

**RESEARCH ON ECONOMIC AND TRADE RELATIONS  
BETWEEN CHINA AND UZBEKISTAN**

*Wang Guilian*

*PhD Student of National University of Uzbekistan*

*Teacher of Jining Normal University, China*

**Abstract:** *Uzbekistan is an important country for China's economic and trade cooperation in Central Asia, and deepening cooperation between China and Uzbekistan has strategic significance. In recent years, bilateral trade volume has steadily increased, and the scale of economic and technological cooperation has continued to expand. However, there are also constraints such as poor transportation and relatively bad investment environment. However, with the continuous close cooperation between two countries, there is still enormous potential for economic cooperation between China and Uzbekistan.*

**Key words:** *China; Uzbekistan; Central Asia; Economic and Trade Relations; Cooperation*

**Introduction**

Central Asia is a core region of Silk Road Economic Belt and the crucial channel for China to open up to the west. Developing trade with Central Asia is of great importance to China. Especially after establishment of Shanghai Cooperation Organization in the year of 2001, the trade between China and Central Asia has developed rapidly.

The population of Uzbekistan ranks first in five Central Asian countries, as well as its domestic natural resources are rich. It is an important partner of China, and one of the major sources of China's energy and agricultural imports. With the implementation of Belt and Road Initiative, a new chapter will be opened in the all-round cooperation between China and Uzbekistan.

**1. Current economic and trade situation of China and Uzbekistan**

Uzbekistan is located in the heart of Central Asia, bordering Aral Sea as well as Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Afghanistan, it is the only

country that borders all other Central Asian countries. It is strategically located at the crossroads connecting Europe and Asia. Through Uzbekistan, one could reach Caspian Sea, West Asia, and North Africa. In addition, Uzbekistan is also an important transit country for the China-Central Asia natural gas pipeline. Without Uzbekistan, there is no doubt that transportation channels of Silk Road Economic Belt would be blocked, which becoming a choke point restricting cooperation on the New Silk Road.

Since the Republic of Uzbekistan became independent, it followed objective laws of economic development, adopted a gradual development path, continuously promoted economic transformation, attached great importance to development of international trade. The GDP growth rate of Uzbekistan increased from -11.1% in 1992 to 5.2% in 1997<sup>1</sup>. According to World Bank statistics, Uzbekistan's GDP was \$14.7 billion in 1997 and grew to \$17.1 billion in 1999<sup>2</sup>.

In this period, Uzbekistan's foreign trade policies and laws were gradually improved, and it began to open up to outside in a planned way, attracting foreigners and foreign enterprises to invest in Uzbekistan through a series of adjustments such as tax relief policies. With the continuous regulation of laws for foreign investors, their confidence and enthusiasm are growing. Many Chinese companies come to Uzbekistan to invest, which has played a significant role in promoting Uzbekistan's economic development.

After the establishment of Shanghai Cooperation Organization in 2001, the bilateral trade volume between Uzbekistan and China has reached \$58.3 million. Since then, trade between the two countries has grown by more than double digits every year. By the year of 2010, the trade volume between two countries reached a historic high of 2.482 billion US dollars. Among them, China's exports to Uzbekistan amounted to 1.181 billion US dollars, while imports amounted to 1.301 billion US dollars<sup>3</sup>.

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<sup>1</sup> Hailiguli Niyazi. National Conditions of Five Central Asian Countries. Xi'an: Xi'an Jiaotong University Press, 2016, p84.

<sup>2</sup> <https://data.worldbank.org/>

<sup>3</sup> <http://www.customs.gov.cn/>

In 2011, China has 35 direct investment projects in Uzbekistan, with a total investment of nearly 4 billion US dollars, making it the largest investor in Uzbekistan<sup>4</sup>. In recent years, China has maintained its position as Uzbekistan's largest trading partner and largest export market. The cooperation between China and Uzbekistan in the investment field maintains a strong momentum, with over 1900<sup>5</sup> Chinese enterprises in Uzbekistan, mainly distributed in various fields such as chemical, building materials and pharmaceutical production, agriculture, etc.

The major enterprises currently invested by China in Uzbekistan including China Energy Construction Gezhouba Overseas Investment Co., Ltd., China International Engineering Co., Ltd., China Guangdong Nuclear Power Group Co., Ltd., CITIC International Cooperation Co., Ltd., China Machinery Group Corporation, China Hydropower Group Corporation, Huawei Technologies Co., Ltd., ZTE Corporation, BYD Company, etc. The newly signed large-scale projects mainly including WKC2WKC3 compressor station project undertaken by China Petroleum Engineering Construction Corporation, and Uzbekistan telecommunications project undertaken by Huawei.

In 2021, famous Chinese automobile company BYD and Uzbekistan's state-owned automobile group UzAuto signed a joint venture agreement to jointly establish a joint venture to produce new energy vehicles and related parts in Uzbekistan, mainly producing BYD's best-selling models, such as Han EV, Chaser 05 and Song plus.

