier period. We expect inflation to continue to decelerate (on a year-on-year basis) in the rest of the year as domestic non-food inflation continues to decelerate.

Major risks to our forecast

Scenarios, Q1 2019	Probability	Impact	Intensity
The banking sector is in worse shape than it appears	High	High	16
Officials exploit the complexity and non-transparency of business legislation to ignore contractual rights	High	Moderate	12
The shortage of skilled and specialised labour becomes more acute	High	Moderate	12
Currency depreciation leads to a significant increase in exports	Moderate	High	12
Instability from Afghanistan or the Middle East spills over into Uzbekistan	Moderate	High	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2019-23

Political stability

The Economist Intelligence Unit expects Shavkat Mirziyoyev, the president, to continue to dominate the political scene in the forecast period (2019-23) and does not forecast any genuine progress with democratisation. Mr Mirziyoyev's decision to allow a 50% devaluation of the som against the US dollar in September 2017 signalled his willingness to take a bolder approach to economic reforms than his late predecessor, Islam Karimov. Currency liberalisation and the ensuing reforms show that Mr Mirziyoyev feels secure in his position, and indicate that he has the support of central figures within the elite. Although not our core scenario, we believe that if unrest was to break out, the authorities would deal with this swiftly, sharply and probably violently.

Mr Mirziyoyev will be extremely cautious in allowing dissenters to express their views, and will seek to balance the power of competing elite groups in order to contain any potential backlash against his rule. The importance of such a balanced and cautious approach to reforms will increase as Mr Mirziyoyev seeks to introduce some elements of economic liberalisation. Any signs of instability would lead to a crackdown on freedom of expression, and there is a risk that economic-liberalisation measures would be scaled back.

Election watch

Mr Mirziyoyev won the December 2016 presidential vote in an election that was deemed flawed by international observers, including the Organisation for Security and Co-operation in Europe (OSCE). The presidential term is five years. The most recent parliamentary election was in December 2014 and January 2015, when four pro-government parties won seats in what was also deemed a flawed process. We do not expect reforms that aim to improve the way that elections are held to be introduced ahead of the next parliamentary election, which is scheduled for late 2019 or early 2020.

International relations

In 2019-23 we expect Mr Mirziyoyev to operate a balanced, proactive foreign policy, with the goal of avoiding excessive reliance on any one international player. In a changing geopolitical context, this is likely to imply at least some cautious alterations to Uzbekistan's foreign policy. Russia and China will remain Uzbekistan's main political, and economic, partners. Russia's political and—especially—economic influence in Uzbekistan has increasingly been challenged by China, which has signed significant investment deals with Uzbekistan in recent years and is the country's most important export market. However, unlike in neighbouring countries such as Tajikistan and the Kyrgyz Republic, where China has eclipsed Russia's economic influence, we expect Russia to remain an important partner in Uzbekistan, as many state-owned Russian companies continue to maintain a significant presence in Uzbekistan, and the country is also an attractive market, with a population of more than 30m. This was confirmed by the conclusion of US\$27.1bn worth of agreements at a business forum in October 2018 between Russian and Uzbek companies, following the visit of the Russian president, Vladimir Putin, to Tashkent (the capital).

Relations with Central Asian neighbours will continue to improve in 2019-23. Since Mr Mirziyoyev's accession to the presidency in 2016, he has prioritised improving relations with all other Central Asian countries. Given perceived common security threats and plans to undertake potentially difficult economic reforms, Mr Mirziyoyev may have concluded that finding ways to improve Uzbekistan's relations with other regional players, which proved difficult under Mr Karimov, is in the country's interests. Uzbekistan's relations with Kazakhstan continue to strengthen—the Kazakh president visited Uzbekistan in April, affirming his commitment to the continued improvement of links between the two sides. The Kazakh government also passed legislation on energy co-operation with Uzbekistan that could lead to an increase in Kazakhstan's exports of crude oil to Uzbekistan.

Uzbekistan's links with Tajikistan have also improved markedly during the past year. In March 2018 Mr Mirziyoyev paid a landmark visit to Dushanbe, Tajikistan's capital. During the visit the president and his Tajik counterpart, Imomali Rahmon, agreed on a series of practical measures to restore relations and released a joint statement, in which Mr Mirziyoyev said that he had halted Uzbekistan's long-standing objection to the Tajik government's plans to build the Rogun Dam. Mr Mirziyoyev also said that Uzbekistan would participate in the Rogun Dam project, although he did not elaborate further. Although it is possible that old disputes over access to water or border demarcation will flare up again over the forecast period, this is not our core projection, and we expect Mr Mirziyoyev to take a more pragmatic approach than his predecessor in dealing with these issues. In 2019-23 we expect further progress to be made in border demarcation between Uzbekistan and its neighbours, and in the reintegration of the electricity grids of the Central Asian countries. Uzbekistan will drive these initiatives.

Policy trends

The government's reform roadmap for 2019-21, which was announced in November 2018 outlines five policy goals: to maintain macroeconomic stability; to accelerate the transition of the economy from a state-led economy to one in which the market plays an increasingly important role; to improve social services; to strengthen the government's role in the market economy; and to preserve environmental stability. The government's previous development strategy promised reforms in agriculture, finance and banking. It also promised improvements to the investment climate to attract greater levels of foreign investment, including by reducing state regulation, assuring property rights and introducing a "one-stop shop" for state services. However, a transition to a market-oriented economy will be testing, given a systemic reliance on the state to drive economic growth. There is a risk of reform fatigue—Mr Mirziyoyev has pushed through many economic reforms in a short period of time, which could be difficult to implement effectively, owing to their large scale and scope.

The most important reform introduced by Mr Mirziyoyev was the liberalisation of the national currency in September 2017. This removed the incentive to use the black market, bringing an end to the opacity surrounding the exchange-rate system. Some capital controls were also removed for businesses and individuals. In the same month a decree was issued to set up a single portal for information on free economic zones and small industrial zones. A further decree liberalised export and import activity from December 2017, which reduced the regulatory compliance burden for exporters.

Mr Mirziyoyev continued with his reform agenda in 2018. Having removed a state monopoly on processing and exporting cotton in October 2017, state monopolies in the agricultural sector have also been lifted, including one on fruit and vegetable exports in June 2018. Tax reforms, which were approved in June 2018 and aim to simplify the taxation system, came into force at the beginning of 2019—income tax has been set at a flat rate of 12%; corporate profit tax has been reduced to 12% for most businesses; property tax reduced to 2%; and simplified value-added tax payment procedures introduced for companies with gross revenues of less than Som3bn (US\$0.3m). Policy priorities for 2019 include a small-scale privatisation drive to sell government stakes in 29 state-controlled industrial and financial enterprises including 100% stakes in three oil refineries, in Andijan, Fergana and Gulistan.

The government's reformist stance has improved the outlook for financial inflows—in May 2018 the World Bank said that it had agreed to provide Uzbekistan with loans worth nearly US\$940m. The Asian Development Bank has already approved more than US\$1.1bn in loans spanning a range of sectors, from a US\$450m loan to help modernise the power sector to a US\$197m loan to improve value chains in the horticulture sector. On February 14th the government issued a US\$1bn Eurobond, the state's first venture into global capital markets. The offering was heavily oversubscribed, with demand from investors exceeding US\$8.5bn.

Official data problems

Data from Uzbekistan's government have been limited and contradictory for a long time. Most obviously, with the emergence of a serious regional downturn in 2014-16, the disparity between the official economic performance of Uzbekistan and other regional energy producers became increasingly implausible. Although the authorities have scaled up efforts to provide timely and comprehensive data (in line with recommendations from the IMF), The Economist Intelligence Unit will continue to present its own forecasts. However, to maintain comparability with other sources, we use World Bank data for our GDP historical series.

Fiscal policy

According to the State Statistics Committee (SSC), the budget moved into a deficit of Som637.1bn in 2018, equivalent to an estimated 0.2% of GDP. The budget has historically recorded surpluses, and the move to a deficit highlights the government's expansionary fiscal policy stance to support its economic reform agenda. Indirect taxes comprised the largest share of government revenue, and spending on "social services" comprised the largest expenditure item.

The government's 2019 budget, which the cabinet approved in November, involves generous expansionary elements. First, authorities passed amendments to the tax code, to be implemented from 2019, which lowered personal, corporate, property and small-business tax rates. Second, the government intends to scale up expenditure at the local level through its Obod qishloq (prosperous village) and Obod makhalla (prosperous neighbourhood) programmes. Third, wages of public-sector employees, especially in the education sector, will be scaled up. Finally, the government also intends to increase capital spending from Som3.2trn (US\$391m) in 2017 to a forecast Som11.9trn in 2019.

In the forecast period we expect the government to continue supporting economic growth by making significant investments in a broad swathe of areas, including energy and transport infrastructure. This expansionary fiscal stance means that the government will maintain a budget deficit over the rest of the forecast period, averaging 1.1% of GDP annually in 2020-23.

Monetary policy

One of the primary objectives of the Central Bank of Uzbekistan (CBU) in 2017-18 was to contain the impact of the 50% devaluation of the som in 2017. The CBU increased the refinancing rate (its policy benchmark rate) from 9% to 14% in June 2017, ahead of the impending devaluation. Owing to rapidly rising inflation in the first half of 2018, the central bank raised rates again in September 2018, to 16%. However, the effectiveness of monetary policy is hampered by the weak level of financial intermediation and the shallowness of the financial sector. The transmission of monetary policy is further weakened by the fact that a significant share of credit is allotted on a preferential basis.

Although the CBU claims to be allowing the som to float freely, we believe that it has continued to intervene in the foreign-exchange market in order to avoid wide fluctuations. Foreign-exchange reserves decreased from US\$14.4bn at the end of January 2018 to US\$12.1bn at the end of that year. We do not think that the som will be vulnerable to significant volatility over the forecast period.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
OECD GDP	2.2	1.7	1.6	1.8	1.9	1.8
World GDP	2.9	2.6	2.6	2.8	2.9	2.8
World trade	4.4	3.3	2.9	3.9	4.0	4.1
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.2	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.2	1.9	2.1	2.1	2.1
Manufactures (measured in US\$)	4.9	2.1	3.3	3.5	3.2	3.0
Oil (Brent; US\$/b)	71.1	66.5	60.5	69.8	75.6	75.0
Non-oil commodities (measured in US\$)	1.9	-4.4	3.5	3.0	2.0	0.7
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.0	2.6	2.2	2.1	2.5	2.9
US\$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24
¥:US\$	110.43	110.05	108.73	104.88	100.46	96.08

Economic growth

According to official government statistics, real GDP grew by 5.1% in 2018. Economic growth was driven primarily by investment and, to a lesser extent, household spending. Despite aims to transition towards a market-led economy, the state continues to drive investment—the State Development Programme included projects such as the construction of a gas-chemical complex in south-eastern Uzbekistan, development of gasfields in Bukhara, and the construction of several thermal-power plants in Namangan and Navoi.

With the government continuing to prioritise economic reforms, foreign investment inflows are likely to continue to grow in 2019-23. This—coupled with ongoing state investment in energy and infrastructure—will ensure that capital spending continues to drive economic growth in the forecast period. With global prices of Uzbekistan's main commodity exports (such as gold and copper) remaining high, export earnings will remain robust, supporting economic growth. Small- and medium-sized businesses are driving economic growth in the country, and will benefit from the government's new tax policy. We expect that real GDP will grow by about 5.6% per year in 2019-23.

Economic growth

%	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
GDP	5.1	5.2	5.4	5.5	5.8	5.9
Agriculture	1.1	1.8	2.0	2.1	2.0	2.0
Industry	9.5	6.5	7.0	6.8	6.8	6.8
Services	5.5	6.0	5.0	6.0	6.0	6.0

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Inflation

According to official figures, consumer prices grew by an average of 17.7% in 2018. Inflationary pressures were strong in 2018, partly because of the lagged effects of the September 2017 devaluation of the som, as well as increased domestic demand. Food prices compose a significant share of the consumer price index basket. Inflation of food prices accelerated to slightly less than 20% in 2018, after averaging 17.9% in 2017, and underpinned overall price growth. The lagged effect of the 2017 devaluation was compounded by a 14% increase in the global prices of wheat, an important staple good.

Inflation eased in the first five months of 2019, decelerating to 13.7% year on year from 19.7% in the year-earlier period. We forecast a slowdown in inflation in 2019, to 13.8%. This will be driven by a decline in global oil prices, dissipation of the lagged effect of the devaluation in 2017 and an easing in global food prices (we forecast a contraction of 5.8% in global prices of food, feedstuffs and beverages in 2019).

Although we expect inflation to decelerate in the rest of the forecast period as the lagged effects of the devaluation dissipate, we believe that price growth will remain firm. We expect consumer prices to grow by an average of 10.2% per year in 2020-23. This will be supported by robust domestic demand and steady overall growth in global prices of food products.

Exchange rates

In September 2017 the CBU ended its long-standing policy of administratively supporting the som's official exchange rate through a crawling peg, instead allowing it to float freely. This led the official rate to converge to the black-market rate of Som8,100:US\$1 (also in September 2017), marking a depreciation of almost 50%.

Mr Mirziyoyev's decision to liberalise the currency showed that he recognises that the prevalence of a black-market exchange rate had damaged the economy by undermining competitiveness, and had also deterred foreign investment. In addition to allowing the som's depreciation, he sanctioned the relaxation of some stringent capital controls on foreign currency for businesses and individuals. The large current-account deficit and weakness in the Russian rouble will put depreciatory pressure on the exchange rate in 2019-20. We expect a modest appreciation from 2021 onwards as the current-account deficit narrows (as a share of GDP).

External sector

Uzbekistan's current account has generally featured a surplus (with sizeable merchandise export earnings being offset by a large import bill), and modest surpluses on the primary and secondary income accounts. However, the current account moved to an estimated deficit of 6.9% of GDP in 2018. According to the CBU, the current account recorded a deficit of US\$3.6bn in 2018, compared with a surplus of US\$1.5bn in 2017.

Throughout the forecast period there are a number of factors that will support export growth—first, trade turnover between Central Asian countries will grow owing to overtures made by Uzbekistan to improve relations with the other countries; second, our forecast for a robust level of prices for Uzbekistan's commodity export products will ensure that commodity exports earnings do not decrease. Import growth will be supported by a robust increase in import demand owing to the need for investment inputs and firm private consumption growth. We expect that the trade account will remain in deficit in 2019-23.

After narrowing to a forecast 5.2% of GDP in 2019, we expect the current-account deficit to contract further in 2020 owing to a rise in the global prices of gold—an extremely important export commodity for Uzbekistan. The trade deficit will be offset—to an extent—by a growing primary income surplus in 2019, supported by continued inflows of remittances from Kazakhstan and Russia over the forecast period. We forecast that the current-account deficit will average 5.2% of GDP in 2019-23.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth	5.1	5.2	5.4	5.5	5.8	5.9
Consumer price inflation (av) ^c	17.7 ^d	13.8	11.9	10.2	9.4	9.3
Consumer price inflation (end-period) ^e	13.1	15.8	8.8	8.1	10.8	9.1
Government balance (% of GDP)	-0.2	-1.1	-1.2	-1.0	-1.2	-1.0
Exports of goods fob (US\$ m)	11,386	12,923	14,667	15,841	17,583	19,166
Imports of goods fob (US\$ m)	-18,252	-19,895	-21,686	-24,288	-26,717	-29,121
Current-account balance (US\$ m)	-3,577	-2,773	-3,119	-3,947	-4,334	-5,055
Current-account balance (% of GDP)	-6.9	-5.2	-5.1	-5.5	-5.2	-5.2
External debt (year-end; US\$ bn)	17.7	18.1	18.6	19.5	20.4	21.3
Exchange rate Som:US\$ (av)	8,072 ^d	8,496	8,527	8,320	8,115	7,915
Exchange rate Som:US\$ (end-period)	8,322 ^d	8,648	8,426	8,218	8,016	7,818
Exchange rate Som:€ (av)	9,537 ^d	9,634	10,062	10,047	10,043	9,815
Exchange rate Som:€ (end-period)	9,529 ^d	9,945	10,111	10,068	9,980	9,773

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Break in Series. Data from 2018 is from State Statistics Committee, prior to that is based on IMF estimates. ^d Actual. ^e The data are based on the IMF's inflation measure.

Data and charts

Annual data and forecast

	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^b
GDP							
Nominal GDP (US\$ m)	63,110 ^c	66,851 ^c	67,189 ^c	48,931	51,955	53,067	60,770
Nominal GDP (Som bn)	145,846 ^c	171,808 ^c	199,325 ^c	250,601	419,359	450,862	518,200
Real GDP growth (%)	7.8 ^c	8.0 ^c	9.9 ^c	4.8	5.1	5.2	5.4
Origin of GDP (% real change)							
Agriculture	6.9 ^c	6.8 ^c	6.6 ^c	5.2	1.1	1.8	2.0
Industry	8.3 ^c	8.5 ^c	6.7 ^c	4.5	9.5	6.5	7.0
Services	9.0 ^c	8.9 ^c	3.0 ^c	5.5	5.5	6.0	5.0
Population and income							
Population (m)	30.5 ^c	31.0 ^c	31.4 ^c	31.9 ^c	32.4	32.8	33.2
GDP per head (US\$ at PPP)	5,723 ^c	6,151	6,732	7,083	7,509	7,949	8,424
Fiscal indicators (% of GDP)							
Public-sector revenue ^d	32.7	32.7	32.6	32.5	32.8	32.9	33.2
Public-sector expenditure	32.4	32.5	32.5	32.2	33.0	34.0	34.4
Public-sector balance ^d	0.3	0.2	0.1	0.3	-0.2	-1.1	-1.2
Net public debt	8.5	13.5	15.2	19.8	18.4	19.4	19.0
Prices and financial indicators							
Exchange rate Som:US\$ (end-period)	2,412 ^c	2,776 ^c	3,205 ^c	8,101 ^c	8,322 ^c	8,648	8,426
Exchange rate Som:€ (end-period)	2,929 ^c	3,023 ^c	3,378 ^c	9,716 ^c	9,529 ^c	9,945	10,111
Consumer prices (end-period; %) ^e	11.7	8.5	10.5	20.9	13.1	15.8	8.8
Stock of money M1 (% change)	19.4	28.5	20.0	9.3	23.0	20.6	17.0
Stock of money M2 (% change)	14.9	25.2	23.5	40.2	14.4	15.0	18.0
Refinancing rate (%; end-period)	10.0 ^c	9.0 ^c	9.0 ^c	11.9 ^c	14.7	16.0	14.0
Current account (US\$ m)							
Trade balance	-1,835	-797	-2,392	-2,216	-6,867	-6,973	-7,019
Goods: exports fob	12,903	9,997	8,645	10,162	11,386	12,923	14,667
Goods: imports fob	-14,738	-10,794	-11,037	-12,377	-18,252	-19,895	-21,686
Services balance	-603	-427	-1,539	-1,842	-2,442	-1,400	-1,400
Primary income balance	644	1,460	934	1,215	1,523	1,700	1,300
Secondary income balance	2,700	234	3,292	4,323	4,209	3,900	4,000
Current-account balance	906	470	295	1,480	-3,577	-2,773	-3,119
External debt (US\$ m)							
Debt stock	13,292 ^c	14,803 ^c	16,291 ^c	17,708 ^c	17,728	18,056	18,608
Debt service paid	889 ^c	1,253	1,370	1,941	1,850	1,750	1,713
Principal repayments	683	962	1,007	1,456	1,150	1,150	1,200
Interest	206	291	364	485	700	600	513
Debt service due	889	1,253	1,370	1,941	1,850	1,750	1,713
International reserves (US\$ m)							
Total international reserves	23,754 ^c	23,938 ^c	26,071 ^c	27,698 ^c	26,711 ^c	28,000	28,830

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual. ^d General

government. ^e The data are based on the IMF's inflation measure.

Sources: IMF, International Financial Statistics; World Bank, International Debt Statistics; State Statistics Committee; Haver Analytics.

Quarterly data

	2017			2018			2019		
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	
Output^a									
GDP at constant prices (YTD, % change, year on year)	7.0	5.3	5.3	5.1	4.9	5.2	5.1	5.3	
Industrial production (YTD, % change, year on year)	7.6	5.6	4.6	5.0	6.1	6.3	10.6	6.8	
Agricultural output (YTD, % change, year on year)	5.8	1.3	2.0	1.8	2.7	1.3	0.3	2.5	
Financial indicators									
Exchange rate Som:US\$ (av)	3,782	5,297	8,080	8,157	8,010	7,857	8,262	8,379	
Exchange rate Som:US\$ (end-period)	3,959	8,067	8,120	8,115	7,872	8,079	8,340	8,390	
Central Bank refinancing rate (end-period)	14.0	14.0	14.0	14.0	14.0	16.0	16.0	16.0	
Foreign trade (US\$ m)^b									
Exports	2,503	3,405	2,704	2,978	2,415	1,819	4,012	n/a	
Imports	3,211	3,218	3,141	3,530	3,957	4,528	5,297	n/a	

^a Economist Intelligence Unit calculations based on official data. ^b DOTS.

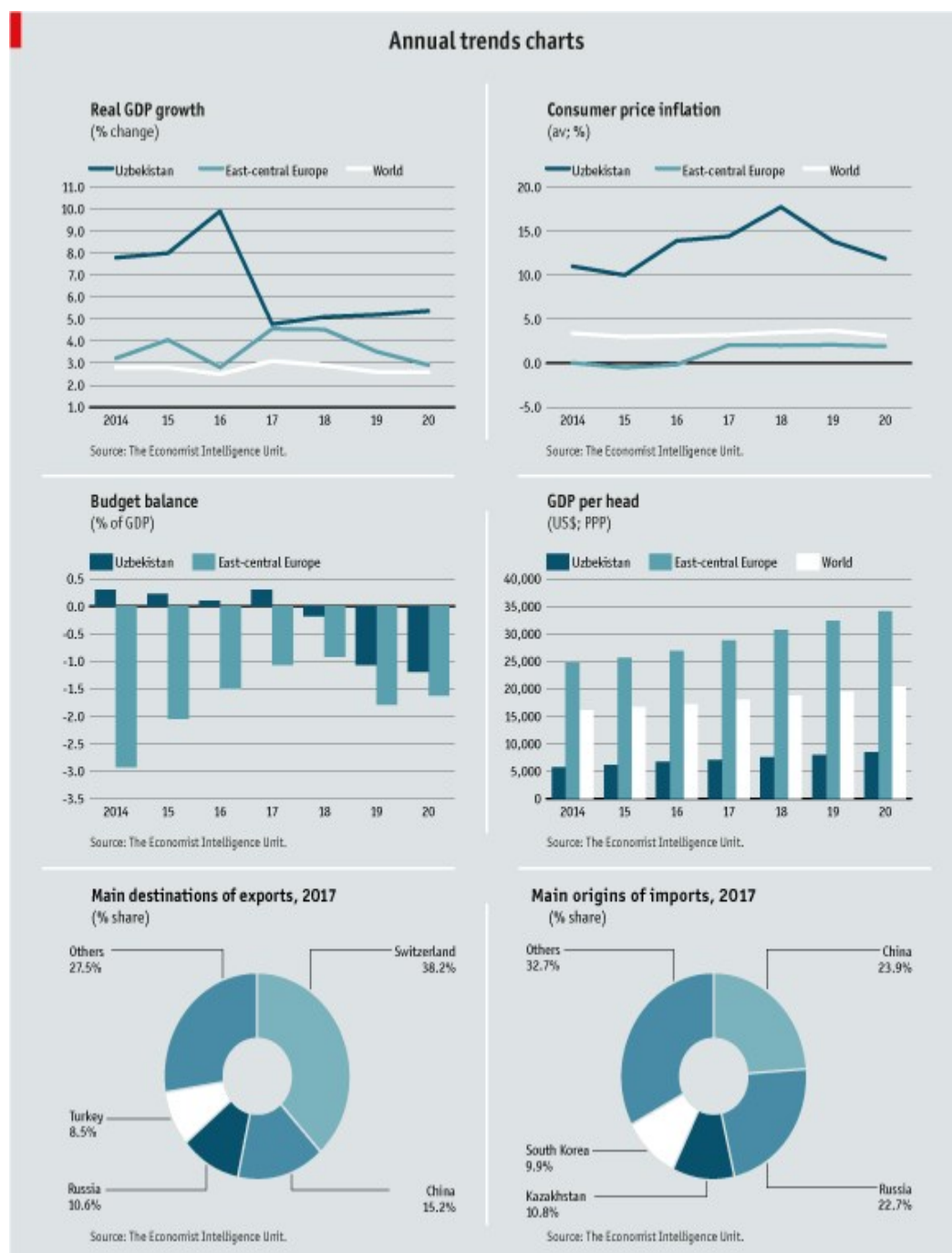
Sources: State Statistics Committee; UzReport.com. IMF, DOTS; Haver.

Monthly data

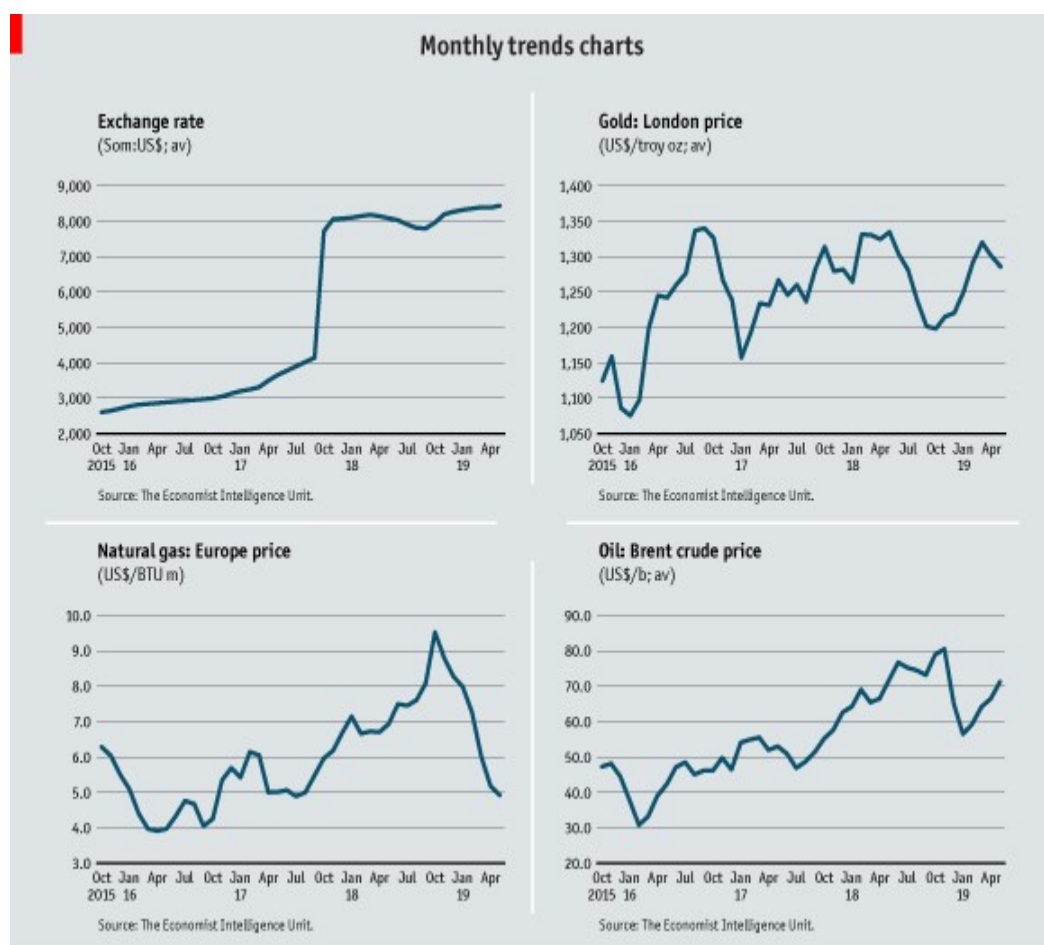
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Som:US\$ (av)												
2017	3,251	3,317	3,500	3,659	3,781	3,905	4,025	4,150	7,716	8,061	8,078	8,101
2018	8,146	8,183	8,143	8,087	8,031	7,911	7,811	7,798	7,962	8,197	8,268	8,322
2019	8,356	8,396	8,385	8,440	8,459	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate Som:US\$ (end-of-period)												
2017	3,280	3,404	3,595	3,706	3,846	3,959	4,070	4,210	8,067	8,078	8,096	8,120
2018	8,176	8,172	8,115	8,068	7,982	7,872	7,792	7,827	8,079	8,237	8,299	8,340
2019	8,385	8,403	8,390	8,445	8,486	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Natural gas: Europe (US\$/m BTU)												
2017	6.1	6.1	5.0	5.0	5.1	4.9	5.0	5.5	6.0	6.2	6.7	7.1
2018	6.7	6.7	6.7	6.9	7.5	7.5	7.6	8.1	9.5	8.8	8.3	8.0
2019	7.3	6.0	5.2	4.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oil: Brent crude prices (US\$/b; av)												
2017	54.9	55.5	52.0	53.0	50.9	46.9	48.7	51.4	55.2	57.6	62.6	64.2
2018	69.0	65.4	66.5	71.6	76.7	75.2	74.4	73.1	78.9	80.5	65.2	56.5
2019	59.3	64.1	66.4	71.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gold: London prices (US\$/troy oz; av)												
2017	1,192.1	1,234.2	1,231.4	1,266.9	1,246.0	1,260.3	1,236.8	1,283.0	1,314.1	1,279.5	1,281.9	1,264.5
2018	1,331.3	1,330.7	1,324.7	1,334.8	1,303.5	1,281.6	1,237.7	1,201.7	1,198.4	1,215.4	1,220.7	1,250.4
2019	1,291.8	1,320.1	1,300.9	1,285.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cotton: Northern Europe (US\$/kg)												
2017	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.9
2018	0.9	0.9	0.9	0.9	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9
2019	0.8	0.8	0.8	0.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: UzReport.com; Haver Analytics.

