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The role of Russia and China in economic development of Uzbekistan

To what extent does the economic engagement of Russia and China in Uzbekistan spur economic development?

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Abstract

This study examines whether economic engagement of China and Russia can spur economic development in Uzbekistan.
The most populous country situated in the heart of Central Asia, Uzbekistan has been once part of Soviet Union. After gaining independence Uzbekistan has faced numerous challenges in its economic journey until these days and the economic development has gone through many changes. Uzbekistan economy has been highly reliant on agriculture production following its Soviet legacy. Initial years of heavy cotton production let to less diversified economy, bringing export commodity dependence and vulnerability to market prices on natural sources. These economic issues consequently led to high unemployment rates, poverty and regional disparities in the country.
Yet the study examines the role of China and Russia in Uzbekistan's economy, how far the economic engagements as bilateral trade, foreign direct investments and remittances can address these existing issues and further trigger structural economic development.
Through the analysis of economic patterns, the study revealed that China's contribution has a high potential to address main economic issues and trigger economic development, whereas Russia's contribution mainly addresses the outcomes of main issues, that is reduction of unemployment, poverty and regional disparities. Thus, it is found that China and Russia complement each other in contributing to the economy of Uzbekistan.
Key words: Economic development, Uzbekistan, Russia, China, Structural transformation, Trade, Foreign Direct investments, Remittances

List of Abbreviations

One Belt One Road (OBOR)

Belt and Road Initiative (BRI)

Economic Intelligence Unit (EIU)

Commonwealth of independent states (CIS)

Information communication technology (ICT)

Foreign Direct Investments (FDI)

Small and Medium enterprises (SMEs)

China National Petroleum (CNPC)

China International Trust &Investment (CITIC)

Observatory of Economic Complexity (OEC)

United Nations Conference on Trade and Development (UNCTAD)

Asian Development Bank (ADB)

International Labor organization (ILO)

Gross Domestic Product (GDP)

Gross national income (GNI)

Gross Domestic Product (GNP)

PricewaterhouseCoopers (PwC)

International Monetary Fund (IMF)

European Bank for construction and Development (EBRD)

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Chapter I
Introduction

Throughout the centuries, nations have been striving to achieve economic development. It has been the topic of interest for a decades and scholars have been paying great attention on identifying the factors that trigger development. In the early 1990s, the bulk of states acquired their independence from Soviet Union. Since then the destiny of newly formed states has been interesting to many economists and politicians (Wayne Nafziger, 2006). What path did they have chosen to pursue their economic development and political position in international arena?

The focus of our study has been built around the economic aspects of development. The scope of my study is concentrated on studying the role and the contributions of external actors in the economic development of a post-soviet country. To be more specific, the role of Russia and China and their inputs in the economic development of Uzbekistan will be examined.

The main reason behind choosing this topic is that there rather limited studies conducted in this specific research area. There have been works that have studied the economy of Uzbekistan, but majority of them study Uzbekistan in the context of Central Asian regions (mainly compared to other four Central Asian states) ((Mariani, (2013); Kohli, (2018); Paramonov, (2004); Olcott, (1992); Spechler; (2012)). Similarly, relations with Russia and China are mainly studied within the context of Central Asian regions. Very few available up-to-date works have been specifically studying Uzbekistan's economic relations with Russia and China and their role on economic performance ((Kakharov, (2004); Koparkar, (2017); Madiyev, (2017); Paramonov, (2014); Yusufu, (2017); Öğütcü,(2017)). No study has been found that is aimed at evaluating the economic contribution of Russia and China to the economy of Uzbekistan in recent years.

Another reason of choosing this topic is to study more about the factors that hinder economic development of Uzbekistan and explore whether the exogenous factors really can play a role in the economic growth, in this case, whether two countries economic activity in Uzbekistan can help to bring development.

The reason why I have selected particularly China and Russia is that both countries have historical ties with Uzbekistan, and they are the closest powerful economic neighbors in Asian continent. Once being under Soviet system, Russia and Uzbekistan share range of common features, while China had even earlier ties with Uzbekistan, once connected by ancient trade road – the Great Silk Road (Oybek Madiyev, 2016; Vladimir Paromanov, 2014).

Even though the relations of Uzbekistan with these two countries have gone through changes, the economic cooperation have not ceased. Moreover, during domestic social instabilities in mid-2000s, these two countries were not very critical of Uzbekistan, which strengthened their collaboration. Since then the multilateral ties of Uzbekistan with Russia and China has been growing (Economic Intelligence Unit, country report, 2000-2006). For the last 10 years they have become main trade partners and biggest investors in the Uzbekistan's market. Previously Russia was the main partner, in the main industrial sector of Uzbekistan, whereas China have taken over leading position for the last several years. Moreover, the investment inflows structure highly differ between two countries, giving China higher advantage than to Russia. Because Chinese investment are spread across different sectors (Madiyev, 2017; Rashmini Koparkar, 2018)

The aim of this paper is to answer the research question '*To what extend do inputs of Russia and China contribute to the structural change of Uzbekistan's economy?*'

But to be able to answer the main question and we have determined economic development in context of our study as structural change by moving from agriculture-based to diversified industry (Simon Kuznets, 1966). That will help us to build our study around that theory and evaluate economic development of Uzbekistan.

Further to reflect on the economic achievements and challenges of Uzbekistan we have indicated the main features of its economy, shortfalls that have been hindering further development and the symptoms of these issues.

For us to be able to track the contributions of China and Russia into Uzbekistan's economy, three measures have been selected, they are:

- Foreign direct investments
- Trade
- Remittances

To collect data on the above indicators, the method of the secondary statistical data analysis has been used. The data has been derived from official national and international statistical sources (like The State Committee of Republic Uzbekistan on statistic (stat.uz), World Bank Open data, UNCTADstat, ILOSTAT, Economic Intelligence Unit, Thompson Reuters DataStream) as well as academic (World Bank Country snapshots, articles, research studies, journals, country briefs) and non-academic sources (news articles mainly Uzdaily, Azernews, Chinadaily, Moscowtimes). Further by compiled these data we have created a platform to evaluate the pattern of the contribution by two countries and to track the progress over the last 10 years period.

To conduct such analysis thoroughly the main question will be studied as four following sub-questions:

1. What are Uzbekistan's economic challenges?
2. What are the Russia's economic inputs in Uzbekistan?
3. What are the China's economic inputs in Uzbekistan?
4. What is the relative importance of Russia and China's economic engagement with Uzbekistan?
5. To what extend inputs of Russia and China contribute to the structural change of Uzbekistan's economy?

The first three questions will help us to carry out an empirical study on Uzbekistan's economy, the size of economy, the main industries, indicators of economic growth, economic shortfalls and its symptoms; Further empirical study will be on economic inputs of Russia and China, their trade indictors, investments volumes and remittances. In the analysis part, thorough comparison of each country's relative importance in Uzbekistan as well as the implications of economic inputs will be critically analyzed. In other words, we will be comparing the findings, figures and statements to critically analyze whether Russia and China's inputs have positively contributed to the economy of Uzbekistan.

In the next subsection, the study area of this research work will be expanded with the map, size of economies and relationship among the countries.

Study area

This section provides general information about each country that will be studied in this work. A brief knowledge about Uzbekistan, Russia and China, its economy, historical ties of Uzbekistan with two countries.

Uzbekistan

Uzbekistan is a country located in the heart of Central Asian, with large number of populations, that accounted to 32.39 million in 2017 (with a high proportion of young population) and with Gross Domestic Product(GDP) of $49.7 billion in 2019. Uzbekistan is doubly landlocked country with 10% of arable land and dry climate
Currently roughly 50-60% of its population settled in urban areas of the country. (World Bank, 2017; PwC, 2016).

Soviet and Post-Soviet Economy of Uzbekistan. During Soviet era, there was little industrial development in Uzbekistan, rather natural sources and raw materials were largely exploited. However, the World War II made Moscow to move some of its factories to Uzbekistan. Moreover, cotton production was the most important function of Uzbekistan in Soviet economy, producing 90% of Soviet economies cotton (PwC, 2016). The economy itself was agriculture-centered, massive cultivation of cotton and hugely damaged land and contributed to drying of Aral (see the image) and some regional rivers (CIA, 2019; Pomfret, 2001).

Image 1: Aral Sea in 1989 and 2008

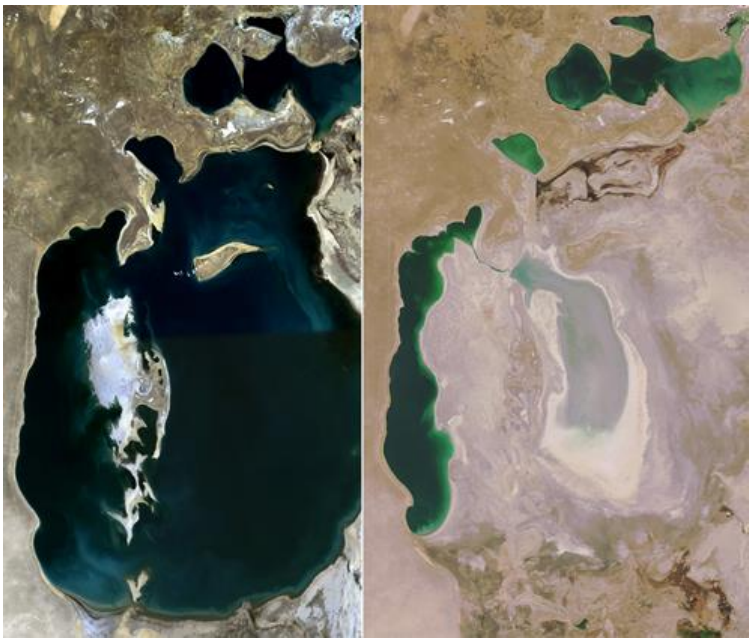


Image source: National Geographic, Aral Sea in 1989 and 2008

During initial years of independence, the Soviet legacy has been apparent in the economy of Uzbekistan, leaving it dependent on cotton production (Pomfret, 2001). Yet the country has been changing since then, the industry has been steadily diversifying than the initial years of independence.

Russia

In our work we will be mainly looking at Russia's economic activities in Uzbekistan and its role in the economic development. Russia has been an influential actor in the whole Central Asia with a large market.

The breakdown of Soviet Union did not only affect new independent states, but also Russia had suffered from shock therapy of market economy, which brought Russia into high poverty and economic turmoil until 1997. Between 1998-2007, the economy grew rather fast thanks to devaluated national currency and price boom of gas and oil. However, the political instability and sanctions from West have considerably hit the economy of Russia, even bringing down unemployment to post-soviet period (Martin Russell, 2015; RFE/RL, 2018;)

Russia and Uzbekistan relationship

Russia and Uzbekistan do not share any borders, but as we have mentioned earlier, their multilateral relations have started long ago Tsartist times (PwC, 2016). Uzbekistan has been within Russian Empire's rule for over 100 years, shared the same economic and administrative system. This obviously has been reflected to their Post-soviet relations, thus despite the breakup of Soviet Union, the economic relations were present between two countries through with some changes over time. After the independence Russia has become one of the main strategic partners of Uzbekistan Uzbekistan has been part of Soviet Union for over 70 years. However, after the breakup of Soviet Union, the economic ties have weakened. Yet recently the relations have become more vivid, expanding to economic, security and political sectors (Sinitsina, 2012).

Map 1: Uzbekistan, Russia and China

Source: legacy library, 2002

China

Likewise, throughout the paper we will be looking at economic relations and activities of China in Uzbekistan. Chinese economy has been growing rapidly over the last decades with high amount of production. It has become world's largest exporters and biggest investors in developing countries. Similarly, China play important role in Central Asia. (BBC, 2018).

China and Uzbekistan relationship

Historically China and Central Asian countries shared vibrant trade relations, which went through the ancient Silk Road, a road that carried Chinese silk, tea, paper and various other goods through the markets of Bukhara and Samarkand cities to other countries. However, Soviet era had limited the cooperation between this region and China for over the last 100 years. Certainly, the dissolution of Soviet Union gave opportunity to both China and Uzbekistan to go back to their historical trade relations. Obviously, the Sino-Uzbek relations started to grow. In order to get wider picture of their relation we can reflect on their trade relations after independence. In the year 2001, Shanghai Cooperation Organisation (SCO) was established, Uzbekistan become a member of the organization. Since then trade cooperation of China and Uzbekistan has significantly went up (Madiyev, 2016; Koparkar,2017).

Along with its trade and investment inputs around the world, its economic and strategic influence has been spreading across many countries. Particularly, through the BRI initiative, which has been established in 2013 with the purpose of connecting China's market with other countries across Europe, Asia, Africa and Oceania through land and sea. The project has been investing huge amount of means to construct pipelines, railroads, ports and highways to create and link economic corridors (Zhao Huasheng, 2016).

This major project highly contributed to strengthen the cooperation between two countries. The further chapter will give us theoretical framework of the research work on which all the collected data and its interpretation will be based**.**

Chapter II
Theoretical framework

The economic development

Our focus area is to examine the role of Russia and China in the economic development of Uzbekistan. In order to be able to answer the question, first we need to identify the pillars to which we will be referring throughout the whole study, namely the notion of economic development and how it is interpreted in the academic domain.

Economic development is interpreted in the multiple of ways by economists and developmentalists. There is no fixed definition for economic development, because as the world changes, the concept has been changing over centuries.

The globalization has connected countries, economies, people and have triggered enormous opportunities and contributed to the economic advancements in markets around the globe, giving a shift to the notion of economic development in current days (Øyhus, 2013).

Michael Todaro and Stephen Smith (2015) explain this shift in more extensive way, stating that the traditional purpose of economic development prior to 1970s was to increase income per capita and outputs in the country so that the growth exceed the population rate rise. Gross national income (GNI) was the main measurement of economic progress (Todaro and Smith, 2015, p 9). During 1960-70s, numerous developing economies achieved per capita income growth, during times the focus of development strategies was on rapid industrialization, ignoring rural development or agriculture diversification. The issues of poverty, unemployment, and inequality were neglected. However, after Cold War, the concept of economic development has been shifted. The previous focus of economic development on pure output growth now was requiring major changes in the structure of society, government institutions, the reduction of inequality and poverty elimination in the country. (Todaro and Smith, 2015).

Since 1945, the understanding of United Nations on development was focused on improving people's well-being.

Whereas UNCTAD have determined economic growth as structural transformation from agriculture-oriented economy from a rural workforce to an urban one (UNCTAD, 2017).

But does economic development have the same meaning with economic growth? Sometimes economic development is conflated with economic growth and sometimes believe to be synonymous. Many scholars argue that growth and development in economy carry different meanings. In order to avoid confusion, there is a need to set lines between economic development and economic growth.

In terms of economic growth and economic development, Maryann Feldman et al (2014) gave explicit discourse by referring to leading scholarship of economic studies (as Schumpeter (1961), Solow(1956), Rodrik (2004), Ricardo (1819) and Sen(1999) and to distinguish these two terms. They describe economic growth as easily being measurable and quantified with the help of indicators as Gross Domestic Product (GNP) and Gross National Product (GNP), as well as being more connected to macroeconomic conditions and to market force functions. Whereas economic development has been explained to be more qualitative, more focusing on improving the quality, innovation, promoting entrepreneurship, bringing economy to higher growth level, and emphasizes the microeconomic functions of the economy (the quality of inputs and the setting created for firms is important). Yet, the statement 'without economic development, economic growth is limited' probably summarizes their definition about growth and development. (Feldman et al, 2014, p.14). In other words, economic growth and economic development is something that should come together, economic growth addressing the quantitative aspect of economy, the other is more about quality of economic growth. Here it is possible to assume that economic growth is possible without economic development, but there will be less benefit from it, but to achieve economic development with economy growth is essential.

Another author Nafziger, (2006) believes that the term economic development and economic growth do not share the same meaning. He conceptualizes the economic growth as rise in income per capita and production, while economic development is economic growth, but accompanied with change in economic structure and output distribution. The change here includes the poverty eradication and improving well-being of people, decreasing reliance on agriculture and its share in GNP, but rather increasing the share of industry and service, as well as investing more in human capital (in education and labor force skills) and obviously investing into innovation (Nafziger, 2006).

In other words, Nafziger (2006) claims that economic development is economic growth accompanied with structural change. Structural change that involves less reliance on agriculture outputs, but more on the role of industry and service in the economic development. That is to say that there is a high importance of involving industry and service in achieving economic growth.