With the gradual improvement of Uzbekistan's economy, powerful enterprises in Uzbekistan began to invest in the Chinese market and registered their first joint venture in Shanghai in July 2000. As of the end of 2006, Uzbekistan has 22 investment projects in China, with an agreed investment amount of 18.53 million US dollars and an ongoing investment amount of 1.32 million US dollars. The investment fields involve petrochemicals, agricultural irrigation, hydropower station construction, chemical plant construction, and food industry, etc.

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<sup>4</sup> Zhang Zheren, Li Dawei. Strategic Research on Promoting The Belt and Road Construction. Tianjin: Nankai University Press, 2017,p207.

<sup>5</sup> <https://www.yidaiyilu.gov.cn/p/183888.html>  
[www.pedagoglar.org](http://www.pedagoglar.org)

## **2. Main problems of trade cooperation between China and Uzbekistan**

The transportation network is not perfect enough. Transportation is lifeline of a country, and convenient transportation is an essential condition for a country's external economic relations. The transportation network in Uzbekistan is formed during the Former Soviet Union, and there are some problems such as outdated transportation equipment, unreasonable transportation network layout, and high transportation costs.

Meanwhile, due to the lack of territorial borders between China and Uzbekistan, the transportation of goods between these two countries requires transit through Kazakhstan and Kyrgyzstan. Therefore, transportation issues have become primary constraint on the trade between China and Uzbekistan. At present, transportation between these two countries is mainly carried out through aviation, railways, and highways. Air transportation has problems such as low transport volume, high cost, and severe weather impact.

The railway transportation of China and Uzbekistan still needs to pass through Kazakhstan. Because of different standards of railway regulations and other reasons, there would undoubtedly be a backlog of goods, increased transportation costs, and slow railway clearance. Therefore, many Uzbek and Chinese businessmen are unwilling to choose this route.

In terms of road transportation, there are mainly two routes, one passing through China-Kyrgyzstan-Uzbekistan Highway. Due to the long-term disrepair and poor road conditions of this highway, large transport vehicles find it difficult to pass through, which resulting in low transportation efficiency. Another option is to transport through Kazakhstan, but distance is relatively far. These factors have all constrained the development of China and Uzbekistan.

During recent years, the trade information exchange methods between Uzbekistan and China have sometimes been relatively lagging behind, the advanced network facilities are not perfect enough. For example, people in Uzbekistan generally use social tools such as telegram, facebook, and instragram, while Chinese people are accustomed to using wechat, tencentQQ, and weibo. The two countries

have not established complete agricultural-related network modules. Relevant departments use traditional channels and conventional methods. After obtaining the information, but it cannot be processed in a timely and effective manner, which seriously hinders the smooth cooperation between two parties.

In addition, there are few professional translators proficient in Chinese and Uzbek in these foreign trade enterprises, and they cannot carry out comprehensive and efficient communication, resulting in unnecessary loss of human, financial and material resources.

Many investment obstacles exist. There still have some trade obstacles between China and Uzbekistan. One problem is exchange rate risk. Trade between China and Uzbekistan has always been mainly settled in US dollars, and constant changes in the value of US dollar, Chinese yuan, and som have led to exchange rate risks for both sides in trade activities. If US dollar depreciates, Chinese export enterprises will face the risk of receiving less Chinese yuan. If US dollar appreciates, enterprises of Uzbekistan will face the risk of overpaying Som<sup>6</sup>.

Although China has launched and continues to promote cross-border RMB settlement business and currency swaps with Uzbekistan, the proportion of enterprises using cross-border RMB settlement is still relatively small<sup>7</sup>. At the same time, the scale of currency exchange between China and Uzbekistan is also small. According to statistics, in 2018, the scale of currency exchange between China and Uzbekistan is only 700 million yuan, and the amount of som is smaller, far from meeting the needs of bilateral trade development<sup>8</sup>.

Another problem is tax preferential policies cannot be implemented effectively<sup>9</sup>. Uzbekistan provides many tax incentives to foreign-funded enterprises, but sometimes relevant departments cannot fulfill them in the specific

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<sup>6</sup> Zhou Lihua, Zhang Wenzhong, Liu Wencui. Research on Exchange Rate Risk in Trade And Investment Between China and Uzbekistan. Xinjiang Finance and Economics, 2012(4), p77.

<sup>7</sup> Liu Yan, Research on Exchange Rate Risk of Foreign Trade Enterprises Under the New Situation. Times Finance, 2020(2), p53.

<sup>8</sup> Wang Zhe, Zhang Ming. RMB Internationalization Under the Belt and Road Initiative: Progress, Problems And Feasible Paths. China Circulation Economy, 2020, 34(01), p111.