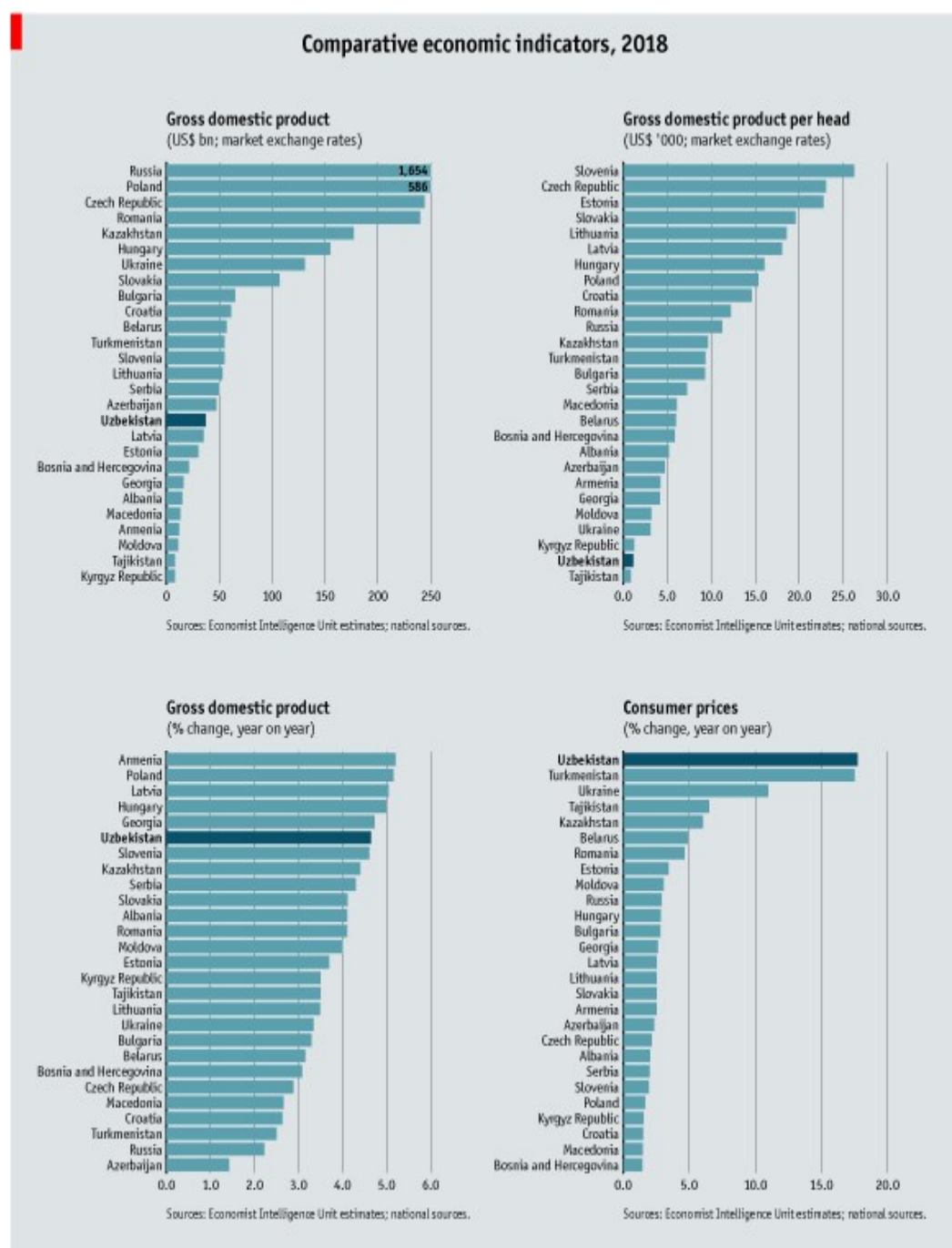
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

447,400 sq km, of which 9% is arable

Population

32.7m (State Statistics Committee, 2018)

Main towns

Population in '000 (State Statistics Committee, 2018)

Tashkent (capital): 2,861

Samarkand: 3,720

Namangan: 2,700

Climate

Continental desert

Languages

Uzbek is the state language; Russian is widely spoken; Tajik is spoken in Samarkand and Bukhara; Karakalpak is used in the autonomous republic of Karakalpakstan

Weights and measures

Metric system

Currency

The som-coupon was introduced on November 29th 1993 as the successor to the rouble. It was replaced by the som on July 1st 1994, at a rate of Som7:US\$1. A multiple exchange-rate system was introduced in 1997, and the main reference rate was subsequently repeatedly devalued in order to keep pace with the rapid depreciation of the currency on the black market. On October 15th 2003 the exchange rate was unified at Som975:US\$1. Until September 4th 2017 Uzbekistan maintained a crawling-peg exchange rate. On September 5th 2017 the Central Bank of Uzbekistan allowed the som to float freely. This move caused the official exchange rate essentially converge to the black-market rate of Som8,100:US\$1, marking a depreciation of almost 50%

Time

Five hours ahead of GMT

Public holidays

January 1st (New Year's Day); March 8th (International Women's Day); March 21st (Nowruz; Persian New Year); May 9th (Day of Memory and Respect); June 5th (Eid al-Fitr, end of Ramadan); August 12th (Eid al-Adha, Feast of the Sacrifice); September 1st (Independence Day); October 1st (Day of Teachers and Instructors); December 8th (Constitution Day)



Political structure

Official name

Republic of Uzbekistan

Legal system

The Soviet republic of Uzbekistan declared its independence on September 1st 1991, after the failure of the Moscow coup. A new constitution was adopted on December 8th 1992, declaring Uzbekistan a multiparty democracy and a presidential republic

National legislature

A bicameral parliament, the Oliy Majlis (Supreme Assembly), was elected in two stages, in December 2004 and January 2005, replacing the unicameral 250-member legislature. Since December 2009 the Legislative Chamber (the lower house of parliament) comprises 135 members chosen by direct election. The 100-member Senate (the upper house) is made up of 84 senators elected by local governments and 16 appointed by the president

Electoral system

Universal suffrage over the age of 18

National elections

Parliamentary: December 2014 (first round) and January 2015 (second round). Presidential: December 2016. The next parliamentary election is due in December 2019-January 2020. The next presidential election will be held in December 2021

Head of state

Shavkat Mirziyoyev won a tightly controlled presidential election in December 2016, formally confirming his takeover as the country's leader following the death of Islam Karimov in September 2016

National government

Council of Ministers, headed by the prime minister, who is nominated by parliament on the recommendation of the president. In practice, Uzbekistan is an authoritarian regime with power strongly vested in the president

Main political parties

Adolat (Justice) Social Democratic Party, Fidokorlar (Self-Sacrificers' Party), Liberal Democratic Party (LDP), People's Democratic Party (PDP, former Communist Party), Milliy Tiklanish (National Revival), all pro-government creations; Birlik (Unity) and Erk (Freedom), both banned democratic parties

Council of Ministers

Prime minister: Abdulla Aripov

Deputy prime ministers:

Dzhamshid Kuchkarov

Achilbay Ramatov

Suhrob Kholmuradov

Alisher Sultanov

Nodir Otajonov

Aziz Abdukhakimov

Zoyir Mirzaev

Tanzila Narbaeva

Key ministers

Defence: Abdusalom Azizov

Economy: Batyr Hojaev

Education: Ulugbek Inoyatov

Emergency situations: Tursinxon Xudoyberganov

Finance: Dzhamshid Kuchkarov

Foreign affairs: Abdulaziz Kamilov

Health: Alisher Shadman

Interior: Pulat Bobojonov

Justice: Ruslanbek Davletov

National Security Service chairman

Ihtiyor Abdullaev

Central bank chairman

Mamarizo Nurmuratov

Recent analysis

Generated on September 9th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

Afghan security issues dominate SCO summit

June 18, 2019: International relations

Event

On June 13th-14th a summit of the Shanghai Co-operation Organisation (SCO) was held in Bishkek, the capital of the Kyrgyz Republic.

Analysis

The meeting was attended by the leaders of the eight member countries—China, Kazakhstan, the Kyrgyz Republic, India, Pakistan, Russia, Tajikistan and Uzbekistan. The Bishkek declaration of the SCO's Head of State Council addressed two security issues. First, the need to extend co-operation between the SCO and other multilateral bodies such as the UN to combat terrorism. The declaration highlighted the goal of expanding the relations of the organisation's core permanent group, the Regional Anti-Terrorist Structure (RATS). Second, the need to address the security situation in Afghanistan. SCO countries currently engage with Afghanistan in a multilateral format through the SCO-Afghanistan Contact Group, and the declaration reiterated the importance of an Afghan-led peace settlement.

The SCO summit joint communication also implicitly criticised recent US foreign policy, emphasising the group's "opposition to the fragmentation of global trade and protectionism" and stating that "unilateral protectionist actions" undermined the trade system—a reference that was clearly aimed at the US. It also mentioned the [Joint Comprehensive Plan of Action \(JCPOA\)](#), the nuclear deal struck between Iran and world powers, calling on all participants to "fulfil their obligations" for the plan's implementation.

The SCO was originally conceived as a forum to manage the Sino-Russian rivalry and collaborate against terrorism in Central Asia. Originally founded by China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan in 1996 (Uzbekistan joined in 2001), the group has in recent years evolved to include managing South Asian security affairs, with Pakistan and India joining in June 2017. The SCO has the potential to become an important multilateral format for Eastern security co-operation (with four of the world's eight nuclear powers); however, it is limited by strained ties between some of its member nations, such as the rivalry between India and Pakistan, and the unwillingness of India to support the Belt and Road Initiative (BRI), China's flagship foreign policy initiative.

Impact on the forecast

The SCO is unlikely to emerge as a significant global security co-operation initiative. However, SCO countries—especially China, Russia and the Central Asian states—will continue their efforts to prevent the conflict in Afghanistan from spilling over into their territories.

Gazprom announces plans for gas imports from Central Asia

July 15, 2019: International relations

Event

On June 28th Gazprom, Russia's state-owned gas monopoly, announced that it intended to import about 20bn cu metres of gas from Central Asia in 2019-20.

Analysis

Gazprom will purchase slightly more than 20bn cu metres of gas per year from the Central Asian countries in 2019 and 2020, Aleksei Miller, the company's chief executive officer, said. Gazprom has not yet identified how much gas it intends to import from Central Asia in 2021, but Mr Miller said that it would probably be "very, very close" to that amount.

Mr Miller did not provide a breakdown of how much gas would come from each of the Central Asian gas producers. However, existing agreements show that the bulk of supplies will come from Kazakhstan, which exported 12.6bn cu metres of gas to Russia in 2018. Uzbekistan, which signed a five-year agreement on supplies with Gazprom in 2017, supplied 6.7bn cu metres to Russia in 2018. Kazakhstan and Uzbekistan exported a combined 19.3bn cu metres of gas to Russia in 2018—slightly less than the 20bn cu metres that Gazprom plans to import in 2019-20.

In 2019-20 Gazprom will also be receiving supplies from Turkmenistan, following a resumption in April of supplies to Russia after a three-year hiatus that was due to disagreements about pricing. On July 3rd Gazprom announced that it had signed a five-year agreement with Turkmenistan to import 5.5bn cu metres of gas annually until 2024. Combined supplies from Central Asia's three gas producers are therefore ample to meet Gazprom's import requirements.

Gazprom is securing gas supplies from Central Asia on the expectation that demand for its gas from Europe will exceed forecasts up to 2035, owing to declines in European countries' gas production, nuclear-power generation and use of coal power. Imports from Central Asia would be enough to meet approximately 10% of demand for Russian gas on international markets—international demand currently stands at about 200bn cu metres annually, equivalent to a market share of 35.5-37.5%, Mr Miller said.

Impact on the forecast

The announcement is in line with our forecast that Russia will resume gas imports from Turkmenistan (leading to a slight increase in export earnings for that country) and will maintain existing import commitments with Uzbekistan and Kazakhstan.

Central Asian states silent about Xinjiang camp

July 29, 2019: International relations

Event

Central Asian countries refused to sign a letter sent to the United Nations Human Rights Council on July 11th urging an end to China's detention of mainly Turkic Muslim minorities in the province of Xinjiang. Tajikistan and Turkmenistan signed a separate letter, sent on July 15th, expressing support for Beijing regarding its treatment of Xinjiang's minorities.

Analysis

The ambassadors of 22 countries signed the first letter expressing concern about "credible reports of arbitrary detentions" and other violations of the rights of minorities in Xinjiang, western China, which borders Central Asia. None of the five Central Asian states signed, reflecting their unwillingness to criticise a powerful neighbour and major economic investor in the countries under Beijing's Belt and Road Initiative (BRI). Tajikistan and Turkmenistan were among 37 countries—including powerful Muslim-majority countries such as Egypt, Saudi Arabia and the UAE—to sign the second letter, which endorsed Beijing's policies in Xinjiang.

None of the five Central Asian states has condemned the detention of members of mainly Turkic Muslim minorities—including Uyghurs, Kazakhs and Kyrgyz—in internment camps in Xinjiang. China denies arbitrary detentions and says citizens are undergoing voluntary vocational training in centres as part of a "counter-terrorism and de-radicalisation" operation in a region that has witnessed some violent separatist attacks over the years.

In March Kazakh law-enforcement agencies detained Serikzhan Bilash, an activist who had been spearheading efforts to publicise the Xinjiang camps in the international media. The authorities closed down Atazhurt Yeriktileri (Homeland Volunteers)—a group headed by Mr Bilash that had been collecting and publicising testimony about the camps. Mr Bilash is currently on trial on incitement charges.

Several anti-Chinese protests took place in the Kyrgyz Republic in early 2019, when demonstrators raised concerns about the camps in Xinjiang, as well as the presence of Chinese labourers in Kyrgyzstan and the country's indebtedness to Beijing because of the BRI. However, the government has been publicly supportive of Beijing. In January, Sooronbai Zheenbekov, the president, said that his citizens should be grateful to have an economically powerful neighbour like China and promised to act against rabble-rousers who jeopardise the strategic Sino-Kyrgyz relationship.

Impact on the forecast

Our forecast that the Central Asian states are determined not to imperil their economic relationships with a major investor by condemning China over its internment of Turkic Muslim minorities remains unchanged.

US-Central Asia summit held in Nur-Sultan

August 27, 2019: International relations

Event

On August 21st a high-level summit of the C5+1 group, a multilateral forum consisting of the US and the five Central Asian states (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) was held in Nur-Sultan, Kazakhstan's capital.

Analysis

The summit was attended by David Hale, the under-secretary for political affairs of the US State Department, and by the foreign ministers of the five Central Asian countries. There were no items on the agenda and no major developments during the course of the summit. However, according to the joint statement released by the parties, the representatives "exchanged views" on efforts to strengthen economic co-operation and regional security (including in Afghanistan). The joint statement also said that the parties had reaffirmed their support for the C5+1 framework as a multilateral forum to discuss "common challenges".

When the C5+1 forum was launched in 2015 it was the only multilateral forum where all five Central Asian countries were present together. However, with the ascension of Shavkat Mirziyoyev to Uzbekistan's presidency, and the ensuing opening up of that country—both economically and in relations with its immediate neighbours—the usefulness of the C5+1 format as a forum for Central Asian co-operation has diminished. However, the format remains important, as it is the only format where the Central Asian countries can engage with the US. The US is a relatively minor actor in the region compared with China and Russia, which both engage more actively (both in economic and security spheres) with the Central Asian states.

In 2019-23 we expect regional integration and security (with a growing emphasis on relations with Afghanistan) to continue to dominate multilateral discussions among the Central Asian countries. Although the US is unlikely to supplant the dominance of Russia and China in the region, we expect it to improve economic engagement steadily, especially with Kazakhstan and Uzbekistan, the largest economies in the region. With their emphasis on pursuing a multi-vector foreign policy, these Central Asian countries will also want to maintain relations with the US.

Impact on the forecast

Our forecast remains that the Central Asian states will continue to prioritise regional integration and collaborate on security issues.

Analysis

Switzerland and France promise asset repatriation

July 22, 2019

The Swiss and French authorities have announced that they will return assets to Uzbekistan, formerly belonging to Gulnara Karimova, the jailed daughter of Islam Karimov, the late president, which have been frozen under international corruption investigations into her business activities.

On June 24th the Swiss Office of the Attorney General (OAG) stated that Switzerland would return CHF130m (US\$132m) worth of forfeited assets, following a six-year corruption investigation that had "uncovered evidence of a scheme for illegally collecting large sums of money from companies, especially foreign companies", seeking to operate in Uzbekistan. The funds were laundered in Switzerland, the office said. The OAG announced that it had secured "an initial conviction" of an unidentified male relative of Ms Karimova who is currently serving a prison term in Uzbekistan. Previously, in 2014 the Uzbek authorities announced the jailing of two ex-associates of Ms Karimova on corruption charges related to the case: Rustam Madumarov, believed to be her domestic partner, and Gayane Avakyan, her former aide.

In 2012 the OAG began investigating Ms Karimova's personal assistant and the manager of the

Uzbek subsidiary of a Russian telecommunications company, previously identified as Ms Avakyan and Bekhzod Akhmedov (who fled Uzbekistan in 2012 for Russia) respectively. The OAG later expanded the probe to include Ms Karimova, two employees and the male relative. The OAG stated that he had been "particularly active between 2004 and 2013, opening bank accounts on behalf of companies in order to fragment the money transfers" to obscure the funds' origin and destination. He also signed counterfeit documentation to conceal Ms Karimova as the beneficial owner. He was ordered to pay a fine of CHF390,000 (US\$397m). Five suspects remain under investigation, and more than CHF650m worth of assets remain frozen.

On July 9th a French court order came into force, under which three French properties formerly belonging to Ms Karimova, worth an estimated €60m (US\$67m), will be sold and the proceeds returned to Uzbekistan. These consist of a flat in Paris, the French capital, already sold for €14m; a villa in Saint-Tropez (currently occupied by squatters); and a chateau outside Paris. France will retain €2m to cover the costs of the investigation.

Ms Karimova has also been indicted in the US on charges of bribery and money-laundering actions, centring on activities in the Uzbek telecommunications sector.

Appeal for clemency

On June 23rd Ms Karimova appealed to Shavkat Mirziyoyev, the president, for clemency, via the Instagram (a social media platform) account of her daughter, Iman Karimova. She expressed regret for "any disappointment" she had caused, and said that she had returned US\$1.2bn of assets to Uzbekistan. However, the government responded that it had no record of such a sum reaching the public coffers. Ms Karimova claimed that she had instructed her lawyers to halt claims on US\$686m held in frozen bank accounts abroad.

Ms Karimova was held under extra-judicial house arrest from early 2014 to December 2017, when, following the death of her father the previous year, the authorities sought to put her case on a legal footing. She was sentenced to ten years in jail on corruption charges, later shortened to five years, which she was allowed to serve under house arrest. In March she was sent to jail to serve out the sentence after breaching the terms of her custody, the prosecutor-general's office ascertained, including by "actively" preventing the reimbursement of financial damage.

Gregoire Mangeat, her Swiss lawyer, visited her in prison in June and reported that she was in ill health, and has been prevented access to adequate medical treatment.

Litmus test

Ms Karimova's case presents a dilemma for the government. It has attempted to put the investigation on a legal footing, in order to demonstrate adherence to the rule of law in a currently reforming Uzbekistan and to secure the return of assets. However, many questions remain unanswered about the legal proceedings and the conditions in which Ms Karimova is held. It will be difficult for the government to provide full transparency in a case in which due process has not always been followed, especially given that Mr Mirziyoyev was the prime minister when she was committing her crimes and when the authorities placed her in extra-judicial detention.

We believe that Uzbekistan will begin repatriating these assets in the early part of the 2019-23 forecast period. However, we expect this to be a long process.

Reform unlikely ahead of December election

August 12, 2019: Country outlook

An election to the Legislative Chamber (the lower house of parliament), due in December, will be a litmus test of the commitment of Shavkat Mirziyoyev, the president, to reforming Uzbekistan's authoritarian political system. Mr Mirziyoyev has staked his domestic legitimacy and international reputation on his reformist credentials, but has hitherto not shown signs of embracing political pluralism.

Since coming to power in 2016 following the death of his predecessor, Islam Karimov, Mr Mirziyoyev has embraced a bold reform agenda. He has enacted far-reaching market reforms to replace the command-style economics that prevailed during Mr Karimov's 25-year rule; abandoned Uzbekistan's isolationist foreign policy in favour of co-operation; and introduced

changes to public administration and the judiciary to boost the rule of law, transparency and accountability.

Mr Mirziyoyev has taken steps towards political liberalisation, including freeing political prisoners; ordering the closure of the Jaslyk prison camp, where many political and religious dissidents were held; loosening restrictions on the media and freedom of expression; and permitting foreign journalists and international human rights campaigners to work in Uzbekistan. However, he has left intact the political system he inherited from Mr Karimov, which is characterised by a strong executive presidency on which there are no genuine checks or balances, and a rubberstamp parliament that does not attempt to hold the executive to account.

Parliamentary election

Uzbekistan will vote for a new Legislative Assembly in December 2019, when its five-year term expires. A second round of voting will be held for any seats not won by an outright majority. The government has not announced the date of the election, which will be the first nationwide vote since Mr Mirziyoyev was elected president in December 2016. He faced no genuine opposition candidates and won with 88% of the vote.

Four parties hold seats in the current 150-seat Legislative Assembly. The ruling Liberal Democratic Party holds the largest number, at 52. Chaired by Abdulla Aripov, the prime minister, the party fielded Mr Mirziyoyev as its candidate in the 2016 presidential election. Milliy Tiklanish (National Revival) holds 36 seats; the People's Democratic Party holds 27; and the Adolat (Justice) Social Democratic Party holds 20. Although their manifestos are nominally aimed at different electoral groups, the parties are all pro-government. Their function is "complementary rather than competitive", a monitoring mission fielded by the Organisation for Security and Co-operation in Europe (OSCE) said after the last parliamentary election, in 2014. Its findings noted the "tepid" nature of campaigning, in the absence of "genuine electoral competition and debate". Uzbekistan has never held an election judged free and fair by credible international observers.

Electoral standards

Since that election the government has not acted on the OSCE's recommendations that it revise legislation governing political parties and civil society groups "to exclude disproportionate or discriminatory restrictions on the right to freedom of association". A prohibition on independent candidates standing in parliamentary elections, which the OSCE has recommended lifting, remains in place. Previously, the government enacted amendments in 2012 and 2014 to meet some OSCE recommendations, including establishing more detailed regulations about campaign activities, adopting safeguards to ensure the integrity of early voting and codifying electoral offences.

For the forthcoming election, the authorities have accepted one recommendation on bringing electoral proceedings into line with international standards. On Mr Mirziyoyev's orders, a provision reserving a quota of 10% of seats in the Legislative Assembly for the Ecological Movement has been abolished. It was in contravention of standards requiring that at least one chamber of parliament be entirely elected by universal suffrage. In January the movement became the Ecological Party, which is now Uzbekistan's fifth registered party and can run in the December election.

In June Mr Mirziyoyev signed into law a new Electoral Code. Rather than containing significant reforms, it brought legal provisions governing elections into one piece of legislation. The code established the requirement that the government must create a digital electoral roll, which voters can access online.

Rubberstamp parliament

Parliament is a rubberstamp body that does not in practice fulfill its legal function of acting as a check and balance on the executive presidency, which wields considerable unchecked powers. Uzbekistan has no genuine opposition parties in existence to stand in a parliamentary election. Unless far-reaching reforms are enacted before December, the electoral environment will remain restricted and offer voters political choices limited to those approved by the executive.

In December 2018 Mr Mirziyoyev urged parliament to become more active in decision-making and exercising oversight of the government. The Legislative Assembly is required to approve the

president's choice of prime minister, but has never rejected a candidate. In April it acquired the legal right to approve ministerial appointments, at the instigation of Mr Mirziyoyev, who said that this would boost government accountability. However, the Legislative Assembly has shown no signs of becoming more outspoken, of seeking to influence legislation presented for approval by the executive, or of attempting to call the executive to account.

In December Mr Mirziyoyev called for the 2019 election to be conducted "at a high level in line with national legislation and international standards". However, he has shown no sign of intending to enact political reforms or of encouraging the formation of genuine opposition parties before the vote.

Presidential legitimacy

Mr Mirziyoyev's reforming credentials have won him plaudits at home and abroad, and underpin his domestic political legitimacy and Uzbekistan's improved international reputation. His successful cultivation of an image of a liberalising country has been instrumental in improving Uzbekistan's attractiveness as an investment destination.

The parliamentary election presents a dilemma for Mr Mirziyoyev. If he presides over another choreographed election that delivers a rubberstamp parliament, he risks courting international criticism, which will undermine his legitimacy and his reforming credentials. However, we do not believe that the administration will enact bold political reforms that would allow Uzbekistan to hold a free and fair election and deliver a pluralistic chamber. Rather, it may seek to legitimise the election by presiding over a campaign that is somewhat more dynamic than previous ones.

We do not believe that Mr Mirziyoyev intends to embrace genuine pluralism, as that would create political risks for him. However, demands from citizens for a greater political voice will grow with time. In the later part of our five-year forecast period (2019-23) he may be forced to accommodate citizens with some form of political reform.

Economy

Forecast updates

Government adopts new anti-corruption strategy

June 6, 2019: Policy trends

Event

On May 27th Shavkat Mirziyoyev, the president, signed a decree adopting a new strategy designed to combat corruption.

Analysis

The State Programme to Counteract Corruption for 2019-2020 outlines measures to root out bribery and other forms of corruption that are rife in Uzbekistan. It also specifies efforts targeted at the public sector, the judiciary and the education system, in recognition that corruption is endemic in these areas.

The measures include income declarations for public-sector officials in order to boost transparency, and a competitive selection process to avoid bribery and nepotism when securing positions in government agencies. From July 1st officials will be required to carry out periodic anti-corruption risk analysis in their spheres, in order to identify areas vulnerable to corruption, and propose measures to mitigate risks. The decree also notes the need to boost the independence and transparency of the judiciary, but did not set out specifics.

Measures will be put in place to protect whistle-blowers who expose incidences of corruption. This is an unusual step in the former Soviet region and suggests that the government is serious about tackling corruption. The government also plans to conduct campaigns to change mindsets among a public inured to corruption, with a view to making bribery socially unacceptable. The decree called for a boosting of the independence of the media and civil society with the aim of making them effective in conducting and monitoring anti-corruption efforts.

