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## UZBEKISTAN-CHINA IS ON THE WAY OF STRENGTHENING BILATERAL RELATIONS

**Abstract:** *The history of the formation and development of small and medium-sized business in China, since the 70s of the XX century, which contributed to the development of the country are examined in this article. Also, the history of formation and development of Uzbek-Chinese relations in the economic sphere, and especially, in the direction of small business and private entrepreneurship in the years of independence is being investigated.*

**Key words:** *small business, private enterprise, state support of small and medium business, strategic partnership, legal regulation of interstate relations, small enterprises, investment policy.*

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### Introduction

The relevance of the study is due to the fact that small and medium-sized enterprises are very important for the normal functioning of the economy. Small business and private entrepreneurship have a significant impact on the development of the national economy, solving social problems, increasing the number of employed workers. High rates of innovations, inventions, rapid growth in the sphere of services and employment, healthy competition, which are leading, from one side, to lower prices, and from other side - to the fact that the consumer receives products and services in high quality. They provide an opportunity for the state to receive large funds in the form of tax revenues - all this is the contribution of small enterprises to the economy of the country.

Among the numerous countries, the PRC was able to show it as an economically fast developing entity in which small and medium-sized business plays a significant role. Small and medium-sized enterprises are the backbone of China's economy and the driving force behind its economic development. In many industries, they occupy leading positions. Small and medium-sized enterprises have become an important source of China's economic growth and their number is growing regularly. Introducing foreign investments into domestic markets, China in its turn tries to strengthen its influence in foreign markets. This is connected with the investment

policy, in which the Republic of Uzbekistan also actively participates.

The friendly ties between the Uzbek and Chinese people have historically been rooted in the centuries. It should be noted that China is today an important strategic partner for the Republic of Uzbekistan, especially, in the economic sphere. Although each of these countries has its own development path, but they still have much to learn from each other.

**History of the development of small business and private entrepreneurship in China:** Of all the countries of the former socialist camp that have launched political and economic reforms, China is the country that has made particularly tangible progress as a result of the transition from the previous centrally planned economy to a market system (Dodoboev,2016).

Reformation actions began in the late seventies of the last century and went down in history under the name of "Politics of Reform and Openness", which focused on the world economy, on the external environment, which was fundamentally different from the situation that had developed during this period of the country's development.

A feature of China's small and medium-sized business is the emergence and development of this sector of the economy, not in the city but in the village, where a family contract was encouraged.



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Later small business began to spread and in the city, which contributed to the reduction of unemployment (Shun Chjan, 2008). Although, according to experts, in the initial period of reforms there was no coherent strategic concept of development, and all economic work was aimed at eliminating the disastrous consequences of the economic reform of the past period. The effectiveness of this process was reduced by the reduction of the influence of the central government on business and the increase of the value of private capital (Motovits, 2005).

A great role in the development of private entrepreneurship was played by the fact that a large number of wealthy Chinese entrepreneurs who had previously emigrated abroad (rich huaqiao) wanted to invest their money in the development of their homeland.

For its part, the Chinese government has undertaken many activities aimed at supporting small and medium-sized business. As it was pointed out, already in the nineties a transition was made from a centralized system of a planned economy to a market, therefore, it was necessary to reform the financial system. After Deng Xiaoping's trip to the south of the country in early 1992, many political leaders and ordinary people began to accept the concept of a "socialist market economy". The speech of the country's leader seriously changed public opinion and dipped China in the golden time for the development of the private sector, especially, private enterprises. The number of such enterprises is rapidly increasing. So, by the end of 1992 the number of registered private enterprises reached 139600 - 29.5% more than in the previous year, and the number of employees reached more than 2 million people, or 26.1% more than in 1991. Moreover, over 220,000 former civil servants left their posts, plunged into the world of business (Rogatov,2005).