<sup>9</sup> 2013 Regional Guide for Foreign Investment Cooperation. [DB/CD], Ministry of Commerce of China, Academy of Trade and Economic Cooperation.

implementation process. Some staffs in Uzbekistan have a high degree of arbitrariness in interpreting the law, with inconsistent standards, resulting in increased operating costs and risks for foreign-funded enterprises, which seriously affecting their enthusiasm for reinvestment.

In addition, there are strict residency restrictions, complex procedures, long processing times, and high costs when applying for work visas in Uzbekistan. It should also be noted that mobile payment is currently the main payment method for Chinese people. This is a double-edged sword. On the one hand, Chinese people greatly enjoy convenience and security brought by mobile payment. On the other hand, it has brought some problems such as difficult credit card consumption and cash payment to foreign-funded enterprises and foreigners.

### **3.Economic cooperation between China and Uzbekistan has broad prospects**

Bilateral trade relations based on win-win will continue to develop. The trade cooperation between China and Uzbekistan has always been in a favorable period of stable domestic situation and fast economic development, but it is also in the context of many intense economic globalization competition. As developing countries in Asia, both China and Uzbekistan should learn to cooperate with developed countries while utilizing their relative advantages in technology and resources to develop economies based on different national conditions. This is a common problem faced by both two countries, as well as the foundation of their cooperation.

China and Uzbekistan actively utilize their geographical advantages to develop bilateral trade relations, which is also a joint interest and demand of both sides. The process of China's participation in Central Asian regional economic cooperation will accelerate, and the facilitation of investment in Uzbekistan will be irreversible, so the scope of bilateral industrial cooperation will be broader, and technological cooperation will be more effective.

The mechanism of bilateral trade relations continues to improve. Although there are still some shortcomings in the trade cooperation between China and

Uzbekistan, on the whole, the two countries are solving problems through cooperation and seeking development through friendship. Since the independence of Republic of Uzbekistan, the trade relations between China and Uzbekistan have been greatly developed. Especially with the establishment of Shanghai Cooperation Organization, trade cooperation has become an important direction for cooperation among member states.

China and Uzbekistan have successively signed *Program of Trade Cooperation and Comprehensive Action Plan of SCO Member States*, which has greatly promoted facilitation of investment and the realization of free flow of goods, technology in the long run. It has also laid a solid legal foundation for long-term mutually beneficial cooperation between the two countries. China and Uzbekistan, together with other SCO members, have made unremitting efforts to promote mutual commercial cooperation.

The Belt and Road Initiative provides good opportunities for trade cooperation between China and Uzbekistan. Uzbekistan is an important cooperative partner of China. In June 2012, China and Uzbekistan established a strategic partnership. Since the Belt and Road Initiative is proposed in 2013, the joint construction of Belt and Road Initiative has become a main line of two countries.

China and Uzbekistan have jointly promoted smart agriculture, and the trade cooperation of two countries in the cotton industry has become more in-depth and comprehensive. For instance, Chinese textile companies have invested and built many factories in Uzbekistan, and 80% of clothing and cotton produced are exported. In 2015, China's Jiangsu Taicang Litai Textile Company invested in a spinning project in Uzbekistan. The factory was equipped with advanced equipment and adopted cutting-edge production management concepts. By 2017, the first phase of the Litai Textile International Park project put into operation. The annual output of cotton yarn reached 220,000 tons, and the revenue exceeded US\$70 million.

China and Uzbekistan have extensive cooperation in the energy sector, and two countries have reached a consensus on the long-term stable supply of natural gas. All four pipelines of China-Central Asia natural gas pipeline pass through

Uzbekistan, and the cooperation of bilateral in jointly building Belt and Road has achieved good results.

In the future, Uzbekistan could also maximize its transportation potential, strive to build China-Central Asia-West Asia corridor, which making trade more convenient, creating a large number of new job opportunities, attracting more tourists from all over the world, and obtaining considerable transit transportation revenue.

More importantly, in the context of the Belt and Road Initiative, China and Uzbekistan have also achieve new progress in training international students, language teaching and joint archaeology, etc. These cooperation have become a solid bond that unites two peoples.

### **Conclusion**

At present, the economic and trade cooperation between China and Uzbekistan is facing valuable opportunities. Both sides have similar political demands and same interests, and both have a strong desire to develop trade cooperation. Uzbekistan, as one of the major powers in Central Asia, will play an important role both in geopolitics and future international market.

As for China, the rapid development of economy requires not only a broad sales and investment market, but also stable and diversified import channels. The growth of China will benefit neighboring countries, including Uzbekistan. As long as China and Uzbekistan seize the opportunity, suppress interference, and deepen cooperation, the future relationship between China and Uzbekistan will continue to develop along a good trajectory, and the potential for trade and investment cooperation between these two countries is great.

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