The economist Simon Kuznets (1966) made a strong claim that without structural changes there is no economic growth, further stating that poverty in many countries are the result of inefficient structural transformation, who failed to diversify the agriculture and production of primary materials to more expanded manufacturing and innovation (Kuznets, 1966, Lin, 2017). According to (Lin, 2010), the vital aspect of structural change and modern economic development is continuous technological innovation. Because innovation has a feature to push industrial structure to newer levels, which will bring the induestrial structure and the whole economy domestic and global market competitiveness. (Lin, 2010)

Using these perspectives it is possible to see economic development primarily as economic growth accompanied by structural change, in other word, shift from mono-industry, be it agriculture or resource-centered industry, to more diversified industry and services which includes innovation and constant upgrade over time (UNCTAD, 2017; Lin, 2010; Nafziger, 2006). This also resonates with perspectives put forward by organizations such as UNCTAD, which note the need for a structural transition from agriculture-oriented economy or resource dependent economy to that of manufacture-oriented growth (UNCTAD, 2017). Throughout our study, we will be referring to above defined concept of economic development, to answer our main research question *'To what extend economic engagement of Russia and China spur economic development'*.

Yet, there are also factors that may have both positive and negative implication to economic development.

As World bank and Growth Commission (2008) lays out, one of the factors that hinder sustained economic growth is heavy reliance on primary commodity exports, explaining that such approach can lead to poor development and hinder growth of economy. Moreover, the volatile global prices of export goods lag the further economic development. Another factor is dependence on natural resources, which also considered as primary good (World Bank, 2008; UNCAD, 2017). In academic domain this phenomenon termed as *recourse curse* or *Dutch disease*, when country's economy highly dependent on export of natural resources and primary commodity (UNCTAD, 2017, p9). Moreover, World Bank describe that economies find difficult to maintain their growth, because improvements in higher income countries would cause steadily decrease of comparative advantage of developing countries. In other words, any kind of change in high income economies will have implications on the performance of developing countries (UNCTAD, 2017; The World Bank, 2008, p7). In other words, any kind of change in high income economies will have implications on middle income countries economic performance. Yet, the further question what is the Uzbekistan's economic development strategy and is Uzbekistan facing above mentioned issues?

The model of economic development in Uzbekistan

The economy of Uzbekistan has been mainly driven by state-led investments, and export of natural gas, gold, cotton, and remittance inflows which provides a significant share of foreign exchange earnings. Despite diversification of crops after Soviet Union, the agriculture was largely centered on cotton production. (CIA, 2017, PwC, 2016).

In choosing its development path, newly independent state invoked to South Korean export-led growth, the Turkish active state support for entrepreneurial activities approach, and the Chinese model of gradual reforms, from agricultural to industry expansion model. Uzbekistan preferred steady transition to market economy rather than immediate change or shock therapy approaches (Richard Pomfret, 2000; Kobil Ruziev et al, 2007), as most CIS states applied. Thus, the post-soviet growth approach of the country was inspired by above examples of growth models, which is referred as an evolutionary reform strategy or gradualist approach. The main features of the gradualist approach of Uzbekistan have emphasized the state control on main sectors (natural resource rents), self-sufficiency in energy, reduction of imports and import substitution strategy towards the economy growth, but government had been delaying major macroeconomic and structural reforms (PwC, 2016).

The authorities were rather cautious towards immediate alterations yet did not objected to changes, there was little change in large-scale privatization and agrarian reform. Volatile prices for cotton in global market made Uzbek government to set rigid exchange controls, subsequently resulting in emergence of multiple foreign currency exchange rates. It highly hindered the economy of the county to further expand and postponed the introduction of market forces.

Moreover, to protect local production and industries as well as for security purposes (borders with Afghanistan) the borders were strictly regulated. However, important to note that government well managed the allocation of health and education expenditure and well supplied the social safety net (literacy rate – 99.99%, UNESCO, 2016) (Richard Pomfret, 1997).

IEither the chosen model of growth or governance caused challenges for growth and development in Uzbekistan resulting in high unemployment and other issues.

Yet by the end of 2016, the trajectory of economic growth model has started changing, with new administration. In the new era of administration, new strategies have clearly recognized n the importance of private sector in economic growth and job creation (Mamuka Tsereteli, 2016). The new growth strategy included key steps for economic reform:

- Reducing the role of the government in the economy,
- Supporting private sector and protecting their rights
- Encouraging small and medium enterprises,
- Improving the investment environment and attracting investments,
- Regional cooperation with neighboring states.

Within 2 years the results have been vivid, particularly in regional economic cooperation, international economic engagement and the currency liberalization. In other words, new growth strategies resulted in reducing strict border controls and developing economic cooperation with neighbors, removing control on currency exchange, which created better business environment and foreign investments are recorded as increasing in 2017- 2018. Finally, Uzbekistan took a step to join World Trade organization (Hans Holzhacker, 2018; World Bank, 2018).

We could see the evolution of economic growth model of Uzbekistan over 27 years, its implication on its economic performance. Our focus in this study is how far the external activities, including foreign trade and other economic engagement with other economic actors have been contributing to structural change of the economy of Uzbekistan. Based on theory of economic development we will be exploring whether there is income per capita growth and whether it is achieved along with structural change in the economy of Uzbekistan and most importantly does the economic engagement with China and Russia encourages such structural changes addressing the economic challenges or only symptoms?

But moving on answering above questions, in the next chapter I will expand how we are going to get answer to our questions through data collection.

Chapter III
Methodology

In this chapter we will describe the research design and methods that has been chosen to conduct this study. Further the reason why the specific method has been chosen to collect data will be noted. The advantages of the approach and limitations that have been faced during the process of analysis will be listed.

Even though the paper will include range of figures and numbers, the study does not represent mere quantitative study, because we are not using specific formula or statistical software to calculate or formulate complete data from raw materials, but it also involves qualitative data from secondary sources. Thus, I have chosen the *mixed method* of research for collecting data. John Creswell (2014) defines *mixed methods* research as collecting and compiling both qualitative and quantitative data. He claims that combination of two types of data will give us a bigger picture of the studied topic, by increasing its validity and reliability (Creswell, 2014). The findings of this study will be based on the thorough analysis of documents. Glenn Bowen (2009) describes *document analysis* as approach to collect data from printed or electronic sources, be it internet source, books; journals; news articles; press releases; organizational or institutional reports; survey data; and various public records (Glenn Bowen, 2009; p29). During the process of conducting study I have been studying the qualitative data from secondary sources like academic articles, country briefs and reports by international organization. Then in order to confirm the validity of information, further data from primary sources were collected. The data will be collected on the main three patterns that will help us to track the economic engagement of Russia and China with Uzbekistan. They are:

- Foreign trade indicators;
- Foreign direct investment inflows;
- Remittances;

To collect data on above listed indicators we will be referring to source as organizational or institutional annual reports; official reports; survey data; data from official webpages of government institutions; and various public records, books, journals, news articles, press releases. The sources that we intent to use are follows: country reports by Economic Intelligence Unit Country reports, World Bank Country Snapshots, Country Briefs from various international organizations, European Parliament briefs, FOA data, trade data from

OEC (Observatory of Economic Complexity), Asian Development Bank, International Monetary Fund, International Labor Organization (ILO), Foreign Trade Russia, fDImarkets; Uzbekistan Statistic Committee, Hong Kong Trade Development Council, Central Bank of Russia. Furthermore, we will be using official state statistical databases and international databases like World Bank Open Data; UNCTADstat, Thomson Reuters DataStream; IMF DataMapper; Central Banks of each relevant country.

After the collection, the data will be organized into graphs and tables to illustrate the picture of changes, progress and declines in economic indicators of selected country over the given time span. Further we will evaluate, compare and synthesize collected patterns and indicators to interpret and generate critical conclusion out of created comparison.

Advantages and limitations of the research method

One of the features of document and statistical data analysis via mixed methods is that this approach gives an opportunity to collect valid results.

The validity is described as providing integrity of the conclusions that are generated from a piece of research (Alan Bryman, 2012; p) and based on determining whether the findings are accurate from the standpoint of the researcher (Creswell, 2014; p 251). As was mentioned above the mixed approach granted such opportunity to get more integrated data and to explore the problem in a bigger picture. Yet there is a question of reliability arises. How far the figures and data collected from statistical data base can be reliable. As Bryman (2012) states that reliability may sometimes appear problematic in relation to quantitative research, because quantitative data is more about being stable or not. Bryman (2012) comments on advantages of using statistical and secondary data, which I also have experienced in the process of data collection. They were:

- ✓ Time and cost effective
- ✓ Longitudinal
- ✓ Reproducible (Bryman, 2012)

It should be noted that collecting data by mixed method saved a lot time and was not costly, moreover, it gave more opportunity to track the progression or regression of market patterns over time for each studied country. Finally, it is possible to reproduce the analyzed data by going back to official statistical sources.

Yet at the same time there were some inconvenience of using secondary and statistical data was:

- Lack of time series and crucial information (incompleteness)
- Lack of full description and familiarity (Bryman, 2012)
- Having no control over data (reliability)
- Politically biased and non-transparent

In the initial phase of data collection, there were some obstacles to interpret the available data, due to some shortages of data description in the official statistical data source and it took me some time to get familiar with the indicators and figures.

The biggest constraint in data collection during the study was lack of certain data on public domain, access to certain indicator was limited. Like for instance, it was quite difficult to find data on the poverty rate of Uzbekistan, the data was provided for only limited time span, which beyond the timeframe that we were focused on. Moreover, the data on bilateral foreign direct investment which is usually processed by UNCTAD was not available for Uzbekistan, neither data available from IMF. In order to track the inflow of direct investments from specific country, I referred to the Russia and Chinese outward investment by country. Thus, there was no chance to verify the one-side registered data for FDI. The rationale behind these challenges of data transparency is that Uzbekistan has been closed country for several decades. This inaccuracy of official data had been one of the issues that has been raised by international organizations as IMF, World Bank and IBRD towards Uzbekistan (EBRD, 2018; World Bank, 2013). Yet we are not claiming that the data the official sources provide are totally useless, but there are some indicators that they have been distorting by exaggeration or diminishing of the real figure. That probably was done either to hide or emphasize some aspects of its economy. There have been some discrepancies in data provided by official sources and even international organizations. For example, for unemployment and poverty rate, even the material imported from official database of international institution were little far from truth, no data on poverty and unemployment rate in official government sources. If you see the graph for unemployment it shows almost the same rate over the last ten years, though the population rate of Uzbekistan is constantly rising.

The rationale behind these challenges is that Uzbekistan has been closed country for several decades. This inaccuracy of official data had been one of the issues that has been raised by international organizations as IMF, World Bank and EBRD towards Uzbekistan (EBRD, 2018; World Bank, 2013). Yet we are not claiming that the data the official sources provide are totally useless, but there are some indicators that they have been distorting by exaggeration or diminishing of the real figure. That probably was done either to hide or emphasize some aspects of its economy. There have been some discrepancies in data provided by official sources and even international organizations.

Thus, it is reasonable to consider that the data during initial 25-26 years might be rather unreliable from official national statistical committee, some data even from International institutions. Because, the possibly that the data from international statistical sources is being politically biased cannot be excluded.

We have now discussed about mainly social development indicators, yet the economic indicators have been rather reliable, since trade indicators, FDI and residences are usually registered by two countries, which provides chance to cross-check the data from various sources.

Moreover, starting from 2016, with the new administration there have been big changes in domestic policies, which relatively improved the data accuracy by the high recommendation of international institutions.

Another advantage is that analyzing secondary statistic data gave us opportunity to conduct longitudinal analysis (Bryman, 2008), by using databases and search tools, we were able to find data for the specific time period and were able to observe the changes over time. This helped us to interpret the data and corelate the economic figures with events in the country or global economy. Like for instance observing changes of economic performance of Uzbekistan during global financial crisis, global prices fall or contrary commodity price boom, which has been reflected in the trend of collected data.

Thus, taking into consideration all above shortfalls, we had to be rather selective and extra careful while collecting data. Under such setting, we found that data from UNCTAD, World bank Open Data and Economic Intelligence Unit as most reliable and credible sources.

Thompson Reuters data collection tool was used to search for various time series and the tool gave us opportunity to import data from various sources, including international and national sources (Chinese authorities, Russian and Uzbekistan national sources).

At the same time using mixed method, using both quantitative and qualitative analysis of analyzing secondary and primary data gave us opportunity to bring bigger picture of economic engagement of Uzbekistan with two great power.

Chapter IV

The economy of Uzbekistan

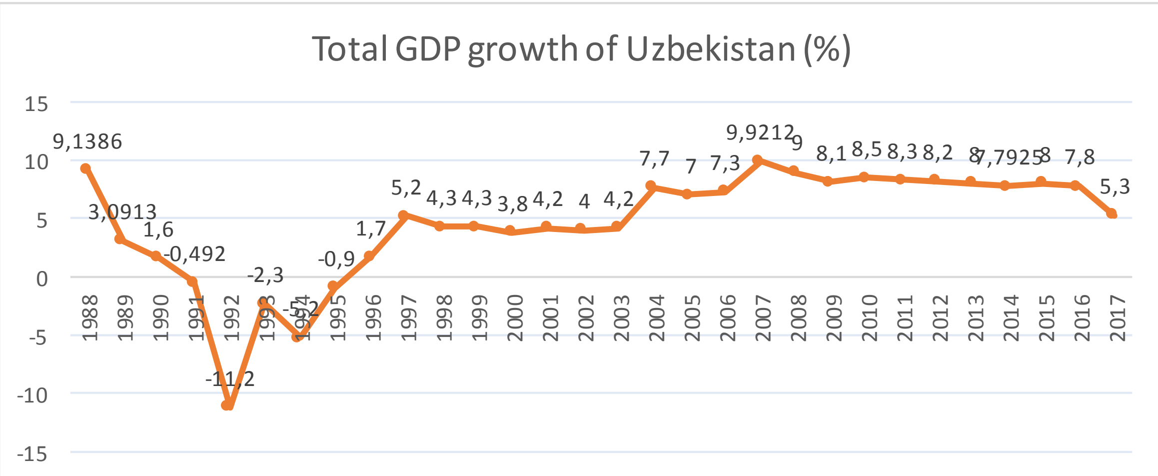
In this chapter we will assess the economic features of contemporary Uzbekistan, including the size, the main sectors that contribute to the growth of GDP and economic performance for the last 10 years. We will identify challenges which have been inhibiting the economic development of the country. Then we will list the symptoms of those developmental shortfalls, that have been highly affecting the well-being of the country.

Uzbekistan economy

After independence in 1991 from Union of Soviet Socialist Republics (USSR), Uzbekistan have tried to diversify its economy, including expanding agricultural production, promoting gas and fuel sectors and developing manufacture base. However, the cotton production has been important part of economy until 2016 (Tsereteli, 2016). According to the World Bank classification, Uzbekistan is a lower middle-income country (World Bank data, 2018).

After dissolution of USSR, Uzbekistan economy has been able to gain growth that it used to have under Soviet system, as we see in the graph, in 1988 the gross domestic product growth made up 9.14%, which sharply decreased, having negative growth of -11.20% in 1991. Negative growth rate has been observed during the first 5 years.

