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China's Economic Presence in Uzbekistan: Realities and Potentials

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Key Points

- From 2003 onwards China's economic activity in Uzbekistan has become more visible. The deterioration of relations between Uzbekistan and the U.S./West in 2004-05 and the landmark state visit of Chinese leader Hu Jintao to Tashkent in June 2004 gave impetus to Sino-Uzbek economic relations.
- Islam Karimov's visit to China in June 2012 resulted in agreements and contracts amounting to $5.3 billion and a strategic partnership declaration. In September 2013 Xi Jinping's first state visit resulted in projects totaling $15 billion and a treaty of amity and cooperation.
- Tashkent has been persistent in its attempts to reorient China's economic presence in the country toward the development of industrial cooperation to overcome the "natural resource component" in its economic relations with China.
- The Uzbek-Chinese high technology industrial park set up in March 2013 has a special role in the development of industrial cooperation. The industrial park takes the form of a Special Industrial Zone (SIZ) known as 'Jizzaq' with a branch in the Syrdarya region.
- The interest of Chinese companies is focused on a number of sectors, especially the fuel and energy complex and related industries.
- China has significantly increased its economic presence providing targeted loans for Chinese exports and services. However, the overall scale of China's economic footprint in Uzbekistan is still relatively small.

Despite the fact that the Republic of Uzbekistan was the first country in Central Asia to establish diplomatic relations with the People's Republic of China (PRC) on January 2, 1992,[2] it was not until the middle of the first decade of the twenty-first century that China took active steps to gain a foothold in the Uzbek economy. Even in 2001, when Uzbekistan became one of the founding members of the Shanghai Cooperation Organization (SCO), there was no real evidence of a rapid or significant growth of Chinese economic or business presence in the country. Officially recorded trade volumes (excluding shuttle trade) were almost negligible. According to official statistics, in the period from 1992 to 2002 the volume of China's exports to Uzbekistan did not exceed $114 million per year, while overall trade stood at $136 million per year, representing only slightly more than 2 percent of the foreign trade turnover of Uzbekistan.

Only after 2003 did China's economic activity in Uzbekistan become more visible. A landmark event was the state visit of Chinese leader Hu Jintao to Tashkent in 2004. The visit resulted in a number of signed agreements on the development of political, economic, military-technical, and cultural cooperation. Another important factor which gave impetus to Sino-Uzbek economic relations was the deterioration of relations between Uzbekistan and the U.S./West in 2004-05. Turning east, there were two meetings between the leaders of Uzbekistan and China in 2005 alone. One of the main topics discussed at the meetings was the development of economic cooperation, with some 20 investment agreements, credit agreements, and contracts subsequently being signed between the two countries to the tune of $1.5 billion, including $600 million in the oil and gas industry. Also in the same year the first Sino-Uzbek Business Forum was organized in Tashkent with the participation of the Chinese vice-premier, which resulted in the signing of eight contracts encompassing projects worth a total of $473 million.

As a result of the above, the volume of trade between China and Uzbekistan increased significantly. During 2003-07 China's exports increased by a factor of 5.5—up from $164 million to $867 million (16.2 percent of Uzbek total imports, and 0.07 percent of China's exports), while total trade increased by a factor of 7—from $216 million to $1.6 billion (about 11percent of Uzbek trade, and 0.07 percent of China's trade). In turn, the volume of Uzbek exports to China reached $741 million dollars (about 8 percent of Uzbekistan's exports, and 0.08 percent of China's imports).

The Uzbek-Chinese high technology industrial park set up in March 2013 has a special role in the development of industrial cooperation. The industrial park takes the form of a Special Industrial Zone (SIZ) known as 'Jizzaq' with a branch in the Syrdarya region

However, in 2008 trade between China and Uzbekistan slightly decreased, which was apparently due to an overall reduction of trade as a result of the global financial and economic crisis and the significant decrease in world prices for raw materials—the mainstay of Uzbek exports. Accordingly in 2008 Sino-Uzbek trade fell by 17 percent (from $1.6 to $1.3 billion). Uzbek exports to China amounted to $544 million (about 5 percent of Uzbekistan's exports, and 0.05 percent of Chinese imports), while China's exports to Uzbekistan amounted to $791 million (approximately 10.5 percent of Uzbek total imports, and 0.05 percent of China's exports). By 2009 Sino-Uzbek trade had recovered and increased by 43 percent on the previous year, reaching a total of $1.91 billion. Moreover, China's exports almost doubled, attaining a value of $1.4 billion. Thereafter trade between China and Uzbekistan grew to a total of $3.23 billion in 2012 (Table 1).