**State support and legal regulation of small and private entrepreneurship in China:** It should be noted that in September 1997, the 15th Congress of the CPC recognized that the non-public sector is an important component of the Chinese socialist market economy, and the existence of various forms of ownership is a key factor in the country's economic growth. The CCP and the Chinese government began to take measures to protect the legally obtained incomes of various enterprises, to encourage the development of all factors of production, to protect the property rights of all types of enterprises and to provide conditions for free competition between enterprises. In addition, amendments to the Constitution in 1999 argue that individual business and private enterprises are an important component of the Socialist market economy. This vivid confirmation of the active role of the private sector in the Chinese national economy

has served to further remove obstacles to the development of this sector (Rogatov,2005).

For these purposes, the Chinese Government creates a "Department of Small and Medium Enterprises", which was led by the National Commission for Development and Reform and the Chinese Center for Business Coordination and Cooperation. Studying the state and needs of small and medium-sized business, they helped businessmen in various activities, such as training personnel, informing about holding negotiation processes, monitoring activities, providing assistance in organizing trade issues, etc.

The central government assisted the business sector in the issues of developing foreign world space. Thus, with the assistance of the "Chinese Center for the Coordination and Cooperation of Business", from 1990 to 2001, more than 950 international projects for the development of small and medium-sized business were formed and are functioning, the implementation of which brought the country more than 7.1 billion dollars in profits (Motovits,2005). In addition, the National Commission for Development and Reform (NDRC) serves small business and facilitates cooperation with domestic and foreign partners.

In turn, the Government of China supports the business through the "Credit Guarantee Fund", which works on the developed system. The Foundation supports the idea of creating techno parks and innovations. The PRC implemented the policy of a developed techno park, SEZ, and this contributed to attracting foreign investment, creating opportunities for innovation, development of education. Also, another important body contributing to the development of the country's economy is the state information service CSMEO, which was established in 2001. This service is engaged in the provision of information counseling services for the population and entrepreneurs in the activities of small and medium-sized business through its Internet site. The CSMEIO network covers all regions of China, which makes it possible to timely inform the population about the state of the labor market, changes in the current legislation, recent advances in science and technological inventions, development and status of small and medium-sized business.

In order to further expand the information network and coordinate the activities of CSMEIO with regard to the creation of a high-quality three-level nationwide system of information services for small business, the main information agency "Beijing SME online company" was established in 2003. At the first level is the main website in Beijing, which has second-level support sites in each region, and the third level includes information networks in all cities, economic zones and municipalities (Pogarskaya, 2005). It can be said with certainty that to date there are no problems in the area of finding premises for

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work, because it is being intensively built, and rental payments are insignificant (Kozlov A, www.kommersant.ru.).

"The State Fund for the Development of Small and Medium-sized Enterprises" is financially supported by state structures, protects the level of profitability of the small business sector from the actions of any structures. Back in 2002, the Chinese authorities adopted the law "On stimulating the development of small and medium-sized enterprises." The law gave these enterprises equal rights with large companies, including access to modern technology, market information and financing. The state declared the protection of the legitimate income of small enterprises and their investors against the encroachments of any persons and organizations. Serious tax benefits were granted to enterprises willing to employ a significant number of unemployed and disabled people. As stated in the law, such enterprises "... receive a tax discount from the state or are exempt from taxes, and enjoy tax benefits" ("On the stimulation of small and medium-sized enterprises", 29.06.2009). Small and medium-sized business were allowed in industries previously completely controlled by the state, it retained its influence only in some key sectors of the economy. The Chinese government began to place state orders at small and medium-sized enterprises. Since 1 January 2003, the "Law on the Promotion of SMEs" came into force. In February 2005, the State Council issued a decree on the promotion and support of organized personal farms and small enterprises of all sectors of the economy. This was stated in the decisions of the Communist Party of the PRC in the "outline of the 12th Five-Year Plan" (Kulik, 2004). All these measures led to the rapid development of this sector, the growth of its profitability. By 2005, China had 4.3 million small and medium-sized enterprises, as well as more than 28 million individual entrepreneurs. Small and medium business gave the country more than 80% of jobs. It accounted for 55% of GDP and 60% of industrial output. In addition, the SME sector gave 65% of patents, 75% of technical innovations and more than 80% of China's innovative products. And it provided 46.2% of the country's tax revenues and 62.3% of the total volume of exports. It should be noted that almost 99% of all enterprises of the People's Republic of China belong to small enterprises (with a staff of up to 100 people). And only 0,6% - to the average (with the number of employed from 101 to 999).