On August 1st the government will start implementing a pilot anti-corruption programme targeting the construction sector and higher education. A temporary commission has also been set up to draft specific measures to implement the strategy. It is to put forward proposals by September 1st. The decree also created a new National Interdepartmental Commission to Counteract Corruption, chaired by the chairman of the Senate (upper house of parliament), Nigmatilla Yuldashev. Anti-corruption commissions will also be created under local assemblies.

These stepped-up measures signal the government's recognition that corruption is hindering foreign investment. However, despite the government's efforts to improve anti-corruption legislation and initiatives, it remains to be seen whether these measures will translate to more than mere cosmetic changes, as corruption is entrenched at all levels of the government.

Impact on the forecast

The event is in line with our forecast that the authorities will continue their efforts to improve the domestic business environment to boost inward foreign direct investment.

World Bank approves new financing to support private sector

July 17, 2019: Policy trends

Event

On June 14th the World Bank approved financial assistance worth US\$500m to support economic reforms, assist job creation and boost the private sector.

Analysis

The US\$500m Development Policy Operation approved by the Board of Executive Directors is intended to boost private-sector-led growth and job creation by supporting initiatives aimed at increasing the role of markets and the private sector in Uzbekistan's economy and boosting social inclusion, the World Bank said.

The financial package will provide support as the government continues reforming the economy, at a time when it is moving from regulatory reforms undertaken over the past two years (including currency liberalisation and the lifting of trade and regulatory barriers) to "more complex institutional reforms", Hideki Mori, the World Bank's country manager for Uzbekistan, said.

The latest reforms include further decreasing regulatory and tax burdens, liberalising visa and registration requirements for foreigners, efforts to reduce the presence of the state in the economy, reforming the labour market and improving social safety nets. Mr Mori added that the latest reforms would support private-sector growth, boost job creation and provide for greater social inclusion for the most vulnerable members of society. The financial package is also designed to support efforts to improve skillsets in the labour force and boost public participation in the budgeting process.

In June 2018 the World Bank approved a previous Development Policy Operation, also worth US\$500m, to support market-oriented economic reforms in Uzbekistan. The Bank currently has 22 projects operating in the country, worth a total of US\$3.6bn.

Impact on the forecast

We believe that the financial package will support Uzbekistan as the country continues to undertake economic reform at a dynamic pace in the early part of the forecast period. This will translate into private-sector growth. However, we believe that the state will retain a dominant role in the economy in the early part of the forecast period.

Government plans flotation of state firm

July 29, 2019: Policy trends

Event

On July 12th the government announced plans to float Uzbekneftegaz (UNG, the state-owned oil and gas company) by 2024.

Analysis

The government will retain control of UNG after its flotation, according to a statement issued by the Ministry of Energy. It plans to sell off 49% of its shares through primary and secondary public offerings. The ministry did not specify where the offerings would be placed or provide data on UNG's valuation.

If carried out, this will be Uzbekistan's first ever flotation of a major state-owned company. It has become possible owing to a change in economic policy since 2016, when Shavkat Mirziyoyev became president and abandoned the command-style economics practised by his predecessor, the late Islam Karimov, in favour of economic reforms. In April 2019 the government announced a privatisation campaign to sell off stakes in 29 large state-controlled industrial and financial enterprises, including eight energy-sector firms operating in the Uzbek regions. The list did not include UNG, whose flotation will be carried out later.

In July the government began a corporate split-up at UNG as part of efforts to streamline operations in the energy sector to improve efficiency and increase investment attractiveness. On July 9th Uztransgaz, UNG's gas transportation subsidiary, was hived off and on July 24th Hududgaztaminot, a new Uztransgaz subsidiary, was created to manage the gas transportation network. Four small state-owned gas companies were also brought under UNG's ownership.

The reorganisation prompted a reshuffle of energy-sector management. Bakhodir Eshmuratov, formerly Uztransgaz's chairman, now heads Hududgaztaminot, and Ulugbek Sayidov, previously UNG's deputy chairman, now heads Uztransgaz. Senior management at major oil and gas companies has changed frequently in the past two years, reflecting upheaval in the energy sector amid reforms and reorganisation. Mr Mirziyoyev has criticised managers for failing to improve efficiency and attract foreign investment. However, he has rotated managers among top posts in the government and state-run companies, reflecting a shortage of qualified cadres. In February he appointed Alisher Sultanov as energy minister, after criticising him for failings in his previous positions as UNG chairman and deputy prime minister in charge of the energy sector.

Impact on the forecast

We continue to forecast that the privatisation of state-owned companies will proceed slowly in the early part of the forecast period (2019-23), owing to investor wariness and the challenges of overhauling firms to make them attractive for privatisation. The UNG flotation may take place towards the end of the forecast period.

Food prices put downward pressure on inflation in July

August 14, 2019: Inflation

Event

Consumer prices fell by a monthly 0.4% (unadjusted) in July, compared with a contraction of 0.5% in June, according to data from the State Statistics Committee.

Analysis

The monthly contraction in overall prices was driven by a sharp contraction in food prices, which fell by 1.3% month on month in July. Food prices also declined in the previous month, by 1.8%. The sharp fall in food prices offset price increases in the other components of the consumer price index—non-food inflation averaged 0.4% month on month in July and services costs grew by 0.2%. On a year-on-year basis, inflation remained broadly stable, at 13.5%.

Price growth has decelerated in 2019 compared with the year-earlier period. Inflation averaged 13.7% year on year in January-July, a sharp deceleration from 19% during the same period in 2018. Overall, both food and non-food inflation have decelerated sharply—food price inflation eased to 15.9% year on year in January-July compared with an increase of 22.3% in the year-earlier period. Similarly, non-food inflation decelerated to 10.6% year on year in the first seven months of 2019, from 18.6% in the year-earlier period. Services inflation, on the other hand, has picked up in the year so far, with year-to-date inflation averaging 14% year on year compared with 11.4% in January-August 2018.

The trend of easing price pressures in January-July 2019 is in line with our forecast for a deceleration in inflation in 2019. We expect inflation to average 13.8% this year, compared with 17.7% in 2018, owing to a range of factors such as a dip in global oil prices; a contraction in world prices of food, feedstuffs and beverages; and dissipation of the lagged effects of Uzbekistan's 2017 currency devaluation, which drove inflation in late-2017 and most of 2018.

Impact on the forecast

We maintain our forecast that consumer price growth will ease in 2019. The 13.7% year-on-year increase in prices in January-August is broadly in line with our forecast that inflation will average 13.8% in full-year 2019.

Industrial production eases in first half of 2019

August 14, 2019: Economic growth

Event

According to data from the State Statistics Committee (SSC), industrial production totalled Som147.8trn (US\$17.4bn) in the first half of 2019, an increase of 6.9% in real terms.

Analysis

Industrial output growth decelerated significantly, to 6.9% in January-June compared with 10.7% in the year-earlier period. Output growth in the mining and quarrying sector decelerated sharply, to 4.7% year on year, compared with 32.8% in the year-earlier period. It is largely responsible for the slowdown in overall industrial production growth. Output in the manufacturing sector, which comprises the largest share of industrial production in Uzbekistan (79.4% in January-June 2019), grew by 7.8% year on year in the first half of 2019, accelerating slightly from 7.4% in January-June 2018.

Output in the manufacturing sector totalled Som117.3trn, with the metallurgical industry and the automotive industry accounting for the largest share of total output. Manufacturing output was boosted by the automobile sector, with the output of cars increasing by 46.6% year on year (in volume terms) in the first half of 2019. The production of trucks, buses and other automobile engines also exhibited growth rates.

The deceleration in output growth in the mining sector (which comprised 13.1% of total industrial output) was mainly owing to a contraction in the production of crude oil and gas condensate, which decreased by 3.9% year on year. Coal production totalled 1.5m tonnes, declining by 10.5%. The production of natural gas increased by 1.8% and totalled 30.5bn cubic metres, offsetting the decrease in oil and coal production.

Despite the slowdown in industrial production growth, we do not expect real GDP growth to slow down in 2019. We forecast that real GDP will grow by 5.2% in 2019, broadly similar to an increase of 5.1% in 2018. Firm growth in export-oriented sectors, such as the manufacturing sector and the natural-gas industry, is likely to boost export earnings.

Impact on the forecast

We maintain our forecast that real GDP growth will remain broadly stable in 2019.

Analysis

Taking stock of transport infrastructure in Central Asia

June 27, 2019

Despite its prominence as a major trade hub through millennia, connecting Eastern and Western civilisations, with the advent of maritime trade Central Asia (and the Silk Road) have lost their importance as bridges between cultures. For much of the 20th century the area (as part of the Soviet Union) was cut off from its neighbouring regions. Following the break-up of the Soviet Union, and the creation of the five Central Asian republics, there was recognition among these countries about the role that the area could play as a transit hub between the East and the West. However, work on such a project did not begin until the 2000s. Today there are many new routes through Central Asia—from China to the Caspian Sea, and on to Europe—as well as some routes that connect Russia to the Arabian Sea. More of such developments are planned.

The Central Asia Regional Economic Co-operation (CAREC) project of the Asian Development Bank (ADB) was the first scheme in Central Asia that foresaw the creation of a network of roads, railways, maritime and air routes criss-crossing Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, and connecting the five countries to the wider Inner Asian region—including Afghanistan, Pakistan, Mongolia and China, as well as across the Caspian Sea to Azerbaijan and Georgia. CAREC is comprised of six "corridors". Each one has branch lines, or sub-corridors, so that most of Central Asia's major cities are connected to at least one of the main corridors. Since

2001 about US\$31.5bn has been invested in CAREC. Almost 10,000 kilometres of roads and more than 5,000 km of railways in the 11 CAREC countries had been added or improved by 2017, connecting to other existing roads and railways. The CAREC website states that the six corridors now link "(north-western) China to Azerbaijan in the Caucasus and further to Europe, and from Kazakhstan to Pakistan's warm-water ports of Karachi, Gwadar and beyond".

Other corridors that emerged following CAREC take advantage of existing CAREC transport networks. The best known is China's flagship Belt and Road Initiative (BRI). China's development of trade routes into Central Asia started before Xi Jinping, the Chinese president, articulated the BRI global trade network during a speech in Kazakhstan in September 2013. By that time most of what China considers as being the BRI in Central Asia was already built. Some of the BRI routes were projects China that took part in as a member of CAREC, the Khorgos dry port on the Kazakh-Chinese border being an example.

Building on CAREC

Other Central Asian-Chinese transport projects build on CAREC infrastructure. The proposed China-Kyrgyzstan-Uzbekistan railway is an extension of a railway line that already runs from Hami, in China's Xinjiang province, to Kashgar. Plans call for this route to be extended through southern part of the Kyrgyz Republic to Jalal-Abad, near the border with Uzbekistan. From there the railway line would cross into Uzbekistan and connect with an existing railway route that runs between Uzbekistan's eastern town of Pap to Angren, about 85 km from the Uzbek capital, Tashkent. China and the World Bank helped to fund the US\$1.9bn Angren-Pap railway line, which was completed in February 2016. Similarly, China has signed bilateral agreements with the Kyrgyz Republic and Tajikistan for the construction of roads connecting these two Central Asian countries with China. Most of these roads are now completed. A road between Kashgar, the Kyrgyz Republic and Uzbekistan opened in early 2018, but volumes of cargo remain low as work proceeds in expanding and improving the highway.

A corridor to Afghanistan

There are several other road and railway projects involved Central Asia that are planned or under construction, and are often part of CAREC or the BRI. In December 2018 in the western Afghan city of Herat, the country's president, Mohammed Ashraf Ghani, inaugurated the laying of the first section of railway track for the Lapis Lazuli route that also includes roadways and a maritime link. Lapis Lazuli aims to connect Afghanistan to Turkey, via Turkmenistan, Azerbaijan and Georgia. The ADB is providing funding for the project, which is estimated to cost more than US\$2bn. The 85-km section of the line from Kerki in Turkmenistan to Akina, in Afghanistan's Faryab province—about 3 km from the Turkmen border—was completed in 2016.

There is another railway that plans to connect to Lapis Lazuli. The Turkmenistan-Afghanistan-Tajikistan (TAT) railway would run from Panj, in southern Tajikistan, through northern Afghanistan to Akina and into Turkmenistan. The TAT railway would cost up to about US\$2bn. The Turkmenistan section is the same as the Lapis Lazuli section that is already built. There are also plans to extend the route westwards into Iran, and north and east through the Kyrgyz Republic into China, via the existing line coming out of Kashgar into Kyrgyzstan. Authorities in Tajikistan have recently shown less interest in TAT. However, even if Tajikistan still intended to participate in TAT, the Afghan route would take the railway through Kunduz, Balkh and Jowzjan provinces before reaching the Faryab province. The security situation in all these provinces has deteriorated in the past five years, and some districts there are partially or totally under Taliban control.

Connecting Central Asia to Iran

There is also the Kazakhstan-Turkmenistan-Iran railway that was inaugurated in December 2014. The US\$1.4bn project was partially funded by the Islamic Development Bank, the ADB and others. The 930-km railway runs from Uzen in south-western Kazakhstan, through Turkmenistan and into Gorgan, in north-western Iran. The three countries hope that the railway will eventually carry about 20m tonnes of goods annually. The route already connects to railways leading to China, and in January 2018 the first train from Changsha, in Hunan province, crossed into Iran. The line will be connected to Iran's internal railway network that extends to the Persian Gulf, and will connect to the BRI and CAREC railway lines, which lead to Russia and China.

Lack of infrastructure to the West remains a challenge

Despite the considerable improvement in transit infrastructure within Central Asian countries and attempts to connect the infrastructure with China, bottlenecks still remain in attempting to link the region westwards. There are two options to transit cargo west—one is via the Caspian Sea and the other is via Iran (thereafter through Azerbaijan and Turkey). Although countries such as Azerbaijan have invested heavily in developing trade and transit infrastructure in recent years, infrastructure to the west of the Caspian Sea still suffers from the lack of an authority (such as China or CAREC) to oversee large-scale expansion. In the absence of a supranational strategy to guide infrastructure development, there is a risk that transit infrastructure in these countries could reflect a patchy network of roads and railways.

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U.S. Embassy in Tajikistan

John Mark Pommersheim

Ambassador of the United States to Tajikistan



Ambassador John Mark Pommersheim was appointed as the United States Ambassador to the Republic of Tajikistan on January 9, 2019 and sworn in on February 22, 2019. Most recently, he served as Deputy Chief of Mission (2015-2018) at the U.S. Embassy in Astana, Kazakhstan. Prior to Kazakhstan, he served as Director of the Office of Caucasus Affairs and Regional Conflicts in the State Department's Bureau of European and Eurasian Affairs where he was responsible for managing the full spectrum of U.S. relations with Armenia, Azerbaijan, and Georgia. In his Foreign Service career, he has served in a wide array of positions in Washington DC and worked in Embassy

political sections in Japan, China, Belarus, and Germany. He served also as U.S. Consul General in Vladivostok, Russia.

Prior to joining the Foreign Service, Ambassador Pommersheim worked for CNN in Moscow and worked with the U.S. Information Agency in Georgia and Uzbekistan on an exhibition of information technology. Pommersheim is a native of Pittsburgh, Pennsylvania and holds degrees from Bucknell and Columbia Universities. He is married to Natalya Pommersheim; they have three sons.

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U.S. Department of State

Diplomacy in Action

U.S. Relations With Tajikistan

Bilateral Relations Fact Sheet

BUREAU OF SOUTH AND CENTRAL ASIAN AFFAIRS

JULY 13, 2018

U.S.-TAJIKISTAN RELATIONS

The United States established diplomatic relations with Tajikistan in 1992, following its independence from the Soviet Union. The United States and Tajikistan have a broad-based relationship, cooperating in such areas as counter-narcotics, counterterrorism, non-proliferation, and regional economic connectivity and security. In 2010, the United States and Tajikistan launched an annual bilateral consultation process to enhance cooperation. Tajikistan has been a strong partner to the United States and international forces in efforts to bring security and peace to Afghanistan.

Stability and economic growth in Tajikistan are critical to achieving overall regional stability and to strengthening regional economic integration. Tajikistan faces many challenges, including underdeveloped border security, widespread corruption, inadequate health and education systems, and food and energy shortages. Regional threats include violent extremism, terrorism, and the trafficking of narcotics and weapons.

U.S. Assistance to Tajikistan

U.S. Government assistance to Tajikistan seeks to help defense and law enforcement agencies counter transnational threats, improve local governance and transparency, increase food security and public health services, and reform the education system, particularly focusing on creating opportunities for youth to contribute to society.

Bilateral Economic Relations

Tajikistan is one of the world's poorest countries, and it depends on remittances and commodity exports that make it vulnerable to global economic conditions. Tajikistan has signed a trade and investment framework agreement with the United States and other Central Asian countries establishing a regional forum to discuss ways to improve investment climates and expand trade within Central Asia.

Tajikistan's Membership in International Organizations

Tajikistan and the United States belong to a number of the same international organizations, including the United Nations, Euro-Atlantic Partnership Council, Organization for Security and Cooperation in Europe, World Trade Organization, International Monetary Fund, and World Bank. Tajikistan is a member of the North Atlantic Treaty Organization's Partnership for Peace.

Bilateral Representation

The principal embassy officials are listed in the Department's Key Officers List.

Tajikistan maintains an embassy in the United States at 1005 New Hampshire Ave NW, Washington, DC 20037 (tel.: 202-223-6090).

Country Report

Tajikistan

Generated on September 9th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

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London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

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Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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Briefing sheet

Editor: **Prianthi Roy**

Forecast Closing Date: **August 20, 2019**

Political and economic outlook

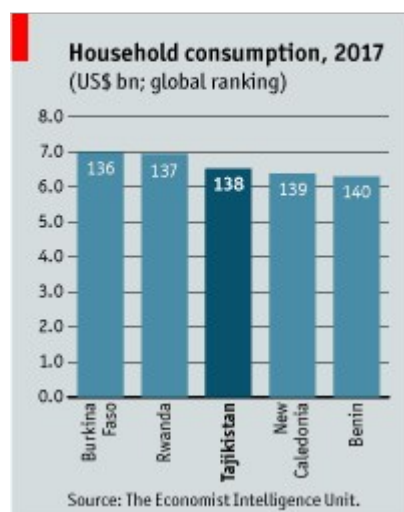
- Imomali Rahmon, the president, will continue to clamp down on political, religious and media freedoms in The Economist Intelligence Unit's 2019-20 forecast period.
- There is a risk of political instability because of a backlash to the government's recent clampdown in the eastern Gorno-Badakhshan province.
- The government will continue to use Taliban insurgent activity (and the presence of Islamic State militants) near the Afghan border as a pretext to crack down on opposition to the regime. Taliban activity poses only a slight risk to the country's stability.
- The government will prioritise the building of the Rogun Dam, a flagship infrastructure project costing US\$3.9bn. If completed (which will be beyond the forecast period), the dam will double energy production.
- We forecast average real GDP growth of 3.8% in 2019-20, driven by private consumption and aided by growth in gold exports, steady remittance inflows from Russia and investment from China.
- Risks to growth stem from a dysfunctional banking sector, vulnerability to the effect of fluctuations in commodity prices and integration with the Russian economy.
- The reliability of official data has long been open to question. Our forecasts therefore differ significantly from official statistics.

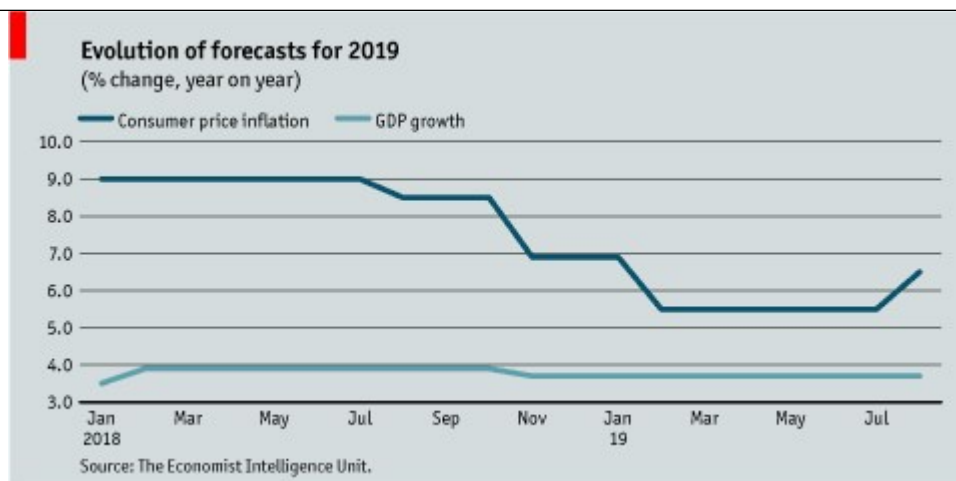
Key indicators

	2017 ^a	2018 ^a	2019 ^b	2020 ^b
Real GDP growth (%)	2.5	3.5	3.7	3.9
Consumer price inflation (av; %)	7.2	7.5	6.5	5.6
Government balance (% of GDP)	-0.3 ^c	-0.4	-0.5	-0.7
Current-account balance (% of GDP)	2.2 ^c	-5.0 ^c	-4.3	-4.1
Money market rate (av; %)	24.0	22.0	22.0	22.0
Exchange rate S:US\$ (av)	8.55 ^c	9.15 ^c	9.47	9.64

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

Market opportunities





Key changes since May 14th

- After raising its policy rate by 75 basis points in February, the National Bank of Tajikistan (NBT, the central bank) cut its rate by 150 basis points in May. The move indicates that the authorities perceive that currency pressures have receded.
- Official data show that inflation picked up in the second quarter of 2019, with prices rising by 8.3% year on year in April and 8.7% in May. We have revised up our forecast for average annual inflation to 6.5%, from 5.5% previously.

The quarter ahead

- **TBD—Inflation (Q3):** According to the State Statistics Committee (SSC), inflation averaged 8.5% in April-May (latest data). We expect that consumer price growth will slow in annual terms in the coming months.
- **TBD—Current account (Q1):** The current account moved back into deficit in 2018. We expect the current account to remain in deficit, driven by a large trade deficit due to the need for investment inputs as construction on the flagship Rogun Dam continues.

Basic data

Total area

143,100 sq km

Population

8.9m (IMF, end-2017)

Main towns

Population in '000 (State Statistics Committee, end-2017)

Dushanbe (capital): 824

Khujand: 179

Kulob: 206

Qurghonteppa: 108

Istaravshan: 63

Khorog: 30

Climate

Continental high-mountain

Languages

Tajik, a variant of Persian, is the official language and the one most widely used. Russian is also used, especially in urban areas, and Uzbek is the main language for about 25% of the population. The majority of people in the mountainous Badakhshan province speak distant variants of Tajik, which could be categorised as separate languages. Other languages—such as Kyrgyz, Tatar, Turkmen, Uighur and Korean—are also spoken by their respective minority groups

Weights and measures

Metric system

Currency

The Tajik rouble, introduced in May 1995, was replaced in October 2000 by the somoni, at a rate of Somoni1:TR1,000

Time

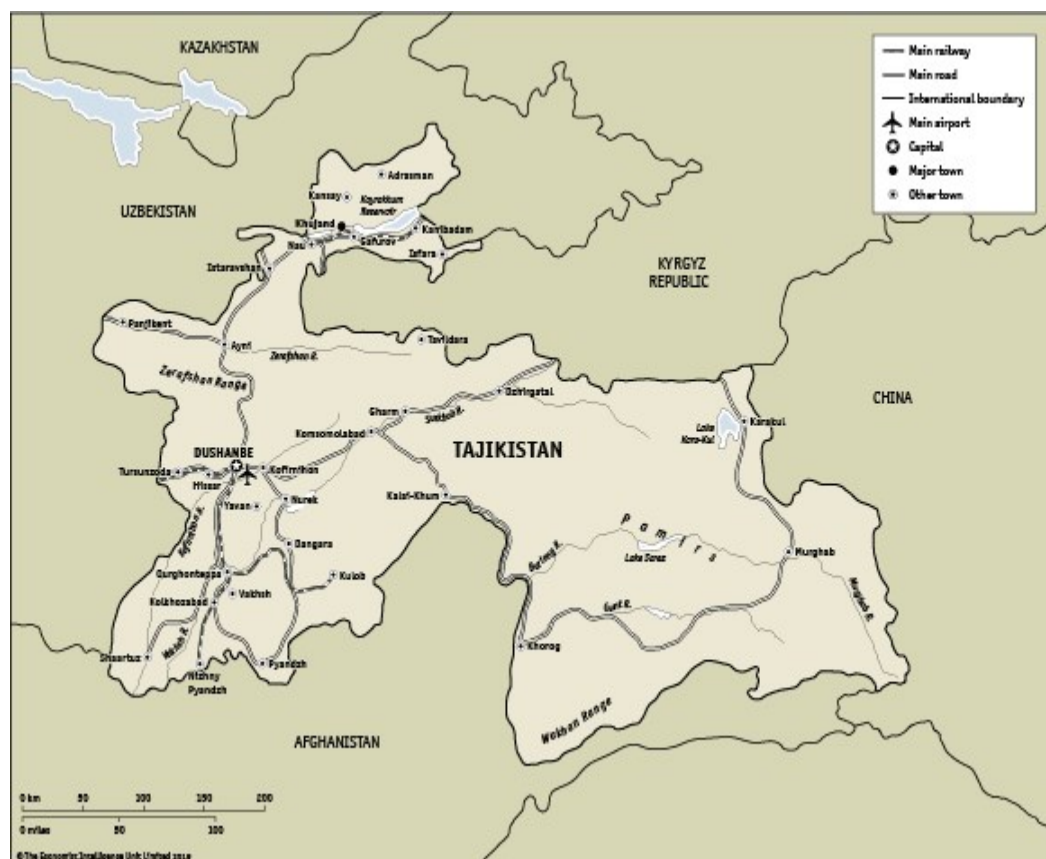
Five hours ahead of GMT

Fiscal year

Calendar year

Public holidays

January 1st (New Year's Day), March 8th (International Women's Day), March 21st-24th (Navruz), May 1st (International Day of Solidarity), May 9th (Victory Day), June 4th (Eid al-Fitr), June 27th (Day of National Unity), August 12th (Eid al-Adha), September 9th (Independence Day), November 6th (Constitution Day)



Political structure

Official name

Republic of Tajikistan

Constitution

On August 31st 1991 the Soviet Socialist Republic of Tajikistan was renamed the Republic of Tajikistan. On September 9th 1991 it declared itself independent from the Soviet Union. The president's term of office was increased from five to seven years through a constitutional amendment passed in a referendum held on September 26th 1999. Constitutional amendments were passed in May 2016 by popular referendum; these allow Imomali Rahmon to rule indefinitely, make him and his family immune from prosecution and lower the eligibility age for the presidency from 35 to 30

National legislature

A bicameral parliament consisting of a 63-seat Council of Representatives (the lower house) and a 33-seat National Council (the upper house)

Electoral system

Universal suffrage over the age of 18

National elections

November 6th 2013 (presidential), March 1st 2015 (legislative; Council of Representatives). Next legislative election due in March 2020; next presidential election due in November 2020

Head of state

The president, Imomali Rahmon (formerly Rahmonov), was first elected on November 5th 1994 and was re-elected for a fourth term on November 6th 2013

National government

The prime minister is appointed by the president, who is formally head of the executive branch

Main political parties/factions

People's Democratic Party (PDP; pro-president); Democratic Party (DP); Communist Party; Socialist Party; Social Democratic Party (SDP); Agrarian Party; Party of Economic Reforms (PER); Islamic Renaissance Party of Tajikistan (IRPT; banned in August 2015)

Leading members of the Council of Ministers

Prime minister: Qohir Rasulgoda

First deputy prime minister: Davlatoli Said

Deputy prime ministers:

Mahmadtoir Zokirgoda

Azim Ibrohim

Key ministers

Culture: Shamsiddin Orumbekgoda

Defence: Sherali Mirzo

Economic development & trade: Nematullo Hikmatullozoda

Education & science : Nuriddin Said

Energy & water resources: Usmonali Usmonzoda

Finance: Fayziddin Qahhorzoda

Foreign affairs: Sirojiddin Aslov

Health & social protection: Nasim Olimzoda

Internal affairs: Ramazon Rahimzoda

Justice: Rustam Shohmurod

Labour: Sumangul Taghoizoda

Transport: Khudoyor Khudoyorzoda

Chairmen of state committees

Investment & state-owned property: Farrukh Hamralizoda

National security: Saymumin Yatimov

Central bank governor

Jamshed Nurmahmadzoda

Economic structure

Annual indicators

	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^a
GDP at market prices (S bn)	45.0	48.4	54.5	61.2	68.8
GDP (US\$ bn)	9.1	7.9	7.0	7.2	7.5
Real GDP growth (%)	6.7 ^b	2.0 ^b	-1.0 ^b	2.5 ^b	3.5 ^b
Consumer price inflation (av; %)	6.0	5.5 ^b	6.0 ^b	7.2 ^b	7.5 ^b
Population (m)	8.4	8.6	8.7	8.9	9.1 ^b
Exports of goods fob (US\$ m)	527	572	668	873	874
Imports of goods fob (US\$ m)	-3,599	-2,862	-2,553	-2,390	-2,763
Current-account balance (US\$ m)	-316	-477	-291	159	-379
Foreign-exchange reserves excl gold (US\$ m)	177.4	64.4	107.3	641.8	366.8
Exchange rate (av) S:US\$	4.94	6.16	7.84	8.55	9.15

^a Actual. ^b Economist Intelligence Unit estimates.

