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ECONOMIC COOPERATION BETWEEN UZBEKISTAN AND CHINA

Abstract: *China is currently Uzbekistan's leading trading partner as the largest source of exports and imports for the country. China has also increasing its development loans to Uzbekistan. China regards Uzbekistan as a critical part of the Belt and Road Initiative.*

Keywords: *export– import, foreign trade, bilateral relations, investments, growth, Shanghai Cooperation Organization (SCO), economic relations.*

Uzbekistan remains one of the key countries in Central Asia. Since the implementation of the new economic policy, the country's economic cooperation with external powers, including Russia, China, and the countries of the European Union has deepened considerably. In this sense, China's presence in Uzbekistan increased significantly. Therefore, this commentary aims to analyze economic cooperation between Uzbekistan and China in terms of trade, investments, and infrastructural projects.

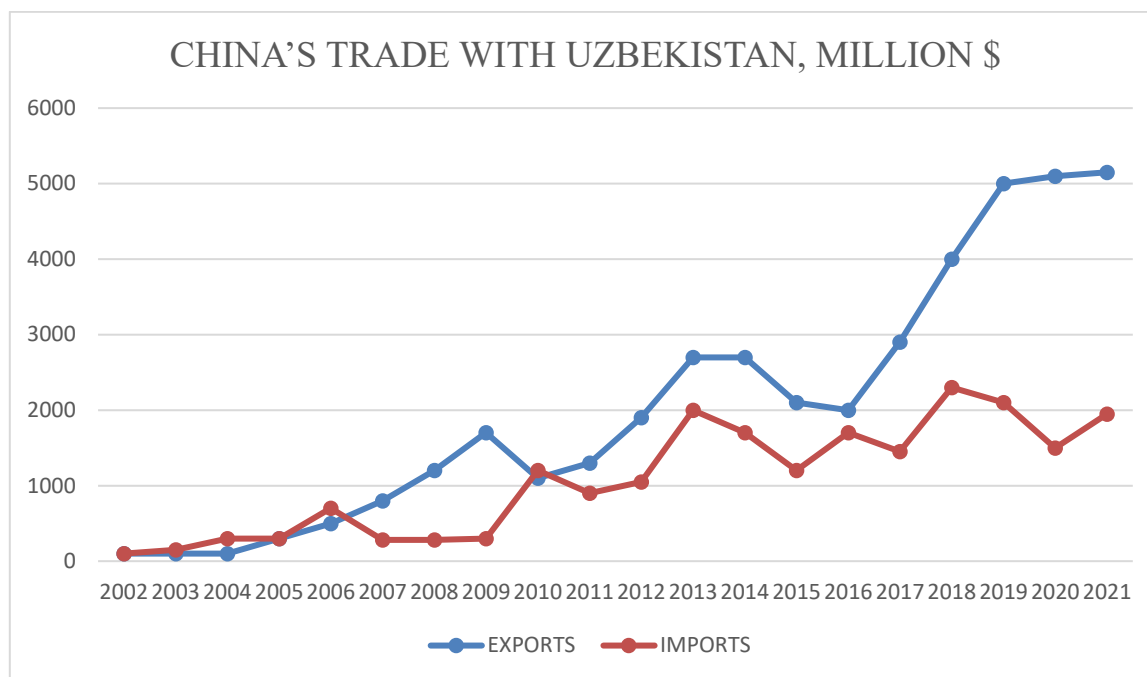
China considers Uzbekistan as a country with a huge consumer market, cheap labor force, stable political situation, and strong state power. Moreover, it is interested in Uzbekistan's favorable business environment, and great potential for infrastructural development projects. In 2021, China's share in Uzbekistan's foreign trade turnover amounted to 17.7%. This is slightly more than the share of Russia. By 2020, Uzbekistan's debt to China has reached \$3 billion, or 20% of the country's total foreign debt. Chinese investment in the economy of Uzbekistan reached \$9 billion by the end of 2021. However, according to Chinese sources at the end of 2019, China's accumulated direct investment in Uzbekistan amounted to \$3.2 billion

