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THE FRAMEWORK OF INTERNATIONAL TRADE BETWEEN UZBEKISTAN AND PEOPLE'S REPUBLIC OF CHINA

Abstract: China and Uzbekistan established diplomatic relations in 1992 after the collapse of the Soviet Union. Since then, the two countries have maintained strong ties and achieved several diplomatic successes. Uzbekistan joined the Shanghai Cooperation Organization (SCO) as a founding member in 2001, a regional economic and security alliance that today consists of China, Russia, Kazakhstan, Tajikistan, Kyrgyzstan, Iran, India, and Pakistan. This paper studies international trade theories and the evolution of international trade relationship between Uzbekistan and CPR.

Key words: trade, international trade, OBOR, imports, exports, China, Uzbekistan.

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Introduction

China and Uzbekistan established diplomatic relations in 1992 after the collapse of the Soviet Union. Since then, the two countries have maintained strong ties and achieved several diplomatic successes. Uzbekistan joined the Shanghai Cooperation Organization (SCO) as a founding member in 2001, a regional economic and security alliance that today consists of China, Russia, Kazakhstan, Tajikistan, Kyrgyzstan, Iran, India, and Pakistan.

In 2005, China and Uzbekistan signed the "China-Uzbekistan Treaty of Friendship and Cooperation", a bilateral treaty containing a number of initiatives, including cooperation in the fields of economy, trade, combating terrorism and drug trafficking, among other measures.

With the launch of the Belt and Road Initiative (OBOR) in 2013, Uzbekistan has become a strategic geopolitical partner in the region. Although the two countries do not share a common border, Uzbekistan's location places it directly in China's path to Turkmenistan to the west, which is a major source of natural gas. The Central Asia-China pipeline runs through Uzbekistan and connects Turkmen gas

supplies to China's energy system in the western region of Xinjiang.

In addition, Uzbekistan's proximity to the Caspian Sea makes it a viable corridor that opens trade routes to the ports of the Persian Gulf and the Black Sea. Uzbekistan itself also supplies China with significant amounts of natural gas, as well as other commodities, including cotton and inorganic chemicals.

Sino-Uzbek relations began to gain momentum with the appointment of President Shavkat Mirziyoyev in 2016. Significant market liberalization and economic reforms by the new president have made the country one of the five fastest growing in the world, giving a boost to bilateral ties as China's regional development goals align with Uzbekistan's economic ambitions. It has also made the country more investor-friendly and more hospitable to Chinese investment than some of its neighbors.

China has been Uzbekistan's largest trading partner since 2016.

In 2019, the volume of bilateral trade between China and Uzbekistan reached 7.2 billion US dollars, an increase of 15.1 percent. In 2020, that figure was about \$6.4 billion affected by the pandemic.

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China has been Uzbekistan's fastest growing import market over the past decade. In 2020, the share of Chinese products in Uzbekistan's total imports amounted to 22.2 percent. At the same time, 9.8 percent of goods from Uzbekistan are exported to China.

Literature review

International trade theories are simply different theories that explain international trade. Trade is the concept of the exchange of goods and services between two people, organizations and countries. Thus, international trade is the concept of an exchange between people or organizations in two different countries.

People or organizations trade because they believe they are benefiting from the exchange. Although at first glance many of them seem very simple, there is a lot of theory, politics and business strategy that make up international trade. Since the dawn of the history of civilization and up to the present time, man, in the pursuit of survival and progress, has always been involved in one form or another of socio-economic relations. The nature of the socio-economic relationships he enters into consciously or unconsciously controls and determines his achievements in terms of what he extracts from society in an effort to earn a living and become better. There are different types of theories of international trade. Below we analyze the evolution of these theories.

Theory of Mercantilism. Over time, socio-economic relations became aggravated, increased in different dimensions, improved in volumes and qualities as the greatest need and means of human existence, on which the satisfaction of other vital needs depends. Claude (1981) noted that the economic need is the most fundamental human need, as well as the most decisive of all other factors in society and generally determines the nature of other factors in society.