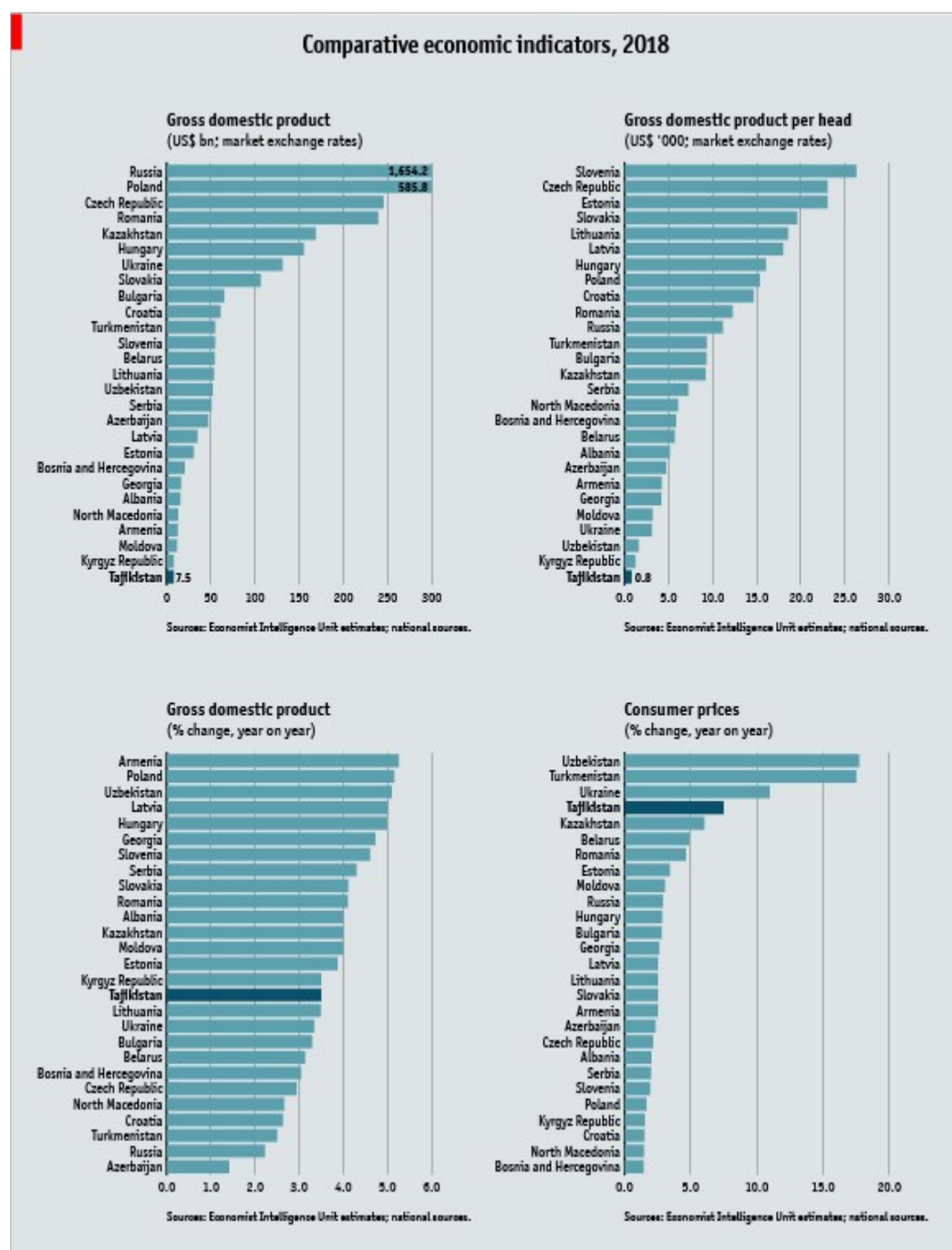
Origins of gross domestic product 2018	% of total	Components of gross domestic product total 2018	% of total
Services	46.8	Private consumption	90.5
Industry	30.5	Imports of goods & services	43.1
Agriculture	23.9	Gross fixed investment	26.5
		Exports of goods & services	17.5
		Public consumption	17.1
Principal exports (fob) 2018	% of total	Principal imports (fob) 2018	% of total
Other	68.7	Electricity	39.5
Aluminium	16.7	Petroleum products	9.6
Cotton fibre	10.1	Grain	7.1
Electricity	4.5	Alumina	3.8
Main destinations of exports 2018	% of total	Main origins of imports 2018	% of total
China	18.3	Russia	35.7
Turkey	17.7	China	8.5
Russia	14.9	Kazakhstan	8.5
Switzerland	13.9	Uzbekistan	6.1

Quarterly indicators

	2017			2018				2019
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Economic indicators (% change, year on year)								
Real GDP (year to date)	6.0	6.8	7.1	7.0	7.2	7.0	7.3	n/a
Industrial production (year to date)	21.3	22.0	21.3	13.1	16.9	13.5	11.8	n/a
Consumer prices (av)	8.5	7.6	6.7	4.6	1.7	3.6	3.8	6.6
Average nominal wage (somon; year to date)	1,095.9	1,141.9	1,138.1	1,147.8	1,228.1	1,378.5	1,360.6	1,304.4
Financial indicators								
Exchange rate S:US\$ (av)	8.61	8.81	8.81	8.82	8.97	9.39	9.42	9.44
Exchange rate S:US\$ (end-period)	8.81	8.80	8.82	8.81	9.16	9.42	9.43	9.44
Lending rate (av; %)	29.7	31.1	28.9	28.5	n/a	n/a	n/a	n/a
Deposit rate (av; %)	2.9	4.3	4.4	4.5	n/a	n/a	n/a	n/a
Foreign trade (US\$ m)								
Exports of goods (fob)	228.4	442.8	296.7	243.2	285.2	280.7	264.3	243.8
Imports of goods (cif)	-701.1	-720.5	-807.8	-790.5	-740.4	-786.6	-831.9	-720.0
Foreign trade balance	-472.7	-277.7	-511.1	-547.3	-455.2	-505.9	-567.6	-476.2

Sources: IMF, International Financial Statistics; State Statistics Committee; National Bank of Tajikistan.

Comparative economic indicators



Outlook for 2019-20

Political stability

Imomali Rahmon, the president, will remain in power throughout the forecast period (2019-20). The political system is authoritarian and repressive, and The Economist Intelligence Unit expects the government to continue to crack down on perceived dissent, independent media and religious groups. At 66 years old, Mr Rahmon could remain in power well beyond the forecast period, but recent developments suggest that he is thinking about his succession. The president has appointed many family members to senior government posts. In 2017 Rustam Imomali, Mr Rahmon's son, was appointed as mayor of the capital, Dushanbe. In February 2018 parliament passed a law lowering the age of eligibility to run in the presidential election from 35 to 30, which means that Mr Rahmon's son will be eligible to run in the next election. Efforts to establish dynastic rule could be destabilising in the medium term. There is also a possibility of a backlash from the elite against Mr Rahmon's efforts to appoint successors from within his own family.

The largest risk of political uncertainty originates from the restive GornoBadakhshan Autonomous Region (GBAO), based in eastern Tajikistan. The GBAO covers close to 45% of the total territory (and 3% of the population) of the country, and is made up of a minority Shia Pamiri population. The Tajik government does not have complete control of this eastern territory, which is a hub of crossborder drug smuggling. The GBAO also borders China's volatile Xinjiang province and Afghanistan, making it an important region in terms regional security. There has been a long history of the region's informal powers clashing with the Tajik government, most recently in 2012, when government forces fought with armed groups led by a local warlord. In September 2018 Mr Rahmon publicly rebuked GBAO government officials over their inability to contain lawlessness in the province. In recent months GBAO residents have organised several protests demanding improvements to infrastructure, more jobs and a stop to the security clampdown in the province.

The government's heavy-handed restrictions on channels for expressing dissatisfaction have also led to increasing discontent. The curbing of political, media and religious freedoms has long been a characteristic of Tajikistan's authoritarian regime, which has exaggerated the risks of Islamic radicalisation in order to suppress opposition. The government blamed the Islamic Renaissance Party of Tajikistan (IRPT) for a fatal attack on four foreign cyclists in the south of the country in July 2018, despite Islamic State (IS) claiming responsibility. Since March 2015 the authorities have repressed the activities of the IRPT, which had been the only genuine opposition party in the country. The group has been banned from operating, and in 2016 several of its leaders were sentenced to lengthy prison terms.

Insurgent activity on the Tajik-Afghan border is a potential threat to domestic stability. However, our core forecast remains that such activity will be restricted to the Afghan side of the border.

Election watch

In 2013 Mr Rahmon was elected for a further term in an election that was deemed flawed by international observers. Constitutional amendments that allowed Mr Rahmon to rule indefinitely were passed by referendum in May 2016. Other important changes included reducing the minimum qualifying age of candidates for the presidency from 35 to 30. This will allow Mr Rahmon's son to run in the next election, which is scheduled for 2020.

International relations

Tajikistan's international relations have in the past been characterised by frequent disputes with the Kyrgyz Republic and Uzbekistan, as well as by a foreign policy of attracting investment, financial aid and military support from China, Russia and the US. Economic dependence on China is increasing, mainly through public borrowing and infrastructure investment. Chinese lenders own a large share of Tajikistan's sovereign debt.

Relations with Uzbekistan previously centred on disputes concerning Tajik plans to build the Rogun Dam, which would affect irrigation of Uzbekistan's cotton crop. However, the Uzbek president, Shavkat Mirziyoyev, is taking a more measured approach to water disputes than his predecessor did. In March 2018 Mr Mirziyoyev visited Dushanbe and met with Mr Rahmon. Both presidents agreed on a series of practical measures to restore relations and released a joint statement asserting that Uzbekistan's government had dropped its long-standing objection to the Rogun Dam. Mr Mirziyoyev also stated that Uzbekistan would participate in the project, although he did not elaborate. In April 2018 Tajikistan started exporting electricity to Uzbekistan for the first time in nine years. Tajikistan also resumed imports of natural gas from Uzbekistan for the first time in almost six years, and the state gas enterprise intends to increase gas imports to 200m cu metres in 2019, from about 54m cu metres in 2018. In July 2019 the two presidents met at a contested border zone to conclude a demarcation agreement aimed at ending hostilities between the border communities.

Links with Russia will remain strong in 2019-20, owing to robust political, economic and military ties. Russia's military base in Tajikistan is the largest non-naval Russian military facility abroad. China's regional influence is growing, and its investments will expand throughout the forecast period. China has become one of Tajikistan's most important bilateral partners, and Tajikistan is dependent on investment from China (as part of its Belt and Road Initiative). Tajikistan is also a member of the China-led counter-terrorism alliance—the Quadrilateral Co-operation and Co-ordination Mechanism—along with Afghanistan and Pakistan.

Accuracy of official data

The reliability of official data has long been open to question. This was underlined by the 2015-16 regional downturn, which was not adequately reflected in national accounts data. The Economist Intelligence Unit's forecasts therefore differ significantly from official statistics, including those published by international financial institutions.

Policy trends

In 2019-20 the government's main policy priority will be to continue to support the construction of the Rogun Dam, which has become Mr Rahmon's flagship infrastructure and development project. The support from the World Bank and the Asian Development Bank (ADB) towards other allied projects to boost the capabilities of the electricity sector will also support the Rogun project. In February 2019 the Tajik authorities stated that they hoped to conclude a US\$220m financing deal with the IMF, but no further progress has been publicly reported. According to Asia Plus, an online news agency, authorities will be completing the restructuring of the highly indebted Barqi Tojik, the vertically integrated national power utility, in 2019. The restructuring plan intends to split the company into three utilities, responsible for generation, transmission and distribution. Although such a restructuring should, in theory, be able to promote competition, beneficial outcomes will be limited owing to a lack of other players in the electricity market. Tajikistan has immense hydropower potential, and the presence of robust (and increasing) electricity demand in South Asia makes electricity exports to that region a viable option.

The authorities will attempt to capitalise on the recent improvement in relations with Uzbekistan by deepening trade links with that country. Tajikistan's electricity exports to Uzbekistan in particular (and that country's gas exports to Tajikistan) are likely to grow during the forecast period. The government is also likely to push for re-integration of the Central Asian regional electricity grid, which ceased operations after Uzbekistan withdrew from the grid in 2009. These efforts are likely to be supported by the World Bank and the ADB.

Owing to the scale of migration to Russia, the Tajik economy has become dependent on remittances from that country. The collapse in remittances from migrant workers in Russia in 2015-16 due to the downturn in Russia plunged Tajikistan's banking sector into a crisis, as there was an increase in the number of clients defaulting on loans. Government efforts, starting in 2016, to bail out and inject capital into the two largest banks in the country, Agroiinvestmentbank and Tojikisodirotbank (TSB), have shown some results; non-performing loans (NPLs) as a share of total loans fell from 35.8% at the end of 2017 to 30% at the end of the first quarter of 2019. However, the banking sector will remain weak in 2019-20.

Fiscal policy

Tajikistan has tended to run budgets close to balance, but mismanagement of the banking sector and off-budget spending have in the past led to sovereign financing difficulties. According to the IMF, the government's gross external debt rose to US\$3.5bn in 2017, from US\$2.9bn in 2016. When combined with the bail-out of the banking sector, we estimate that total public debt rose to 54.1% of GDP in 2017, from 32.8% in 2015. We expect public debt to remain high, at an average of 50.9%, in 2019-20—considerably higher than in 2011-16, when it averaged 32.6%. High inflation and a slight acceleration in economic growth over the forecast period will contribute to the decline in debt as a percentage of GDP.

Official statistics show that the budget recorded a small deficit in 2018. In the forecast period we expect the budget to remain in deficit, averaging 0.6% of GDP over 2019-20—smaller than an average of 1% during 2016-17. The government will continue to direct expenditure towards high-cost prestige projects such as the Rogun Dam. Fiscal risks stemming from the government's need to shore up the banking system are substantial, and the government will also have higher debt-servicing costs as a result of the US\$500m bond that was issued in 2017.

Monetary policy

In early February 2019 the National Bank of Tajikistan (NBT, central bank), whose mandate is price stability, tightened monetary policy, raising the benchmark interest rate by 75 basis points to 14.75%, after cutting rates by 200 basis points from 16% in 2018. It then cut rates by 150 basis points at the end of May, to 13.25%.

Between January 2014 and March 2017 the NBT steadily raised the refinancing rate from 4.8% to 16% in an attempt to control inflationary pressures stemming from the depreciation of the somoni. Since the 2015-16 regional crisis the NBT has also focused on exchange-rate stability as the primary means to control inflation. Previously, the bank's low foreign-exchange reserves had severely constrained its room for manoeuvre. However, an increase in reserves since 2017 has given the NBT more leeway.

Standard monetary policy tools are ineffective in the context of Tajikistan's weak institutional capacity and underdeveloped financial system, as well as the high level of dollarisation of the country's economy. The wide spread between commercial lending and deposit rates indicates a high degree of inefficiency in financial intermediation. The NBT is preparing to move to an inflation-targeting monetary policy framework; however, owing to weak institutional capacity, problems of credibility and a poor monetary policy transmission mechanism, this transition will be challenging.

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2017	2018	2019	2020
Real GDP growth				
World	3.1	2.9	2.4	2.5
OECD	2.5	2.2	1.6	1.6
EU28	2.6	2.0	1.3	1.5
Exchange rates				
Rb:US\$	58.3	62.7	65.9	68.2
US\$:€	1.13	1.18	1.13	1.18
SDR:US\$	0.72	0.71	0.72	0.71
Financial indicators				
US\$ 3-month commercial paper rate	1.07	2.05	2.42	1.73
€ 3-month interbank rate	-0.33	-0.32	-0.33	-0.40
Commodity prices				
Oil (Brent; US\$/b)	54.4	71.1	67.7	62.0
Cotton (US cents/lb)	83.6	91.4	83.7	81.6
Aluminium (US\$/tonne)	1,968.2	2,111.0	1,840.2	1,975.0
Industrial raw materials (% change in US\$ terms)	20.2	2.2	-5.4	3.3

Note. GDP growth rates are at market exchange rates.

Economic growth

We estimate that economic growth accelerated to 3.5% in 2018, compared with an estimated 2.5% in 2017. Economic growth was driven by household spending (which has picked up in the past two years, owing to the recovery in inward remittances from Russia) and investment. According to official statistics, real GDP grew by 7.3% in 2018 (after growing by 7.1% in the previous year), with industrial production growing by 11.8%. This growth is likely to have come from the mining sector; in recent years the country has increased its exports of minerals such as gold, lead and zinc.

We expect economic growth to strengthen slightly in our forecast period. We expect real GDP to grow by an annual average of 3.8% per year in 2019-20. This will be supported by firm household spending growth and robust capital spending activity as the government continues to spend on the construction and maintenance of electricity infrastructure. The steady inflow of remittances will continue to support private consumption. The economy will also be supported by private-sector investment from China in metals processing, aluminium and cement plants.

Inflation

According to the State Statistics Committee (SSC), inflation averaged 3.8% in 2018. However, we believe that consumer prices grew by 7.5% in 2018—much faster than official estimates. In 2018 consumer price inflation was driven by the somoni's depreciation against the US dollar, and an acceleration in services and non-food product inflation. The central bank projects a medium-term inflation target of 7% (with a corridor of ± 2 percentage points).

Food prices are an important determinant of inflation in the country, as a significant share of the consumer price basket is composed of food products. Data from the Food and Agriculture Organisation (FAO) display a decline in the average prices of wheat—an important staple—in the country for most of 2018, although prices recovered again towards the end of that year. Stable export prices from Kazakhstan, which is the bread basket of Central Asia, also helped to contain food price inflation.

In 2019 we expect that inflation will slow to 6.5%. Global oil prices, which we expect to fall to an average of US\$66/barrel in 2019, from US\$71.1/b in 2018, will put downward pressure on price growth. Global prices of food, feedstuffs and beverages are expected to be broadly flat this year. In addition, we expect the somoni to remain broadly stable against the Russian rouble, which will also contain imported price inflation. In 2020, although average oil prices will weaken further, we expect food, feedstuffs and beverage prices to grow by 3-4%. This, coupled with the somoni's depreciation, is likely to push up price growth. Overall, we forecast that inflation will average 5.6% in 2020.

Exchange rates

In 2017 the authorities started a managed depreciation of the somoni against the US dollar, with the currency falling to an average of Somoni8.8:US\$1 in June. The NBT appears to favour making periodic changes to the somoni's rate of depreciation against the US dollar rather than allowing it to depreciate continuously. The currency depreciated sharply, from Somoni7.8:US\$1 at the beginning of 2017 to Somoni8.8:US\$1 by June, but remained steady at this level for the rest of the year owing to intervention by the NBT. Similarly, it depreciated from Somoni8.8:US\$1 in March 2018 to Somoni9.4:US\$1 at the end of July and stayed at about this level for the rest of the year. We expect the central bank to keep the somoni on a depreciatory path against the US dollar, although we expect that the pace of this depreciation will be reduced, given the shift in US monetary policy. We forecast that the somoni will depreciate to an average of Somoni9.64:US\$1 in 2020.

External sector

The country's trade account generally records large structural deficits, which are offset to some extent by primary and secondary income inflows. In 2018 the current account recorded a deficit of US\$378.4m (equivalent to an estimated 5% of GDP), after a sharp contraction in imports drove a one-time surplus of US\$159m in 2017. Imports recovered in 2018, owing to resurgent private consumption as well as the need for investment inputs for infrastructure projects such as the Rogun Dam, and other energy and transport infrastructure improvement schemes.

In 2019-20 we expect import price rises to be muted; however, remittance growth will also be muted, as Russia's economic growth will be steady in 2019-20 at about 1.5% a year, with risks oriented to the downside. Overall, we forecast that the current-account deficit will narrow slightly, to average US\$360m a year—equivalent to 4.2% of GDP. Given its difficult relations with international financial institutions, Tajikistan will remain highly dependent on China for both direct investment and portfolio inflows.

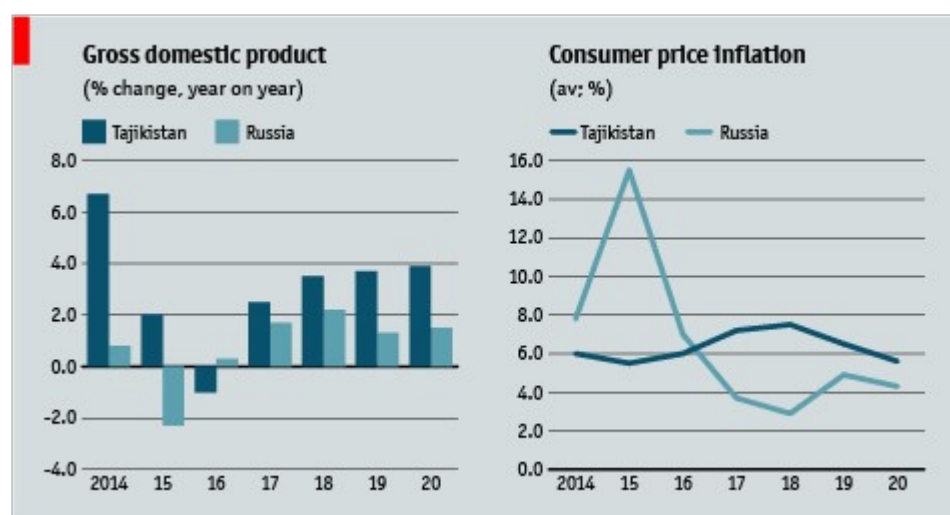
Forecast summary

Forecast summary

(% unless otherwise indicated)

	2017 ^a	2018 ^a	2019 ^b	2020 ^b
Real GDP growth	2.5 ^c	3.5 ^c	3.7	3.9
Aluminium exports ('000 tonnes)	103.0	162.0	152.9	157.9
Cotton output ('000 tonnes)	83.0	88.0	90.0	90.0
Consumer price inflation (av)	7.2 ^c	7.5 ^c	6.5	5.6
Lending rate (%)	29.7	28.0 ^c	29.0	28.0
Government balance (% of GDP)	-0.3	-0.4 ^c	-0.5	-0.7
Exports of goods fob (US\$ m)	873.0	874.1	900.7	922.1
Imports of goods fob (US\$ m)	-2,389.8	-2,762.5	-3,015.9	-3,035.0
Current-account balance (US\$ m)	159.0	-378.5	-345.4	-369.3
Current-account balance (% of GDP)	2.2	-5.0	-4.3	-4.1
Exchange rate S:US\$ (av)	8.55	9.15	9.47	9.64
Exchange rate S:€ (av)	9.66	10.81	10.68	11.37
Exchange rate S:Rb (av)	0.15	0.15	0.14	0.14

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.



Recent analysis

Generated on September 9th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

US-Central Asia summit held in Nur-Sultan

August 27, 2019: International relations

Event

On August 21st a high-level summit of the C5+1 group, a multilateral forum consisting of the US and the five Central Asian states (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) was held in Nur-Sultan, Kazakhstan's capital.

Analysis

The summit was attended by David Hale, the under-secretary for political affairs of the US State Department, and by the foreign ministers of the five Central Asian countries. There were no items on the agenda and no major developments during the course of the summit. However, according to the joint statement released by the parties, the representatives "exchanged views" on efforts to strengthen economic co-operation and regional security (including in Afghanistan). The joint statement also said that the parties had reaffirmed their support for the C5+1 framework as a multilateral forum to discuss "common challenges".

When the C5+1 forum was launched in 2015 it was the only multilateral forum where all five Central Asian countries were present together. However, with the ascension of Shavkat Mirziyoyev to Uzbekistan's presidency, and the ensuing opening up of that country—both economically and in relations with its immediate neighbours—the usefulness of the C5+1 format as a forum for Central Asian co-operation has diminished. However, the format remains important, as it is the only format where the Central Asian countries can engage with the US. The US is a relatively minor actor in the region compared with China and Russia, which both engage more actively (both in economic and security spheres) with the Central Asian states.

In 2019-23 we expect regional integration and security (with a growing emphasis on relations with Afghanistan) to continue to dominate multilateral discussions among the Central Asian countries. Although the US is unlikely to supplant the dominance of Russia and China in the region, we expect it to improve economic engagement steadily, especially with Kazakhstan and Uzbekistan, the largest economies in the region. With their emphasis on pursuing a multi-vector foreign policy, these Central Asian countries will also want to maintain relations with the US.

Impact on the forecast

Our forecast remains that the Central Asian states will continue to prioritise regional integration and collaborate on security issues.

Economy

Forecast updates

Current-account deficit remains stable in Q1

August 29, 2019: External sector

Event

In the first quarter of 2019 the current account registered a deficit of US\$113.3m, according to IMF data, broadly stable compared with the deficit recorded in the same period in 2018.

Analysis

The trade account, which is significantly larger than the other components of the current account, registered a deficit of US\$416.9m in the first quarter of 2019, 3.3% wider than in the year-earlier period. The goods import bill totalled US\$618.3m in January-March, an increase of US\$20.1m from the same period in 2018. The increase in import receipts is likely to have been driven by a rise in capital good imports, which has probably offset a slight fall in the cost of fuel (owing to lower global oil prices). Growth in export earnings is likely to have been driven by a small rise in global prices of gold—one of Tajikistan's major export commodities.

The primary income surplus shrank by 2.3%, to US\$247.8m. The services deficit fell slightly, to US\$50.9m, owing to a fall in services imports. The secondary income surplus (which mainly comprises inward remittances from Tajik migrant workers in Russia) rose to US\$106.5m in the first quarter of 2019, from US\$89.3m in the year-earlier period.

Net inflows on the financial account rose in January-March—Tajikistan's surplus on the financial account totalled US\$183.5m, an increase of US\$67.2m compared with the same period in 2018. This was mainly due to a rise in debt inflows, which totalled US\$232m in the first quarter of 2019, compared with a total of US\$62.9m in full-year 2018. Net foreign direct investment fell by US\$19.2m (on a year-on-year basis), to US\$43.3m.

The return of the current account to deficit—of US\$378.4m (equivalent to an estimated 5% of GDP)—in 2018, after a one-off surplus of US\$150.7m in 2017, was driven by a pick-up in import demand on the back of stronger remittance inflows and, consequently, private consumption. In our 2019-20 forecast period we expect remittance growth to remain muted, as Russia's economic growth will be steady at about 1.5% a year, with risks oriented to the downside. Overall, we forecast that the current-account deficit will narrow slightly, to average US\$360m a year—equivalent to 4.2% of GDP. Given its difficult relations with international financial institutions, Tajikistan will remain highly dependent on China for both direct investment and portfolio inflows.