In 2007, China adopted a law on proprietary rights, which granted private parties equal ownership with the state and collective. This significantly strengthened the position of representatives of small and medium-sized business. As sources indicate, in 2007 the total volume of goods and services reached 2.3 trillion. This brought the PRC to the fourth place in the world after the US, Germany, Japan, ahead of

England, France, Italy and Canada. In the same year, China's GDP reached 2.7 billion dollars, or more than 2 thousand dollars per inhabitant. This means that the third doubling of the key indicator of economic power occurred not in ten, but in just six years (Batova, <http://jurnal.org/articles/2010>). According to 2011, over 6 million small enterprises operated in the country during this period, which became the driving force of China's economic development.

In August 2013, the Chinese leadership announced innovations in the tax system of small enterprises in the country. According to the proposed amendments, representatives of small business whose monthly income does not exceed 20,000 yuan, or 3226 dollars, are completely exempt from value added tax and profit tax (Batova, <http://jurnal.org/articles/2010>).

According to Chinese leaders, the radical modernization of the country's economy should be completed in 2050, which should lead it to the number of leaders in terms of economic development. But the result of the work of small business can already be observed at the present time - the shelves of many shops are packed with cheap goods that are produced in small enterprises of the country.

To date, the development of this sector of the economy in the country is taking place in several directions: the government of the country stimulates, first of all, the development of private enterprises that work in the field of electronics production and software development.

**Types of small and medium-sized enterprises in China:** History tells: in the 80s of the last century the State Council of China adopted the "Provisional Regulations on Private Enterprises of the People's Republic of China" (Rogatov, 2005). This document contained a set of legal norms specifying the legalization of the social status of medium and large business and regulating the most important aspects of its economic activities and relations with the state.

In the "Provisional Regulations", an official definition of a "private" enterprise as an individual (or group of persons) of a profitable economic unit with 8 or more employees is given.

According to the organizational and legal form private enterprises are divided into three types:

1. A private sole proprietorship, acting on the funds of one person. His investor bears unlimited liability for the company's debt obligations;

2. A private enterprise on shares (partnership), when at least 2 people on the basis of an agreement invest their capital and conduct joint management, jointly bear full responsibility for profits and losses;

3. A private limited company (LLC) is an enterprise with at least two and not more than 50 investors who are liable in proportion to the amount

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of capital invested by them. According to the "Companies Law of the People's Republic of China", the registered capital of the CCW must be no less than the statutory minimum amount (100-500 yuan depending on the type of activity).

The CCT is granted the status of a legal entity, but it is prohibited to issue shares in order to replenish funds. Private enterprises, as a rule, arise on the basis of successfully developing family-owned individual enterprises; a significant part of them are former collective, mainly, township and rural enterprises as they have changed their form of ownership. They are also created on the basis of small enterprises of state and collective ownership by transfer to a lease, contract or shareholding.

When hiring a labor force, an employment contract is also drawn up. The legal status of wage workers is equated with the status of state workers and employees.

At the initial stage of development, private enterprises based on individual ownership prevailed, but in the 1990-s the number of private CCAs increased more rapidly.

The sphere of activity of private enterprises covers mainly industry, construction, transport and communications. In general, these are small enterprises with an average size of production assets of 50,000 yuan and an average number of employed 16 people. Since the early 1990-s the introduction of entrepreneurship in the sphere of services, high technologies, electronics, automation, production of export products have been accelerated.