Figure 1: Total Gross Domestic Product Growth in Uzbekistan between 1988-1997 (%)



Source: Data retrieved from World Bank indicators in 2019

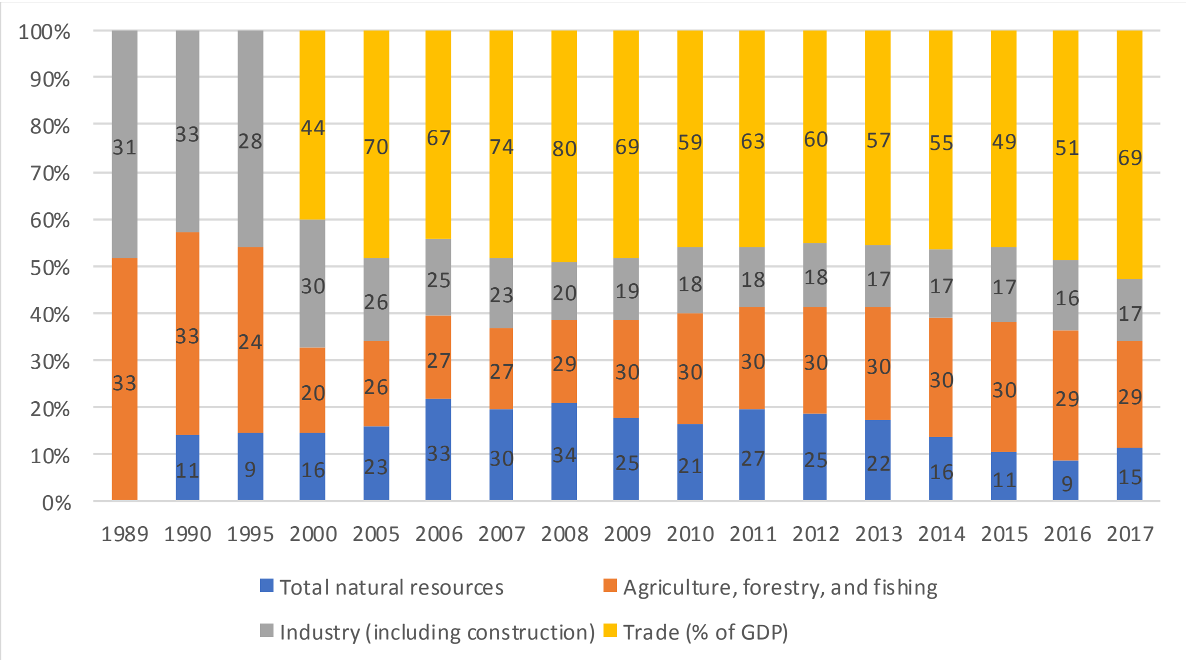
Yet starting from 1997, growth rate of GDP started recovering and have reached to pre-independence growth rate of 9.92% in 2007. The growth was stable until 2016, with annual average growth of 8%. Though, interestingly after 20 years, it has fallen to the same rate of 5% in 2017 (PwC, 2016; Pomfret, 2000; Economic Intelligence Unit, 2008-2018, World

Bank, 2018). In the trend of GDP growth, we notice that the economy of Uzbekistan, became rather stable during the last ten years. According to World Bank, the per capita income has increased since the initial years, which decreased the level of poverty from 27% in 2000 to about 15% in 2012. Due to the less integration to international environment and financial system, the country's public debt was low which contributed to budget surplus (World Bank, 2013).

Main sectors of economy

For more than a decade, the main driver of economy has been primary commodity exports such as gold, gas and cotton, however the structure of economy was modified since early years, and the shares of industry and services in GDP started to increase and the sectors more or less were diversified (World Bank, 2018; PwC, 2016; ADB, 2011). For instance, automotive manufacture (cars, busses, trucks), household appliances, production of construction materials. Even though our main focus is recent 10 years, to give the full picture of the share of main sectors in the GDP of the country, I have selected initial years as well. Only every five years, including 1989, 1990, 1995, 2000, 2005.

Figure 2: The share of sectors in GDP for selected years (%)



Source: Data retrieved from World Bank indicators in 2019

As we see in the graph, in 1989 there was neither energy sector nor trade in Uzbekistan economy. After gaining independence, agriculture, industry and energy sector were main sectors. In the first 5 years the agriculture and industry remained as main sectors, with 24% and 28% of share in GDP. Next 5 years, show that trade took up the main share of GDP, with

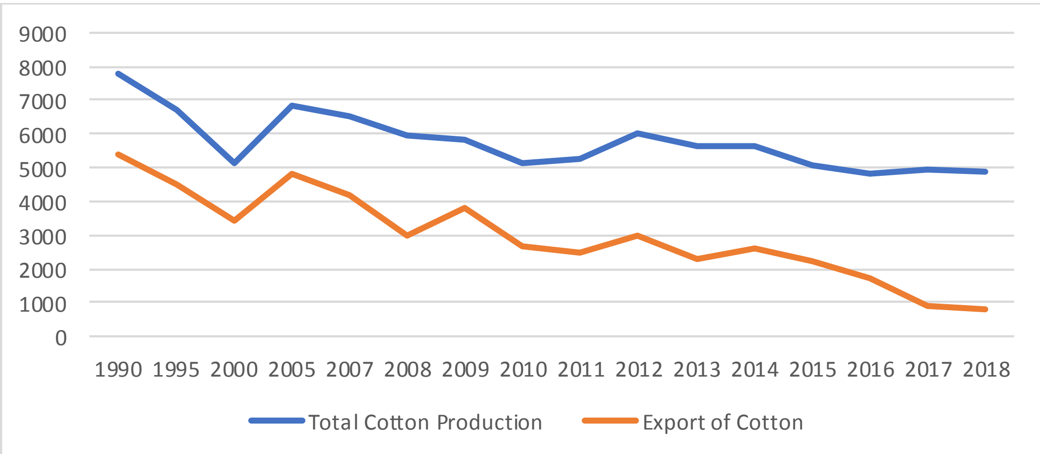
44 % and followed by industry 33%. Yet during the energy price boom period, the energy sector made up large share in GDP, increasing from 11% to 34% in 2008. As we observe the trend for energy sector, we can see that it gradually has fallen to 15% in 2018. While the share of agriculture has been increasing over the last ten years, making up in average 30% of total GDP. However, the industry was rather high during the Soviet era, with 31%, further it kept falling, making up in average 18% of total GDP. Further we can see that the share of trade has from 44% to 80% during energy price rise in 2008, yet since then trade share is averaged to 60-70% of total GDP share. Trade include export of agriculture products, natural gas, machinery and other manufacture goods (World Band indicators, 2019)

Agriculture

Historically agriculture sector was important in the economic development and growth of Uzbekistan. Particularly, the cotton industry was crucial part of export commodities, which has been increasing hard currency of the country since early 1990s yet in recent years the trends have changed to horticulture. As World Bank reports the share of horticultural in export revenues increased to 3 times from about $500 million in 2006 to $1.2 billion in 2016 (World Bank Agriculture, 2018)

To be able to see the whole picture of change in cotton industry we have added pre-independence cotton production in 1989, post-independence (every five years) and last ten-year indicators.

Figure 3: Total Production of cotton in Uzbekistan (in bln bales)



Source: Data retrieved from Eikon DataStream (Thompson Reuters) in 2019

Even though the share of cotton exports in GDP growth fell from 27.5% in 2000 to 7.4% in 2014 cotton production remains as the main export commodity until 2015. However, between 2016-18, the production has decreased. Subsequently, the share of total agriculture output in GDP fell from 34.4% to 18.3% by 2015. The main reason is the reliance on cotton production has been reduced and horticulture has been improved (World Bank, Uzbekistan challenges, 2013; World Bank Agriculture, 2018). Russia and Kazakhstan are the main export destination for Uzbekistan's fruit and vegetable. In recent years the agriculture export expanded towards China and European counties. Yet, there are still some obstacles to diversify agriculture export sector due to food safety requirements. (World Bank Agriculture, 2018, p5)

Industry

Energy sector is important part of economic output of Uzbekistan. The country is eleventh world producers of natural gas, with the third largest gas reserves in Eurasia, after Russia and Turkmenistan. Around 50% of 200 gas reserve fields are in use, about 35% are under development, and the rest are under exploration. Major destinations of gas exports have varied over time, Ukraine was the one of the largest consumers from 1990s to 2011, then China became the biggest consumer, with 84% gas exported in 2017 only (Eva Bochorishvil, 2018; Gulnear, 2018; The Observatory of Economic Complexity, 2019). Moreover, Uzbekistan possess large reserves of gold and ranked as 10th largest exporter, with production of 85 tons of gold. According to Economic Intelligence unit estimation around 19% of export revenue came from gold in 2010 (Eva Bochorishvil, 2018; EIU, 2011)[1].
As per the automotive industry the Uzbek-American company is one of major industries. General Motors Uzbekistan produces automobiles under Chevrolet brand and supplies domestic market as well as foreign, mainly neighboring Central Asian countries and Russia (highest proportion goes to Russia), for example 90% of cars exported to Russia in 2009 according to estimates. Other than that, the country also produces busses and trucks locally and supplies the domestic demand (Economic Intelligence Unit, 2010).

Total trade

According to World Bank, Uzbekistan's trade represented 68.52% of GDP in 2017 (World Bank, 2018). Main export destinations include Switzerland, China, Russia, Turkey, Kazakhstan, Bangladesh, and Afghanistan. Imports generally arrive from China, Russia, South Korea, Kazakhstan, Turkey and Germany and Germany (OEC, 2019). As was mentioned above China is main consumer of natural gas, Russia has demand for agriculture

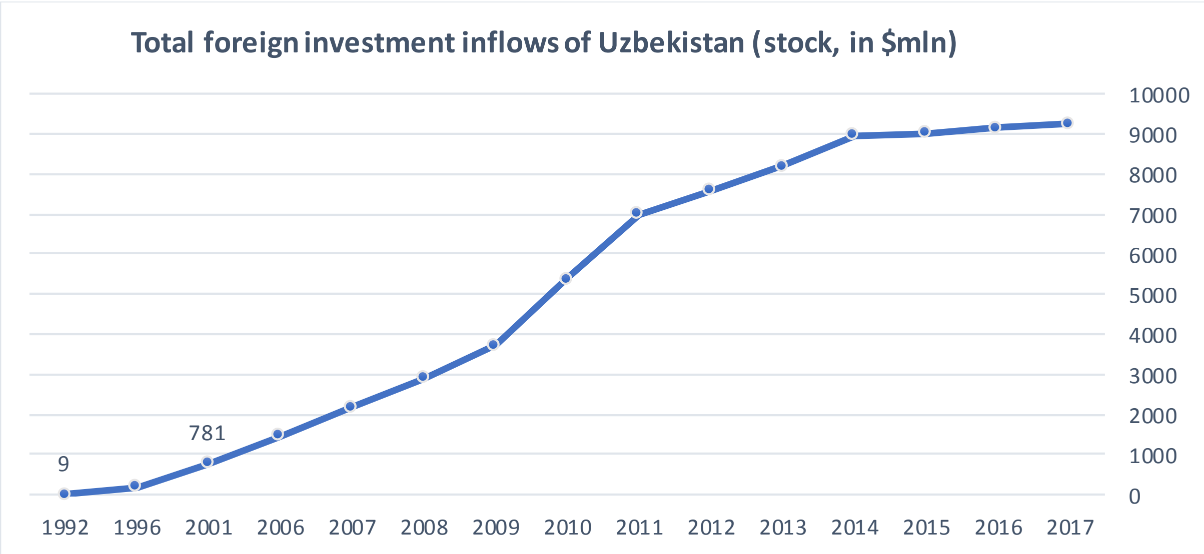
[1] There is a discrepancy in data of Uzbekistan statistical committee, the official data and international organization resource may not match (World Bank)

goods and cars, while the gold is mostly exported to Switzerland and Japan, 88 % and 9% respectively (OEC, 2019)

Foreign direct inflows

As we have noted earlier in the section about the growth model of Uzbekistan and initial economic policies has its implications on the country, which made its market unattractive for foreign investments. Similarly, to give bigger image, I have selected every 5 years indicators which includes years as 1992, 1997, 2002 and last 10 years. The highest total inflow of investments was recorded in 2010 and 2011, with $1.6 billion. During the first years the inflow of foreign investment was rather minor, however the trend of investments has changed over the last 10-12 years. Starting from 2007 until 2017, the volume has increased from $2billion to $9billion. Noticeable change can be observe starting from 2013, the investments inflow was increasing gradually.

Figure 4: Total inflow of foreign direct investments



Source: data retrieved from UNCTADstat in 2019

But still, the volume of total investment is considerably small in comparison with other CIS countries. The main investing countries are Russia, South Korea, China and Germany, but Canada increased its financial presence in 2018. Focus of investment mainly has been directed at the energy sector. Total FDI stock of FDI stood at USD 9.5 billion in 2017, making up 13.5% of total GDP (ADB, 2017, UNCTADstat, 2018,).

We have been looking at the main sectors and features of Uzbekistan's economy. Further we will identify the main challenges of county's economy, that has been slowing down the effective growth and development. Further we will move towards the symptoms of these challenges.

Economic challenges of Uzbekistan

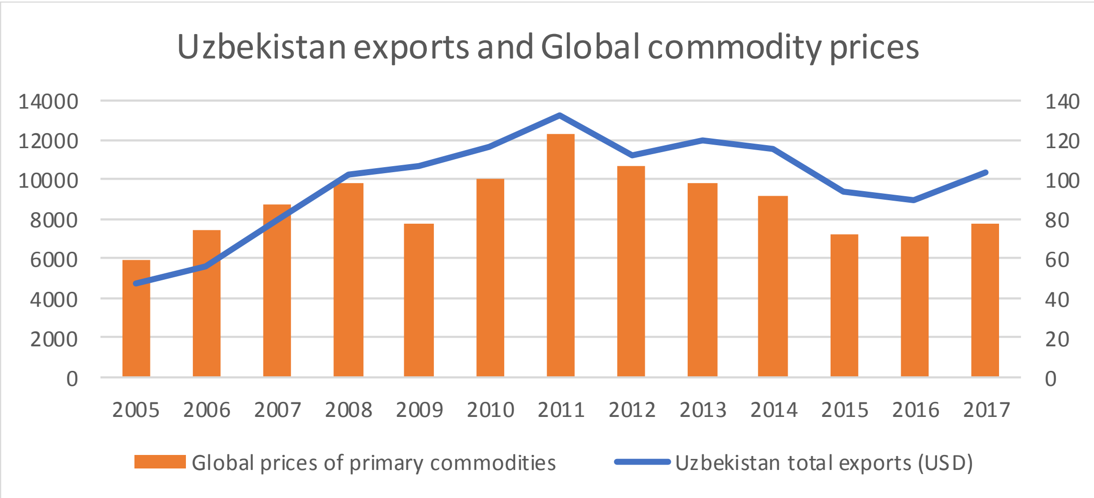
Dependence on export of primary commodity

As UNCTAD notes that many countries are dependent on agricultural commodity exports. The half of region of Asia has been dependent on fuel exports (UNCTAD, 2017). Uzbekistan is no exception; it has been largely dependent on commodity prices for a decade, after the collapse of Soviet system. The government put massive emphasis on cotton production. According to Economic Intelligence Unit, the economic performance of Uzbekistan has been dependent on export prices and external environment for commodity goods demand over specific span of time. As it reported in 2007, favorable export prices have allowed the government to bring Uzbekistan's previously high external debt burden under control, reducing an important budget expense, and are also helping to drive economic expansion (although the pace of economic growth is probably somewhat slower than suggested by the official figures) (Economic Intelligence Unit, 2007, p. 9). The gold, gas, copper and cotton were important commodities for export and government too much emphasis on the export of those items, because they have been for the GDP of the country. Thus, global slowdown in the commodity prices has been hugely affecting the rate of GDP growth over the several decades (Economic Intelligence Unit, 2007-2018; Pomfret, 2000). Any possible recession in the economy of Russia, China or Kazakhstan could affect negatively to Uzbekistan's traditional commodities for export. Moreover, Russia and Kazakhstan were not only main trade partners, but also these economies were the main destination for migrant workers from Uzbekistan, who has been the source of remittances (The Economic Intelligence Unit 2007-2017; the World Bank, 2013; Pomfret, 2000).

Price shocks

According to World Bank analysis, the economy of Uzbekistan considerable has been vulnerable to external shocks and *commodity price shocks*. The gold, gas, copper and cotton were important commodities for export. The government too much emphasis on the export of those items, as they compromised big share of GDP. Thus, global slowdown in the commodity prices has been hugely affecting the exports of Uzbekistan over the several decades (Economic Intelligence Unit, 2007-2018; Pomfret, 2000). Any possible recession in the economy of main economic partners had affected negatively to Uzbekistan's economic performance. Like for instance, slowdown in Russia's economy would impact both trade (World Bank Diagnostic paper, 2018; Economic Intelligence unit, 2008-18). In the graph we can see how Uzbekistan's export trend changes as the global prices for primary commodity goods. Until 2012, it was highly vulnerable to price shocks, further it is slightly relaxed.

Figure 5: Uzbekistan exports and global commodity prices



Source: Source: Data retrieved from World Bank indicators in 2019

Insufficient diversification of industry sector

Moreover, the business environment has been complex, with high tax burdens on small business as well as for foreign business, which pushed away foreign investments in early years. Since mid-2000s, many reforms were implements to address these issues, some succeeded, some did not. Because foreign exchange currency control, and high tariffs for imports have been constraining to promote small and medium enterprises. Even though the currency liberalization took place, there is still little diversification of industry (World Bank, 2013, Economic intelligence Unit, 2017; World Bank diagnostic paper, 2018).