Impact on the forecast

We maintain our forecast that the current-account deficit will narrow to 4.3% of GDP in 2019, from an estimated 5% in 2018.

Inflation surges to 7.4% year on year in January-May

August 29, 2019: Inflation

Event

In the first five months of 2019 consumer prices grew by 7.4% year on year, according to the State Statistics Committee (SSC). Most of the acceleration in inflation was observed in April-May, when prices grew by an average of 8.5% year on year, compared with 6.6% in the first quarter. A deceleration in services inflation was not sufficient to offset a sharp increase in food inflation.

Analysis

Price trends in the goods and services components ran in opposite directions in January-May—goods price inflation surged while price growth in services weakened. Inflation in the goods component, which averaged 7.2% year on year in the first five months of 2019, was mainly driven by price growth in foodstuffs (including alcoholic beverages). Inflation in this sub-category accelerated to 9.5% year on year, compared with an increase of 6.1% in the prices of non-food products.

One of the main drivers of food price inflation (and overall consumer price growth) was the price of wheat, which is an extremely important staple food product in the country. Wheat prices have jumped sharply in the year so far, increasing by an average of 20.6% year on year in January-May, with prices rising especially sharply in the first two months of the second quarter (almost 22% year on year). This is likely to have been driven by an upward trend in wheat export prices from Kazakhstan, from where Tajikistan imports most of its wheat. The sharp rise in the price of wheat has also translated into a sharp acceleration in the price growth of bread products. Prices of other food products such as fruits and vegetables also rose sharply in January-May, with the cost of vegetables rising by 33.4% year on year.

In 2019 we expect that inflation will slow to 6.5%. Global oil prices, which we expect to fall to an average of US\$67.7/barrel in 2019, from US\$71.1/b in 2018, will put downward pressure on price growth. Global prices of food, feedstuffs and beverages are expected to be broadly flat this year. In addition, we expect the somoni to remain broadly stable against the Russian rouble, which will also contain imported price inflation.

Impact on the forecast

We will consider revising our 2019 inflation forecast slightly upwards in our next forecasting round, from 6.5% currently.

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NATIONAL SECURITY STRATEGY

of the United States of America

DECEMBER 2017





THE WHITE HOUSE

WASHINGTON, DC

My fellow Americans:

The American people elected me to make America great again. I promised that my Administration would put the safety, interests, and well-being of our citizens first. I pledged that we would revitalize the American economy, rebuild our military, defend our borders, protect our sovereignty, and advance our values.

During my first year in office, you have witnessed my America First foreign policy in action. We are prioritizing the interests of our citizens and protecting our sovereign rights as a nation. America is leading again on the world stage. We are not hiding from the challenges we face. We are confronting them head-on and pursuing opportunities to promote the security and prosperity of all Americans.

The United States faces an extraordinarily dangerous world, filled with a wide range of threats that have intensified in recent years. When I came into office, rogue regimes were developing nuclear weapons and missiles to threaten the entire planet. Radical Islamist terror groups were flourishing. Terrorists had taken control of vast swaths of the Middle East. Rival powers were aggressively undermining American interests around the globe. At home, porous borders and unenforced immigration laws had created a host of vulnerabilities. Criminal cartels were bringing drugs and danger into our communities. Unfair trade practices had weakened our economy and exported our jobs overseas. Unfair burden-sharing with our allies and inadequate investment in our own defense had invited danger from those who wish us harm. Too many Americans had lost trust in our government, faith in our future, and confidence in our values.

Nearly one year later, although serious challenges remain, we are charting a new and very different course.

We are rallying the world against the rogue regime in North Korea and confronting the danger posed by the dictatorship in Iran, which those determined to pursue a flawed nuclear deal had neglected. We have renewed our friendships in the Middle East and partnered with regional leaders to help drive out terrorists and extremists, cut off their financing, and discredit their wicked ideology. We crushed Islamic State of Iraq and Syria (ISIS) terrorists on the battlefields of Syria and Iraq, and will continue pursuing them until they are destroyed. America's allies are now contributing more to our common defense, strengthening even our strongest alliances. We have also continued to make clear that the United States will no longer tolerate economic aggression or unfair trading practices.

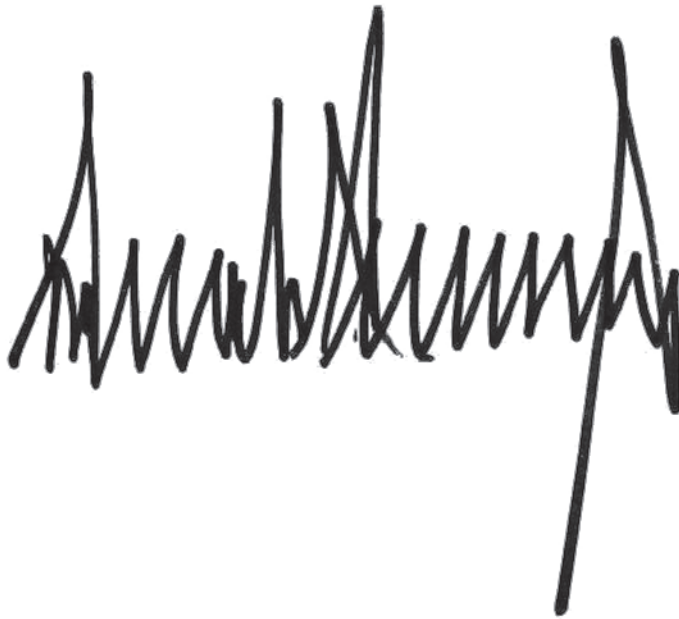
At home, we have restored confidence in America's purpose. We have recommitted ourselves to our founding principles and to the values that have made our families, communities, and society so successful. Jobs are coming back and our economy is growing. We are making historic investments in the United States military. We are enforcing our borders, building trade relationships based on fairness and reciprocity, and defending America's sovereignty without apology.

The whole world is lifted by America's renewal and the reemergence of American leadership. After one year, the world knows that America is prosperous, America is secure, and America is strong. We will bring about the better future we seek for our people and the world, by confronting the challenges and dangers posed by those who seek to destabilize the world and threaten America's people and interests.

My Administration's National Security Strategy lays out a strategic vision for protecting the American people and preserving our way of life, promoting our prosperity, preserving peace through strength, and advancing American influence in the world. We will pursue this beautiful vision—a world of strong, sovereign, and independent nations, each with its own cultures and dreams, thriving side-by-side in prosperity, freedom, and peace—throughout the upcoming year.

In pursuit of that future, we will look at the world with clear eyes and fresh thinking. We will promote a balance of power that favors the United States, our allies, and our partners. We will never lose sight of our values and their capacity to inspire, uplift, and renew.

Most of all, we will serve the American people and uphold their right to a government that prioritizes their security, their prosperity, and their interests. This National Security Strategy puts America First.

A large, bold, handwritten signature in black ink, characteristic of Donald Trump's signature style, featuring multiple sharp peaks and a long, sweeping underline.

President Donald J. Trump

The White House
December 2017



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INTRODUCTION

An America that is safe, prosperous, and free at home is an America with the strength, confidence, and will to lead abroad. It is an America that can preserve peace, uphold liberty, and create enduring advantages for the American people. Putting America first is the duty of our government and the foundation for U.S. leadership in the world.

A strong America is in the vital interests of not only the American people, but also those around the world who want to partner with the United States in pursuit of shared interests, values, and aspirations.

This National Security Strategy puts America first.

An America First National Security Strategy is based on American principles, a clear-eyed assessment of U.S. interests, and a determination to tackle the challenges that we face. It is a strategy of principled realism that is guided by outcomes, not ideology. It is based upon the view that peace, security, and prosperity depend on strong, sovereign nations that respect their citizens at home and cooperate to advance peace abroad. And it is grounded in the realization that American principles are a lasting force for good in the world.

“We the People” is America’s source of strength.

The United States was born of a desire for life, liberty, and the pursuit of happiness—and a conviction that unaccountable political power is tyranny. For these reasons, our Founders crafted and ratified the Constitution, establishing the republican form of government we enjoy today. The Constitution grants our national government not only specified powers necessary to protect our God-given rights and liberties but also safeguards them by limiting the government’s size and scope,

separating Federal powers, and protecting the rights of individuals through the rule of law. All political power is ultimately delegated from, and accountable to, the people.

We protect American sovereignty by defending these institutions, traditions, and principles that have allowed us to live in freedom, to build the nation that we love. And we prize our national heritage, for the rare and fragile institutions of republican government can only endure if they are sustained by a culture that cherishes those institutions.

Liberty and independence have given us the flourishing society Americans enjoy today—a vibrant and confident Nation, welcoming of disagreement and differences, but united by the bonds of history, culture, beliefs, and principles that define who we are.

We are proud of our roots and honor the wisdom of the past. We are committed to protecting the rights and dignity of every citizen. And we are a nation of laws, because the rule of law is the shield that protects the individual from government corruption

and abuse of power, allows families to live without fear, and permits markets to thrive.

Our founding principles have made the United States of America among the greatest forces for good in history. But we are also aware that we must protect and build upon our accomplishments, always conscious of the fact that the interests of the American people constitute our true North Star.

America's achievements and standing in the world were neither inevitable nor accidental. On many occasions, Americans have had to compete with adversarial forces to preserve and advance our security, prosperity, and the principles we hold dear. At home, we fought the Civil War to end slavery and preserve our Union in the long struggle to extend equal rights for all Americans. In the course of the bloodiest century in human history, millions of Americans fought, and hundreds of thousands lost their lives, to defend liberty in two World Wars and the Cold War. America, with our allies and partners, defeated fascism, imperialism, and Soviet communism and eliminated any doubts about the power and durability of republican democracy when it is sustained by a free, proud, and unified people.

The United States consolidated its military victories with political and economic triumphs built on market economies and fair trade, democratic principles, and shared security partnerships. American political, business, and military leaders worked together with their counterparts in Europe and Asia to shape the post-war order through the United Nations, the Marshall Plan, the North Atlantic Treaty Organization (NATO), and other institutions designed to advance our shared interests of security, freedom, and peace. We recognize the invaluable advantages that our strong relationships with allies and partners deliver.

Following the remarkable victory of free nations in the Cold War, America emerged as the lone super-

power with enormous advantages and momentum in the world. Success, however, bred complacency. A belief emerged, among many, that American power would be unchallenged and self-sustaining. The United States began to drift. We experienced a crisis of confidence and surrendered our advantages in key areas. As we took our political, economic, and military advantages for granted, other actors steadily implemented their long-term plans to challenge America and to advance agendas opposed to the United States, our allies, and our partners.

We stood by while countries exploited the international institutions we helped to build. They subsidized their industries, forced technology transfers, and distorted markets. These and other actions challenged America's economic security. At home, excessive regulations and high taxes stifled growth and weakened free enterprise—history's greatest antidote to poverty. Each time government encroached on the productive activities of private commerce, it threatened not only our prosperity but also the spirit of creation and innovation that has been key to our national greatness.

A Competitive World

The United States will respond to the growing political, economic, and military competitions we face around the world.

China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence. At the same time, the dictatorships of the Democratic People's Republic of Korea and the Islamic Republic of Iran are determined to destabilize regions, threaten Americans and our allies, and brutalize their own people. Transnational

threat groups, from jihadist terrorists to transnational criminal organizations, are actively trying to harm Americans. While these challenges differ in nature and magnitude, they are fundamentally contests between those who value human dignity and freedom and those who oppress individuals and enforce uniformity.

These competitions require the United States to rethink the policies of the past two decades—policies based on the assumption that engagement with rivals and their inclusion in international institutions and global commerce would turn them into benign actors and trustworthy partners. For the most part, this premise turned out to be false.

Rival actors use propaganda and other means to try to discredit democracy. They advance anti-Western views and spread false information to create divisions among ourselves, our allies, and our partners. In addition, jihadist terrorists such as ISIS and al-Qa'ida continue to spread a barbaric ideology that calls for the violent destruction of governments and innocents they consider to be apostates. These jihadist terrorists attempt to force those under their influence to submit to Sharia law.

America's military remains the strongest in the world. However, U.S. advantages are shrinking as rival states modernize and build up their conventional and nuclear forces. Many actors can now field a broad arsenal of advanced missiles, including variants that can reach the American homeland. Access to technology empowers and emboldens otherwise weak states. North Korea—a country that starves its own people—has spent hundreds of millions of dollars on nuclear, chemical, and biological weapons that could threaten our homeland. In addition, many actors have become skilled at operating below the threshold of military conflict—challenging the United States, our allies, and our partners with hostile actions cloaked in deniability. Our task is to ensure that American military superiority endures, and

in combination with other elements of national power, is ready to protect Americans against sophisticated challenges to national security.

The contest over information accelerates these political, economic, and military competitions. Data, like energy, will shape U.S. economic prosperity and our future strategic position in the world. The ability to harness the power of data is fundamental to the continuing growth of America's economy, prevailing against hostile ideologies, and building and deploying the most effective military in the world.

We learned the difficult lesson that when America does not lead, malign actors fill the void to the disadvantage of the United States. When America does lead, however, from a position of strength and confidence and in accordance with our interests and values, all benefit.

Competition does not always mean hostility, nor does it inevitably lead to conflict—although none should doubt our commitment to defend our interests. An America that successfully competes is the best way to prevent conflict. Just as American weakness invites challenge, American strength and confidence deters war and promotes peace.

An America First National Security Strategy

The competitions and rivalries facing the United States are not passing trends or momentary problems. They are intertwined, long-term challenges that demand our sustained national attention and commitment.

America possesses unmatched political, economic, military, and technological advantages. But to maintain these advantages, build upon our strengths, and unleash the talents of the American people, we must protect four vital national interests in this competitive world.

First, our fundamental responsibility is to **protect the American people, the homeland, and the American way of life**. We will strengthen control of our borders and reform our immigration system. We will protect our critical infrastructure and go after malicious cyber actors. A layered missile defense system will defend our homeland against missile attacks. And we will pursue threats to their source, so that jihadist terrorists are stopped before they ever reach our borders.

Second, we will **promote American prosperity**. We will rejuvenate the American economy for the benefit of American workers and companies. We will insist upon fair and reciprocal economic relationships to address trade imbalances. The United States must preserve our lead in research and technology and protect our economy from competitors who unfairly acquire our intellectual property. And we will embrace America's energy dominance because unleashing abundant energy resources stimulates our economy.

Third, we will **preserve peace through strength** by rebuilding our military so that it remains pre-eminent, deters our adversaries, and if necessary, is able to fight and win. We will compete with all tools of national power to ensure that regions of the world are not dominated by one power. We will strengthen America's capabilities—including in space and cyberspace—and revitalize others that have been neglected. Allies and partners magnify our power. We expect them to shoulder a fair share of the burden of responsibility to protect against common threats.

Fourth, we will **advance American influence** because a world that supports American interests and reflects our values makes America more secure and prosperous. We will compete and lead in multilateral organizations so that American interests and principles are protected. America's commitment to liberty, democracy, and the rule of law serves as an inspiration for those living under

tyranny. We can play a catalytic role in promoting private-sector-led economic growth, helping aspiring partners become future trading and security partners. And we will remain a generous nation, even as we expect others to share responsibility.

Strengthening our sovereignty—the first duty of a government is to serve the interests of its own people—is a necessary condition for protecting these four national interests. And as we strengthen our sovereignty we will renew confidence in ourselves as a nation. We are proud of our history, optimistic about America's future, and confident of the positive example the United States offers to the world. We are also realistic and understand that the American way of life cannot be imposed upon others, nor is it the inevitable culmination of progress. Together with our allies, partners, and aspiring partners, the United States will pursue cooperation with reciprocity. Cooperation means sharing responsibilities and burdens. In trade, fair and reciprocal relationships benefit all with equal levels of market access and opportunities for economic growth. An America First National Security Strategy appreciates that America will catalyze conditions to unleash economic success for America and the world.

In the United States, free men and women have created the most just and prosperous nation in history. Our generation of Americans is now charged with preserving and defending that precious inheritance. This National Security Strategy shows the way.



PILLAR I

PROTECT THE AMERICAN PEOPLE, THE HOMELAND, AND THE AMERICAN WAY OF LIFE

*“We will defend our country, protect our communities,
and put the safety of the American people first.”*

PRESIDENT DONALD J. TRUMP | JULY 2017

This National Security Strategy begins with the determination to protect the American people, the American way of life, and American interests. Americans have long recognized the benefits of an interconnected world, where information and commerce flow freely. Engaging with the world, however, does not mean the United States should abandon its rights and duties as a sovereign state or compromise its security. Openness also imposes costs, since adversaries exploit our free and democratic system to harm the United States.

North Korea seeks the capability to kill millions of Americans with nuclear weapons. Iran supports terrorist groups and openly calls for our destruction. Jihadist terrorist organizations such as ISIS and al-Qa’ida are determined to attack the United States and radicalize Americans with their hateful ideology. Non-state actors undermine social order through drug and human trafficking networks, which they use to commit violent crimes and kill thousands of Americans each year.

Adversaries target sources of American strength, including our democratic system and our econ-

omy. They steal and exploit our intellectual property and personal data, interfere in our political processes, target our aviation and maritime sectors, and hold our critical infrastructure at risk. All of these actions threaten the foundations of the American way of life. Reestablishing lawful control of our borders is a first step toward protecting the American homeland and strengthening American sovereignty.

We must prevent nuclear, chemical, radiological, and biological attacks, block terrorists from reaching our homeland, reduce drug and human trafficking, and protect our critical infrastructure. We must also deter, disrupt, and defeat potential threats before they reach the United States. We will target jihadist terrorists and transnational criminal organizations at their source and dismantle their networks of support.

We must also take steps to respond quickly to meet the needs of the American people in the event of natural disaster or attack on our homeland. We must build a culture of preparedness and resilience across our governmental functions, critical infrastructure, and economic and political systems.

Secure U.S. Borders and Territory

State and non-state actors place the safety of the American people and the Nation's economic vitality at risk by exploiting vulnerabilities across the land, air, maritime, space, and cyber-space domains. Adversaries constantly evolve their methods to threaten the United States and our citizens. We must be agile and adaptable.

Defend Against Weapons of Mass Destruction (WMD)

The danger from hostile state and non-state actors who are trying to acquire nuclear, chemical, radiological, and biological weapons is increasing. The Syrian regime's use of chemical weapons against its own citizens undermines international norms against these heinous weapons, which may encourage more actors to pursue and use them. ISIS has used chemical weapons in Iraq and Syria. Terrorist groups continue to pursue WMD-related materials. We would face grave danger if terrorists obtained inadequately secured nuclear, radiological, or biological material.

As missiles grow in numbers, types, and effectiveness, to include those with greater ranges, they are the most likely means for states like North Korea to use a nuclear weapon against the United States. North Korea is also pursuing chemical and biological weapons which could also be delivered by missile. China and Russia are developing advanced weapons and capabilities that could threaten our critical infrastructure and our command and control architecture.

Priority Actions

ENHANCE MISSILE DEFENSE: The United States is deploying a layered missile defense system focused on North Korea and Iran to defend our homeland against missile attacks. This system will include the ability to defeat missile threats prior to launch. Enhanced missile defense is not intended to undermine strategic stability or disrupt longstanding strategic relationships with Russia or China.

DETECT AND DISRUPT WEAPONS OF MASS DESTRUCTION: At our borders and within our territory, we will bolster efforts to detect nuclear, chemical, radiological, and biological agents and keep them from being used against us. We will also better integrate intelligence, law enforcement, and emergency management operations to ensure that frontline defenders have the right information and capabilities to respond to WMD threats from state and non-state actors.

ENHANCE COUNTERPROLIFERATION MEASURES: Building on decades of initiatives, we will augment measures to secure, eliminate, and prevent the spread of WMD and related materials, their delivery systems, technologies, and knowledge to reduce the chance that they might fall into the hands of hostile actors. We will hold state and non-state actors accountable for the use of WMD.

TARGET WMD TERRORISTS: We will direct counterterrorism operations against terrorist WMD specialists, financiers, administrators, and facilitators. We will work with allies and partners to detect and disrupt plots.

Strengthening control over our borders and immigration system is central to national security, economic prosperity, and the rule of law.

Combat Biothreats and Pandemics

Biological incidents have the potential to cause catastrophic loss of life. Biological threats to the U.S. homeland—whether as the result of deliberate attack, accident, or a natural outbreak—are growing and require actions to address them at their source.

Naturally emerging outbreaks of viruses such as Ebola and SARS, as well as the deliberate 2001 anthrax attacks in the United States, demonstrated the impact of biological threats on national security by taking lives, generating economic losses, and contributing to a loss of confidence in government institutions.

Advancements in life sciences that benefit our health, economy, and society also open up new avenues to actors who want to cause harm. Dedicated state actors are likely to develop more advanced bioweapons, and these capabilities may become available to malicious non-state actors as well.

Priority Actions

DETECT AND CONTAIN BIOTHRREATS AT THEIR SOURCE:

We will work with other countries to detect and mitigate outbreaks early to prevent the spread of disease. We will encourage other countries to invest in basic health care systems and to strengthen global health security across the intersection of human and animal health to prevent infectious disease outbreaks. And we will work with partners to ensure that laboratories that handle dangerous pathogens have in place safety and security measures.

SUPPORT BIOMEDICAL INNOVATION: We will protect and support advancements in biomedical innovation by strengthening the intellectual property system that is the foundation of the biomedical industry.

IMPROVE EMERGENCY RESPONSE: At home, we will strengthen our emergency response and uni-

fied coordination systems to rapidly characterize outbreaks, implement public health containment measures to limit the spread of disease, and provide surge medical care—including life-saving treatments.

Strengthen Border Control and Immigration Policy

Strengthening control over our borders and immigration system is central to national security, economic prosperity, and the rule of law. Terrorists, drug traffickers, and criminal cartels exploit porous borders and threaten U.S. security and public safety. These actors adapt quickly to outpace our defenses.

The United States affirms our sovereign right to determine who should enter our country and under what circumstances. The United States understands the contributions immigrants have made to our Nation throughout its history. Illegal immigration, however, burdens the economy, hurts American workers, presents public safety risks, and enriches smugglers and other criminals.

The United States recognizes that decisions about who to legally admit for residency, citizenship, or otherwise are among the most important a country has to make. The United States will continue to welcome lawful immigrants who do not pose a security threat and whose entry is consistent with the national interest, while at the same time enhancing the screening and vetting of travelers, closing dangerous loopholes, revising outdated laws, and eliminating easily exploited vulnerabilities. We will also reform our current immigration system, which, contrary to our national interest and national security, allows for randomized entry and extended-family chain migration. Residency and citizenship determinations should be based on individuals' merits and their ability to positively contribute to U.S. society, rather than chance or extended family connections.

Priority Actions

ENHANCE BORDER SECURITY: We will secure our borders through the construction of a border wall, the use of multilayered defenses and advanced technology, the employment of additional personnel, and other measures. The U.S. Government will work with foreign partners to deter, detect, and disrupt suspicious individuals well before they enter the United States.

ENHANCE VETTING: The U.S. Government will enhance vetting of prospective immigrants, refugees, and other foreign visitors to identify individuals who might pose a risk to national security or public safety. We will set higher security standards to ensure that we keep dangerous people out of the United States and enhance our information collection and analysis to identify those who may already be within our borders.

ENFORCE IMMIGRATION LAWS: We will enforce immigration laws, both at the border and in the interior, to provide an effective deterrent to illegal immigration. The apprehension and swift removal of illegal aliens at the border is critical to an effective border security strategy. We must also increase efforts to identify and counter fraud in the immigration process, which undermines the integrity of our immigration system, exploits vulnerable individuals, and creates national security risks.

BOLSTER TRANSPORTATION SECURITY: We will improve information sharing across our government and with foreign partners to enhance the security of the pathways through which people and goods enter the country. We will invest in technology to counter emerging threats to our aviation, surface, and maritime transportation sectors. We will also work with international and industry partners to raise security standards.

Pursue Threats to Their Source

There is no perfect defense against the range of threats facing our homeland. That is why America must, alongside allies and partners, stay on the offensive against those violent non-state groups that target the United States and our allies.

The primary transnational threats Americans face are from jihadist terrorists and transnational criminal organizations. Although their objectives differ, these actors pose some common challenges. First, they exploit our open society. Second, they often operate in loose confederations and adapt rapidly. Third, they rely on encrypted communication and the dark web to evade detection as they plot, recruit, finance, and execute their operations. Fourth, they thrive under conditions of state weakness and prey on the vulnerable as they accelerate the breakdown of rules to create havens from which to plan and launch attacks on the United States, our allies, and our partners. Fifth, some are sheltered and supported by states and do their bidding.

Defeat Jihadist Terrorists

Jihadist terrorist organizations present the most dangerous terrorist threat to the Nation. America, alongside our allies and partners, is fighting a long war against these fanatics who advance a totalitarian vision for a global Islamist caliphate that justifies murder and slavery, promotes repression, and seeks to undermine the American way of life. Jihadist terrorists use virtual and physical networks around the world to radicalize isolated individuals, exploit vulnerable populations, and inspire and direct plots.

Even after the territorial defeat of ISIS and al-Qa'ida in Syria and Iraq, the threat from jihadist terrorists will persist. They have used battlefields as test beds of terror and have exported tools and tactics to their followers. Many of these jihadist terror-

ists are likely to return to their home countries, from which they can continue to plot and launch attacks on the United States and our allies.

The United States also works with allies and partners to deter and disrupt other foreign terrorist groups that threaten the homeland—including Iranian-backed groups such as Lebanese Hizballah.

Priority Actions

DISRUPT TERROR PLOTS: We will enhance intelligence sharing domestically and with foreign partners. We will give our frontline defenders—including homeland security, law enforcement, and intelligence professionals—the tools, authorities, and resources to stop terrorist acts before they take place.

TAKE DIRECT ACTION: The U.S. military and other operating agencies will take direct action against terrorist networks and pursue terrorists who threaten the homeland and U.S. citizens regardless of where they are. The campaigns against ISIS and al-Qa’ida and their affiliates demonstrate that the United States will enable partners and sustain direct action campaigns to destroy terrorists and their sources of support, making it harder for them to plot against us.

ELIMINATE TERRORIST SAFE HAVENS: Time and territory allow jihadist terrorists to plot, so we will act against sanctuaries and prevent their reemergence, before they can threaten the U.S. homeland. We will go after their digital networks and work with private industry to confront the challenge of terrorists and criminals “going dark” and using secure platforms to evade detection.

SEVER SOURCES OF STRENGTH: We will disrupt the financial, materiel, and personnel supply chains of terrorist organizations. We will sever their financing and protect the U.S. and international financial systems from abuse. We will degrade their ability

to message and attract potential recruits. This includes combating the evil ideology of jihadists by exposing its falsehoods, promoting counter-narratives, and amplifying credible voices.

SHARE RESPONSIBILITY: Our allies and partners, who are also targets of terrorism, will continue to share responsibility in fighting these barbaric groups. We will help our partners develop and responsibly employ the capacity to

degrade and maintain persistent pressure against terrorists and will encourage partners to work independently of U.S. assistance.

COMBAT RADICALIZATION AND RECRUITMENT IN COMMUNITIES: The United States rejects bigotry and oppression and seeks a future built on our values as one American people. We will deny violent ideologies the space to take root by improving trust among law enforcement, the private sector, and American citizens. U.S. intelligence and homeland security experts will work with law enforcement and civic leaders on terrorism prevention and provide accurate and actionable information about radicalization in their communities.

Dismantle Transnational Criminal Organizations

The United States must devote greater resources to dismantle transnational criminal organizations (TCOs) and their subsidiary networks. Some have established global supply chains that are

We will give our frontline defenders—including homeland security, law enforcement, and intelligence professionals—the tools, authorities, and resources to stop terrorist acts before they take place.

comparable to Fortune 500 corporations. Every day they deliver drugs to American communities, fuel gang violence, and engage in cybercrime. The illicit opioid epidemic, fed by drug cartels as well as Chinese fentanyl traffickers, kills tens of thousands of Americans each year. These organizations weaken our allies and partners too, by corrupting and undermining democratic institutions. TCOs are motivated by profit, power, and political influence. They exploit weak governance and enable other national security threats, including terrorist organizations. In addition, some state adversaries use TCOs as instruments of national power, offering them territorial sanctuary where they are free to conduct unattributable cyber intrusions, sabotage, theft, and political subversion.