Today, the development of the business sector in the PRC is very large and is proceeding at a fast pace, because the state is focused on transferring the country from resource-intensive industries and enterprises to small business. This characteristic feature also attracts Uzbek businessmen, because the "Chinese model" of development could justify itself. Secondly, friendly relations between our countries have not ceased with the blessing of the centuries, which have now become even stronger.

**The first steps for establishment of diplomatic relationship between the Republic of Uzbekistan and the PRC:** The basis for the development of bilateral relations between states was laid on December 27, 1991, when the People's Republic of China recognized Uzbekistan as a sovereign state. Diplomatic relations were established on January 2, 1992. Over the years, the Uzbek-Chinese partnership has been characterized by increasing dynamics in the political, trade-economic, credit, financial and cultural-humanitarian spheres.

Uzbek-Chinese cooperation is multifaceted; the level of strategic partnership is constantly increasing. These relations, serving national interests, socio-economic development, increasing prestige in the world arena of our countries, are consistently

developing on the basis of cooperation in the spirit of the principles of friendship and mutual trust, the firm foundation laid by the First President of Uzbekistan Islam Karimov (Urozov, , №95).

At the present stage, the Uzbek-Chinese cooperation, covering the whole range of relations, is friendly and mutually beneficial. It is based on confidential personal contacts between the heads of state. Regular exchanges of visits and summits are held, including within the framework of summits of international and regional structures.

Strong evidence of this can serve as an established regular exchange of visits by delegations of all levels, and, first of all, at the level of heads of state. In particular, the First President of the Republic of Uzbekistan Islam Karimov made six state and official visits to the PRC, which became important events in the history of bilateral relations and contributed to the further expansion and deepening of the multi-faceted Uzbek-Chinese relations. In turn, the chairmen of the PRC Jiang Zemin in 1996 and Hu Jintao visited Uzbekistan in 2004 and 2010 (Dodoboev,2016).

**Legal regulation of Uzbek-Chinese relationship:** 170 international legal documents covering various spheres of bilateral relations Between Uzbekistan and China have been signed. For example, during the state visit of the President of the People's Republic of China Hu Jintao to Uzbekistan in June 2010, the Joint Declaration on the comprehensive development and expansion of friendship, cooperation and partnership relations was adopted. Along with this, a number of documents on cooperation in the technical and economic, non-oil, oil and gas spheres and in the field of high technologies were signed.

In addition, an important event in bilateral relations was the official visit of the First President of our state to China in June 2012, which not only strengthened all the significant achievements in Uzbek-Chinese relations achieved over the past years, but also brought them to the level of strategic interaction. During this visit, 45 trades, economic, investment and financial agreements and contracts were signed for 5.3 billion dollars. An important outcome of the visit was the signing by the heads of state of the Joint Declaration on the Establishment of a Strategic Partnership, which defined new directions for the development of mutually beneficial cooperation (Dodoboev,2016).

The state visit of the Chairman of the People's Republic of China Xi Jinping to Uzbekistan in September 2013 helped consolidate the fundamental foundations of cooperation between Uzbekistan and China. During the visit, the Treaty on Friendship and Cooperation was signed, as well as the Joint Declaration on the Further Development and Deepening of the Strategic Partnership's Bilateral



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Relations. The Strategic Partnership Development Program for 2014-2018 (2013) and the Joint Statement signed in 2016 also constitute the legal basis for cooperation between our countries.

An important component of the systemic development of relations between the two countries is the Uzbek-Chinese intergovernmental committee on cooperation, the second meeting of which was held in October 2013 in Tashkent. Within the framework of this committee, meetings of the relevant subcommittees are held in such areas as trade and economic, cultural and humanitarian ties, security, energy, transport, science and technology, and agriculture.

The exchange of visits at the level of government delegations is expanding. In 2007-2013, Uzbekistan visited the premiers of the State Council of the People's Republic of China Wen Jiabao and Li Keqiang, deputy premier of the State Council Hui Liangyu, the ministers of public security Meng Jianzhu, foreign affairs - Yang Jiechi and Wang Yi, finance - Xie Xuzhen and others.