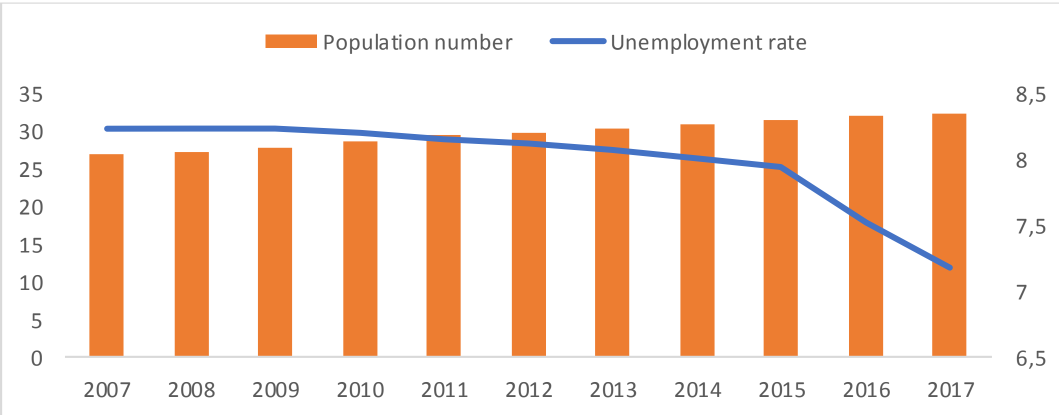
Symptoms of the economic challenges

In this subsection we will be looking at the issues that has been caused by above challenges, we will be referring to them as symptoms of economic challenges.

Unemployment

Unemployment is the biggest shortfall that Uzbekistan, this problem has been long living in the economy of Uzbekistan (World Bank, 2015, 2016, 2017). Practically, there are no any discriminated/marginalized groups in Uzbek labor market based on ethnicity, gender and language (The World Bank, 2013: p10). The population has been suffering from joblessness, moreover constantly growing number of populations (country have the highest proportion of population share in Central Asia (32.39 million), with annual growth by 1.74%) contributes to the lack of employment, which obviously large number of people have to migrate to seek for job in abroad. The estimated number of labor migrants ranges from 2 to 6 million, which is 25% of the total working age population in Uzbekistan. (The World Bank: p10, 2013; EIU, 2010). Unfortunately, the data on unemployment rate has been inaccurate for many years and most of the time government used to understate the true rate of unemployment (EIU, 2007). Even though the official data does not provide the exact estimation of joblessness in Uzbekistan, the International Labor Organization has been making its calculations on the total labor force in Uzbekistan since 1991 however we will extract data on unemployment rate only for the last 10 years. In the graph we can see that from 2007 to 2015, the percentage of unemployment has ranged between 8.229 and 8.003. However, after 2015, this indicator started gradually falling from 7.939 to 6.903 in 2018.

Figure 6: Population number and Unemployment rate



Source: Data retrieved from World Bank indicators in 2019

As we see in three graphs that the population of Uzbekistan has constantly been growing over the given period and the growth difference from 2008 to 2017, whereas the unemployment rate has been going down in a very slow mode from 8.2% in 2008 to about 6.9% in 2018. The explanation for this can be either possible inaccuracy of the data or people's the alternative solution to joblessness through working abroad, remitting money and small farming. According to data the proportion of unemployed people decreased only to 1.3% in ten years, which fairly can be accurate.

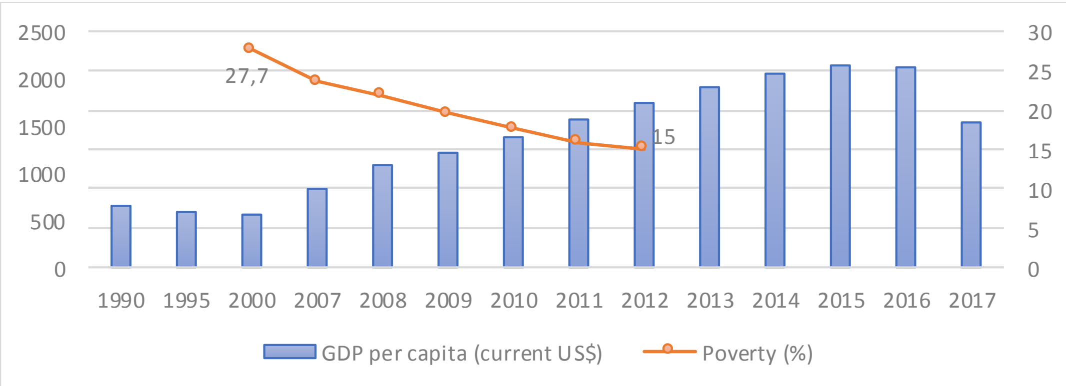
Regional disparities

Despite improvements in countries per capita income growth, poverty remains present in rural areas of Uzbekistan. As we have mentioned earlier that around 50-60% of population inhabit in the rural areas, thus the highest proportion of poverty as well as the labor migrants are from rural areas. UNDP regional program has been highlighting the considerable level of regional disparity between urban and rural living standards. Most existing industries are concentrated in specific regions of the country and high-paid jobs are mainly located in the capital city Tashkent. Moreover, previously domestic policies have been limiting urbanization via implementing sophisticated procedure for people from regions to move to urban areas for jobs, which also has been causing citizens to migrate for work. Regions as Karakalpakstan (suffering, inter alia, from the progressive disappearance of the Aral Sea), which is highly remote from the main cities and regions that border with Afghanistan are rather poor (World Bank, 2013,).

Poverty

The data provided by ADB emphasizes that about 12.8 per cent of population in Uzbekistan lived below the national poverty line, 75 per cent of this population inhabits in rural areas in 2016. Even though there have been considerable developments in recent years with favorable economic situation, Uzbekistan still has been classified as a lower middle-income state by the World Bank and it is still one of the less developed among the former Soviet Union republics, along with Kyrgyzstan and Tajikistan which have lower GDPs (CIA World Factbook, Uzbekistan 2013; ADB, Basic Statistics 2018; Policy Brief, 2013; Undp,2018).

Figure 7: Poverty rate* and GDP per capita



Source: Data retrieved from World Bank indicators in 2019

The data for poverty rate is not provided for all years, only for 2000-2012 by World Bank. Yet from the available data we can see that level of poverty is decreasing rather slowly. The share of the population living below the national poverty line declined from 27, 7 % in 2001 to 15 % in 2012. (The World Bank, 2013; EU, 2013).

We have been exploring main economic challenges of Uzbekistan and their consequent symptoms for over the last 10 years. the main challenges have been exporting commodity dependence, susceptibility to external shocks and less diversified industries. That have been directly and indirectly resulting in poverty, unemployment and regional disparities, which we termed as symptoms of main challenges. We will be looking at how external actors or economic engagement with Russia and China are contributing to combat these issues or whether the inputs can only serve to treat the symptoms of main issues. Further in the further sections we will be looking at the economic engagement of Uzbekistan with China and Russia and provide information on economic inputs of each country to country's economy.

Chapter V

Economic engagement of Uzbekistan with China

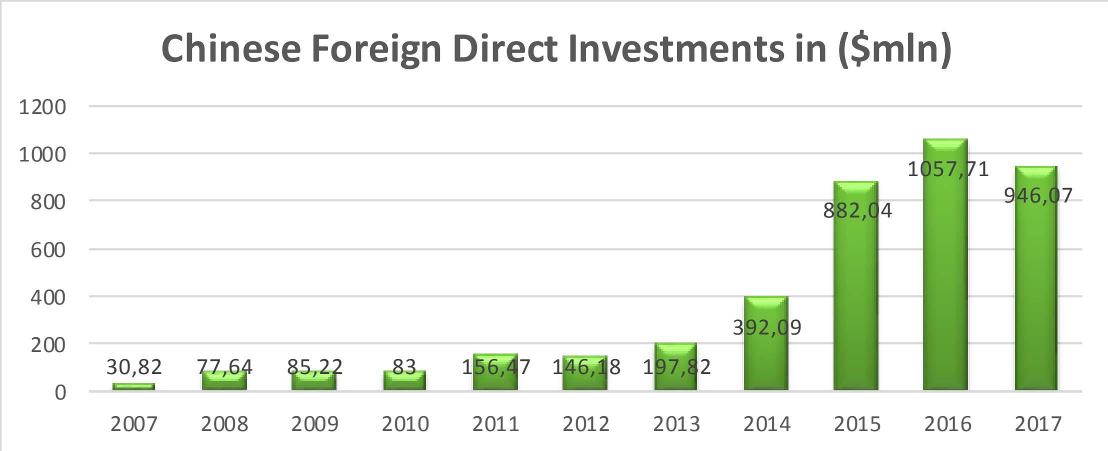
As we have mentioned earlier, the economic engagement has increased considerably since early 2000s between China and Uzbekistan (Madiyev, 2016). This chapter explore more about economic engagement between two countries looking at the indicators of Foreign direct investments and trade.

Foreign Direct investments

The inflow of capital from China has increased considerably for over the last ten years. Chinese investment towards Uzbekistan's market has been spread across multiple sectors. Even though nowadays it is quite diversified in terms of sectors of investment, but it was rather small in the volume in 2007, even earlier data for 2000-2003 indicate the minor investment amount to Uzbekistan market.

Yet, beginning from 2012, the investment inflows started escalating considerably, over the ten years it rose from $30.82 to $946.07 million, in 2007 and 2017 respectively. As investment amount grew year on year, the presence of China in Uzbekistan market also expanded to various sectors, like for instance, it initiated strategic investment in the transportation sector, to upgrading of passenger locomotives, which was launched and funded by the Chinese government (TRACECA, 2019, p.8; Paramonov, 2014). Another sector China has been investing is energy sector. China is involved in the construction of pipeline project to transmit gas via Turkmenistan, Uzbekistan, Kazakhstan and China, helping with exploration, development and organization of energy sites.

Figure 8: Chinese foreign direct investment to Uzbekistan



Source: Data retrieved from Eikon DataStream in 2019,(Chinese national sources)

During the years from 2008-2014 and even earlier years, the China National Petroleum (CNPC) and China International Trust & Investment (CITIC) were among other investing companies in Uzbekistan in energy sector (Madiyev, 2016). China National Petroleum Corporation for Exploration and Development (CNODC), a subsidiary of CNPC, signed an agreement with Uzbekneftegaz National Holding Company projects to examine the oil and gas regions and have been accomplishing seismic exploration interpretation of drilling data. Apart from gas and oil, China provided investments in the electricity and helping to explore the civilian nuclear power potential of Uzbekistan. (Uzdaily, 2013; Madiyev, 2016).
But major inflow of investments to Uzbekistan were though major project One Belt One Road (OBOR), which is project aimed at developing cooperation and connection among different countries across Asia, Africa and Europe. Uzbekistan plays a key role in this project, because it is located in the heart of Central Asia and the economic belt of Silk road passes through Uzbekistan (Koparkar, 2017). OBOR initiative started its first steps in 2013 and Uzbekistan gave its support to the project. The project itself contributes the construction of highways and railroads. China has been greatly investing via credit line for the construction of a railway tunnel, which was built between 2013-2016, the Chinese credit loans covered 77% Beyond that China has also been investing in businesses, like for instance in 2013, China Development Bank and UzPromStroyBank signed agreement to support small business projects that worth US$40m along with a credit line US$10m in loans for small businesses. (Imomov, 2018; Economic Intelligence Unit, 2013; Koparkar, 2017).

Another field that China directed their investments in the economy of Uzbekistan was infrastructure. The Chinese-led Asian Infrastructure Investment Bank (AIIB)[2] has been financing infrastructure projects in Uzbekistan ranging from development of energy infrastructure, railways, roads and water management sites. (GBTIMES, 2017).

Table 1: Chinese investment in Uzbekistan by sector

	Name of projects	Term	Foreign investor / partner	FDI amount
	Energy sector			
1	Construction of the gas condensate field (DG)	2014 - 2020 years	Company "CNODC" (China)	177,60 USD
2	Additional exploration and development of the deposit	2010 - 2035 years	Company «CNODC» (China)	255,30 USD
	Textile industry			
3	The organization of a textile complex (Stage I)	2017-2018	The company "Nanyang M & F Nome Textile" (China)	18,00 USD
4	Organization and production of textile products	2017-2018	Company «Shangai marjan industrial Co ltd» (China)	23,00 USD
5	Production of textile products	2017 - 2019 years	Youngone Corp (China)	25,00 USD
6	Organization of production of textile products «LT Textile International»	2018 — 2020	Company «Jinsheng Group» (China	100,0
7	Creation of a textile complex	2018 — 2020	Company «Xianxian Shanglin Craft Embroidery Group» (China)	10,0
8	Organization of fabric production	2018-2019	Company «Shanghai marjan industrial Co ltd» (China)	14,0
9	Modernization of footwear production	2018-2019 y.	Company «Green International Co Ltd» (China)	3,0
	Construction material industry, raw material and metals			
10	Construction of a new line for the production of flat glass	2018-2019 years	Company «Shanghai Pony Techology» (China)	42,60 USD
11	Organization of cement production of the highest brand	2017 - 2019 years	Qingdao Nans Tire Co ltd (China)	16,09 USD
12	The production of ceramic plates (Stage I)	2016 - 2018 years	Company "Hong Kong ZRSC Technology» (China)	7,40 USD
13	The organization of production of metal fittings	2016 - 2018 years	Company Jiangsu Huai Co Co., Ltd. (China)	30,00 USD
14	Production of construction chipboard from local raw materials	2017-2018 years	Company «Shandong Sengong Machinery Manufacturing Co Ltd» (China)	15,00 USD
15	Extraction and processing of granite and marble stones	2017-2018 years	Company Xiamen Eastern Pegasus Co ltd (China)	20,40 USD
16	Extraction and processing of granite and gabbro plates	2017-2018 years	Company «Fujian Wanglong machinery manufacturing» (China)	2,40 USD
17	Construction of a new line for production of sheet glass	2018-2019 y.	Company «Shanghai Pony Techology» (China)	42,6
18	Organization of production of medicaments from natural plant raw materials	2018-2019	Institute of Physics Tinzian (China)	4,6
	Technology			
19	Organization of production of household appliances	2018 - 2020 years	DP "Naienergy" company "Naier"(China)	3,00 USD
	Financial sector			

[2]Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with headquarters in Beijing launched in 2016, investing in sustainable infrastructure, productive sectors in Asia and beyond, with 96 members.

20	Credit line for financing small	2018-2019	Eximbank (China)	18,0
21	Credit line for financing small business projects	2018 — 2020	Industrial and Commercial Bank of China	65,0
22	Credit line for financing small business projects	2018 — 2020	State Development Bank of China	250,0
23	Credit line for financing small business projects	2013 — 2024	State Development Bank of China (China)	40,0

Source: Uzbekistan Authorities, retrieved from Uzbekistan Embassy, 2019

Chinese investments could be found in the following list of investment projects by different Chinese companies and investors in Uzbekistan's market. The earliest and the largest Chinese investments were focused on energy and fuel starting from 2010 and even projected until 2035. As we have noted, the projects in energy sector were mainly involved with exploration and development of gas and fuel sites. Another biggest investment of China flowed into textile industry, with 7 projects between 2017-2019 on production of textile products in Uzbekistan. This is favorable and beneficial industry for domestic manufacture growth, due to the fact that Uzbekistan is the sixth cotton producing country (Tsereteli, 2016). Investments towards production of construction materials almost the same as the volume for textile industry, allocated around 9 projects, with $181,09 million. Another big investment of China has been forwarded to financial sector, with range of credit lines worth $373 million to support small business in Uzbekistan, starting from 2013 until these days.

Chinese investments have been disseminated across various sectors, the most invested sectors were development and organization of textile as well as promoting the production of construction materials, but the largest volume of funds has been invested to exploration and development of energy and fuel and credit lines toward supporting SMEs and business start-ups.

Table 2: Jobs created by Chinese companies for 2014

Company name	Projects No.	Job created	
		Total	**Average per project**
China National Petroleum (2014)	3	268	89
China International Trust &Investment (2014)	3	414	138
Total (2003-2014)	13	2514	193

Source: data retrieved from fDI Markets sample, 2014

The data for 2014 on the number of created jobs by Chinese companies, which amounted to 268 places in only 3 projects, whereas total number of two giant companies reached 682 workplaces in 2014. Whereas for the period between 2003-2014, altogether 2514 jobs were created. Thus, based on the above data we could dare to assume that the listed projects, investments and companies have created numerous jobs in Uzbekistan's labor market (there is no data for 2015-2018) (fDi Markets reports, 2014; Uzbekistan Embassy in Germany, 2018). According to Ministry of Foreign Affairs of the Republic of Uzbekistan, during the year 2017, the number of Chinese joint ventures reached to 786, including 95 companies with 100% Chinese investments. Moreover, 73 Chinese companies opened their representative offices in Uzbekistan. Cooperation in the field of education is growing rapidly, expanding exchanges of students and specialists (Ministry of Foreign Affairs of the Republic of Uzbekistan, 2019).