Table 1. Trade between China and Uzbekistan (1992-2012)

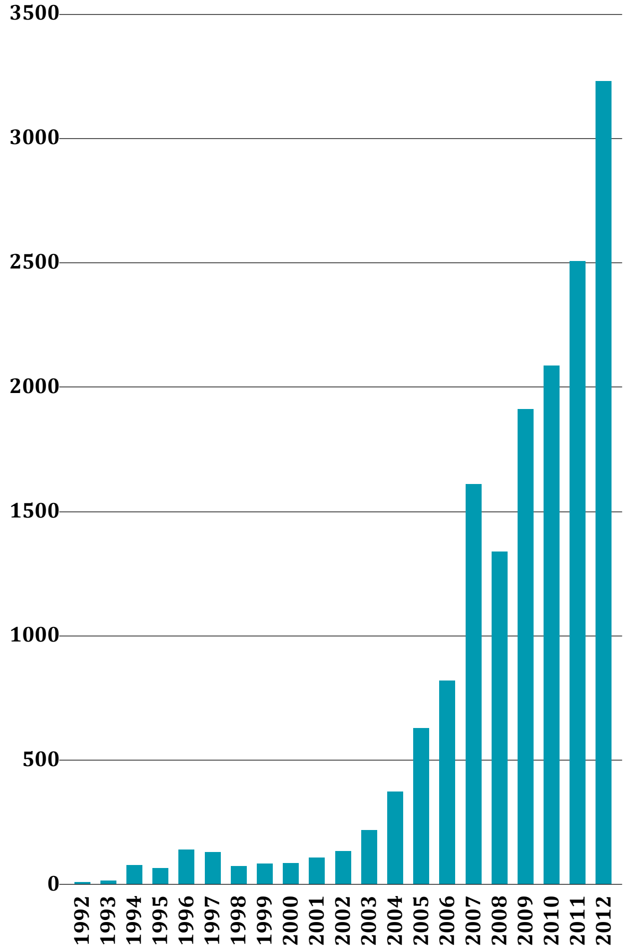
Year	Trade, million USD	Exports from China to Uzbekistan, million USD	Exports from Uzbekistan to China, million USD
1992	5	*	*
1993	12	*	*
1994	75	*	*
1995	64	*	*
1996	136	72	64
1997	127	70	57
1998	72	*	*
1999	80	63	17
2000	84	*	*
2001	107	85	22
2002	132	114	18
2003	216 (346)	164	52
2004	370 (576)	267	102
2005	628 (782)	390	238
2006	817 (900)	465	352
2007	1608 (1800)	867	741
2008	1335 (1500)	791	544
2009	1910 (2000)	1453	457
2010	2085 (2200)	1186	899
2011	2508 (2630)	1541	967
2012	3233 (3380)	2046	1187

***Sources**: Data for 1992-2001 from the Asian Development Bank (Key Indicators of developing Asia and Pacific Countries, Asian Development Bank, 2002), data for 2002-2012 from the Economist Intelligence Unit, citing national statistical authorities in Uzbekistan (Uzbekistan: Country Report, London: The Economist Intelligence Unit, June 2003, June 2004, June 2005, June 2006, June 2007, June 2008, September 2009, September 2010, September 2011, September 2012, September 2013), data in parentheses for 2003-2012 from the Ministry of Commerce of China.*

The dynamics of trade between China and Uzbekistan can be observed even more vividly in Figure 1.

As is the case with other countries in Central Asia, Sino-Uzbek trade statistics are distorted (although this has not been so significant in recent years) to a certain extent by so-called shuttle trade which is not taken into account (or only to a limited extent) by Uzbek statistics. Thus, according to Uzbek data, by the end of 2012 trade with China amounted to approximately $2.8 billion, which is approximately $500 million less than the volume of trade estimated by the Chinese ($3.38 billion).

Figure 1. Trade between China and Uzbekistan (1992-2012, in million USD).



Trade patterns

Although during much of its independence Uzbekistan has had a lower share of its exports made up by primary commodities compared to other Central Asian countries, this situation has begun to change in recent years: before 2009, the share of primary commodities in Uzbek exports was less than 40 percent, while in subsequent years it has grown to almost 70 percent. For example, in 2007 Uzbek exports to China were comprised of services (45 percent), non-ferrous metals (19 percent), cotton fiber (12 percent), chemical raw materials (9 percent), and machinery and equipment (8 percent). In turn, the range of commodities supplied by China consisted mainly of engineering products (54 percent), services (18 percent), food (10 percent), and chemical products (9 percent) (see Table 2).