Priority Actions

IMPROVE STRATEGIC PLANNING AND INTELLIGENCE:

We will establish national-level strategic intelligence and planning capabilities to improve the ability of agencies to work together to combat TCOs at home and abroad.

DEFEND COMMUNITIES: We will deny TCOs the ability to harm Americans. We will support public health efforts to halt the growth of illicit drug use in the United States, expand national and community-based prevention efforts, increase access to evidenced-based treatment for addiction, improve prescription drug monitoring, and provide training on substance use disorders for medical personnel.

DEFEND IN DEPTH: U.S. agencies and foreign partners will target TCO leaders and their support infrastructure. We will assist countries, particularly in the Western Hemisphere, to break the power of these organizations and networks.

COUNTER CYBER CRIMINALS: We will use sophisticated investigative tools to disrupt the ability of criminals to use online marketplaces, cryptocurrencies, and other tools for illicit activities. The United States will hold countries accountable for harboring these criminals.

Keep America Safe in the Cyber Era

America's response to the challenges and opportunities of the cyber era will determine our future prosperity and security. For most of our history, the United States has been able to protect the homeland by controlling its land, air, space, and maritime domains. Today, cyberspace offers state and non-state actors the ability to wage campaigns against American political, economic, and security interests without ever physically crossing our borders. Cyberattacks offer adversaries low-

cost and deniable opportunities to seriously damage or disrupt critical infrastructure, cripple American businesses, weaken our Federal networks, and attack the tools and devices that Americans use every day to communicate and conduct business.

Critical infrastructure keeps our food fresh, our houses warm, our trade flowing, and our citizens productive and safe. The vulnerability of U.S. critical infrastructure to cyber, physical, and electromagnetic attacks means that

adversaries could disrupt military command and control, banking and financial operations, the electrical grid, and means of communication.

Federal networks also face threats. These networks allow government agencies to carry out vital functions and provide services to the American people.

America's response to the challenges and opportunities of the cyber era will determine our future prosperity and security.

ple. The government must do a better job of protecting data to safeguard information and the privacy of the American people. Our Federal networks must be modernized and updated.

In addition, the daily lives of most Americans rely on computer-driven and interconnected technologies. As our reliance on computers and connectivity increases, we become increasingly vulnerable to cyberattacks. Businesses and individuals must be able to operate securely in cyberspace.

Security was not a major consideration when the Internet was designed and launched. As it evolves, the government and private sector must design systems that incorporate prevention, protection, and resiliency from the start, not as an afterthought. We must do so in a way that respects free markets, private competition, and the limited but important role of government in enforcing the rule of law. As we build the next generation of digital infrastructure, we have an opportunity to put our experience into practice.

The Internet is an American invention, and it should reflect our values as it continues to transform the future for all nations and all generations. A strong, defensible cyber infrastructure fosters economic growth, protects our liberties, and advances our national security.

Priority Actions

IDENTIFY AND PRIORITIZE RISK: To improve the security and resilience of our critical infrastructure, we will assess risk across six key areas: national security, energy and power, banking and finance, health and safety, communications, and transportation. We will assess where cyberattacks could have catastrophic or cascading consequences and prioritize our protective efforts, capabilities, and defenses accordingly.

BUILD DEFENSIBLE GOVERNMENT NETWORKS: We will use the latest commercial capabilities, shared services, and best practices to modernize our Federal information technology. We will improve our ability to provide uninterrupted and secure communications and services under all conditions.

DETER AND DISRUPT MALICIOUS CYBER ACTORS: The Federal Government will ensure that those charged with securing critical infrastructure have the necessary authorities, information, and capabilities to prevent attacks before they affect or hold at risk U.S. critical infrastructure. The United States will impose swift and costly consequences on foreign governments, criminals, and other actors who undertake significant malicious cyber activities. We will work with allies and friends to expand our awareness of malicious activities. A stronger and more resilient critical infrastructure will strengthen deterrence by creating doubt in our adversaries that they can achieve their objectives.

IMPROVE INFORMATION SHARING AND SENSING: The U.S. Government will work with our critical infrastructure partners to assess their informational needs and to reduce the barriers to information sharing, such as speed and classification levels. We will also invest in capabilities that improve the ability of the United States to attribute cyberattacks. In accordance with the protection of civil liberties and privacy, the U.S. Government will expand collaboration with the private sector so that we can better detect and attribute attacks.

DEPLOY LAYERED DEFENSES: Since threats transit globally, passing through communications backbones without challenge, the U.S. Government will work with the private sector to remediate known bad activities at the network level to improve the security of all customers. Malicious activity must be defeated within a network and not be passed on to its destination whenever possible.

Promote American Resilience

Despite our best efforts, our government cannot prevent all dangers to the American people. We can, however, help Americans remain resilient in the face of adversity. Resilience includes the ability to withstand and recover rapidly from deliberate attacks, accidents, natural disasters, as well as unconventional stresses, shocks, and threats to our economy and democratic system. In the event of a disaster, Federal, state, and local agencies must perform essential functions and have plans in place to ensure the continuation of our constitutional form of government.

Reducing risk and building more resilient communities are the best ways to protect people, property, and taxpayer dollars from loss and disruption. Through risk-informed investments, we will build resilient communities and infrastructure to protect and benefit future generations.

Should tragedy strike, the U.S. Government will help communities recover and rebuild. Citizens must be confident in our government, but also recognize that response and recovery begins with individuals and local communities. In difficult times, the true character of the American people emerges: their strength, their love, and their resolve. Our first responders selflessly run toward danger, and volunteers rally to the aid of neighbors when disaster strikes.

A democracy is only as resilient as its people. An informed and engaged citizenry is the fundamental requirement for a free and resilient nation. For generations, our society has protected free press, free speech, and free thought. Today, actors such as Russia are using information tools in an attempt to undermine the legitimacy of democracies. Adversaries target media, political processes, financial networks, and personal data. The American public and private sectors must recognize this and

work together to defend our way of life. No external threat can be allowed to shake our shared commitment to our values, undermine our system of government, or divide our Nation.

Priority Actions

IMPROVE RISK MANAGEMENT: The United States will improve its ability to assess the threats and hazards that pose the greatest risks to Americans and will prioritize resources based on the highest risks.

BUILD A CULTURE OF PREPAREDNESS: This Administration will take steps to build a culture of preparedness, informing and empowering communities and individuals to obtain the skills and take the preparatory actions necessary to become more resilient against the threats and hazards that Americans face.

IMPROVE PLANNING: State and local governments must conduct realistic exercises that test existing plans to make sure that they are sound and can be executed. Agencies from all levels of government must coordinate better and apply lessons learned from exercises to pinpoint the areas and capabilities that require improvement.

INCENTIVIZE INFORMATION SHARING: To improve the coordination among the private sector and all levels of government that is needed to improve resilience, we must make a stronger commitment to protecting sensitive information so that all partners actively identify and share vulnerabilities and work collaboratively to reduce them.



PILLAR II

PROMOTE AMERICAN PROSPERITY

“Economic security is national security.”

PRESIDENT DONALD J. TRUMP | NOVEMBER 2017

A strong economy protects the American people, supports our way of life, and sustains American power. American workers thrive when they are free to innovate, develop and access our abundant natural resources, and operate in markets free from excessive regulations and unfair foreign trade practices. A growing and innovative economy allows the United States to maintain the world's most powerful military and protect our homeland.

We must rebuild our economic strength and restore confidence in the American economic model. Over decades, American factories, companies, and jobs moved overseas. After the 2008 global financial crisis, doubt replaced confidence. Risk-aversion and regulations replaced investment and entrepreneurship. The recovery produced anemic growth in real earnings for American workers. The U.S. trade deficit grew as a result of several factors, including unfair trading practices.

For 70 years, the United States has embraced a strategy premised on the belief that leadership of a stable international economic system rooted in American principles of reciprocity, free markets, and free trade served our economic and security interests. Working with our allies and partners, the United States led the creation of a group of financial institutions and other economic forums that established equitable rules and built instruments to stabilize the interna-

tional economy and remove the points of friction that had contributed to two world wars.

That economic system continues to serve our interests, but it must be reformed to help American workers prosper, protect our innovation, and reflect the principles upon which that system was founded. Trading partners and international institutions can do more to address trade imbalances and adhere to and enforce the rules of the order.

Today, American prosperity and security are challenged by an economic competition playing out in a broader strategic context. The United States helped expand the liberal economic trading system to countries that did not share our values, in the hopes that these states would liberalize their economic and political practices and provide commensurate benefits to the United States. Experience shows that these countries distorted and undermined key economic institutions without undertaking significant reform of their economies or politics. They espouse free trade rhetoric and exploit its benefits, but only adhere selectively to the rules and agreements.

We welcome all economic relationships rooted in fairness, reciprocity, and faithful adherence to the rules. Those who join this pursuit will be our closest economic partners. But the United States will no longer turn a blind eye to violations, cheating, or economic aggression. We must work with like-

minded allies and partners to ensure our principles prevail and the rules are enforced so that our economies prosper.

The United States will pursue an economic strategy that rejuvenates the domestic economy, benefits the American worker, revitalizes the U.S. manufacturing base, creates middle-class jobs, encourages innovation, preserves technological advantage, safeguards the environment, and achieves energy dominance. Rebuilding economic strength at home and preserving a fair and reciprocal international economic system will enhance our security and advance prosperity and peace in the world.

Rejuvenate the Domestic Economy

Economic challenges at home demand that we understand economic prosperity as a pillar of national security. Despite low unemployment rates and stock market gains, overall economic growth has, until recently, been anemic since the 2008 recession. In the past five years, gross domestic product (GDP) growth hovered barely above two percent, and wages stagnated. Taxes increased, and health insurance and prescription drug costs continued to rise, albeit at a slower pace. Education costs climbed at rates far above inflation, increasing student debt. Productivity growth fell to levels not seen in decades.

Significant government intrusion in the economy slowed growth and job creation. Regulatory and corporate tax policies incentivized businesses to invest overseas and disadvantaged American companies against foreign competitors. Excessive reg-

ulation burdened small businesses. Banking regulations squelched new bank formation and caused hundreds of small banks to close. Regulation

decreased credit availability to consumers and decreased product choice. Excessive environmental and infrastructure regulations impeded American energy trade and the development of new infrastructure projects.

Moreover, the poor state of our physical infrastructure stultified the economy, reduced the profitability of American small businesses, and slowed the productivity of American workers. America's digital infrastructure also fell behind. Improvements

in bandwidth, better broadband connectivity, and protection from persistent cyberattacks are needed to support America's future growth. Economic and personal transactions are dependent upon the ".com world," and wealth creation depends on a reliable, secure Internet.

The Administration is dedicated to rejuvenating the U.S. economy, unleashing the potential of all Americans, and restoring confidence in our free market system. Promoting American prosperity makes America more secure and advances American influence in the world.

Priority Actions

REDUCE REGULATORY BURDENS: Departments and agencies will eliminate unnecessary regulations that stifle growth, drive up costs for American businesses, impede research and development, discourage hiring, and incentivize domestic businesses to move overseas. We will balance our reduction in regulations with adequate protections and oversight.

Rebuilding economic strength at home and preserving a fair and reciprocal international economic system will enhance our security and advance prosperity and peace in the world.

PROMOTE TAX REFORM: This Administration will work with the Congress to create a simpler, fairer, and pro-growth tax code that encourages the creation of higher wage jobs and gives middle-income families tax relief. Reduced business tax rates and a territorial system for foreign subsidiary earnings will improve the competitiveness of American companies and encourage their return to the United States.

IMPROVE AMERICAN INFRASTRUCTURE: Federal, state, and local governments will work together with private industry to improve our airports, seaports and waterways, roads and railways, transit systems, and telecommunications. The United States will use our strategic advantage as a leading natural gas producer to transform transportation and manufacturing. We will improve America's digital infrastructure by deploying a secure 5G Internet capability nationwide. These improvements will increase national competitiveness, benefit the environment, and improve our quality of life.

REDUCE THE DEBT THROUGH FISCAL

RESPONSIBILITY: The national debt, now over \$20 trillion, presents a grave threat to America's long-term prosperity and, by extension, our national security. By restraining Federal spending, making government more efficient, and by modernizing our tax system and making our businesses globally competitive, our economy will grow and make the existing debt more serviceable.

SUPPORT EDUCATION AND APPRENTICESHIP PROGRAMS:

We will support apprenticeships and workforce development programs that prepare American workers for high-wage manufacturing and science, technology, engineering, and mathematics (STEM) jobs of the 21st century.

Promote Free, Fair, and Reciprocal Economic Relationships

For decades, the United States has allowed unfair trading practices to grow. Other countries have used dumping, discriminatory non-tariff barriers, forced technology transfers, non-economic capacity, industrial subsidies, and other support from governments and state-owned enterprises to gain economic advantages.

Today we must meet the challenge. We will address persistent trade imbalances, break down trade barriers, and provide Americans new opportunities to increase their exports. The United States will expand trade that is fairer so that U.S. workers and industries have more opportunities to compete for business. We oppose closed mercantilist trading blocks. By strengthening the international trading system and incentivizing other

countries to embrace market-friendly policies, we can enhance our prosperity.

The United States distinguishes between economic competition with countries that follow fair and free market principles and competition with those that act with little regard for those principles. We will compete with like-minded states in the economic domain—particularly where trade imbalances exist—while recognizing that competition is healthy when nations

share values and build fair and reciprocal relationships. The United States will pursue enforcement actions when countries violate the rules to gain unfair advantage. The United States will engage industrialized democracies and other like-minded states to defend against economic aggres-

The Administration is dedicated to rejuvenating the U.S. economy, unleashing the potential of all Americans, and restoring confidence in our free market system.

sion, in all its forms, that threatens our common prosperity and security.

Priority Actions

ADOPT NEW TRADE AND INVESTMENT AGREEMENTS AND MODERNIZE EXISTING ONES: The United States will pursue bilateral trade and investment agreements with countries that commit to fair and reciprocal trade and will modernize existing agreements to ensure they are consistent with those principles. Agreements must adhere to high standards in intellectual property, digital trade, agriculture, labor, and the environment.

COUNTER UNFAIR TRADE PRACTICES: The United States will counter all unfair trade practices that distort markets using all appropriate means, from dialogue to enforcement tools.

COUNTER FOREIGN CORRUPTION: Using our economic and diplomatic tools, the United States will continue to target corrupt foreign officials and work with countries to improve their ability to fight corruption so U.S. companies can compete fairly in transparent business climates.

WORK WITH LIKE-MINDED PARTNERS: The United States will work with like-minded partners to preserve and modernize the rules of a fair and reciprocal economic order. Together we will emphasize fair trade enforcement actions when necessary, as well as multinational efforts to ensure transparency and adherence to international standards within trade and investment projects.

FACILITATE NEW MARKET OPPORTUNITIES: The United States will partner with countries as they build their export markets, promote free market competition, and incentivize private sector growth. We will expand U.S. trade and investment opportunities and increase the market base for U.S. goods and services.

Lead in Research, Technology, Invention, and Innovation

The United States will build on the ingenuity that has launched industries, created jobs, and improved the quality of life at home and abroad. To maintain our competitive advantage, the United States will prioritize emerging technologies critical to economic growth and security, such as data science, encryption, autonomous technologies, gene editing, new materials, nanotechnology, advanced computing technologies, and artificial intelligence. From self-driving cars to autonomous weapons, the field of artificial intelligence, in particular, is progressing rapidly.

The United States must continue to attract the innovative and the inventive, the brilliant and the bold. We will encourage scientists in government, academia, and the private sector to achieve advancements across the full spectrum of discovery, from incremental improvements to game-changing breakthroughs. We will nurture a healthy innovation economy that collaborates with allies and partners, improves STEM education, draws on an advanced technical workforce, and invests in early-stage research and development (R&D).

Priority Actions

UNDERSTAND WORLDWIDE SCIENCE AND TECHNOLOGY (S&T) TRENDS: To retain U.S. advantages over our competitors, U.S. Government agencies must improve their understanding of worldwide S&T trends and how they are likely to influence—or undermine—American strategies and programs.

ATTRACT AND RETAIN INVENTORS AND INNOVATORS: The U.S. Government must improve our collaboration with industry and academia and our recruitment of technical talent. We will remove barriers to the full use of talent across Federal agencies, and increase incentives for hiring and retaining Federal STEM employees. Initiatives

will include rapid hiring, swift adjudication of national security clearances, and offers of competitive salaries. We must create easier paths for the flow of scientists, engineers, and technologists into and out of public service.

LEVERAGE PRIVATE CAPITAL AND EXPERTISE TO BUILD AND INNOVATE: The U.S. Government will use private sector technical expertise and R&D capabilities more effectively. Private industry owns many of the technologies that the government relies upon for critical national security missions. The Department of Defense and other agencies will establish strategic partnerships with U.S. companies to help align private sector R&D resources to priority national security applications.

RAPIDLY FIELD INVENTIONS AND INNOVATIONS: The United States must regain the element of surprise and field new technologies at the pace of modern industry. Government agencies must shift from an archaic R&D process to an approach that rewards rapid fielding and risk taking.

Promote and Protect the U.S. National Security Innovation Base

America's business climate and legal and regulatory systems encourage risk taking. We are a nation of people who work hard, dream big, and never give up. Not every country shares these characteristics. Some instead steal or illicitly acquire America's hard-earned intellectual property and proprietary information to compensate for their own systemic weaknesses.

Every year, competitors such as China steal U.S. intellectual property valued at hundreds of billions of dollars. Stealing proprietary technology and early-stage ideas allows competitors to unfairly tap into the innovation of free societies. Over the years, rivals have used sophisticated

means to weaken our businesses and our economy as facets of cyber-enabled economic warfare and other malicious activities. In addition to these illegal means, some actors use largely legitimate, legal transfers and relationships to gain access to fields, experts, and trusted foundries that fill their capability gaps and erode America's long-term competitive advantages.

We must defend our National Security Innovation Base (NSIB) against competitors. The NSIB is the American network of knowledge, capabilities, and people—including academia, National Laboratories, and the private sector—that turns ideas into innovations, transforms discoveries into successful commercial products and companies, and protects and enhances the American way of life. The genius of creative Americans, and the free system that enables them, is critical to American security and prosperity.

Protecting the NSIB requires a domestic and international response beyond the scope of any individual company, industry, university, or government agency. The landscape of innovation does not divide neatly into sectors. Technologies that are part of most weapon systems often originate in diverse businesses as well as in universities and colleges. Losing our innovation and technological edge would have far-reaching negative implications for American prosperity and power.

Priority Actions

UNDERSTAND THE CHALLENGES: The U.S. Government will develop a capability to integrate, monitor, and better understand the national security implications of unfair industry trends and the actions of our rivals. We will explore new ways to share this information with the private sector and academia so they better understand their responsibilities in curtailing activities that undercut America's NSIB.

PROTECT INTELLECTUAL PROPERTY: The United States will reduce the illicit appropriation of U.S. pub-

lic and private sector technology and technical knowledge by hostile foreign competitors. While maintaining an investor-friendly climate, this Administration will work with the Congress to strengthen the Committee on Foreign Investment in the United States (CFIUS) to ensure it addresses current and future national security risks. The United States will prioritize counterintelligence and law enforcement activities to curtail intellectual property theft by all sources and will explore new legal and regulatory mechanisms to prevent and prosecute violations.

For the first time in generations, the United States will be an energy-dominant nation.

TIGHTEN VISA PROCEDURES:

The United States will review visa procedures to reduce economic theft by non-traditional intelligence collectors. We will consider restrictions on foreign STEM students from designated countries to ensure that intellectual property is not transferred to our competitors, while acknowledging the importance of recruiting the most advanced technical workforce to the United States.

PROTECT DATA AND UNDERLYING INFRASTRUCTURE:

The United States will expand our focus beyond protecting networks to protecting the data on those networks so that it remains secure—both at rest and in transit. To do this, the U.S. Government will encourage practices across companies and universities to defeat espionage and theft.

Embrace Energy Dominance

For the first time in generations, the United States will be an energy-dominant nation. Energy dominance—America’s central position in the global energy system as a leading producer, consumer, and innovator—ensures that markets are free and U.S. infrastructure is resilient and secure. It ensures

that access to energy is diversified, and recognizes the importance of environmental stewardship.

Access to domestic sources of clean, affordable, and reliable energy underpins a prosperous, secure, and powerful America for decades to come.

Unleashing these abundant energy resources—coal, natural gas, petroleum, renewables, and nuclear—stimulates the economy and builds a foundation for future growth. Our Nation must take advantage of our wealth in domestic resources and energy efficiency to promote competitiveness across our industries.

The United States also anchors the North American energy system, which is one of the most highly integrated in the world. Our vibrant cross-border energy trade and investment are vital for a robust and resilient U.S. economy and energy market. We are committed to supporting energy initiatives that will attract investments, safeguard the environment, strengthen our energy security, and unlock the enormous potential of our shared region.

Climate policies will continue to shape the global energy system. U.S. leadership is indispensable to countering an anti-growth energy agenda that is detrimental to U.S. economic and energy security interests. Given future global energy demand, much of the developing world will require fossil fuels, as well as other forms of energy, to power their economies and lift their people out of poverty. The United States will continue to advance an approach that balances energy security, economic development, and environmental protection. The United States will remain a global leader in reducing traditional pollution, as well as greenhouse gases, while expanding our economy. This achievement, which can serve as a model to other countries, flows from innovation, technology breakthroughs, and energy efficiency gains, not from onerous regulation.

As a growing supplier of energy resources, technologies, and services around the world, the United States will help our allies and partners become more resilient against those that use energy to coerce. America's role as an energy exporter will also require an assessment of our vulnerabilities and a resilient American infrastructure.

Finally, the Nation's long-term energy security future rests with our people. We must invest in our future by supporting innovation and R&D, including through the National Laboratories.

Priority Actions

REDUCE BARRIERS: The United States will promote clean and safe development of our energy resources, while limiting regulatory burdens that encumber energy production and constrain economic growth. We will streamline the Federal regulatory approval processes for energy infrastructure, from pipeline and export terminals to container shipments and gathering lines, while also ensuring responsible environmental stewardship.

PROMOTE EXPORTS: The United States will promote exports of our energy resources, technologies, and services, which helps our allies and partners diversify their energy sources and brings economic gains back home. We will expand our export capacity through the continued support of private sector development of coastal terminals, allowing increased market access and a greater competitive edge for U.S. industries.

ENSURE ENERGY SECURITY: The United States will work with allies and partners to protect global energy infrastructure from cyber and physical threats. The United States will support the diversification of energy sources, supplies, and routes at home and abroad. We will modernize our strategic petroleum stocks and encourage other countries to develop their own—consistent with their national energy security needs.

ATTAIN UNIVERSAL ENERGY ACCESS: The United States will seek to ensure universal access to affordable, reliable energy, including highly efficient fossil fuels, nuclear, and renewables, to help reduce poverty, foster economic growth, and promote prosperity.

FURTHER AMERICA'S TECHNOLOGICAL EDGE: We will improve America's technological edge in energy, including nuclear technology, next-generation nuclear reactors, better batteries, advanced computing, carbon-capture technologies, and opportunities at the energy-water nexus. The United States will continue to lead in innovative and efficient energy technologies, recognizing the economic and environmental benefits to end users.



PILLAR III

PRESERVE PEACE THROUGH STRENGTH

“As long as I am President, the servicemen and women who defend our Nation will have the equipment, the resources, and the funding they need to secure our homeland, to respond to our enemies quickly and decisively, and, when necessary, to fight, to overpower, and to always, always, always win.”

PRESIDENT DONALD J. TRUMP | DECEMBER 2017

A central continuity in history is the contest for power. The present time period is no different. Three main sets of challenges—the revisionist powers of China and Russia, the rogue states of Iran and North Korea, and transnational threat organizations, particularly jihadist terrorist groups—are actively competing against the United States and our allies and partners. Although differing in nature and magnitude, these rivals compete across political, economic, and military arenas, and use technology and information to accelerate these contests in order to shift regional balances of power in their favor. These are fundamentally political contests between those who favor repressive systems and those who favor free societies.

China and Russia want to shape a world antithetical to U.S. values and interests. China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor. Russia seeks to restore its great power status and establish spheres of influence near its borders. The intentions of both nations are not necessarily fixed. The United

States stands ready to cooperate across areas of mutual interest with both countries.

For decades, U.S. policy was rooted in the belief that support for China’s rise and for its integration into the post-war international order would liberalize China. Contrary to our hopes, China expanded its power at the expense of the sovereignty of others. China gathers and exploits data on an unrivaled scale and spreads features of its authoritarian system, including corruption and the use of surveillance. It is building the most capable and well-funded military in the world, after our own. Its nuclear arsenal is growing and diversifying. Part of China’s military modernization and economic expansion is due to its access to the U.S. innovation economy, including America’s world-class universities.

Russia aims to weaken U.S. influence in the world and divide us from our allies and partners. Russia views the North Atlantic Treaty Organization (NATO) and European Union (EU) as threats. Russia is investing in new military capabilities, including nuclear systems that remain the most significant existential threat to the United States, and in

destabilizing cyber capabilities. Through modernized forms of subversive tactics, Russia interferes in the domestic political affairs of countries around the world. The combination of Russian ambition and growing military capabilities creates an unstable frontier in Eurasia, where the risk of conflict due to Russian miscalculation is growing.

The scourge of the world today is a small group of rogue regimes that violate all principles of free and civilized states. The Iranian regime sponsors terrorism around the world. It is developing more capable ballistic missiles and has the potential to resume its work on nuclear weapons that could threaten the United States and our partners. North Korea is ruled as a ruthless dictatorship without regard for human dignity. For more than 25 years, it has pursued nuclear weapons and ballistic missiles in defiance of every commitment it has made. Today, these missiles and weapons threaten the United States and our allies. The longer we ignore threats from countries determined to proliferate and develop weapons of mass destruction, the worse such threats become, and the fewer defensive options we have.

The United States continues to wage a long war against jihadist terrorist groups such as ISIS and al-Qa'ida. These groups are linked by a common radical Islamist ideology that encourages violence against the United States and our partners and produces misery for those under their control. Although the United States and our partners have inflicted defeats on ISIS and al-Qa'ida in Syria and Iraq, these organizations maintain global reach with established branches in strategic locations. The threat from jihadist terrorists will persist, even as we intensify efforts to prevent attacks on Americans, our allies, and our partners.

Protecting American interests requires that we compete continuously within and across these contests, which are being played out in regions around the world. The outcome of these con-

tests will influence the political, economic, and military strength of the United States and our allies and partners.

To prevail, we must integrate all elements of America's national power—political, economic, and military. Our allies and partners must also contribute the capabilities, and demonstrate the will, to confront shared threats. Experience suggests that the willingness of rivals to abandon or forgo aggression depends on their perception of U.S. strength and the vitality of our alliances.

The United States will seek areas of cooperation with competitors from a position of strength, foremost by ensuring our military power is second to none and fully integrated with our allies and all of our instruments of power. A strong military ensures that our diplomats are able to operate from a position of strength. In this way we can, together with our allies and partners, deter and if necessary, defeat aggression against U.S. interests and increase the likelihood of managing competitions without violent conflict and preserving peace.

Renew America's Competitive Advantages

The United States must consider what is enduring about the problems we face, and what is new. The contests over influence are timeless. They have existed in varying degrees and levels of intensity, for millennia. Geopolitics is the interplay of these contests across the globe. But some conditions are new, and have changed how these competitions are unfolding. We face simultaneous threats from different actors across multiple arenas—all accelerated by technology. The United States must develop new concepts and capabilities to protect our homeland, advance our prosperity, and preserve peace.

Since the 1990s, the United States displayed a great degree of strategic complacency. We assumed that our military superiority was guaranteed and that a democratic peace was inevitable. We believed that liberal-democratic enlargement and inclusion would fundamentally alter the nature of international relations and that competition would give way to peaceful cooperation.