In the same vein, Gingrich (1995) affirmed that a country's ability to compete in the world market is a hallmark of economic growth; therefore, economic growth is the most important goal of socio-economic policy that a nation should strive for after ensuring the security of the lives of its citizens.

Classical theory of international trade. Tracing the evolution of what is today accepted as the standard theory of international trade, one can go back to the years between 1776 and 1826, when, respectively, Adam Smith's (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations* was published.

Linder's dominant demand hypothesis. In contrast to the supply side explanations of the trading model in the literature, an alternative explanation of the trading model was proposed in 1964 by the Swedish economist Staffan Linder in terms of "overlapping demand". According to Linder, the

representative demand in trading countries for a range of goods that are usually in demand at a corresponding per capita income determines the possibility of trade between countries. For production and trade, representative demand in the respective countries must have an overlap in terms of the range of goods that are produced and consumed together.

Relying on the abovementioned theories, international trade between Uzbekistan and PRC have been conducted. The Belt and Road Initiative is a remarkable project that contains capital and building infrastructure system of transportations through the land, subterranean, airways and the marine (Wenxian, Ilan, & Christoph, 2018). It is considered as an extra-large global initiative by supplying nationwide with their joint interest, tranquil trading and sharing sustainable development through the establishment of a world-wide free and advantageous design (Alzghool, 2019). One of the prior matters of the Global Initiative is relieved the obstacles of the transnational market investigating the ways to achieve excellent transport links (Liu, 2018).

Analysis and results

As the "OBOR" long term project with the power to transform the geo-economic landscape which encompasses the countries from a different continent, road construction is the primary hub to propel the project to be global free trading initiative. The installation of new routes, pipelines, trains creates a great positive impact on the development of the economies of states which the road travels – through an expansion of international trade, investment, and infrastructure. As the historical Silk Road, an inevitable component of today's SREB spans Central Asian territories, including Uzbekistan (Stanojevic, 2016). Moreover, the distinctiveness of Uzbekistan in Central Asia is that there is no mutual border with PRC, that makes the countries free of possible boundary strife and as the trans fixture with regional centrality advantage railroads and highways are established, simultaneously countries are attempting to develop road links (Imomov, 2018). Because of not sharing a border with China, corporate transit relations involve going across routes crossing Kazakhstan or Kyrgyzstan. From the Chinese point of view, Uzbekistan is the safe and stable, short and low costing route to the western states, the market for "Made in China" manufacture, area to import raw materials at the optimum price because of advanced transport facility and while Uzbek Government is facing various transport problems in bringing its products to the world market (Javaid, 2017), this road line is the way for double landlocked Uzbekistan towards to the open world market, road construction will contribute internal economic development of the country and at the same time government van benefit from the transit fee. China's business activities in Uzbekistan didn't start to become more noticeable

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until after the year 2003. The state visit that Chinese leader Hu Jintao paid to Tashkent in 2004 was an important event in the city's history. Following the visit, a number of agreements concerning the expansion of political, economic, military-technical, and cultural cooperation were signed by both parties. The worsening of relations between Uzbekistan and the United States and the West in 2004-2005 was another significant element that had a significant role in the acceleration of Sino-Uzbek commercial relations. As we move toward the east, we find that the heads of state of Uzbekistan and China met not once, but twice in 2005 alone. The development of economic cooperation was one of the primary topics that were discussed at the meetings. As a result of these discussions, approximately 20 investment agreements, credit agreements, and contracts were subsequently signed between the two countries to the tune of \$1.5 billion, including \$600 million in the oil (0.07 percent of China's exports), while total trade increased by a factor of 7—from \$216 million to \$1.6 billion (approximately 11 percent of Uzbek trade, and 0.07 percent of China's trade. In turn, the volume of Uzbek exports to China reached \$741 million dollars. This represents approximately 8% of Uzbekistan's total exports and 0.8% of China's total imports.