Trade

Over the last several years China has established itself as Uzbekistan's one of the largest trading partner for three years in a row (2014-2017). Uzbekistan is one of the key partners in the process of development of One Belt One Road (OBOR) (Kopakar, 2017) and China is main importer of energy resources of Uzbekistan. Many sources state that Sino-Uzbek economic cooperation started in 2014, however it should be stated that already in 2008 according to World Bank estimates China was one of the top five trading partners of Uzbekistan (World Bank, 2013) Even though there was financial crisis and the commodity prices went down, the trade between two countries were still up in 2008. The total trade turnover between Uzbekistan and China amounted to US$1.6 billion in 2008, it grew by 43.5% of total trade. Further years, the trade amount kept escalating on average $1 billion annually, reaching $4.5 billion in 2013. In five years, this very amount of trade sharply increased to $6.2 billion in 2018. In the last year, China has become the largest importer of natural gas from Uzbekistan during 2010-2014. According to customs data of Chinese government, Uzbekistan exported 1.84 million tons of gas to China in 2017 that was estimated as 84% of total gas export of Uzbekistan. In 2010, the share of Uzbekistan's exports of cotton and uranium have hugely increased (Reuters, 2017, OEC, 2017; Gulinaer, 2017; Ganiev&Yusupova, 2012; Paramonov, 2014).

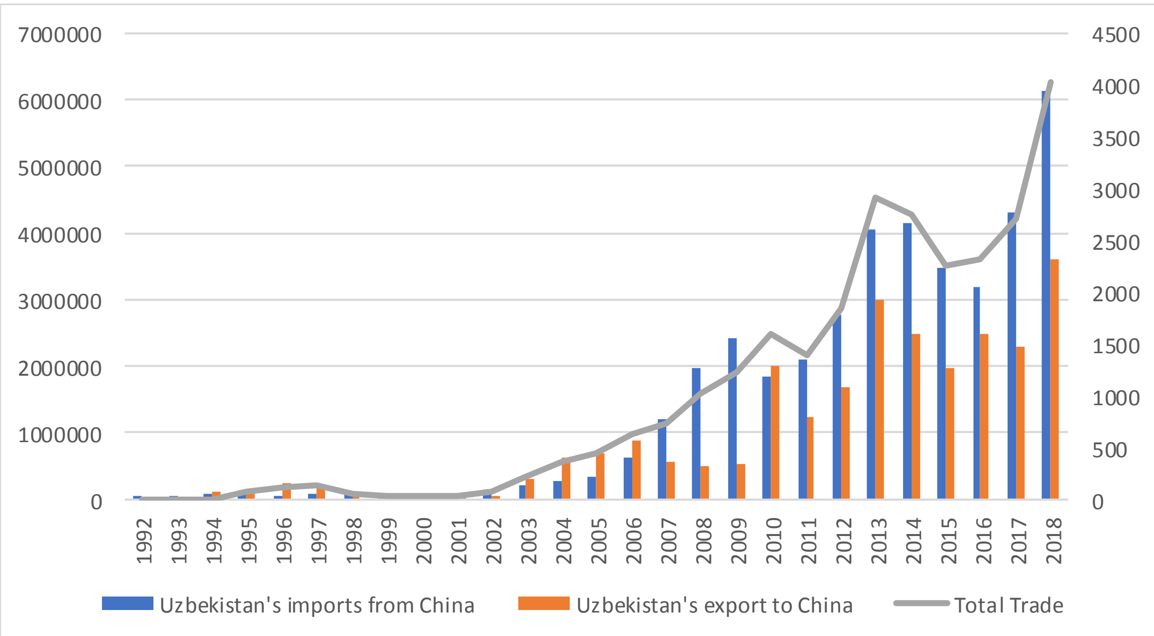
Table 3: Natural Gas exports of Uzbekistan to China

Years	Total exports of oil and gas resources in Uzbekistan (million dollars)	Uzbekistan 's oil and gas exports to China（ million dollars）	Percentage of Oil and gas exports to China（%）
2010	541,2	39,4	7,3
2011	1543,1	30,3	20
2012	562,3	159,4	28,4
2013	2446	2064	84,4
2014	2085,3	1758	84,4

Source: United Nations Conference on Trade and Development (UNCTAD) database; (data from Gulinaer,2017)

Year by year the trade and bilateral cooperation between two countries has been growing and moving to a new level, particularly in energy sector. Approximately 20% of imported commodities are arriving from China to Uzbekistan, whereas around 17% of goods are exported to China in the year 2015. Uzbekistan imports manufactured products from China, and exports unfinished commodities like agricultural goods, cotton, metals and precious materials. Exports of Uzbekistan mainly consist of primary goods including natural gas, cotton yarn, minerals and metals.

Figure 9: Total trade, Imports and Exports between Uzbekistan and China



Source: Data retrieved from Eikon DataStream in 2019, (Chinese national sources)

We can see in the graph that the import amounts highly exceed the exports of Uzbekistan to China. In 2008, the difference between imports and exports were rather big, imports making up 4 times higher than exports.

However, in 2010, Uzbekistan exports to China equated to imports. Afterwards, the difference was not huge, with average difference for $1 billion.

In summary, bilateral trade between china and Uzbekistan for over the last ten years has significantly improved reaching up to $6 billion in recent years. Moreover, the foreign direct investments of China have shown rather negligible amounts in early years, then it dramatically rose in the last 5 years, giving China the biggest investor status. However there no any remittances coming from Chinese economy. The reason of that is the visa regime and the language, which makes it difficult for Uzbekistan citizens to work in the territory of China.

In this chapter we have assessed China's engagement, we now turn to an assessment of Russia's engagemet with Uzbekistan.

Chapter VI

Economic engagement of Uzbekistan with Russia

After the independence Russia has become one of the main strategic partners of Uzbekistan. (Kakharov, 2004; Stratfor, 2013). Economic engagement of two sides involve bilateral trade, foreign direct investments and remittances. Thus, this chapter gives more details on the economic relations and indicators.

Foreign Direct investments

Russia has been longtime investor in Uzbekistan's market and its investments was concentrated on specific sectors (Kakharov, 2014).

The most important sector, Russia has hugely invested is fuel and energy sector of Uzbekistan. Russian as Lukoil, Zarubezhneftegaz (Gazprom subsidiary), Stroitransgas, SoyuzNefteGaz have been engaged in implementation of oil and gas projects in Uzbekistan. LUKOIL is currently the biggest investor in the energy sector in the country with US$ 3.5 billion investment between 2004-2015. Another Russian energy company LUKOIL has been active in Uzbekistan since 2004 (Uzdaily, 2008; Madiyev, 2016). Yet, there were also other sectors, where Russia had investments were in communication sector, with companies as

'Universal Mobile System (UMS) and 'Beeline' which have become as major providers of communication in Uzbekistan market since 2005-2006 until now. Russian investments have also covered food (Wimm Bill Dann and Baltimore) and construction material sectors (Eurocement Group) (Uzdaily,2008; Lukoil, 2018)

These two giant energy companies of Russia have been conducting large and long-term investments. If we will look at the recent and old projects, energy sector has always been a major sector of investments by Russia (see the table), 4 out of 10 projects, including joint investments with other countries, have been directed at construction, development or organization of gas and fuel sites in the territory of Uzbekistan. However, we should also emphasize that Russia has also been investing in social development of the region, for instance, construction of medical center, park and market for farmers. There is no much investments towards developing small medium enterprises (SMEs), with only one project with credit lines for small businesses.

Table 4: Russian investment in Uzbekistan by sector

	Name of projects and sources of funding	**Term of project**	**Foreign investor / partner**	**(FDI)**
	Energy sector			
1	Construction of gas processing plant and geological exploration	2004 - 2046	PJSC "Lukoil" (Russia)	6250.0
2	Development of deposits and production of hydrocarbons	2004 - 2046	PJSC "Lukoil" (Russia)	1795.0
Construction				
3	Construction of Park	2017-2018	Selena LLC(Russia)	7.0
4	Construction of a multidisciplinary medical center	2017 - 2020	OOO UMMC Holding (Russia)	150.0
Food industry				
5	Organization of production of high-quality alcoholic products	2017 - 2019	Selena LLC (Russia)	30.0
Agriculture				
6	Organization of a modern greenhouse	2018 - 2020	The company "Ecoculture" (Russia)	320,0
7	The organization of fruit and vegetable processing complex, construction of market for farmers, a hypermarket and a wholesale trade center	2018-2019	Ecoculture LLC market »(Russia)	55.0
Financial sector				
8	Credit line for financing small business projects	2017 - 2020	Gazprombank (Russia)	153.0
	Total amount of Russian foreign direct investment			**$8760 mln**

Source: Uzbekistan Authorities, retrieved from Uzbekistan Embassy, 2019

There were also investments in agriculture sector, organization of greenhouses in contemporary methods. By examining the list of companies and projects invested by Russian government, it is possible to claim that those entities functioning in the territory of Uzbekistan have created considerable number of jobs for local population. For example, based on the report by fDI Markets, in 2014, the giant energy companies of Russian Federation as Lukoil and Gazprom have created 5432 employment and between 2003-2014 in total 7187 with various project through the region (fDI Markets, 2014).

Table 5: Created jobs by Russian companies for 2014

Company name	Number of projects	Job created	
		Total	Average per project
Lukoil (2014)	8	4773	596
Gazprom (2014)	5	659	131
Vimpelcom(2014)	3	204	68
Total (2003-2012)	**40**	**7187**	**179**

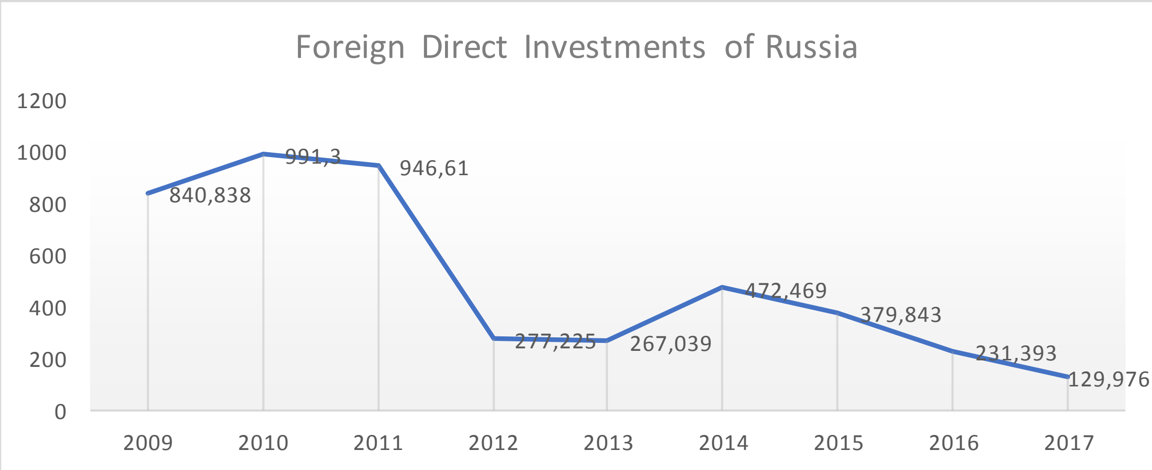
Source: data retrieved from fDI Markets sample, 2014

This is a large amount of jobs for Uzbekistan's labor market, in particular, major energy sites are located in the remote regions, which resulted in decreasing the poverty rate and gave opportunity for rural population to have income. Besides, Lukoil has also been supporting the local branch of Gubkin Russian State University of Oil and Gas (GRSUOG) in Uzbekistan, which was launched by Russia to train local people to become qualified professionals for the Uzbek oil-and-gas industry in international standards (Lukoil, 2019; fDI Markets, 2014; Uzbekistan Embassy, 2019). This is could be considered as long-term investment into the socio-economic development of the region, a positive investment in human capital accumulation in Uzbekistan.

In Russian-Uzbek relations investment cooperation is an important factor. As we have seen the investments of Russia included implementation of various large-scale joint projects in the industries of the fuel and energy sector. Main aim of projects was modernization, technical, technological re-equipment of the major industries, accomplishing joint exploration of natural resources, development of the hydrocarbon fields and organization of existing energy sites. Besides, Russia also has been involved in other sectors like food industry and agriculture, but not with big investments (Lukoil, 2019; fDI Markets, 2014; Uzbekistan Embassy, 2019).

The investment of Russia has been rather higher in previous years than in current times. We can observe that pattern in the total rate of foreign direct investments of Russia to Uzbekistan's market between 2009 and 2017 (unfortunately there was no official data available for the intended period of 2008-2018). In the graph we can see that the investment volume for the consecutive 3 years (for 2009-2011) considerably higher than in the remaining period, which was under $500,000. In 2017 it dropped to $129, 976, which 8-9 times less than in 2009-2010 (World Bank, 2018, Thompson Reuters, 2019).

Figure 10: Foreign direct investments of Russia to Uzbekistan



Source: Data retrieved from Eikon DataStream (Thompson Reuters) in 2019

According to the data on the graph the amount of foreign direct investment has immensely decreased in comparison to proceeding years. Yet, despite such decrease in investment volume and despite slowdown of its own domestic economy, the government of Russia has written off the long-time debt that Uzbekistan owed since the breakup of Soviet Union. The debt amounted to $890 million, but the huge amount of total sum, around $865 million has cancelled and ratified in 2016 by Russia State Duma (Madiyev, 2016; Moscow Times, 2014). All in all, the investment inflow from Russia over the last 9 years have been massively focused on the energy sector, and in small amounts in the agriculture and food industry and communication sector. However, by the end of the period, namely for the last 3-4 years capital inflows in the form of investments, credits have decreased considerably.

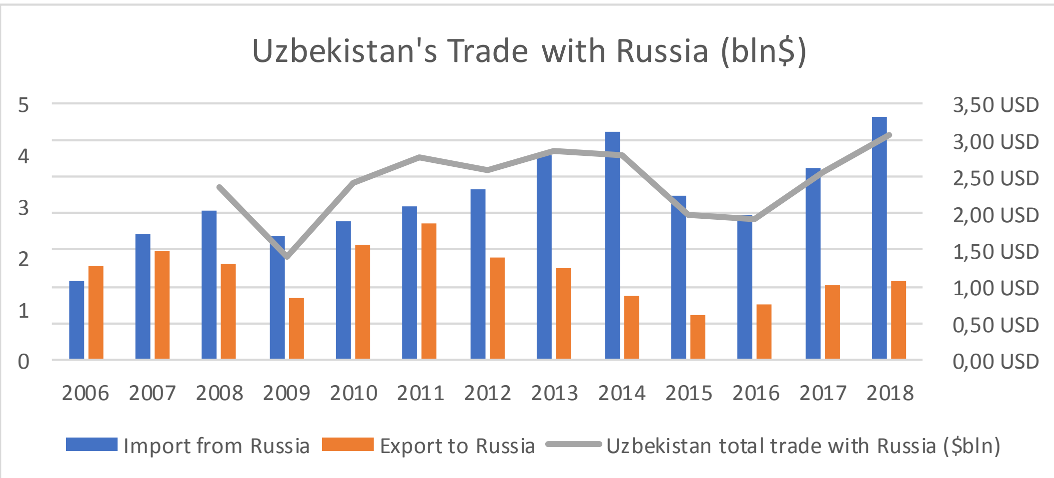
Trade

Besides being one of biggest partners with capital inflows to Uzbekistan market, Russia is one the largest trade partners of Uzbekistan's economy. Moreover, first and nearest destination for unemployed population of Uzbekistan, namely for migrant labor.

The trade relations between two countries has been a durable one. Uzbekistan has been the main provider of cotton to Russia market for decades. Moreover, Russia is one of 5 main major partner countries that have big share in the Uzbekistan's imports(Kakharov, 2014). The post-soviet export supplies of Uzbekistan to Russia expanded to diverse types of goods including cotton, gold, textile, foodstuff, other agriculture products, precious metals and stones, machinery (under Chevrolet brand), energy and chemical products. Among them as we can see in the graph, the most exported merchandises to Russia over the 7 years period were textile, machinery and food products and raw agriculture since 2010.