### **Uzbek-Chinese relationship in the sphere of small business and private entrepreneurship:**

Currently, both states provide each other with mutual political support in the international arena, including within the framework of the UN, the SCO and other authoritative international structures. China has always supported Uzbekistan's chosen path of development. In Uzbekistan, in turn, firmly and unswervingly support the deeply thought-out and balanced political course of the Chinese leadership, its principled policy on the issues of one China, an uncompromising struggle against a common enemy, such as terrorism, extremism and separatism.

A significant component of bilateral relations is cooperation within the framework of the Shanghai Cooperation Organization. Our countries attach special importance to the successful development of the SCO and to active participation in its activities. Cooperation with this Organization is today becoming a serious factor in strengthening stability and security in the region and in the world as a whole.

Also, Uzbekistan and China attach priority to the further strengthening of the strategic partnership, the expansion of multifaceted trade, economic, investment and financial cooperation based on the principles of mutual benefit, consideration of interests and equality.

Touching upon the Uzbek-Chinese relations, it is appropriate to note the consistent development of trade, economic and investment cooperation. This is confirmed by the fact that China ranks first among countries investing in Uzbekistan, second among trade partners. According to sources, the volume of mutual trade is growing between the two countries. For example, in 2010 this figure was \$ 2.85 billion.

During this period, Uzbekistan operated 347 enterprises with the participation of China's investments. In the Ministry of Foreign Economic Relations, Investments and Trade of Uzbekistan, 64 representative offices of Chinese companies were registered. These are enterprises operating in the sphere of export-import operations, textile industry, processing of agricultural products, information technologies.

In accordance with the loan agreement signed between the National Bank for Foreign Economic Activity of Uzbekistan and the State Development Bank of China in June 2010, the Bank of China allocated \$ 75 million to finance projects of small business and private entrepreneurship, investment projects in our country. To note, these banks of Uzbekistan and China have been effectively cooperating since 2005. During this period, the National Bank for Foreign Economic Activity of Uzbekistan presented two credit lines in the amount of \$ 80 million to finance the projects of the economy we are studying. Businessmen of Uzbekistan were provided with financial assistance for 120 projects.

In the conditions of the global financial and economic crisis, the issue of overcoming its consequences has become an important link in interstate cooperation. In order to solve this problem, Uzbekistan and China pay special attention to the expansion of trade, economic, investment and financial cooperation.

Investment cooperation is actively developing in the spheres of oil and gas, mining. For example, the Chinese National Oil and Gas Corporation (CNPC) conducts geological exploration work in the Aral Sea, investment blocks of Ustyurt, Bukhara-Khiva and Fergana. The commissioning of the Central Asia - China gas pipeline provided new opportunities for the development of cooperation in the energy sector.

At the same time, there is a wide field of activity for effective cooperation of Uzbekistan in many branches, including in the field of transport, logistics, construction, telecommunications, high technologies. In particular, during this period, Uzbekistan and China contributed huge resources to the free industrial and economic zones of "Navoi" and "Djizak".

Representatives of the Chinese business sphere regularly take part in exhibitions, fairs, business forums and conferences held in Uzbekistan, and entrepreneurs and farmers of our country take part in events in China. In China, cotton is cultivated, but in this country there is a great demand for Uzbek cotton. In this regard, representatives of China regularly participate in the traditionally held International Cotton Fair in Uzbekistan. At the exhibition "Expo 2010" held in Shanghai in 2010, one of the most visited was the pavilion of



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Uzbekistan. This also shows China's great interest in Uzbekistan. The entrepreneurs and farmers of our country are studying China's experience in developing small business and private entrepreneurship, creating new enterprises on Chinese technologies. The potential and opportunities of Uzbekistan in various fields are widely demonstrated in China. Travel companies and firms of Uzbekistan widely promote the opportunities of our country in this direction at the tourism exhibitions and fairs held in China ("Uzbekistan-China: Cooperation is dynamically developing on the basis of strategic partnership", 2017).