Instead of building military capacity, as threats to our national security increased, the United States dramatically cut the size of our military to the lowest levels since 1940. Instead of developing important capabilities, the Joint Force entered a nearly decade long “procurement holiday” during which the acquisition of new weapon systems was severely limited. The breakdown of the Nation’s annual Federal budgeting process, exemplified by sequestration and repeated continuing resolutions, further contributed to the erosion of America’s military dominance during a time of increasing threats.

Despite decades of efforts to reform the way that the United States develops and procures new weapons, our acquisition system remained sclerotic. The Joint Force did not keep pace with emerging threats or technologies. We got less for our defense dollars, shortchanging American taxpayers and warfighters.

We also incorrectly believed that technology could compensate for our reduced capacity—for the ability to field enough forces to prevail militarily, consolidate our gains, and achieve our desired political ends. We convinced ourselves that all wars would be fought and won quickly, from stand-off distances and with minimal casualties.

In addition, after being dismissed as a phenomenon of an earlier century, great power competition returned. China and Russia began to reassert their influence regionally and globally. Today, they are fielding military capabilities designed to deny

America access in times of crisis and to contest our ability to operate freely in critical commercial zones during peacetime. In short, they are contesting our geopolitical advantages and trying to change the international order in their favor.

Moreover, deterrence today is significantly more complex to achieve than during the Cold War. Adversaries studied the American way of war and began investing in capabilities that targeted our strengths and sought to exploit perceived weaknesses. The spread of accurate and inexpensive weapons

and the use of cyber tools have allowed state and non-state competitors to harm the United States across various domains. Such capabilities contest what was until recently U.S. dominance across the land, air, maritime, space, and cyberspace domains. They also enable adversaries to attempt strategic attacks against the United States—without resorting to nuclear weapons—in ways that could cripple our economy and our ability to deploy our military forces. Deterrence must be extended across all of these domains and must address all possible strategic attacks.

In addition, adversaries and competitors became adept at operating below the threshold of open military conflict and at the edges of international law. Repressive, closed states and organizations, although brittle in many ways, are often more agile and faster at integrating economic, military, and especially informational

The United States will seek areas of cooperation with competitors from a position of strength, foremost by ensuring our military power is second to none and fully integrated with our allies and all of our instruments of power.

means to achieve their goals. They are unencumbered by truth, by the rules and protections of privacy inherent in democracies, and by the law of armed conflict. They employ sophisticated political, economic, and military campaigns that combine discrete actions. They are patient and content to accrue strategic gains over time—making it harder for the United States and our allies to respond. Such actions are calculated to achieve maximum effect without provoking a direct military response from the United States. And as these incremental gains are realized, over time, a new status quo emerges.

The United States must prepare for this type of competition. China, Russia, and other state and non-state actors recognize that the United States often views the world in binary terms, with states being either “at peace” or “at war,” when it is actually an arena of continuous competition. Our adversaries will not fight us on our terms. We will raise our competitive game to meet that challenge, to protect American interests, and to advance our values.

Our diplomatic, intelligence, military, and economic agencies have not kept pace with the changes in the character of competition. America’s military must be prepared to operate across a full spectrum of conflict, across multiple domains at once. To meet these challenges we must also upgrade our political and economic instruments to operate across these environments.

Bureaucratic inertia is powerful. But so is the talent, creativity, and dedication of Americans. By aligning our public and private sector efforts we can field a Joint Force that is unmatched. New advances in computing, autonomy, and manufacturing are already transforming the way we fight. When coupled with the strength of our allies and partners, this advantage grows. The future that we face is ours to win or lose. History suggests that Americans will rise to the occasion and that we can shift trends back in favor of the United States, our allies, and our partners.

Renew Capabilities

Given the new features of the geopolitical environment, the United States must renew key capabilities to address the challenges we face.

Military

U.S. military strength remains a vital component of the competition for influence. The Joint Force demonstrates U.S. resolve and commitment and provides us with the ability to fight and win across any plausible conflict that threatens U.S. vital interests.

The United States must retain overmatch—the combination of capabilities in sufficient scale to prevent enemy success and to ensure that America’s sons and daughters will never be in a fair fight. Overmatch strengthens our diplomacy and permits us to shape the international environment to protect our interests. To retain military overmatch the United States must restore our ability to produce innovative capabilities, restore the readiness of our forces for major war, and grow the size of the force so that it is capable of operating at sufficient scale and for ample duration to win across a range of scenarios.

We must convince adversaries that we can and will defeat them—not just punish them if they attack the United States. We must ensure the ability to deter potential enemies by denial, convincing them that they cannot accomplish objectives through the use of force or other forms of aggression. We need our allies to do the same—to modernize, acquire necessary capabilities, improve readiness, expand the size of their forces, and affirm the political will to win.

Priority Actions

MODERNIZATION: Ensuring that the U.S. military can defeat our adversaries requires weapon systems that clearly overmatch theirs in lethality. Where possible, we must improve existing systems to maximize returns on prior investments. In other areas we should seek new capabilities that create clear advantages for our military while posing costly dilemmas for our adversaries. We must eliminate bureaucratic impediments to innovation and embrace less expensive and time-intensive commercial off-the-shelf solutions. Departments and agencies must work with industry to experiment, prototype, and rapidly field new capabilities that can be easily upgraded as new technologies come online.

ACQUISITION: The United States will pursue new approaches to acquisition to make better deals on behalf of the American people that avoid cost overruns, eliminate bloated bureaucracies, and stop unnecessary delays so that we can put the right equipment into the hands of our forces. We must harness innovative technologies that are being developed outside of the traditional defense industrial base.

CAPACITY: The size of our force matters. To deter conflict and, if deterrence fails, to win in war, the Nation must be able to field forces capable of operating in sufficient scale and for ample duration to defeat enemies, consolidate military gains, and achieve sustainable outcomes that protect the American people and our vital interests. The United States must reverse recent decisions to reduce the size of the Joint Force and grow the force while modernizing and ensuring readiness.

Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.

IMPROVE READINESS: The United States must retain a ready force that is capable of protecting the homeland while defending U.S. interests. Readiness requires a renewed focus on training, logistics, and maintenance. We must be able to get to a theater in time to shape events quickly. This will require a resilient forward posture and agile global mobility forces.

RETAIN A FULL-SPECTRUM FORCE: The Joint Force must remain capable of deterring and defeating the full range of threats to the United States. The Department of Defense must develop new operational concepts and capabilities to win without assured dominance in air, maritime, land, space, and cyberspace domains, including against those operating below the level of conventional military conflict.

We must sustain our competence in irregular warfare, which requires planning for a long-term, rather than ad hoc, fight against terrorist networks and other irregular threats.

Defense Industrial Base

A healthy defense industrial base is a critical element of U.S. power and the National Security Innovation Base. The ability of the military to surge in response to an emergency depends on our Nation's ability to produce needed parts and systems, healthy and secure supply chains, and a skilled U.S. workforce. The erosion of American manufacturing over the last two decades, however, has had a negative impact on these capabilities and threatens to undermine the ability of U.S. manufacturers to meet national security requirements. Today, we rely on single domestic sources for some products and foreign supply chains for others, and we face the possibility of not being able to produce specialized components for

the military at home. As America's manufacturing base has weakened, so too have critical workforce skills ranging from industrial welding, to high-technology skills for cybersecurity and aerospace. Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.

Priority Actions

UNDERSTAND THE PROBLEM: We will evaluate the strengths and weaknesses of our defense industrial base, including the identification of materials essential to national security, contingencies that could affect supply chains, and technologies that are likely to be critical for the future.

ENCOURAGE HOMELAND INVESTMENT: The United States will promote policies and incentives that return key national security industries to American shores. Where possible, the U.S. Government will work with industry partners to strengthen U.S. competitiveness in key technologies and manufacturing capabilities. In addition, we will reform regulations and processes to facilitate the export of U.S. military equipment.

PROTECT AND GROW CRITICAL SKILLS: The United States must maintain and develop skilled trades and high-technology skills through increased support for technical college and apprenticeship programs. We will support STEM efforts, at the Federal and state levels, and target national security technology areas.

Nuclear Forces

Nuclear weapons have served a vital purpose in America's National Security Strategy for the past 70 years. They are the foundation of our strategy to preserve peace and stability by deterring aggression against the United States, our allies, and our partners. While nuclear deterrence strategies cannot prevent all conflict, they are essen-

tial to prevent nuclear attack, non-nuclear strategic attacks, and large-scale conventional aggression. In addition, the extension of the U.S. nuclear deterrent to more than 30 allies and partners helps to assure their security, and reduces their need to possess their own nuclear capabilities.

Following the Cold War, the United States reduced investments in our nuclear enterprise and reduced the role of nuclear weapons in our strategy. Some parts of America's strategic nuclear Triad of bombers, sea-based missiles, and land-based missiles are over 30 years old, and much of our nuclear infrastructure dates to the World War II era. At the same time, however, nuclear-armed adversaries have expanded their arsenals and range of delivery systems. The United States must maintain the credible deterrence and assurance capabilities provided by our nuclear Triad and by U.S. theater nuclear capabilities deployed abroad. Significant investment is needed to maintain a U.S. nuclear arsenal and infrastructure that is able to meet national security threats over the coming decades.

Priority Actions

SUSTAIN U.S. NUCLEAR WEAPONS: The United States will sustain a nuclear force structure that meets our current needs and addresses unanticipated risks. The United States does not need to match the nuclear arsenals of other powers, but we must sustain a stockpile that can deter adversaries, assure allies and partners, and achieve U.S. objectives if deterrence fails.

MODERNIZE U.S. NUCLEAR FORCES AND INFRASTRUCTURE: We will modernize our nuclear enterprise to ensure that we have the scientific, engineering, and manufacturing capabilities necessary to retain an effective and safe nuclear Triad and respond to future national security threats. Modernization and sustainment require investing in our aging command and control system and maintaining and growing

the highly skilled workforce needed to develop, manufacture, and deploy nuclear weapons.

MAINTAIN STABLE DETERRENCE: To avoid miscalculation, the United States will conduct discussions with other states to build predictable relationships and reduce nuclear risks. We will consider new arms control arrangements if they contribute to strategic stability and if they are verifiable. We will not allow adversaries to use threats of nuclear escalation or other irresponsible nuclear behaviors to coerce the United States, our allies, and our partners. Fear of escalation will not prevent the United States from defending our vital interests and those of our allies and partners.

Space

The United States must maintain our leadership and freedom of action in space. Communications and financial networks, military and intelligence systems, weather monitoring, navigation, and more have components in the space domain. As U.S. dependence on space has increased, other actors have gained access to space-based systems and information. Governments and private sector firms have the ability to launch satellites into space at increasingly lower costs. The fusion of data from imagery, communications, and geolocation services allows motivated actors to access previously unavailable information. This “democratization of space” has an impact on military operations and on America’s ability to prevail in conflict.

Many countries are purchasing satellites to support their own strategic military activities. Others believe that the ability to attack space assets offers an asymmetric advantage and as a result, are pursuing a range of anti-satellite (ASAT) weapons. The United States considers unfettered access to and freedom to operate in space to be a vital interest. Any harmful interference with or an attack upon critical components of our space architecture that directly affects this vital U.S. inter-

est will be met with a deliberate response at a time, place, manner, and domain of our choosing.

Priority Actions

ADVANCE SPACE AS A PRIORITY DOMAIN: America’s newly re-established National Space Council, chaired by the Vice President, will review America’s long-range space goals and develop a strategy that integrates all space sectors to support innovation and American leadership in space.

PROMOTE SPACE COMMERCE: The United States will simplify and update regulations for commercial space activity to strengthen competitiveness. As the U.S. Government partners with U.S. commercial space capabilities to improve the resiliency of our space architecture, we will also consider extending national security protections to our private sector partners as needed.

MAINTAIN LEAD IN EXPLORATION: To enable human exploration across the solar system and to bring back to Earth new knowledge and opportunities, we will increase public-private partnerships and promote ventures beyond low Earth orbit with allies and friends.

Cyberspace

Malicious state and non-state actors use cyberattacks for extortion, information warfare, disinformation, and more. Such attacks have the capability to harm large numbers of people and institutions with comparatively minimal investment and a troubling degree of deniability. These attacks can undermine faith and confidence in democratic institutions and the global economic system.

Many countries now view cyber capabilities as tools for projecting influence, and some use cyber tools to protect and extend their autocratic regimes. Cyberattacks have become a key feature of modern conflict. The United States will deter,

defend, and when necessary defeat malicious actors who use cyberspace capabilities against the United States. When faced with the opportunity to take action against malicious actors in cyberspace, the United States will be risk informed, but not risk averse, in considering our options.

Priority Actions

IMPROVE ATTRIBUTION, ACCOUNTABILITY, AND RESPONSE: We will invest in capabilities to support and improve our ability to attribute cyberattacks, to allow for rapid response.

ENHANCE CYBER TOOLS AND EXPERTISE: We will improve our cyber tools across the spectrum of conflict to protect U.S. Government assets and U.S. critical infrastructure, and to protect the integrity of data and information. U.S. departments and agencies will recruit, train, and retain a workforce capable of operating across this spectrum of activity.

IMPROVE INTEGRATION AND AGILITY: We will improve the integration of authorities and procedures across the U.S. Government so that cyber operations against adversaries can be conducted as required. We will work with the Congress to address the challenges that continue to hinder timely intelligence and information sharing, planning and operations, and the development of necessary cyber tools.

Intelligence

America's ability to identify and respond to geostrategic and regional shifts and their political, economic, military, and security implications requires that the U.S. Intelligence Community (IC) gather, analyze, discern, and operationalize information. In this information-dominant era, the IC must continuously pursue strategic intelligence to anticipate geostrategic shifts, as well as shorter-term intelligence so that the United States can respond to the actions and provocations of rivals.

The ability of the United States to modernize our military forces to overmatch our adversaries requires intelligence support. Intelligence is needed to understand and anticipate foreign doctrine and the intent of foreign leaders, prevent tactical and operational surprise, and ensure that U.S. capabilities are not compromised before they are fielded. In addition, virtually all modern weapon systems depend upon data derived from scientific and technical intelligence.

The IC, as well as the law enforcement community, offer unique abilities to defend against and mitigate threat actors operating below the threshold of open conflict. Both communities have exceptionally strong liaison relationships throughout the world, allowing the United States to cooperate with allies and partners to protect against adversaries.

Priority Actions

IMPROVE UNDERSTANDING: To prevent the theft of sensitive and proprietary information and maintain supply chain integrity, the United States must increase our understanding of the economic policy priorities of our adversaries and improve our ability to detect and defeat their attempts to commit economic espionage.

HARNESS ALL INFORMATION AT OUR DISPOSAL: The United States will, in concert with allies and partners, use the information-rich open-source environment to deny the ability of state and non-state actors to attack our citizens, conduct offensive intelligence activities, and degrade America's democratic institutions.

FUSE INFORMATION AND ANALYSIS: The United States will fuse our analysis of information derived from the diplomatic, information, military, and economic domains to compete more effectively on the geopolitical stage.

Diplomacy and Statecraft

Competitive Diplomacy

Across the competitive landscape, America's diplomats are our forward-deployed political capability, advancing and defending America's interests abroad. Diplomacy catalyzes the political, economic, and societal connections that create America's enduring alignments and that build positive networks of relationships with partners. Diplomacy sustains dialogue and fosters areas of cooperation with competitors. It reduces the risk of costly miscommunication.

Diplomacy is indispensable to identify and implement solutions to conflicts in unstable regions of the world short of military involvement. It helps to galvanize allies for action and marshal the collective resources of like-minded nations and organizations to address shared problems. Authoritarian states are eager to replace the United States where the United States withdraws our diplomats and closes our outposts.

We must upgrade our diplomatic capabilities to compete in the current environment and to embrace a competitive mindset. Effective diplomacy requires the efficient use of limited resources, a professional diplomatic corps, modern and safe facilities, and secure methods to communicate and engage with local populations.

Diplomacy is indispensable to identify and implement solutions to conflicts in unstable regions of the world short of military involvement. It helps to galvanize allies for action and marshal the collective resources of like-minded nations and organizations to address shared problems.

Priority Actions

PRESERVE A FORWARD DIPLOMATIC PRESENCE: Our diplomats must be able to build and sustain relationships where U.S. interests are at stake. Face-to-face diplomacy cannot be replaced by technology. Relationships, developed over time, create trust and shared understanding that the United States calls upon when confronting security threats, responding to crises, and encouraging others to share the

burden for tackling the world's challenges. We must enable forward-deployed field work beyond the confines of diplomatic facilities, including partnering with military colleagues in conflict-affected states.

ADVANCE AMERICAN INTERESTS: In the ongoing contests for power, our diplomats must build and lead coalitions that advance shared interests and articulate America's vision in international forums, in bilateral

relationships, and at local levels within states. Our diplomats need additional flexibility to operate in complex conflict-affected areas.

CATALYZE OPPORTUNITIES: Diplomats must identify opportunities for commerce and cooperation, and facilitate the cultural, educational, and people-to-people exchanges that create the networks of current and future political, civil society, and educational leaders who will extend a free and prosperous world.

Tools of Economic Diplomacy

Retaining our position as the world's preeminent economic actor strengthens our ability to use the tools of economic diplomacy for the good of Americans and others. Maintaining America's central role in international financial forums enhances our security and prosperity by expanding a community of free market economies, defending against threats from state-led economies, and protecting the U.S. and international economy from abuse by illicit actors.

We want to create wealth for Americans and our allies and partners. Prosperous states are stronger security partners who are able to share the burden of confronting common threats. Fair and reciprocal trade, investments, and exchanges of knowledge deepen our alliances and partnerships, which are necessary to succeed in today's competitive geopolitical environment. Trade, export promotion, targeted use of foreign assistance, and modernized development finance tools can promote stability, prosperity, and political reform, and build new partnerships based on the principle of reciprocity.

Economic tools—including sanctions, anti-money-laundering and anti-corruption measures, and enforcement actions—can be important parts of broader strategies to deter, coerce, and constrain adversaries. We will work with like-minded partners to build support for tools of economic diplomacy against shared threats. Multilateral economic pressure is often more effective because it limits the ability of targeted states to circumvent measures and conveys united resolve.

America's competitors weaponize information to attack the values and institutions that underpin free societies, while shielding themselves from outside information.

Priority Actions

REINFORCE ECONOMIC TIES WITH ALLIES AND PARTNERS: We will strengthen economic ties as a core aspect of our relationships with like-minded states and use our economic expertise, markets, and resources to bolster states threatened by our competitors.

DEPLOY ECONOMIC PRESSURE ON SECURITY THREATS: We will use existing and pursue new economic authorities and mobilize international actors to increase pressure on threats to peace and security in order to resolve confrontations short of military action.

SEVER SOURCES OF FUNDING: We will deny revenue to terrorists, WMD proliferators, and other illicit actors in order to constrain their ability to use and move funds to support hostile acts and operations.

Information Statecraft

America's competitors weaponize information to attack the values and institutions that underpin free societies, while shielding themselves from outside information. They exploit marketing techniques to target individuals based upon their activities, interests,

opinions, and values. They disseminate misinformation and propaganda.

Risks to U.S. national security will grow as competitors integrate information derived from personal and commercial sources with intelligence collection and data analytic capabilities based on Artificial Intelligence (AI) and machine learning. Breaches of U.S. commercial and government organizations also provide adversaries with data and insights into their target audiences.

China, for example, combines data and the use of AI to rate the loyalty of its citizens to the state and uses these ratings to determine jobs and more. Jihadist terrorist groups continue to wage ideological information campaigns to establish and legitimize their narrative of hate, using sophisticated communications tools to attract recruits and encourage attacks against Americans and our partners.

Russia uses information operations as part of its offensive cyber efforts to influence public opinion across the globe. Its influence campaigns blend covert intelligence operations and false online personas with state-funded media, third-party intermediaries, and paid social media users or “trolls.”

U.S. efforts to counter the exploitation of information by rivals have been tepid and fragmented. U.S. efforts have lacked a sustained focus and have been hampered by the lack of properly trained professionals. The American private sector has a direct interest in supporting and amplifying voices that stand for tolerance, openness, and freedom.

Priority Actions

PRIORITIZE THE COMPETITION: We will improve our understanding of how adversaries gain informational and psychological advantages across all policies. The United States must empower a true public diplomacy capability to compete effectively in this arena.

DRIVE EFFECTIVE COMMUNICATIONS: We will craft and direct coherent communications campaigns to advance American influence and counter challenges from the ideological threats that emanate from radical Islamist groups and competitor nations. These campaigns will adhere to American values and expose adversary propaganda and disinformation.

ACTIVATE LOCAL NETWORKS: Local voices are most compelling and effective in ideological competitions. We must amplify credible voices and partner with them to advance alternatives to violent and hateful messages. Since media and Internet companies are the platforms through which messages are transported, the private sector should lend its creativity and resources to promoting the values that inspire and grow a community of civilized groups and individuals.

SHARE RESPONSIBILITY: The United States will urge states where radicalism thrives to take greater responsibility for countering violent messaging and promoting tolerant and pluralistic worldviews.

UPGRADE, TAILOR, AND INNOVATE: We will reexamine legacy delivery platforms for communicating U.S. messages overseas. We must consider more cost-effective and efficient ways to deliver and evaluate content consistent with U.S. national security interests.



PILLAR IV

ADVANCE AMERICAN INFLUENCE

*“Above all, we value the dignity of every human life,
protect the rights of every person, and share the hope of every soul
to live in freedom. That is who we are.”*

PRESIDENT DONALD J. TRUMP | JULY 2017

Our America First foreign policy celebrates America’s influence in the world as a positive force that can help set the conditions for peace and prosperity and for developing successful societies.

There is no arc of history that ensures that America’s free political and economic system will automatically prevail. Success or failure depends upon our actions. This Administration has the confidence to compete to protect our values and interests and the fundamental principles that underpin them.

During the Cold War, a totalitarian threat from the Soviet Union motivated the free world to create coalitions in defense of liberty. Today’s challenges to free societies are just as serious, but more diverse. State and non-state actors project influence and advance their objectives by exploiting information, democratic media freedoms, and international institutions. Repressive leaders often collaborate to subvert free societies and corrupt multilateral organizations.

Around the world, nations and individuals admire what America stands for. We treat people equally and value and uphold the rule of law. We have a democratic system that allows the best ideas to flourish. We know how to grow economies so that individuals can achieve prosperity. These

qualities have made America the richest country on earth—rich in culture, talent, opportunities, and material wealth.

The United States offers partnership to those who share our aspirations for freedom and prosperity. We lead by example. “The world has its eye upon America,” Alexander Hamilton once observed. “The noble struggle we have made in the cause of liberty, has occasioned a kind of revolution in human sentiment. The influence of our example has penetrated the gloomy regions of despotism.”

We are not going to impose our values on others. Our alliances, partnerships, and coalitions are built on free will and shared interests. When the United States partners with other states, we develop policies that enable us to achieve our goals while our partners achieve theirs.

Allies and partners are a great strength of the United States. They add directly to U.S. political, economic, military, intelligence, and other capabilities. Together, the United States and our allies and partners represent well over half of the global GDP. None of our adversaries have comparable coalitions.

We encourage those who want to join our community of like-minded democratic states and

improve the condition of their peoples. By modernizing U.S. instruments of diplomacy and development, we will catalyze conditions to help them achieve that goal. These aspiring partners include states that are fragile, recovering from conflict, and seeking a path forward to sustainable security and economic growth. Stable, prosperous, and friendly states enhance American security and boost U.S. economic opportunities.

We will continue to champion American values and offer encouragement to those struggling for human dignity in their societies. There can be no moral equivalency between nations that uphold the rule of law, empower women, and respect individual rights and those that brutalize and suppress their people. Through our words and deeds, America demonstrates a positive alternative to political and religious despotism.

Encourage Aspiring Partners

Some of the greatest triumphs of American statecraft resulted from helping fragile and developing countries become successful societies. These successes, in turn, created profitable markets for American businesses, allies to help achieve favorable regional balances of power, and coalition partners to share burdens and address a variety of problems around the world. Over time, the United States has helped create a network of states that advance our common interests and values.

This historical record is unprecedented and exceptional. American support to aspiring partners enabled the recovery of the countries of Western Europe under the Marshall Plan, as well as the

ongoing integration of Central and Eastern Europe into Western institutions after the Cold War. In Asia, the United States worked with South Korea and Japan, countries ravaged by war, to help them become successful democracies and among the most prosperous economies in the world.

There is no arc of history that ensures that America's free political and economic system will automatically prevail. Success or failure depends upon our actions.

These achievements were products of patient partnerships with those who aspired to build prosperous societies and join the community of democratic states. They resulted in mutually beneficial relationships in which the United States helped states mobilize their own resources to achieve transitions to growth and stability. Working with these countries made the United States wealthier and

more competitive. This progress illustrates how effective foreign assistance programs should reach their natural endpoint.

Today, the United States must compete for positive relationships around the world. China and Russia target their investments in the developing world to expand influence and gain competitive advantages against the United States. China is investing billions of dollars in infrastructure across the globe. Russia, too, projects its influence economically, through the control of key energy and other infrastructure throughout parts of Europe and Central Asia. The United States provides an alternative to state-directed investments, which often leave developing countries worse off. The United States pursues economic ties not only for market access but also to create enduring relationships to advance common political and security interests.

The United States will promote a development model that partners with countries that want progress, consistent with their culture, based on free market principles, fair and reciprocal trade, private

sector activity, and rule of law. The United States will shift away from a reliance on assistance based on grants to approaches that attract private capital and catalyze private sector activity. We will emphasize reforms that unlock the economic potential of citizens, such as the promotion of formal property rights, entrepreneurial reforms, and infrastructure improvements—projects that help people earn their livelihood and have the added benefit of helping U.S. businesses. By mobilizing both public and private resources, the United States can help maximize returns and outcomes and reduce the burden on U.S. Government resources. Unlike the state-directed mercantilism of some competitors that can disadvantage recipient nations and promote dependency, the purpose of U.S. foreign assistance should be to end the need for it. The United States seeks strong partners, not weak ones.

U.S. development assistance must support America's national interests. We will prioritize collaboration with aspiring partners that are aligned with U.S. interests. We will focus on development investments where we can have the most impact—where local reformers are committed to tackling their economic and political challenges.

Within this framework, the United States will also assist fragile states to prevent threats to the U.S. homeland. Transnational threat organizations, such as jihadist terrorists and organized crime, often operate freely from fragile states and undermine sovereign governments. Failing states can destabilize entire regions.

Across Africa, Latin America, and Asia, states are eager for investments and financing to develop their infrastructure and propel growth. The United States and its partners have opportunities to work with countries to help them realize their potential as prosperous and sovereign states that are accountable to their people. Such states can become trading partners that buy more American-made goods and create more predictable business environments that benefit American

companies. American-led investments represent the most sustainable and responsible approach to development and offer a stark contrast to the corrupt, opaque, exploitive, and low-quality deals offered by authoritarian states.

Priority Actions: Developing Countries

MOBILIZE RESOURCES: The United States will modernize its development finance tools so that U.S. companies have incentives to capitalize on opportunities in developing countries. With these changes, the United States will not be left behind as other states use investment and project finance to extend their influence. In addition, the U.S. Government must not be an obstacle to U.S. companies that want to conduct business in the developing world.

CAPITALIZE ON NEW TECHNOLOGIES: We will incorporate innovative technologies in our diplomatic and development programs. For example, digital technologies enable millions to access financial services through their cell phones and can connect farmers to markets. Such technologies can reduce corruption, increase transparency, and help ensure that money reaches its intended destination.

INCENTIVIZE REFORMS: The United States will use diplomacy and assistance to encourage states to make choices that improve governance, rule of law, and sustainable development. We already do this through the Millennium Challenge Corporation, which selects countries that are committed to reform and then monitors and evaluates their projects.

Priority Actions: Fragile States

COMMIT SELECTIVELY: We will give priority to strengthening states where state weaknesses or failure would magnify threats to the American

homeland. For instance, engagement in Afghanistan seeks to prevent the reemergence of terrorist safe havens.

WORK WITH REFORMERS: Political problems are at the root of most state fragility. The United States will prioritize programs that empower reform-minded governments, people, and civil society. As the United States designs its efforts, inputs from local actors improve the likelihood of enduring solutions, reduce costs, and increase accountability to the American taxpayer.