As we have indicated in previous chapter, the main output industry of Uzbekistan includes mainly foodstuff, agriculture and machinery, which compromise large share of total output goods (State Committee of The Republic of Uzbekistan on Statistics, 2018; Foreign Trade Russia, 2018). Uzbekistan exports large amount of agriculture products until these days, like fruits, vegetables, grain and cotton. Moreover, Russia was the main destination for locally produced cars, in 2009 around 90% of Uzbekistan's automobiles have been exported to Russia (Economic Intelligence Unit, 2010). Another export commodity was natural gas, Uzbekistan started exporting natural gas since the giant Russian energy company was launched in early 2000s (2004, 2006), investing to local energy company Uzneftegaz (Economic Intelligence Unit, 2009, Madiey, 2016; Uzdaily, 2008; State Committee of The Republic of Uzbekistan on Statistics, 2018).

Figure 11: Trade between Uzbekistan and Russia

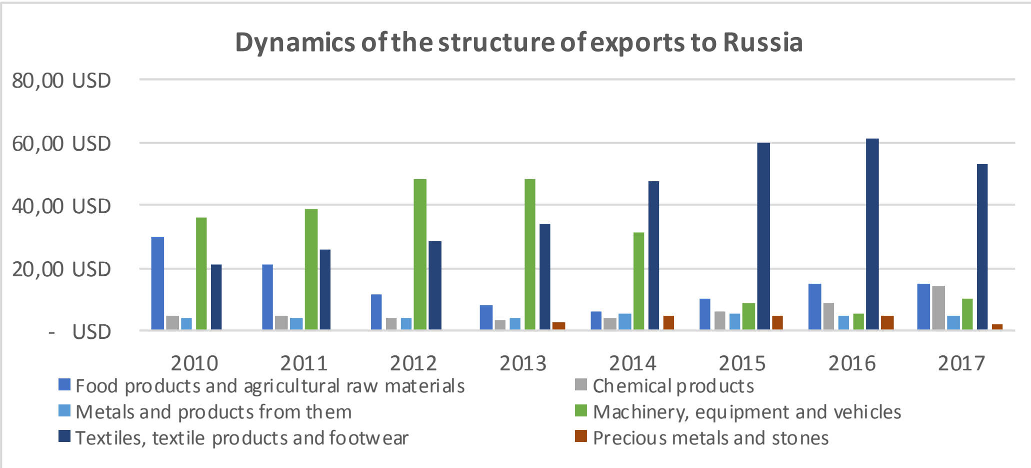


Source: data compiled from (State Committee of the Republic of Uzbekistan on statistics, 2018) and (Russian Foreign Trade, 2018) website and Thomson Reuters Data-stream (Eikon), 2019.

The graph which describes the total trade, exports and imports between two country, we can observe the same pattern as was in previous graph, the imports from Russia had higher trend than exports over the last ten-year period. There is some slowdown in 2009 and after 2014, which could be explained by external factors as global financial crisis implications in 2009 and political instability in Russia for 2014 year. Whereas total export amount was also gone through setback after global financial crisis in 2009, with further increase in two consecutive years.

Trade between two countries has always been important part of cooperation. The share of Russia in Uzbekistan's total foreign trade turnover accounts about 20% in 2009 and 17% in 2018 it is a (Uzbekistan State Statistics Committee, 2009-2018; Uzdaily, 2010; Uzdaily, 2009-2018).

Figure 12: Structure of export of Uzbekistan to Russia



Source: Data retrieved from Eikon DataStream (Thompson Reuters) in 2019

Exports have fallen down starting from 2012, which coincides with Uzbekistan's withdrawal from the Collective Security Treaty Organization (which is an intergovernmental military alliance, with six post-Soviet states belonging to the Commonwealth of Independent State - Russia, Armenia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan). Further we can see that Uzbekistan's exports started to recover after 2015, then slowed down making up under roughly under $1 billion even in 2017. The reason behind it can be diversification of Uzbekistan's export partners (as China, Switzerland and Kazakhstan). But we should admit, that even though the total trade turnover has also been volatile over the given period, Russia remains as main trade partner, with the share of 17% from total foreign trade, recovering to above $3.6 billion in 2017 (OEC, 2018).

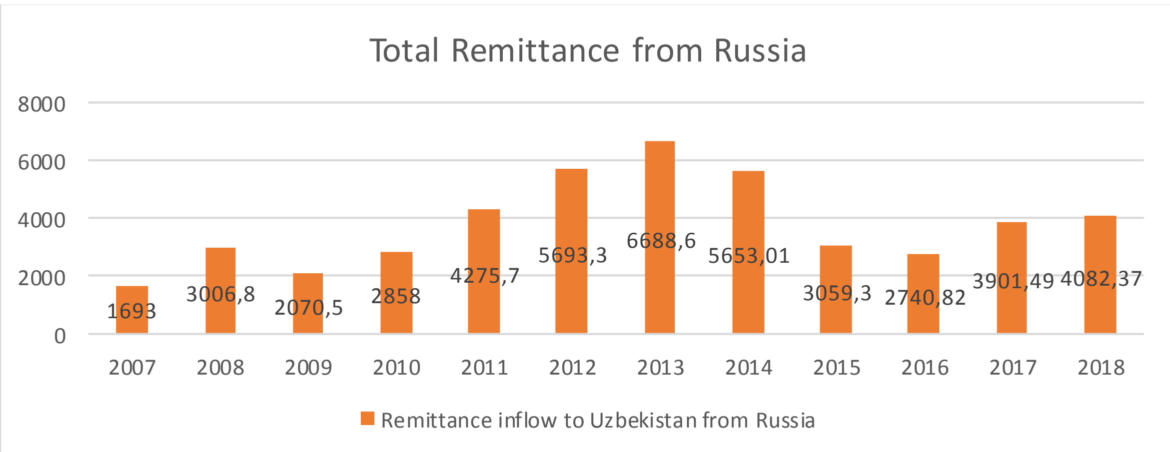
Remittances

Another form of capital inflow from other countries other than direct investments are remittances. Remittances could be described as cash sources that are transferred by resident and nonresident individuals who is doing seasonal, and other short-term workers to another country. In the case of Uzbekistan, migrant labors remit cash to support current household spending of their families either to support small family businesses

As we have already stated earlier Russia is by far Uzbekistan's closest trade partner and at the same time, but Russia is also the main destination for labor migrants from Uzbekistan, who transfer cash to Uzbekistan annually (Eurasianet, 2008; Economic intelligence unit, 2015, 3rd quarter). According to estimation of the Central Bank of Uzbekistan, the country is a net recipient of remittances from Russia (77% of total remittances), Kazakhstan (6%), USA (4%), Turkey (4%), Korea (2%), Israel (1%), Sweden, the United Arab Emirates and a number of other countries (Gazette of Central Asia, 2018).

The amount of cash remitted from Russia to Uzbekistan over 3 years, between 2008-2010, averaged roughly to $2.5 billion. Cash transfers highly increased between 2012-2013, with $6.6 billion in 2013, making up 11.59% of total GDP of the country, which is quite big amount for the remittance transfers. We could observe in the given data that remittance inflow into Uzbekistan from 2008 till 2013 illustrated an upward trend, however the amount of transfers started going down in 2014. The reason might be changes in migration law, getting work permit became more complicated in the beginning of 2015. The annual cost of getting a permit increased (two-month average salary of a migrant worker) in Russia. Clearly, these requirements resulted in remittance flows to Uzbekistan fell by 57%, or to $2.3 billion in 2015 compared to 2014 and decreased by 48% or to $256 million in 2016 compared to 2015. This bring us to conclusion that Uzbekistan labor market is heavily reliant on Russian economy and that remittances from Russia is a significant income source migrant worker from Uzbekistan and it made up 5% of country’s GDP, $66.7 billion in 2015 (Diplomat, 2018).

Figure 13: Remittance inflow from Russia to Uzbekistan



Source: Data retrieved from Eikon DataStream in 2019 and World Bank data, 2019 (GDP)

However, recently, the president of Uzbekistan decided to address the issue and discussed Russia on easing work-registration requirements for migrant workers and negotiations on the reciprocity of work records and pension rights of migrants. In coordination with Russian authorities, Uzbekistan has established the first multifunctional migration center in Uzbekistan, a semi-governmental institution, for migrants who seek for work in Russia. It is a big asset and relief for Uzbek migrant worker to legalize their work in Russia. Because according to calculations in 2018, roughly about 1,573,791 Uzbek people stepped into Russia in search of work. The outcomes of negotiations and labor law change were impressive and Uzbek citizens working in Russia remitted around $3.9 billion from Russia to their home country in 2017, which is 42% higher than a year before (Diplomat, 2018).

The language, that most Uzbek people understand, the non-visa regime between two countries, relatively close destination of Russia to Uzbekistan and rather developed economy than at home where cheap labor force is need in construction sites, seasonal jobs or labor-intensive sectors makes Russian market attractive for unemployed large number of Uzbek population. As we have seen above remittances have taken not small share of GDP in 2013, employing millions of migrant labors from Uzbekistan. yet there is an issue of security, most migrant labors work in illegal jobs and with no health insurance, proper place to live in. This shows the other side of the remittances, because workers had to stay for years to earn money to provide their families and living distantly from families (Akhmadov, 2008)

In general Russia' presence is more vivid in bilateral trade for over the last ten years, reaching up to $4 billion in recent years. Another important segment in economic engagement happen to be remittance transfers of Uzbek migrant workers from Russia which made up roughly $6 billion the highest in 2013 and $4 billion in 2018. Finally, foreign direct investments from Russia recorded lower in last 4-5 years in comparison to early 2000s and 2008. Unfortunately, there is no any official figures neither from Russia not from Uzbekistan that would give us full picture, in which sector Russia has been investing most over the last 10 years. However, based on available data it is possible to state that Russia has mostly been investing in energy sector, but it is important to note that Russia highly improved energy sector of Uzbekistan and now it is exporting energy other countries.

This chapter has been looking at the economic engagement of Russia, main trends and changes over the period, whereas the following chapter will be the analysis of collected empirical findings on Russia and China in Uzbekistan.

Chapter VII

Analysis

The following chapter will expand the discussion of empirical study on Russia and China's economic engagement in Uzbekistan, their relative importance and the effect of their inputs to the economic development of Uzbekistan.

Before we will dive into analyzing the role of China and Russia in Uzbekistan's economic development, let us go back to the notion of economic development that was theorized in beginning of work.

Before we will dive into analyzing the role of China and Russia in Uzbekistan economic development, let us scrutinize what is economic development itself, how we can interpret it in the modern fast changing world.

It is believed that there are various factors that trigger economic development within country depending on the size and geographical location. As we have stated earlier in the beginning that economic development has been interpreted in multiple of ways in academic domain. The notion of economic development has been changing over the generations. Each period had its own specific requirements for economic development based on the demands of the society.

No matter how the economic development has been determined over the time, the main purpose of economy has been the efficient use of available limited sources and to maximize the favorable outcomes within specific setting. To achieve this efficiency many economic systems and governments have been striving to identify the factors that could leads them to the economic development.

Early school of scholarship have emphasized that economic development is to achieve resilience in income per capita growth to get to the point in development when the outputs grow faster than the population rate. Historically, the economies of country have been built on agriculture productivity, however since the Industrial revolution in Great Britain, the shift from agriculture centered economy to industry-led has happened (Michael Todaro, 2015; UNCTAD, 2017).

It was summarized that economic development is a growth that is accompanied by structural transformation of economy, from agriculture or resource-centered industry to more diversified industry and services, by introducing innovation and continuous improvement of industry over time (Lin, 2010; Kuznet, 1966). This follows the early and seminar work of Kuznet (1966) who hold that the economic development requires structural transformation of the economy

By examining Uzbekistan's economic journey, it was found that the most common challenges that holds backs development were high reliance on commodity export dependence, less diversified industry, global price susceptibility led to symptoms as high unemployment rate, poverty and regional disparities. Which correlates with how UNCTAD has also highlighted that resource dependent economies are heavy reliance on commodity exports. This notion is usually as recourse curse or Dutch disease and many developing countries suffer from the resource curse, when country's economy highly dependent on export of natural resources and raw materials. (World Bank, 2008; UNCTAD, 2017).

Based on above statements it will be assessed how far the economic engagement with two great powers as Russia and China's have contributed to the structural change of Uzbekistan's economy.

Uzbekistan

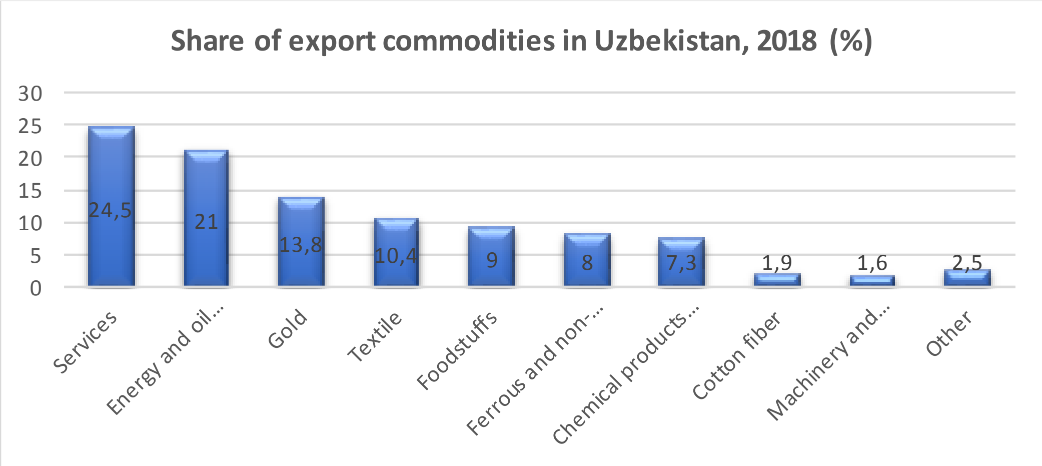
Uzbekistan is a densely populated, landlocked country. The main model of growth has been focused on import substitution industry approach. This approach put the country into protectionist position in terms of international integration. Being the main supplier of cotton, after the independence, country tried to diversify its production, but cotton production remained important. Later, the chief driver of Uzbekistan's economy has been concentrated around few sectors including production of cotton, gold and natural gas. However, agriculture and energy sector have been significant contributors to countries output (BTI, 2018; Gulinaer·Yusufu, 2018; EBRD, 2017; Economic Intelligence Unit, 2008-2019). Previously foreign investments were in stagnant position, however in recent years government opened up its market to foreign investment and has intensively started working on improving the business and investment environment. Despite current developments in economic performance, Uzbekistan still have significant shortcomings that considerably hinder the economic development (World Bank, 2018).

Economic challenges

Uzbekistan as a new independent over its journey of economic development faced challenges that have been lagging the development of the country and their symptoms. Among them we have selected few that are current and most apparent.

Among Central Asian states, the economy of Uzbekistan *highly dependent on export of primary goods.* A gold, gas and oil and cotton have been important commodities for export for many years. The government has put quite big emphasis on agriculture production, mainly on cotton production and energy sector. Such dependence on primary commodity made Uzbekistan vulnerable to any changes in global market. Particularly, global prices on above mentioned primary goods have been affecting the GDP of Uzbekistan in a considerable way. Similarly, the slowdown in main trade partners economy or global decrease of its export commodity highly affects the economic performance of Uzbekistan (World Bank, 2018).

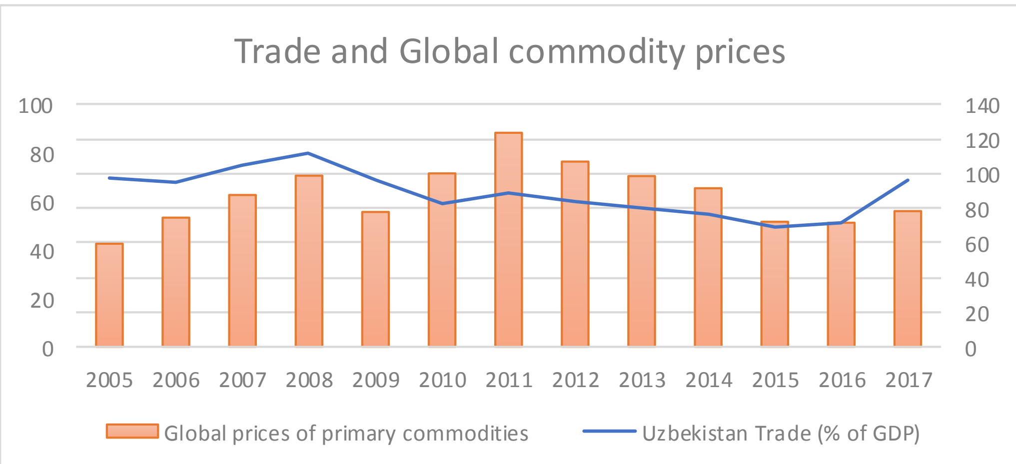
Figure 14: Share of export commodities of Uzbekistan in 2018



Source: data from State Committee of The Republic of Uzbekistan on Statistics, Stat.uz

According to State Committee of The Republic of Uzbekistan on Statistics, except services, the highest proportion of exports belong to primary commodities like the energy and oil products, gold and textile. They make up 45.2% of total export products. In the graph (figure 14) we see that the economy of Uzbekistan still dependent on energy, gold and cotton exports. As we have highlighted earlier another economic challenge was *susceptibility to global prices* shocks.