There is the most-favored-nation regime between the two countries, which along with active contacts and signed documents contributes to the steady growth of mutual trade turnover, which already reached \$ 5.2 billion in 2013. In the first half of the next year alone, this indicator exceeded \$ 2.6 billion, but overall for the year 2014 the trade turnover between our countries amounted to 4.7 billion US dollars, that is, slightly less than the previous year. If in the first half of 2015 the growth of bilateral trade reached 11.7%, then by the end of 2016 the volume of mutual trade amounted to 4.2 billion US dollars ("Narodnoye slovo", №92).

Every year, investment cooperation is expanding, the number of Chinese companies in Uzbekistan is steadily growing, and cooperation in implementing joint projects in the sphere of high technologies is actively growing. Every year, the number of Chinese investors has increased, which have invested in the development of small business and private entrepreneurship. If we turn to sources, more than 300 enterprises of Chinese investors actively participated in the Uzbek market by 2013. In 2014, their number grew and from that period 482 enterprises have been operated in our republic with the participation of investors from the PRC, including 78 enterprises with 100% Chinese capital. In addition, by that time, 74 companies of this country were accredited.

If in 2015 there were 582 joint Sino-Uzbek enterprises operating in Uzbekistan (Information at MFER), then by 2016 their number was increased to 700 (Shukurov, №94). Of these, more than 80 were created entirely through investments from China.

During the period 1991-2013, the Government of the People's Republic of China granted Uzbekistan a significant amount of grant funds for the implementation of priority socially significant projects in various fields.

The memorandum signed in September 2013 between the Ministry of Foreign Economic Relations, Investments and Trade of Uzbekistan and the Ministry of Commerce of China on bilateral cooperation in the implementation of technical assistance projects in excess of \$ 271 million in

2013-2017 made it possible to make the work in this direction systemic. The agreement on cooperation between the Fund for Reconstruction and Development of Uzbekistan and the Bank for the financing of investment projects for more than \$ 8 billion opens up ample opportunities for implementing priority projects for the creation of modern high-tech industries in various sectors of the economy (Shukurov, №94).

In general, over the past years, Chinese investors have invested almost \$ 7.8 billion in the economy of our country. These investments are introduced to the creation of techno parks, free economic zones and other enterprises. They include CNPC in the oil and gas sector, CITIC in the chemical industry, XCMG in the production of excavators and etc.

Also, the leadership of our country created free economic zones in order to create the most favorable conditions for the further development of the economy. Within a short period of time, free economic zones by attracting direct foreign investments are developing even more. So, in October 2016, by the decree of the President of the country Shavkat Mirziyoyev, the special industrial zone was renamed the free economic zone (JEZ), and its participants were granted additional privileges and preferences. Currently, Chinese companies such as Wenzhou Jinsheng Trade, ZTE, Huawei, ZTT, Juita Sewing Machine, Fuan Huari Brake Materials, Xinjiang Nixian International and others are operating here. 10 investment projects worth \$ 30 million in the areas of telecommunications, engineering, energy and building materials. In general, we can say with confidence that further bilateral relations will develop more intensively, as both sides support each other.

### Conclusion

Due to the purposeful work on the establishment of mutually beneficial trade and economic relations, Uzbekistan has established friendly ties with more than 180 countries over the years of independence. The People's Republic of China is one of the key partners of our country. The joint cooperation of our states is reflected in numerous legal documents. In general, over the past years between Uzbekistan and the PRC signed 231 documents of a different nature. A high level of political dialogue has created a stable foundation for the development of trade and economic ties. The fast-growing economy of Uzbekistan, its favorable geographical location in the heart of the region, modern transport communications, a reliable investment attraction strategy increase the interest in cooperation among China's business circles.

Undoubtedly, annually growing trade turnover, attraction of new technologies to the economy of our country have a beneficial effect on the development



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and prosperity of the state, as the economies of the two countries do not compete, but, on the contrary, complement each other. And this causes the need to

build up trade and economic ties, especially, the intensive development of small business and private entrepreneurship.

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