SYNCHRONIZE ACTIONS: The United States must use its diplomatic, economic, and military tools simultaneously when assisting aspiring partners. We will place a priority on economic support that achieves local and macroeconomic stability, helps build capable security forces, and strengthens the rule of law.

Achieve Better Outcomes in Multilateral Forums

The United States must lead and engage in the multinational arrangements that shape many of the rules that affect U.S. interests and values. A competition for influence exists in these institutions. As we participate in them, we must protect American sovereignty and advance American interests and values.

A range of international institutions establishes the rules for how states, businesses, and individuals interact with each other, across land and sea, the Arctic, outer space, and the digital realm. It is vital to U.S. prosperity and security that these institutions uphold the rules that help keep these common domains open and free. Free access to the seas remains a central principle of national security and economic prosperity, and exploration of sea and space provides opportunities for commercial gain and scientific breakthroughs. The flow of data

and an open, interoperable Internet are inseparable from the success of the U.S. economy.

Authoritarian actors have long recognized the power of multilateral bodies and have used them to advance their interests and limit the freedom of their own citizens. If the United States cedes leadership of these bodies to adversaries, opportunities to shape developments that are positive for the United States will be lost. All institutions are not equal, however. The United States will prioritize its efforts in those organizations that serve American interests, to ensure that they are strengthened and supportive of the United States, our allies, and our partners. Where existing institutions and rules need modernizing, the United States will lead to update them. At the same time, it should be clear that the United States will not cede sovereignty to those that claim authority over American citizens and are in conflict with our constitutional framework.

Priority Actions

EXERCISE LEADERSHIP IN POLITICAL AND SECURITY

BODIES: The United States will strive for outcomes in political and security forums that are consistent with U.S. interests and values—values which are shared by our allies and partners. The United Nations can help contribute to solving many of the complex problems in the world, but it must be reformed and recommit to its founding principles. We will require accountability and emphasize shared responsibility among members. If the United States is asked to provide a disproportionate level of support for an institution, we will expect a commensurate degree of influence over the direction and efforts of that institution.

SHAPE AND REFORM INTERNATIONAL FINANCIAL AND

TRADE INSTITUTIONS: The United States will continue to play a leading role in institutions such as the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO), but will

improve their performance through reforms. These reforms include encouraging multilateral development banks to invest in high-quality infrastructure projects that promote economic growth. We will press to make the WTO a more effective forum to adjudicate unfair trade practices.

ENSURE COMMON DOMAINS

REMAIN FREE: The United States will provide leadership and technology to shape and govern common domains—space, cyberspace, air, and maritime—within the framework of international law. The United States supports the peaceful resolution of disputes under international law but will use all of its instruments of power to defend U.S. interests and to ensure common domains remain free.

*For much of the world,
America's liberties are
inspirational, and the United
States will always stand
with those who seek freedom.
We will remain a beacon
of liberty and opportunity
around the world.*

PROTECT A FREE AND OPEN

INTERNET: The United States will advocate for open, interoperable communications, with minimal barriers to the global exchange of information and services. The United States will promote the free flow of data and protect its interests through active engagement in key organizations, such as the Internet Corporation for Assigned Names and Numbers (ICANN), the Internet Governance Forum (IGF), the UN, and the International Telecommunication Union (ITU).

the law. America's core principles, enshrined in the Declaration of Independence, are secured by the Bill of Rights, which proclaims our respect for fundamental individual liberties beginning with the freedoms of religion, speech, the press, and assembly. Liberty, free enterprise, equal justice under the law, and the dignity of every

human life are central to who we are as a people.

These principles form the foundation of our most enduring alliances, and the United States will continue to champion them. Governments that respect the rights of their citizens remain the best vehicle for prosperity, human happiness, and peace. In contrast, governments that routinely abuse the rights of their citizens do not play constructive roles in the world. For example, governments that fail to treat women equally do not allow

their societies to reach their potential.

No nation can unilaterally alleviate all human suffering, but just because we cannot help everyone does not mean that we should stop trying to help anyone. For much of the world, America's liberties are inspirational, and the United States will always stand with those who seek freedom. We will remain a beacon of liberty and opportunity around the world.

The United States also remains committed to supporting and advancing religious freedom—America's first freedom. Our Founders understood religious freedom not as the state's creation, but as the gift of God to every person and a fundamental right for our flourishing society.

And it is part of our culture, as well as in America's interest, to help those in need and those trying to

Champion American Values

The extraordinary trajectory of the United States from a group of colonies to a thriving, industrialized, sovereign republic—the world's lone superpower—is a testimony to the strength of the idea on which our Nation is founded, namely that each of our citizens is born free and equal under

build a better future for their families. We aid others judiciously, aligning our means to our objectives, but with a firm belief that we can improve the lives of others while establishing conditions for a more secure and prosperous world.

Priority Actions

SUPPORT THE DIGNITY OF INDIVIDUALS: We support, with our words and actions, those who live under oppressive regimes and who seek freedom, individual dignity, and the rule of law. We are under no obligation to offer the benefits of our free and prosperous community to repressive regimes and human rights abusers. We may use diplomacy, sanctions, and other tools to isolate states and leaders who threaten our interests and whose actions run contrary to our values. We will not remain silent in the face of evil. We will hold perpetrators of genocide and mass atrocities accountable.

DEFEAT TRANSNATIONAL TERRORIST ORGANIZATIONS: There can be no greater action to advance the rights of individuals than to defeat jihadist terrorists and other groups that foment hatred and use violence to advance their supremacist Islamist ideologies. We will continue to join with other states to defeat this scourge of all civilized peoples.

EMPOWER WOMEN AND YOUTH: Societies that empower women to participate fully in civic and economic life are more prosperous and peaceful. We will support efforts to advance women's equality, protect the rights of women and girls, and promote women and youth empowerment programs.

PROTECT RELIGIOUS FREEDOM AND RELIGIOUS MINORITIES: We will advocate on behalf of religious freedom and threatened minorities. Religious minorities continue to be victims of violence. We will place a priority on protecting these groups and will continue working with regional partners to protect minority communities from attacks and to preserve their cultural heritage.

REDUCE HUMAN SUFFERING: The United States will continue to lead the world in humanitarian assistance. Even as we expect others to share responsibility, the United States will continue to catalyze international responses to man-made and natural disasters and provide our expertise and capabilities to those in need. We will support food security and health programs that save lives and address the root cause of hunger and disease. We will support displaced people close to their homes to help meet their needs until they can safely and voluntarily return home.



THE STRATEGY IN A REGIONAL CONTEXT

The United States must tailor our approaches to different regions of the world to protect U.S. national interests. We require integrated regional strategies that appreciate the nature and magnitude of threats, the intensity of competitions, and the promise of available opportunities, all in the context of local political, economic, social, and historical realities.

Changes in a regional balance of power can have global consequences and threaten U.S. interests. Markets, raw materials, lines of communication, and human capital are located within, or move among, key regions of the world. China and Russia aspire to project power worldwide, but they interact most with their neighbors. North Korea and Iran also pose the greatest menace to those closest to them. But, as destructive weapons proliferate and regions become more interconnected, threats become more difficult to contain. And regional balances that shift against the United States could combine to threaten our security.

The United States must marshal the will and capabilities to compete and prevent unfavorable shifts in the Indo-Pacific, Europe, and the Middle East. Sustaining favorable balances of power will require a strong commitment and close cooperation with allies and partners because allies and partners magnify U.S. power and extend U.S. influence. They share our interests and responsibility for resisting authoritarian trends, contesting radical ideologies, and deterring aggression.

In other regions of the world, instability and weak governance threaten U.S. interests. Some governments are unable to maintain security and meet the basic needs of their people, making their country and citizens vulnerable to preda-

tors. Terrorists and criminals thrive where governments are weak, corruption is rampant, and faith in government institutions is low. Strategic competitors often exploit rather than discourage corruption and state weakness to extract resources and exploit their populations.

Regions afflicted by instability and weak governments also offer opportunities to improve security, promote prosperity, and restore hope. Aspiring partner states across the developing world want to improve their societies, build transparent and effective governments, confront non-state threats, and strengthen their sovereignty. Many recognize the opportunities offered by market economies and political liberties and are eager for partnership with the United States and our allies. The United States will encourage aspiring partners as they undertake reforms and pursue their aspirations. States that prosper and nations that transition from recipients of development assistance to trading partners offer economic opportunities for American businesses. And stability reduces threats that target Americans at home.

Indo-Pacific

A geopolitical competition between free and repressive visions of world order is taking place in the Indo-Pacific region. The region, which stretches

from the west coast of India to the western shores of the United States, represents the most populous and economically dynamic part of the world. The U.S. interest in a free and open Indo-Pacific extends back to the earliest days of our republic.

Although the United States seeks to continue to cooperate with China, China is using economic inducements and penalties, influence operations, and implied military threats to persuade other states to heed its political and security agenda. China's infrastructure investments and trade strategies reinforce its geopolitical aspirations. Its efforts to build and militarize outposts in the South China Sea endanger the free flow of trade, threaten the sovereignty of other nations, and undermine regional stability. China has mounted a rapid military modernization campaign designed to limit U.S. access to the region and provide China a freer hand there. China presents its ambitions as mutually beneficial, but Chinese dominance risks diminishing the sovereignty of many states in the Indo-Pacific. States throughout the region are calling for sustained U.S. leadership in a collective response that upholds a regional order respectful of sovereignty and independence.

In Northeast Asia, the North Korean regime is rapidly accelerating its cyber, nuclear, and ballistic missile programs. North Korea's pursuit of these weapons poses a global threat that requires a global response. Continued provocations by North Korea will prompt neighboring countries and the United States to further strengthen security bonds and take additional measures to protect themselves. And a nuclear-armed North Korea could lead to the prolif-

eration of the world's most destructive weapons across the Indo-Pacific region and beyond.

U.S. allies are critical to responding to mutual threats, such as North Korea, and preserving our mutual interests in the Indo-Pacific region. Our alliance and friendship with South Korea, forged

by the trials of history, is stronger than ever. We welcome and support the strong leadership role of our critical ally, Japan. Australia has fought alongside us in every significant conflict since World War I, and continues to reinforce economic and security arrangements that support our shared interests and safeguard democratic values across the region. New Zealand is a key U.S. partner contributing to peace and security across the region. We welcome

India's emergence as a leading global power and stronger strategic and defense partner. We will seek to increase quadrilateral cooperation with Japan, Australia, and India.

In Southeast Asia, the Philippines and Thailand remain important allies and markets for Americans. Vietnam, Indonesia, Malaysia, and Singapore are growing security and economic partners of the United States. The Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) remain centerpieces of the Indo-Pacific's regional architecture and platforms for promoting an order based on freedom.

Priority Actions

POLITICAL: Our vision for the Indo-Pacific excludes no nation. We will redouble our commitment to established alliances and partnerships, while expanding and deepening relationships with new

Sustaining favorable balances of power will require a strong commitment and close cooperation with allies and partners because allies and partners magnify U.S. power and extend U.S. influence.

partners that share respect for sovereignty, fair and reciprocal trade, and the rule of law. We will reinforce our commitment to freedom of the seas and the peaceful resolution of territorial and maritime disputes in accordance with international law. We will work with allies and partners to achieve complete, verifiable, and irreversible denuclearization on the Korean Peninsula and preserve the non-proliferation regime in Northeast Asia.

ECONOMIC: The United States will encourage regional cooperation to maintain free and open seaways, transparent infrastructure financing practices, unimpeded commerce, and the peaceful resolution of disputes. We will pursue bilateral trade agreements on a fair and reciprocal basis. We will seek equal and reliable access for American exports. We will work with partners to build a network of states dedicated to free markets and protected from forces that would subvert their sovereignty. We will strengthen cooperation with allies on high-quality infrastructure. Working with Australia and New Zealand, we will shore up fragile partner states in the Pacific Islands region to reduce their vulnerability to economic fluctuations and natural disasters.

MILITARY AND SECURITY: We will maintain a forward military presence capable of deterring and, if necessary, defeating any adversary. We will strengthen our long-standing military relationships and encourage the development of a strong defense network with our allies and partners. For example, we will cooperate on missile defense with Japan and South Korea to move toward an area defense capability. We remain ready to respond with overwhelming force to North Korean aggression and will improve options to compel denuclearization of the peninsula. We will improve law enforcement, defense, and intelligence cooperation with Southeast Asian partners to address the growing terrorist threat. We will maintain our strong ties with Taiwan in accordance with our “One China” policy, including our commitments under the

Taiwan Relations Act to provide for Taiwan’s legitimate defense needs and deter coercion. We will expand our defense and security cooperation with India, a Major Defense Partner of the United States, and support India’s growing relationships throughout the region. We will re-energize our alliances with the Philippines and Thailand and strengthen our partnerships with Singapore, Vietnam, Indonesia, Malaysia, and others to help them become cooperative maritime partners.

Europe

A strong and free Europe is of vital importance to the United States. We are bound together by our shared commitment to the principles of democracy, individual liberty, and the rule of law. Together, we rebuilt Western Europe after World War II and created institutions that produced stability and wealth on both sides of the Atlantic. Today, Europe is one of the most prosperous regions in the world and our most significant trading partner.

Although the menace of Soviet communism is gone, new threats test our will. Russia is using subversive measures to weaken the credibility of America’s commitment to Europe, undermine transatlantic unity, and weaken European institutions and governments. With its invasions of Georgia and Ukraine, Russia demonstrated its willingness to violate the sovereignty of states in the region. Russia continues to intimidate its neighbors with threatening behavior, such as nuclear posturing and the forward deployment of offensive capabilities.

China is gaining a strategic foothold in Europe by expanding its unfair trade practices and investing in key industries, sensitive technologies, and infrastructure. Europe also faces immediate threats from violent Islamist extremists. Attacks by ISIS and other jihadist groups in Spain, France, Germany, Belgium, the United Kingdom, and

other countries show that our European partners continue to face serious threats. Instability in the Middle East and Africa has triggered the movement of millions of migrants and refugees into Europe, exacerbating instability and tensions in the region.

The United States is safer when Europe is prosperous and stable, and can help defend our shared interests and ideals. The United States remains firmly committed to our European allies and partners. The NATO alliance of free and sovereign states is one of our great advantages over our competitors, and the United States remains committed to Article V of the Washington Treaty.

European allies and partners increase our strategic reach and provide access to forward basing and overflight rights for global operations. Together we confront shared threats. European nations are contributing thousands of troops to help fight jihadist terrorists in Afghanistan, stabilize Iraq, and fight terrorist organizations across Africa and the greater Middle East.

The NATO alliance will become stronger when all members assume greater responsibility for and pay their fair share to protect our mutual interests, sovereignty, and values.

Priority Actions

POLITICAL: The United States will deepen collaboration with our European allies and partners to confront forces threatening to undermine our common values, security interests, and shared vision. The United States and Europe will work together to counter Russian subversion and aggression, and the threats posed by North Korea and Iran. We will continue to advance our shared principles and interests in international forums.

ECONOMIC: The United States will work with the European Union, and bilaterally with the United Kingdom and other states, to ensure fair and reciprocal trade practices and eliminate barriers to

growth. We will encourage European foreign direct investment in the United States to create jobs. We will work with our allies and partners to diversify European energy sources to ensure the energy security of European countries. We will work with our partners to contest China's unfair trade and economic practices and restrict its acquisition of sensitive technologies.

MILITARY AND SECURITY: The United States fulfills our defense responsibilities and expects others to do the same. We expect our European allies to increase defense spending to 2 percent of gross domestic product by 2024, with 20 percent of this spending devoted to increasing military capabilities. On NATO's eastern flank we will continue to strengthen deterrence and defense, and catalyze frontline allies and partners' efforts to better defend themselves. We will work with NATO to improve its integrated air and missile defense capabilities to counter existing and projected ballistic and cruise missile threats, particularly from Iran. We will increase counterterrorism and cybersecurity cooperation.

Middle East

The United States seeks a Middle East that is not a safe haven or breeding ground for jihadist terrorists, not dominated by any power hostile to the United States, and that contributes to a stable global energy market.

For years, the interconnected problems of Iranian expansion, state collapse, jihadist ideology, socio-economic stagnation, and regional rivalries have convulsed the Middle East. The United States has learned that neither aspirations for democratic transformation nor disengagement can insulate us from the region's problems. We must be realistic about our expectations for the region without allowing pessimism to obscure our interests or vision for a modern Middle East.

The region remains home to the world's most dangerous terrorist organizations. ISIS and al-Qa'ida thrive on instability and export violent jihad. Iran, the world's leading state sponsor of terrorism, has taken advantage of instability to expand its influence through partners and proxies, weapon proliferation, and funding. It continues to develop more capable ballistic missiles and intelligence capabilities, and it undertakes malicious cyber activities. These activities have continued unabated since the 2015 nuclear deal. Iran continues to perpetuate the cycle of violence in the region, causing grievous harm to civilian populations. Rival states are filling vacuums created by state collapse and prolonged regional conflict.

Despite these challenges, there are emerging opportunities to advance American interests in the Middle East. Some of our partners are working together to reject radical ideologies, and key leaders are calling for a rejection of Islamist extremism and violence. Encouraging political stability and sustainable prosperity would contribute to dampening the conditions that fuel sectarian grievances.

For generations the conflict between Israel and the Palestinians has been understood as the prime irritant preventing peace and prosperity in the region. Today, the threats from jihadist terrorist organizations and the threat from Iran are creating the realization that Israel is not the cause of the region's problems. States have increasingly found common interests with Israel in confronting common threats.

Today, the United States has the opportunity to catalyze greater economic and political cooperation that will expand prosperity for those who want to partner with us. By revitalizing partnerships with reform-minded nations and encour-

aging cooperation among partners in the region, the United States can promote stability and a balance of power that favors U.S. interests.

Priority Actions

POLITICAL: We will strengthen partnerships, and form new ones, to help advance security through stability. Whenever possible, we will encourage gradual reforms. We will support efforts to counter violent ideologies and increase respect for the dignity of individuals. We remain committed to helping our partners achieve a stable and prosperous region, including through a strong and integrated Gulf Cooperation Council. We will strengthen our long-term strategic partnership with Iraq as an independent state. We will seek a settlement to the Syrian civil war that sets the conditions for refugees to return home and rebuild their lives in safety. We will work with partners to deny the Iranian

regime all paths to a nuclear weapon and neutralize Iranian malign influence. We remain committed to helping facilitate a comprehensive peace agreement that is acceptable to both Israelis and Palestinians.

ECONOMIC: The United States will support the reforms underway that begin to address core inequities that jihadist terrorists exploit. We will encourage states in the region, including

Egypt and Saudi Arabia, to continue modernizing their economies. We will play a role in catalyzing positive developments by engaging economically, supporting reformers, and championing the benefits of open markets and societies.

MILITARY AND SECURITY: We will retain the necessary American military presence in the region to protect the United States and our allies from terrorist attacks and preserve a favorable regional

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thrive where
governments are weak,
corruption is rampant,
and faith in government
institutions is low.*

balance of power. We will assist regional partners in strengthening their institutions and capabilities, including in law enforcement, to conduct counterterrorism and counterinsurgency efforts. We will help partners procure interoperable missile defense and other capabilities to better defend against active missile threats. We will work with partners to neutralize Iran's malign activities in the region.

South and Central Asia

With over a quarter of the world's population, a fifth of all U.S.-designated terrorist groups, several fast-growing economies, and two nuclear-armed states, South and Central Asia present some of the most complicated national security challenges and opportunities. The region spans the terrorist threats emanating from the Middle East and the competition for power unfolding in Europe and the Indo-Pacific. The United States continues to face threats from transnational terrorists and militants operating from within Pakistan. The prospect for an Indo-Pakistani military conflict that could lead to a nuclear exchange remains a key concern requiring consistent diplomatic attention.

U.S. interests in the region include countering terrorist threats that impact the security of the U.S. homeland and our allies, preventing cross-border terrorism that raises the prospect of military and nuclear tensions, and preventing nuclear weapons, technology, and materials from falling into the hands of terrorists. We seek an American presence in the region proportionate to threats to the homeland and our allies. We seek a Pakistan that is not engaged in destabilizing behavior and a stable and self-reliant Afghanistan. And we seek Central Asian states that are resilient against domination by rival powers, are resistant to becoming jihadist safe havens, and prioritize reforms.

Priority Actions

POLITICAL: We will deepen our strategic partnership with India and support its leadership role in Indian Ocean security and throughout the broader region. We will press Pakistan to intensify its counterterrorism efforts, since no partnership can survive a country's support for militants and terrorists who target a partner's own service members and officials. The United States will also encourage Pakistan to continue demonstrating that it is a responsible steward of its nuclear assets. We will continue to partner with Afghanistan to promote peace and security in the region. We will continue to promote anti-corruption reform in Afghanistan to increase the legitimacy of its government and reduce the appeal of violent extremist organizations. We will help South Asian nations maintain their sovereignty as China increases its influence in the region.

ECONOMIC: We will encourage the economic integration of Central and South Asia to promote prosperity and economic linkages that will bolster connectivity and trade. And we will encourage India to increase its economic assistance in the region. In Pakistan, we will build trade and investment ties as security improves and as Pakistan demonstrates that it will assist the United States in our counterterrorism goals.

MILITARY AND SECURITY: We are committed to supporting the Afghan government and security forces in their fight against the Taliban, al-Qa'ida, ISIS, and other terrorists. We will bolster the fighting strength of the Afghan security forces to convince the Taliban that they cannot win on the battlefield and to set the conditions for diplomatic efforts to achieve enduring peace. We will insist that Pakistan take decisive action against militant and terrorist groups operating from its soil. We will work with the Central Asian states to guarantee access to the region to support our counterterrorism efforts.

Western Hemisphere

Stable, friendly, and prosperous states in the Western Hemisphere enhance our security and benefit our economy. Democratic states connected by shared values and economic interests will reduce the violence, drug trafficking, and illegal immigration that threaten our common security, and will limit opportunities for adversaries to operate from areas of close proximity to us.

In the last half century, parts of this hemisphere were marred by dictatorships and insurgencies that killed tens of thousands of people. Today, this region stands on the cusp of prosperity and peace, built upon democracy and the rule of law. U.S. trade in the region is thriving and market opportunities for American goods and services, energy and infrastructure projects, and foreign direct investment continue to expand.

Challenges remain, however. Transnational criminal organizations—including gangs and cartels—perpetuate violence and corruption, and threaten the stability of Central American states including Guatemala, Honduras, and El Salvador. In Venezuela and Cuba, governments cling to anachronistic leftist authoritarian models that continue to fail their people. Competitors have found operating space in the hemisphere.

China seeks to pull the region into its orbit through state-led investments and loans. Russia continues its failed politics of the Cold War by bolstering its radical Cuban allies as Cuba continues to repress its citizens. Both China and Russia support the dictatorship in Venezuela and are seeking to expand military linkages and arms sales across the region. The hemisphere's democratic states have a shared interest in confronting threats to their sovereignty.

Canada and the United States share a unique strategic and defense partnership. The United States also has important and deepening rela-

tions with key countries in the region. Together, we will build a stable and peaceful hemisphere that increases economic opportunities for all, improves governance, reduces the power of criminal organizations, and limits the malign influence of non-hemispheric forces.

Priority Actions

POLITICAL: We will catalyze regional efforts to build security and prosperity through strong diplomatic engagement. We will isolate governments that refuse to act as responsible partners in advancing hemispheric peace and prosperity. We look forward to the day when the people of Cuba and Venezuela can enjoy freedom and the benefits of shared prosperity, and we encourage other free states in the hemisphere to support this shared endeavor.

ECONOMIC: We will modernize our trade agreements and deepen our economic ties with the region and ensure that trade is fair and reciprocal. We will encourage further market-based economic reforms and encourage transparency to create conditions for sustained prosperity. We will ensure the U.S. financial system does not serve as a haven or transit point for criminal proceeds.

MILITARY AND SECURITY: We will build upon local efforts and encourage cultures of lawfulness to reduce crime and corruption, including by supporting local efforts to professionalize police and other security forces; strengthen the rule of law and undertake judicial reform; and improve information sharing to target criminals and corrupt leaders and disrupt illicit trafficking.

Africa

Africa remains a continent of promise and enduring challenges. Africa contains many of the world's fastest growing economies, which represent potential new markets for U.S. goods and services. Aspiring partners across the continent are eager to build market-based economies and enhance stability. The demand for quality American exports is high and will likely grow as Africa's population and prosperity increase. People across the continent are demanding government accountability and less corruption, and are opposing autocratic trends. The number of stable African nations has grown since the independence era as numerous countries have emerged from devastating conflicts and undergone democratic transitions.

Despite this progress, many states face political turbulence and instability that spills into other regions. Corruption and weak governance threaten to undermine the political benefits that should emerge from new economic opportunities. Many African states are battlegrounds for violent extremism and jihadist terrorists. ISIS, al-Qa'ida, and their affiliates operate on the continent and have increased the lethality of their attacks, expanded into new areas, and targeted U.S. citizens and interests. African nations and regional organizations have demonstrated a commitment to confront the threat from jihadist terrorist organizations, but their security capabilities remain weak.

China is expanding its economic and military presence in Africa, growing from a small investor in the continent two decades ago into Africa's largest trading partner today. Some Chinese prac-

tices undermine Africa's long-term development by corrupting elites, dominating extractive industries, and locking countries into unsustainable and opaque debts and commitments.

The United States seeks sovereign African states that are integrated into the world economy, able to provide for their citizens' needs, and capable of managing threats to peace and security. Improved governance in these states supports economic development and opportunities, diminishes the attraction of illegal migration, and reduces vulnerability to extremists, thereby reducing instability.

Priority Actions

POLITICAL: The United States will partner with governments, civil society, and regional organizations to end long-running, violent conflicts. We will encourage reform, working with promising nations to promote effective governance,

improve the rule of law, and develop institutions accountable and responsive to citizens. We will continue to respond to humanitarian needs while also working with committed governments and regional organizations to address the root causes of human suffering. If necessary, we are prepared to sanction government officials and institutions that prey on their citizens and commit atrocities. When there is

no alternative, we will suspend aid rather than see it exploited by corrupt elites.

ECONOMIC: We will expand trade and commercial ties to create jobs and build wealth for Americans and Africans. We will work with reform-oriented governments to help establish conditions that can transform them into trading partners and improve

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their business environment. We will support economic integration among African states. We will work with nations that seek to move beyond assistance to partnerships that promote prosperity. We will offer American goods and services, both because it is profitable for us and because it serves as an alternative to China's often extractive economic footprint on the continent.

MILITARY AND SECURITY: We will continue to work with partners to improve the ability of their security services to counter terrorism, human trafficking, and the illegal trade in arms and natural resources. We will work with partners to defeat terrorist organizations and others who threaten U.S. citizens and the homeland.



CONCLUSION

This National Security Strategy sets a positive strategic direction for the United States that is meant to reassert America's advantages on the world stage and to build upon our country's great strengths. During the Trump Administration, the American people can be confident that their security and prosperity will always come first. A secure, prosperous, and free America will be strong and ready to lead abroad to protect our interests and our way of life.

America's renewed strategic confidence is anchored in our recommitment to the principles inscribed in our founding documents. The National Security Strategy celebrates and protects what we hold dear—individual liberty, the rule of law, a democratic system of government, tolerance, and opportunity for all. By knowing ourselves and what we stand for, we clarify what we must defend and we establish guiding principles for our actions.

This strategy is guided by principled realism. It is realist because it acknowledges the central role of power in international politics, affirms that sovereign states are the best hope for a peaceful world, and clearly defines our national interests. It is principled because it is grounded in the knowledge that advanc-

ing American principles spreads peace and prosperity around the globe. We are guided by our values and disciplined by our interests.

This Administration has a bright vision of America's future. America's values and influence, underwritten by American power, make the world more free, secure, and prosperous.

Our Nation derives its strength from the American people. Every American has a role to play in this grand, national effort to implement this America First National Security Strategy. Together, our task is to strengthen our families, to build up our communities, to serve our citizens, and to celebrate American greatness as a shining example to the world. We will leave our children and grandchildren a Nation that is stronger, better, freer, prouder, and greater than ever before.

Notes