However, trade between China and Uzbekistan decreased slightly in 2008. This was apparently due to a general decrease in trade as a result of the global financial and economic crisis as well as the significant

decrease in world prices for raw materials, which are the primary component of Uzbek exports. As a result, commerce between China and Uzbekistan decreased by 17 percent in 2008, going from \$1.6 billion to \$1.3 billion. The value of Uzbek exports to China came to \$544 million (representing approximately 5 percent of Uzbekistan's total exports and 0.05 percent of Chinese imports), whereas the value of Chinese exports to Uzbekistan came to \$791 million (representing approximately 10.5 percent of Uzbekistan's total imports and 0.05 percent of China's exports). The overall value of trade between China and Uzbekistan reached \$1.91 billion in 2009, representing a recovery and a 43 percent year-over-year rise from the previous year.

However, in 2014-2015 the trade volume has slightly decreased, which was apparently due to the reduction of trade as a result of global energy price reduction. Especially in 2015 trade volume between China and Uzbekistan dropped significantly by 18 percent (from \$4.27 billion to \$3.5 billion). Simultaneously China and Uzbekistan's mutual agreement on the "Belt and Road Initiative" in June 2015 was a great chance for Uzbekistan to rehabilitate the growth in the trade relationships. By 2016-17 trade volume had recovered respectively and in 2018 had increased by 78%, reaching a total of \$6.26 billion. Moreover, Uzbek export to China has exceeded, attaining a value of \$2.32 billion.

Year	Trade Million/USD	Uzbekistan's Export to China	Uzbekistan's Import from China
2010	\$2,481	\$1,300	\$1,181
2011	\$2,166	\$807	\$1,359
2012	\$2,874	\$1,091	\$1,783
2013	\$4,551	\$1,938	\$2,613
2014	\$4,275	\$1,597	\$2,678
2015	\$3,502	\$1,266	\$2,236
2016	\$3,639	\$1,606	\$2,033
2017	\$4,237	\$1,474	\$2,763
2018	\$6,266	\$2,324	\$3,942
2019	\$7,224	\$2,180	\$5,044



Figure 1. Trade between China and Uzbekistan (2010-2019)
 Source: International Trade Center (<http://www.intracen.org>)

In Figure 1 the dynamics of trade between China and Uzbekistan can be observed more vividly that the trade volume has drastically increased after the joint to the "Belt & Road" Initiative. Like other Chinese trading partners, the trade relationship with Uzbekistan is almost one-sided. China has been the first trade partner of Uzbekistan in recent years,

Chinese export to Uzbekistan amounted \$5,044 billion (about 23% of Uzbekistan's total imports and 0.2% of Chinese exports), Uzbek export to China amounted to \$2,180 billion (Approximately 0.1 percent of total Chinese import, and 14.4 percent of Uzbek export) in 2019. So, in terms of trade, China is much more important for Uzbekistan than Uzbekistan

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is to China. However, Uzbekistan's geographical location and political importance in OBOR are disproportionate to trade volume.

Let's find out what are the comparative advantage China Uzbekistan trade relationship (figure 2).