According to data from the International Trade Center (ITC, 2022), exports from China to Uzbekistan surged from \$104 million in 2002 to \$5.2 billion in 2021. For the same period, the country's imports from Uzbekistan increased from \$27 million to almost \$2 billion (Figure 1). While China's exports to Uzbekistan remain diversified and consist of various industrial products, Uzbekistan mainly supplies mineral fuels, in particular natural gas, and cotton. It is important to note that China's supplies to Uzbekistan have grown considerably since 2016 with the new President Shavkat Mirziyoyev and the implementation of the new economic policy [1].

Uzbekistan has been expanding its economic cooperation with China as it aims to connect to world transportation and trade routes. In a recent meeting which was hold in May 13, 2022 at the Shanghai Cooperation Organization (SCO) in Beijing, Uzbekistan presented its "Development Strategy of New Uzbekistan for 2022– 2026" The strategy, presented in the Chinese language, envisages Uzbekistan deepening its economic relations with China[2].

In terms of bilateral relations, China ranks second as the biggest trade partner for Uzbekistan. Trade with China accounted for 17– 20% of country's total trade, with bilateral trade volume was reaching \$7.4 billion in 2021. After Russia, China is Uzbekistan's second largest export market. In the January– July 2022 period, its exports to China were worth \$1.5 billion. China's trade with Uzbekistan increased 32.5% from January to July 2022 compared to the same period in 2021.

Figure 1.



In addition to trade, investments from China to Uzbekistan are also increasing. Three different factors are encouraging China to invest in Uzbekistan.

First, regional development, especially strained relations between Russia and Kazakhstan, and growing uncertainty may force Chinese companies to diversify their investments in the region to reduce dependence on Kazakhstan.

Second has to do with the liberalization of some of Tashkent's state-owned enterprises, creating new opportunities for Chinese companies to invest and strengthen their market position. In addition, Uzbekistan's recent trade agreements with the EU and the UK attract the attention of Chinese companies, because companies have the chance to export thousands of products duty-free to EU and UK[3].

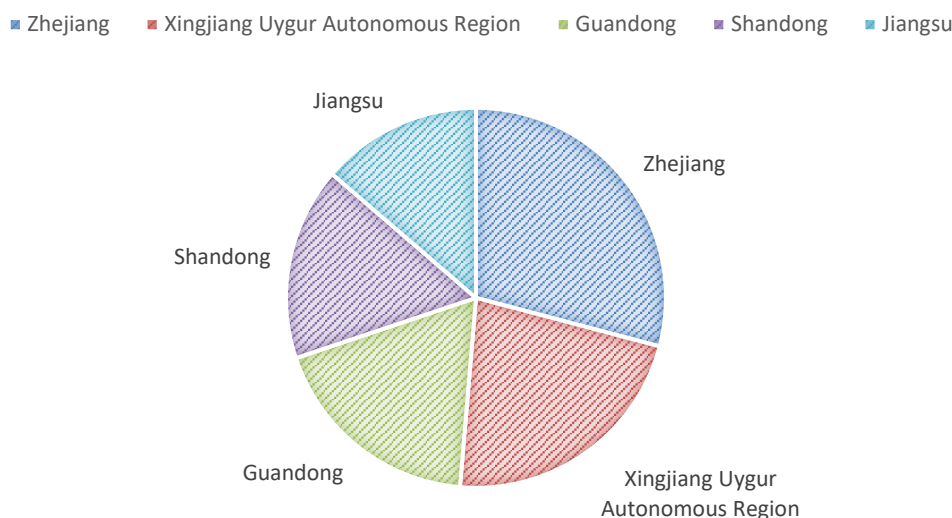
Finally, public opinion about China is also important factor that may determine future Chinese investment to Uzbekistan. What do Uzbek people think of China's approach to their home countries? The Central Asia Barometer (CAB) Survey is a biannual large-scale research project that measures social, economic, and political atmospheres in Central Asian nations. According to the Central Asian Barometer Survey Wave 10, conducted in 2021, public opinion regarding China and Chinese investments in Uzbekistan is more positive than in other countries[4].