Figure 15: Share of trade in GDP and Global commodity prices

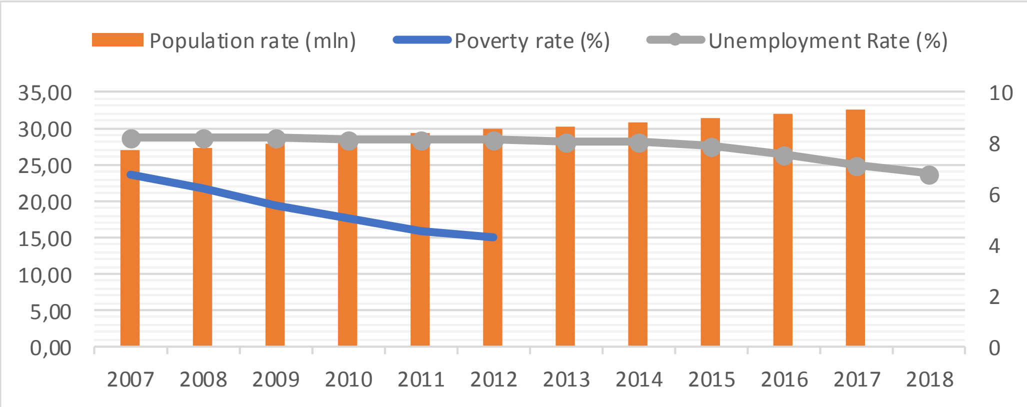


Source: Data retrieved from Eikon DataStream (Thompson Reuters) in 2019

Any slowdown in the economy of main partners or fall in the global prices for export goods, highly affects the economic performance. *Less diversified industry* adds up to the issue and making the economic on export of primary goods.

Subsequently these economic issues led to high level of *unemployment* for over a long period of time. The country has been having hard times to create enough jobs for growing rate of population since the breakup of Soviet Union. Technically the unemployment rate has been slowly decreasing, but the total rate of unemployment has been high even until these days, because the population rate has been constantly increasing, with annual growth by 1.74% (EIU, 2008-2017).

Figure 16: Population rate, Poverty, Unemployment (Uzbekistan)



Source: Data retrieved from Eikon DataStream and World Bank indicators in 2019

There is also uneven development of economy of Uzbekistan, namely apparent *regional disparities* throughout the country. High proportion of population live in rural areas, about 50-60% of total number. At the same time, the highest proportion of *poverty* as well as the labor migrants are from rural areas. Because there are less jobs, *less industry* and less investments in rural areas. Government also put some restriction for people to move to the capital city Tashkent until 2017. Subsequently, people from rural districts and distant regions had limited opportunity to get jobs in the capital city, which immensely contributed to regional and local disparities (ADB, 2018). One of the main reasons of regional backwardness is a low level of industrial development found in the lagging regions of the country. This means that the proportion of unemployed people decreased only to 1.3% in ten years.

Interesting part of the whole pattern is that the poverty level has gone through some improvements over the 11 years between 2000 to 2012 (there were no available data for 2008-2018), despite the slow decrease of unemployment and constant increase of population rate. People have tried to find alternative ways of solution for lack of jobs at home by working abroad and remitting cash to support their family (which we will discuss in further sections in detail) or maintaining themselves by growing vegetables and crops in gardens or greenhouses (the rest of harvest selling in the markets) (World Bank, 2018; World Bank, 2013). Nevertheless, the poverty rate has remained high over last 10 years period.

Even though there were challenges that hindered Uzbekistan's economic growth, the economic engagement with other countries and neighbor were present. China and Russia are in the list of main economic partners of the country. Uzbekistan has historical ties with these two powers, starting from times when Caravans of goods from China were traveling to Europe through the famous ancient Silk Road that passed through Uzbekistan and later part of Soviet system (PwC, Madiyev, 2016).

Throughout this paper we have been focusing on the economic engagement of Russia and China with Uzbekistan over the last 10 years and how this economic relation contributing to achieve economic growth. We have selected three patterns that helps us to assess the input of each two countries into the economic development of Uzbekistan. They are foreign direct investments, bilateral trade and remittances.

The aim was to identify through these patterns how far Russia and China indeed addressing the main issues of commodity export dependence, less diversified industry and with symptoms as unemployment, regional disparities and poverty in the country. Whether the inputs of Russia and China have dealt with existing issues or exacerbated them or did not have any relevance.

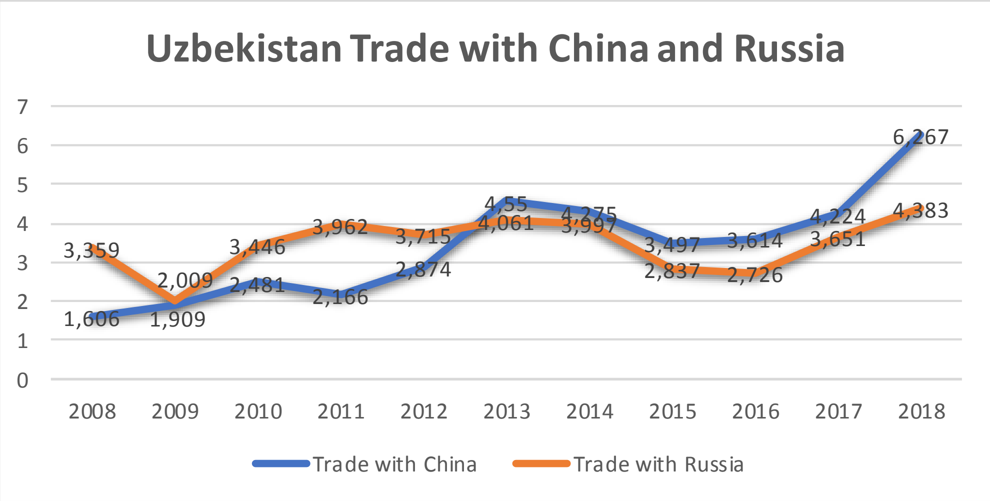
Trade

To begin with China, over the last ten year the amount of trade between two countries have been growing constantly, with some fluctuations in the earlier years, becoming 5 times bigger in last two years than it was. Similarly, pattern shows that Russian Federation is another biggest trade partner of Uzbekistan, with diverse commodities turnover. The total trade turnover with Russia is 17% of total foreign trade.

Comparison

The trade turnover of Uzbekistan with Russia and China illustrates quite impressive contrast for the last ten years. There is a clear picture that Russia was the main trade partner until 2013 with trade turnover ranging roughly between $3.5 billion and $4 billion, while China was on the second place during that period. However, in the late 2012, the roles have changed, with China increasing its trade to $4.5 billion, and Russia with steady decrease until 2016. Further trade with China started growing considerably reaching $6.2 billion in 2018.

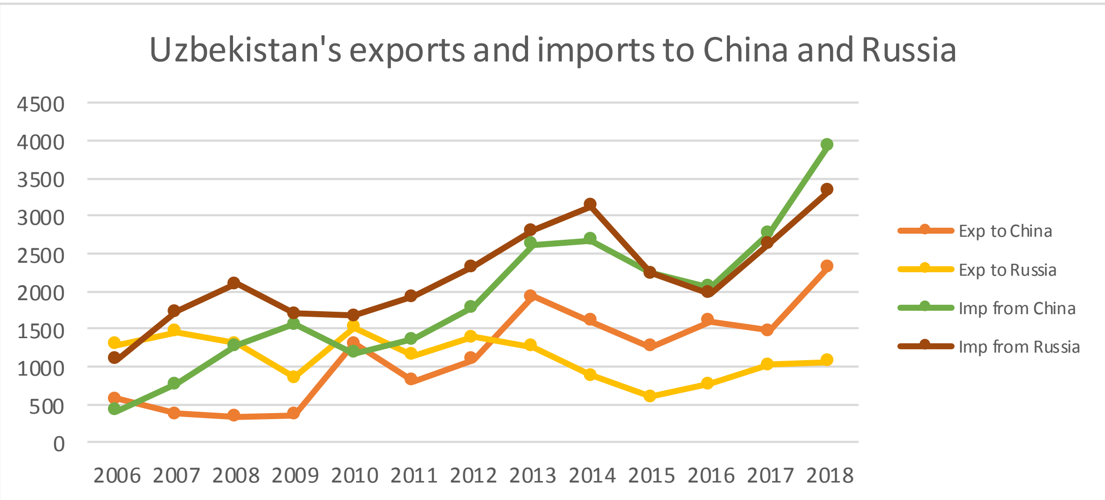
Figure 17: Uzbekistan trade with China and Russia



Source: Data retrieved from Eikon DataStream (Thompson Reuters) in 2019

Overall trade turnover of Uzbekistan with Russia and China illustrates upward trend with some minor decreases in between 2014-2016. In general, China is the biggest trade partner according to the data. To see the dynamics of trade turnover of Uzbekistan with each state, let us look at imports and exports separately. As per imports of Uzbekistan, Russia was main market in imports of commodities until 2015 in comparison to China. However, imports from China started increasing, but the figures of both countries equated in 2016, with China further growing steadily until 2018. For the export trend, Russia held a leading position in Uzbekistan export up until 2013, reaching its peak in 2010 and started falling, with further slow growth till current days.

Figure 18 : Exports and Imports of Uzbekistan with China and Russia



Source: Data retrieved from Eikon DataStream (Thompson Reuters) in 2019

Whereas Uzbekistan's exports to China was rather low in 2008, but in 2010 pattern increased three times and overgrew the exports to Russia in 2013. Since then Uzbekistan's exports to China is in leading position in comparison with Russia.

But if we look at the trade turnover content of Uzbekistan with both states, we see that for the last two years the major export goods of Uzbekistan belong to energy sector and services. China is the main consumer of energy, as we have earlier mentioned 84.5% of natural gas has been exported to China in 2017 (OEC, 2017).

Table 6: Export structure of Uzbekistan with China and Russia

Export of Uzbekistan with China and Russia ($ mln)	**China**		**Russia**	
Product type	**2017**	**2018**	**2017**	**2018**
Cotton fiber	74,6	71	7,1	2,8
Foodstuffs	37,3	58,8	136,6	173,3
Chemical products and products	156,6	125,6	120,2	154,5
Energy and oil products	546,9	1119,7	444,2	518,8
Machinery and equipment	13	4	98,7	50,5
Services	600,4	643,1	518,7	409,6
Other	279,3	358	506,7	530,7

Source: The State Committee of the Republic of Uzbekistan on Statistics, 2019

While Russia is the main destination for food products and machinery. According to economic intelligence unit report for 2009, around 90% of cars were sold to Russian market.

But how far the trade with China and Russia benefits Uzbekistan, whether it is contributing to GDP growth and assisting to came out from export commodity dependency or is it discouraging the development of manufacture sector?

Analysis

Based on above comparison, we can emphasize both positive and negative implications of such trade relations of Uzbekistan with two countries. First, the trade with both Russia and China indeed highly *contributes to the GDP growth* of country, because Uzbekistan's trade with China and Russia takes up roughly 45% of total foreign trade, the other 55% is distributed among CIS, European and other countries. In other words, almost half of total

foreign trade of Uzbekistan is with only China and Russia, that is considerably big part of foreign trade.
Another positive side of trade with these countries is the *low cost of transportation,* because geographically China and Russia are closest diverse economies to Uzbekistan. This is of high importance for doubly landlocked country, who has no access to main water channels of transportation. In addition, previous Soviet Union railroads makes the trade turnover less costly for Uzbekistan rather than with distant countries.
Moreover, Uzbekistan imports *cheaper goods* from China allows the country to save its capital, in a way it is good for a smaller economy as Uzbekistan not invest it budget to production of small detailed manufacture goods that for instance China manufacture.
However, if we look at the other side of the coin, imports of manufacture goods from both China and Russia may *inhibit further modernization* and *development of manufacture industry* in the country.
Furthermore, Uzbekistan mainly exports primary goods like natural gas, agriculture products including cotton, precious metals and minerals, rather than ready commodities to both destinations (Except export of cars to Russia, the volume of which is decreasing in the last few years). The demand from Russia and China for primary goods of Uzbekistan certainly motivates the country to increase annual output of such goods, which obviously leads to further *exacerbation of commodity export dependence*. Because exports of goods have always been priority to developing countries as Uzbekistan because it is a fast capital accumulation.
Another negative implication of high volume of imports may be the current changes on monetary policy of Uzbekistan. The currency liberalization in last 3 years increased the inflation rate and the ratio of Uzbek sum towards foreign currency. In such condition, the imported goods from Russia and China may add up to further *increase of inflation rate* and *commodity prices* since imported commodity price may still be expensive for local consumers depending on local currency rate (UNCTAD, 2017; World Bank, 2018).
To sum up, the trade with China and Russia definitely contributes to the growth of GDP of Uzbekistan in a greater way. However, the drawback is apparent in the structure of the trade commodities, because Uzbekistan exports primary goods and imports manufacture goods, which *highly encourages the export commodity dependence*.

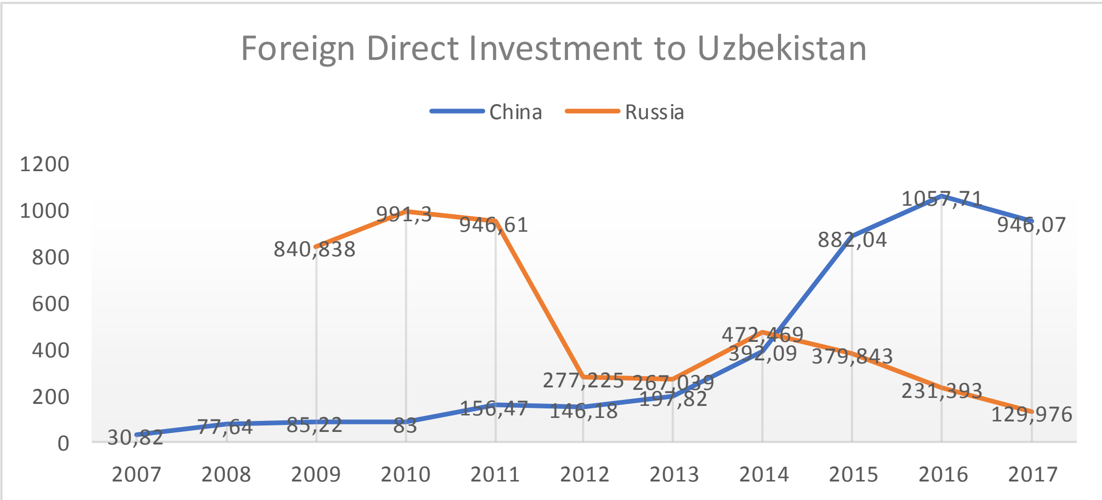
Foreign direct investments

Foreign direct investments from China is expanded to sectors like agriculture, textile, oil and gas, SMEs and transport. Similarly, Russia has been highly engaged in Uzbekistan's market with financial inflow towards various sectors, including telecommunication, food sector and chiefly in energy sector.

Comparison

Besides trade, Russia and China are important investors to the economy of Uzbekistan. The data does not cover the relevant timespan that is necessary for us, but still it gives us some picture. Russia has been the biggest long-term investors between years 2009-2011, with multiple projects in several sectors.