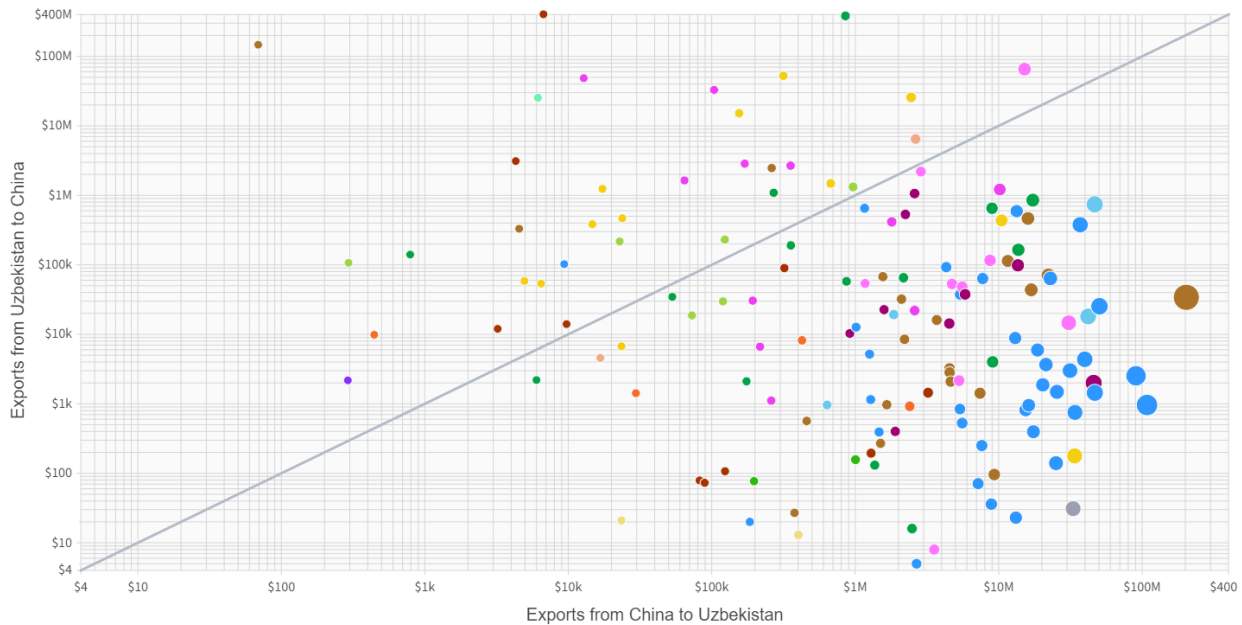


Figure 2. Comparative Advantage China – Uzbekistan

Source: <https://oec.world/>

This figure 2 compares trade between [China](#) and [Uzbekistan](#) by product, considering products traded by both, [China](#) and [Uzbekistan](#). During 2020, China had a large net trade with Uzbekistan in the exports of [Machines](#) (\$2B), [Metals](#) (\$576M), and [Textiles](#) (\$502M). During 2020, Uzbekistan had a large net trade with China in the exports of [Textiles](#) (\$437M), [Mineral Products](#) (\$406M), and [Metals](#) (\$151M).

Conclusion

By ensuring that political stability is maintained, the global initiative has been able to achieve a great deal so far in the field of five-way coordination of the project between countries in Asia, Africa, and Europe. As was noted above, the level of collaboration between Uzbekistan and China has increased in many different areas, including international trade and investment, transportation and logistics, education and tourism. After conducting research on the project's five top priorities, one may reach the conclusion that the level of bilateral cooperation between Uzbekistan and China is currently at the expansion stage. It's possible to attribute this to the following factors: The potential economic benefit of this partnership is noteworthy in "OBOR," and it is in China's interest to connect the land carriageway to the west market via CA including Uzbekistan as a transit state, uplift the Chinese RMB global level regionally by bringing investment and "made in China" products. Bilateral cooperation between two countries with the

long-standing experience and mutual benefit makes the aspects of the "Belt & Road" initiative free of political objectivity. At the same time, from the perspective of Uzbekistan, bilateral cooperation with China under "OBOR" Chinese investment on energy investigation, telecommunication, and construction of infrastructure contributes to the economic development of Uzbekistan and creates job opportunities for Uzbek nations; Initiative connects landlocked Uzbekistan not only to China but also leads to the world market providing safe and secure access; in the field of education, Uzbek students have the opportunity to receive Chinese education and training; and in the Uzbekistan's political and economic stability, as well as the capacity of this global project to bring the Uzbek state to a global scale, are all motivated by cooperation with China and other nations as part of OBOR. This cooperation motivates the Uzbek people both internally and outside. Integration into the global logistics system, collaborative investments, and the development of appropriate infrastructure all play a significant part in facilitating the export of Uzbek goods to foreign markets. Uzbekistan and China's partnership will thrive if the "OBOR" initiative is successful in fostering political stability, and the project will open up new opportunities for both nations in the future. As an example, the development of a new transport link will take Uzbekistan to the Persian Gulf. At the same time, Uzbekistan will have the opportunity to boost

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domestic production and export to states along the "OBOR." Concurrently, China's hand will reach to Europe over the land.

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