In October 2022, China exported \$707M and imported \$246M from Uzbekistan, resulting in a positive trade balance of \$460M.

Between October 2021 and October 2022 the exports of China have increased by \$279M (65.3%) from \$427M to \$707M, while imports increased by \$27.5M (12.6%) from \$219M to \$246M.

In October 2022 the exports of China were mainly from Zhejiang Province (\$144M), Xingjiang Uygur Autonomous Region (\$110M), Guandong Province (\$91.6M), Shandong Province (\$81.4M), and Jiangsu Province (\$67.7M),

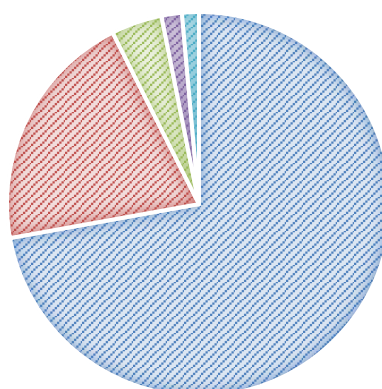
EXPORTS OF CHINA (MAIN PROVINCES, MILLION \$)



while imports destinations were mainly Beijing (\$168M), Fujian Province (\$47.5M), Zhejiang Province (\$9.99M), Henan Province (\$4M), and Xingjiang Uygur Autonomous Region (\$3.3M).

IMPORTS OF CHINA (MAIN PROVINCES, MILLION \$)

■ Beijing ■ Fujian ■ Zhejiang ■ Henan ■ Xingjiang Uygur Autonomous Region



In October 2022, the top exports of China to Uzbekistan were Telephones (\$54.6M), Cars (\$24.3M), Synthetic Filament Yarn Woven Fabric (\$21.9M), Rubber Tires (\$20.1M), and Pile Fabric (\$17.3M). In October 2022 the top imports of China from Uzbekistan were Petroleum Gas (\$148M), Gold (\$42.7M), Refined Copper (\$19.8M), Ethylene Polymers (\$8.49M), and Non– Retail Pure Cotton Yarn (\$6.18M).

In 2020, China ranked 28 in the Economic Complexity Index (ECI 0.96), and 1 in total exports (\$2.65T). That same year, Uzbekistan ranked 84 in the Economic Complexity Index (ECI – 0.57), and 77 in total exports (\$13.9B).

In October 2022, the increase in China's year– by– year exports to Uzbekistan was explained primarily by an increase in product exports in. In October 2022, the increase in

China's year– by– year imports from Uzbekistan was explained primarily by an increase in product imports in[5].

Uzbekistan has achieved significant economic progress since the presidency of Shavkat Mirziyoyev. In particular, foreign direct investments reached \$25 billion in 2021, with about 59 thousand investment projects implemented over the last six years and more than 2.5 million new jobs created. The country set ambitious goals for economic transformation. Uzbekistan's government aims to reach a \$100 billion GDP, double exports to exceed \$30 billion, and have 80% of GDP produced by the private sector. By 2030 or earlier, Uzbekistan wants to join the World Trade Organization, and become a country with a GDP per capita in the upper middle– income level. To achieve these goals, Uzbekistan needs foreign direct investments into key industrial sectors and infrastructure. In this sense, cooperation with China may play an important role in the diversification of Uzbekistan's economy. Although current bilateral relations between Uzbekistan and China remain promising, risks should be taken into consideration. Given the structure of bilateral trade, overreliance on China's investments, loans and aid can cause biased decisions. The government of Uzbekistan needs to increase competition among external powers in terms of investments and implementation of joint projects, which will significantly reduce risks and lead to a higher level of economic opportunities[6].

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