Figure 19: FDI from Russia and China to Uzbekistan



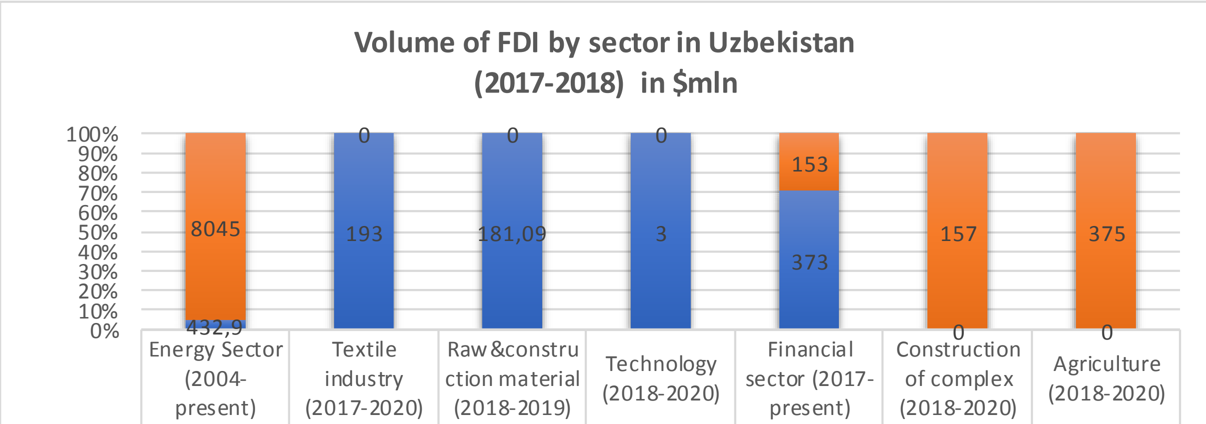
Source: Data retrieved from Eikon DataStream (Thompson Reuters) in 2019

It has been present in telecommunication sector, but energy sector investments were prevailing. Whereas during that period, China's investments were 8 times less than its counterpart's, with $83 million. However, after 2011 the foreign investment volume of Russia sharply dropped from $9 billion to $1 billion and kept falling further. While the rise of China in Uzbek market started from the year 2012, with year on year increase in the amount of investment, almost in the speed of geometric progression, increasing from $30 million to $10 billion at highest.

Even though there is no data for 2018 on total FDI amount from two countries, but the table provides with investments of Russia and China by sectors for 2017-2018. The main sector both countries invested in 2018 was energy sector.

But Russia was the first comer to energy sector, since 2002 with Gazprom and Lukoil in 2004. Russia's contribution included exploration and production of natural gas. Later China also joins the same sector with its giant energy cooperation China National Petroleum Cooperation (CNPC) since 2006. CNPC was not directly involved in production of natural energy resources with local Uzbekistan companies like Lukoil, rather it has been a donor to several projects including exploration of gas and oil and construction of energy sites in various regions. Russia has bigger share of investment in the energy sector than China.

Figure 20: Volume of FDI by sector in Uzbekistan (2017-2018) in $mln



	Energy Sector (2004-present)	Textile industry (2017-2020)	Raw &construction material (2018-2019)	Technology (2018-2020)	Financial sector (2017-present)	Construction of complex (2018-2020)	Agriculture (2018-2020)
Russia	8045	0	0	0	153	157	375
China	432,9	193	181,09	3	373	0	0

Source: Data retrieved from investment list for 2017-2018 (national source), Uzbekistan embassy

While China has been present in multiple sectors than Russia, including energy, financial sector with relatively high amount of credit lines than Russia's. Another sector is production of construction materials and extraction of metals and minerals, which has more projects of China and no any from Russia.

However, Russia investment inflows directed at agriculture and constructing buildings and complexes. In the graph, we can see that even the volume of Chinese investments has not been so high, but it was allocated in various sectors. While Russia's investments have been focused in few sectors with higher volume of investments.

Analysis

Then the question is how far these foreign direct investments from China and Russia trigger resilient economic development and creating jobs? Whether it is mitigating the export commodity dependence or is it on contrary contributing to resource curse?

As we have mentioned earlier the ideal economic development is driven by moving from labor intensive sectors to manufacture sectors, namely from agriculture-centered and resource-centered to more diversified and manufacture-based economy.

In the case of Uzbekistan, the direct investments of China and Russia varied in the kind, but both were involved in energy sector, where their inputs are greater than in other sectors. I believe this has both pros and cons.

Uzbekistan's economy benefits from such investments from giant energy corporations from Russia and China. Simply because as lower-income country, the country cannot afford do build sites and make professional exploration of natural gas fields, testing and training professionals. Which allowed Uzbekistan to be able to export its natural gas to other countries like Kazakhstan, Ukraine, Poland, but currently 84% gas exported to China.

Moreover, these companies have created notable amount of jobs in 2014, Lukoil – 4773 places, Gazprom – 659 places, China National Petroleum- 268 places and have employed large number of jobless people. In addition, the investments made by China, mostly have been distributed to different regions of Uzbekistan, which at the same time is addressing the issue of regional disparity and unemployment in district areas (fDI Markets, 2014).

Table 7 Comparison of job created by Russia and China

Russia		**Job created**	
Company name	**Number of projects**	**Total**	**Average per project**
Lukoil (2014)	8	4773	596
Gazprom (2014)	5	659	131
Vimpelcom(2014)	3	204	68
Total (between 2008-2012)	**40**	**7187**	**179**
China			
China National Petroleum (CNPC) (2014)	3	268	89
China International Trust &Investment (CITIC) (2014)	3	414	138
Total (between 2008-2012)	**13**	**2514**	**193**

Source: fDI Markets, 2014

But the data on 2007 stated that jointly with Uzbekneftegaz, LUKOIL started its activity in energy sector, having 90% stake, and local energy company having the rest. It seems that Lukoil possesses large voice in the energy sector of Uzbekistan. Moreover, along with investors' attention to energy sector, the government draw major attention to this sector, neglecting local investments of other for several years, becoming more dependent on export of energy (Madiyev, 2016).

Another major investment was in the textile sector, only China have been involved in developing textile production. This is obviously a good sign, because Uzbekistan currently have increased production of textile and clothes, supplying both domestic demands and exporting to close neighboring states. However, before Uzbekistan was focused only on the exports of cotton, not the production of goods out of cotton. Thus, Chinese involvement in textile industry contributes to further enlargement of manufacture base of the county, because in Uzbekistan the production of cotton is very high.

Moreover, China allocated larger amount of investment into the development of small business, by providing credit lines. This is immensely favorable input from China in terms of triggering sustained growth in the economy of county. Such engagement may result in develop various industries and private sectors.

In addition, Chinese funds were also directed promoting the production of construction materials, which is also a positive contribution to industrial diversification.

Russia's investment is not spread across various sectors, but it is concentrated around energy, agriculture and food industry. While China has distributed its investment in main and important sectors.

Thus, it is possible to sum up that Chinese financial inputs can greatly mitigate the resource curse or high dependence of Uzbekistan on commodity exports, by investing in small businesses, textile and construction material production industries and highly encourages the development of private sectors.

However, from the other perspective, if we will rely on judgement that these investments from China are quite recent, started in 2017-2018, then we need to highlight that it is rather early to assess the results of Chinese investments, because we do not have yet the outcomes. While Russia's investments might have slowed down, but it is possible to assess its inputs in energy sector, which have given some results, enabling Uzbekistan to enter global market with energy exports.

Based on this discourse above, it would not be rational to highlight only one of the partners as positive contributor to structural transformation of Uzbekistan's economy.

Yet it is possible to claim that these two great powers' contribution in Uzbekistan's economic development complement each other.

Remittances

Russia is main destination for labor migrants from Uzbekistan, who transfer cash in average amount of $4 billion annually. For Uzbekistan's labors, Russia plays specific role in the economy.

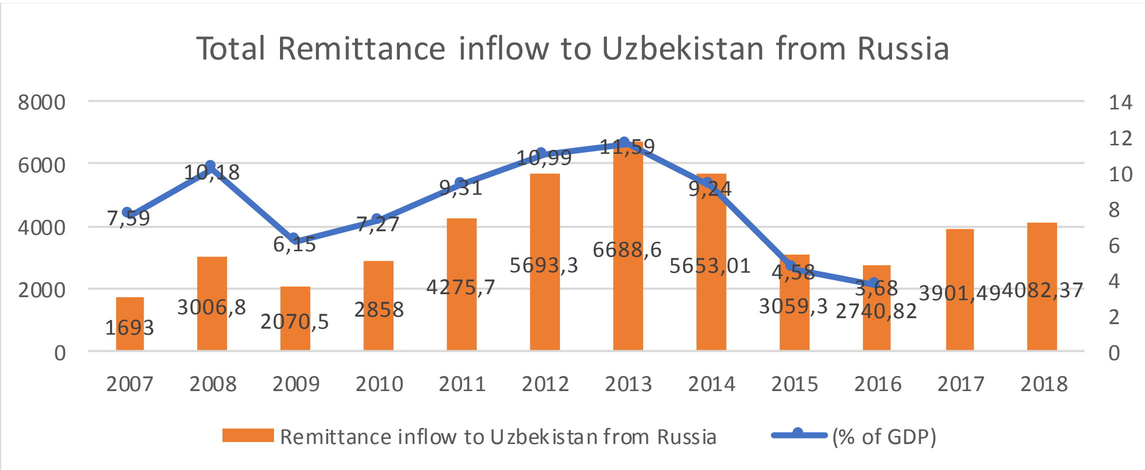
Comparison

Because there is another financial inflow which is quite different from foreign direct investments that comes from Russia - the remittances of migrant labors. As we have stated in previous chapters, Uzbekistan suffers from high unemployment rate, which led to outmigration of large amount of people in search of jobs. The main destination has been the Russia's market, but no any remittances from China was found. We have chosen remittance indicators because it plays quite big role in the economy of Uzbekistan.

Analysis

Yet, migration of labor is not an ideal solution and not positive contribution from the other hand, because it caused problems of human trafficking. Moreover, the jobs the migrant labors had mostly included illegal seasonal and unsafe jobs, with no access to healthcare. There many incidents of victims of violence (Saidazimova, 2007). Furthermore, the workers had to stay for years and years to be able to earn enough funds to provide their families, living distantly from families (Akhmadov, 2008[3]).

Figure 21: Total Remittance inflow to Uzbekistan from Russia



Source: Data retrieved from Eikon DataStream (Thompson Reuters) and World Bank indicators in 2019

Thus, we can say that remittances are important source of financial inflow from Russia and it does contribute to GDP growth in general, with 11,59% in 2013 and annually in average $4 billion. Furthermore, Russia has been providing with jobs large proportion of unemployed population of Uzbekistan and someway addressing poverty. It has been an alternative approach for high shortage of jobs in Uzbekistan. It is tackling unemployment, yet in the expense of safety and social well-being of the workers.

Looking at the **comparative analysis** on the relative importance of two great powers in the economy of Uzbekistan we can summarize that China and Russia's contribution is evident. However now we need to answer the questions '*What is the relative importance of Russia and China's economic engagement with Uzbekistan?'* and *'To what extend inputs of Russia and China contribute to the structural change of Uzbekistan's economy?'*

In the analysis of each pattern I gave the judgement on which of them is relatively more important and whether their inputs and economic engagements are triggering structural change.

The answer is both Russia and China play significant role in the economy of Uzbekistan. Russia has been big trade partner and investment for longer time than China.

Yet if we look at the dynamics of their contributions for the last 10 years, China have overtaken Russia in economic engagement. First with the size of the inputs, including trade and FDI. Second, the contribution of China is directed at various sectors which involved organization of various industries: pharmaceutical, agriculture, textile, technology (household appliances), construction material production and energy sector. Moreover, supports as credit line to SMEs is a big asset for less diversified economy of Uzbekistan. another interesting fact is that investment projects are not concentrated in big cities, rather spread across other distant regions of Uzbekistan, which contributes to reduction of regional disparities in the country. Thus, it is possible to state that China's economic engagement with Uzbekistan obviously addresses the main economic issues of the countries.

While Russia was mainly present in the energy sector for over 15 years until these days, cooperating in energy sector promotion by massive financial investments. It contributed to energy sector enabling Uzbekistan to start exporting energy to international market.

At the same time, Russia's contribution mainly deals with the symptoms of main issues by providing employment to migrant labor, which consequently contributes to the reduction of poverty. Moreover, the major energy sites are located in distant areas of Uzbekistan, thus the large contribution of Russia into energy sector creates more jobs for local people in distant villages.

By the global economic standards and based on our theory, Chinese current investments in development of manufacture sectors may trigger long-term growth, which can reduce Uzbekistan's reliance on global prices and on primary commodities exports, but it has potential to expand its exports to manufactured productions through diversification of its industry. Whereas, even though Russia's economic engagement can address symptoms of main challenges like reduction of unemployment and poverty by providing jobs for migrant labors. However, the investments are rather limited to resource sector and in development of natural resources, which may exacerbate the resource curse in Uzbekistan economy.

Chapter VIII

Conclusion

Uzbekistan is considered as one of the most populous state of Central Asia, making up one third of total Central Asia. It is believed to be favorable market in the Central Asia, located in the middle of the region and bordering with all Central Asian States, having access to all regional neighbors.

The economy of Uzbekistan has gone through various trails, being heavily cotton production reliant, further put more stress on energy production and exports, export of primary commodities including gold, minerals, cotton and gas. Less diversified economy made the economy rather vulnerable to global prices and external shocks. Domestic social unrest further added to economic slowdown by cooling down economic cooperation with West. However, Russia and China were less critical of Uzbekistan's economic and domestic policies, which contributed to strengthen their relations in various fields, including economic, security and energy.

Uzbekistan have had historical ties with both Russia and China. With China it shared the Great Silk Road trade path, having solely economic collaboration. Whereas Uzbekistan has been Russia rule for many years before independence.

As we have seen throughout our work that China and Russia have been Uzbekistan's main trade partners over decades. Initially Russia's trade share has been considerably high than Chinese, yet later China took over the leadership in the trade cooperation with Uzbekistan. This scenario has also been observed in the indicators of foreign direct investments, where Russia had rather big share until 2013-2014, however Chinese investments greatly increased. The content of the investments demonstrated impressive difference between two countries, China spreading investments across different sectors and Russia being in the energy sector. However, relatively high importance of Russia is in employing huge number of populations of Uzbekistan in its labor market.

The purpose of study was to explore '*To what extent does the economic engagement of Russia and China in Uzbekistan spur economic development?*'

In order to answer this question, the empirical study was aimed at first identifying the how much is developed the economy of Uzbekistan, focusing on main sectors and sources of income in the country. Further, by going back to the post-soviet times, I have been reflecting on the general economic challenges, but further I have selected the current economic issues of Uzbekistan and outcomes of these challenges.

By using mixed methods, both quantitative and qualitative methods of research, I have synthesized both secondary and primary data on economic engagement of Uzbekistan with China and Russia. In the last chapter in order to explore the relative importance of contributions by two countries, the collected data on FDI, Trade and remittance have been interpreted and compared.

The process of analysis helped to draw conclusion that the economic engagement of Russia and China in Uzbekistan has been highly significant. But, how far? How far does it spur structural development of the economy?

The dynamics of investments and trade patterns have helped to track how far both countries economic engagement is encouraging development.

It was revealed that Chinese economic inputs have been disseminated in multiple sectors of economy. China mainly invested small amounts, but in sectors, like manufacture and SMEs that have potential to encourage structural transition from resource centered or agriculture centered economy to more manufacture-based economic development (Kuznets, 1966; UNCTAD, 2017).

While Russia's engagement has been centered mainly at one large sector, which is development of gas and oil production. Certainly, one cannot neglect the fact that Russia hugely invested in this sector, further contributing to the development of this sector and enabling Uzbekistan to become competitive exporter of natural gas to other markets.

At the same time, the symptoms of main issues have been addressed via the economic engagement of Uzbekistan with Russia and China.

Russia was a provider of employment for large population of Uzbekistan citizens as well as the gas production sites are mainly situated in the rural areas, providing more jobs and reducing regional disparity in the country. Similarly, Chinese investments were found to be spread in various distant regions, like textile production sites and support for SMEs in various regions of the country.

Thus, the answer of this study to main question is ‘yes’, the economic engagement of Uzbekistan with China and Russia can encourage economic development. Yet, only Chinese investments are in the right position to help to bring economic development so far.

Currently the economic relations of Uzbekistan are rather prosperous. Yet it was not the same before 2014. The previous administration of Uzbekistan has had cooler relations with Russia. The rationale behind was the concern on Russia’s intentions on restoring its hegemony in the Central Asian region. Thus, the authority of Uzbekistan has been rather cautious in relationship with Russia, limiting only with economic relations (Pomfret , 2000). Yet, with new administration the economic and foreign relations have dramatically changed. The new president opened up the market to new investments, improved relations with regional countries of Central Asia, reviving trade relations. Greatly increased bilateral cooperation with Russia and China, but also with Europe and US. (Richard Weitz, 2018; Tsareteli, 2016)

But then the question arises is the future economic development will be the outcome of new administrations policy changes or do external actors have been contributing more? This question could be answered 10 years later to compare the growth results and make conclusion on the source of economic development.

So far, I can only assume that the investments and economic engagement of Uzbekistan with Russia and China may bring structural changes, particularly with China.

This research work could be further studied, with expanding the questions of Industrial diversification and Uzbekistan potential as export-led economy.

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