Table 2. Trade between China and Uzbekistan by commodities (2007)

Item	Exports from China to Uzbekistan		Exports from Uzbekistan to China	
	Million USD	Share, %	Million USD	Share, %
Cotton fiber	-	-	91	12.3
Chemicals	80	9.2	71	9.6
Non-ferrous metals	-	-	143	19.3
Ferrous metals	70	8.1	-	-
Energy		-	42	5.7
Machines and equipment	462	53.7	59	7.9
Food and Fast-moving consumer goods	91	10.5	-	-
Services	164	18.5	335	45.2
Total	867	100	741	100

Source: *Economist Intelligence Unit with reference to the National Statistics Agency of Uzbekistan (Uzbekistan: Country Report, London: The Economist Intelligence Unit, June 2008).*

Table 3. Trade between China and Uzbekistan by commodities (2012)

Item	Exports from China to Uzbekistan		Exports from Uzbekistan to China	
	Million USD	Share, %	Million USD	Share, %
Cotton fiber	-	-	170	14.3
Chemicals	356	17.4	171	14.4
Non-ferrous metals	-	-	87	7.3
Ferrous metals	-	-	25	2.1
Energy	-	-	373	31.4
Machines and equipment	1101	53.8	27	4.3
Food and FMCG	343	16.8	-	-
Services	98	4.8	197	16.6
Other	148	7.2	137	9.6
Total	2046	100	1187	100

Source: *Economist Intelligence Unit with reference to the National Statistics Agency of Uzbekistan (Uzbekistan: Country Report, London: The Economist Intelligence Unit, September, 2013).*

In 2008, the structure of Sino-Uzbek trade did not change significantly from that of the previous year. However, since 2009 the share of primary commodities in Uzbek exports to China had increased, and by the end of 2012 such commodities accounted for 68 percent of exports. This is attributed primarily to gas exports to China. As of 2012 exports from Uzbekistan included energy (31 percent), cotton fiber (14 percent), ferrous and non-ferrous metals (9 percent), chemical raw materials (14 percent), and machinery and equipment (4 percent). From China, meanwhile, exports continued to be comprised mainly of engineering products (54 percent), food and other consumer goods (17 percent), as well as chemical products (17 percent) (see Table 3).

Industrial cooperation

The picture of China's economic presence in Uzbekistan would not be complete without taking into account some of the trends that have been observed in recent years. Namely, the Uzbek leadership has been persistent in its attempts to reorient China's economic presence in the country toward the development of industrial cooperation. In so doing, Tashkent has been keen to overcome the negative aspects of the "natural resource component" in its economic relations with China.

In this regard, Uzbek President Islam Karimov made a landmark visit to China in June 2012, which resulted in the signing of 45 agreements and contracts amounting to $5.3 billion. Equally important was an agreement between the two countries' leaders over a strategic partnership declaration, which identified new areas of mutually beneficial cooperation, including in the economic sphere. These arrangements were confirmed during the first state visit of President Xi Jinping to Uzbekistan in September 2013, which saw the signing of 31 documents at intergovernmental and interdepartmental levels for the implementation of projects totaling $15 billion. Furthermore, a treaty of amity and cooperation as well as a joint declaration on further development and deepening of the bilateral strategic partnership were also signed.

The Uzbek-Chinese high technology industrial park set up in March 2013 has a special role in the development of industrial cooperation. The industrial park takes the form of a Special Industrial Zone (SIZ) known as 'Jizzaq' with a branch in the Syrdarya region. Since June 2013 the park has seen the production of mobile phones, building materials, and other products. Finally, if at the beginning of 2009 there were barely more than 100 Chinese-Uzbek enterprises in Uzbekistan, by the end of 2013 there were more than 450 such enterprises, of which 69 had been set up with 100 percent Chinese capital.

Chinese loans

One important reason why China has been able to significantly increase its economic presence in Uzbekistan is that, since 2005, it has been increasingly applying in Uzbekistan the same strategy which has worked in a number of other Central Asian countries—that is, providing loans for Chinese exports and services. Such loans are governed by an agreement signed in 2005 between the Export-Import Bank (EXIM Bank) of China and the National Bank of Uzbekistan (NBU) for Foreign Economic Activities and embraces many sectors of the economy of Uzbekistan: oil and gas, power generation, chemicals, transport, textiles, and agriculture. Many of these projects can be called "Chinese-owned"—albeit not without some reservation—as the majority of projects are implemented by Uzbeks themselves but funded by the Chinese. These projects are important for the country and together with strengthening trade relations and increasing industrial cooperation comprise the basis of China's economic presence in Uzbekistan.

Chinese projects

Along with increased Sino-Uzbek trade and the promotion of Uzbekistan's strategic course of industrialization, one can observe a clear trend from 2005 onward of an increasing number of Chinese investment projects in Uzbekistan. The interest of Chinese companies is focused on a number of sectors, especially the fuel and energy complex and related industries. China's total financial resources in Uzbekistan are estimated at not less than $640 million (of which up to 85 percent is concentrated in the energy sector), including $167 million in loans and $473 million in investments (as of 2010).

Oil and gas

The year 2004 can be considered as the beginning of the Chinese penetration in the oil and gas industry of Uzbekistan, when the Chinese National Petroleum Company (CNPC) and National Holding Company (NAC) Uzbekneftegaz signed a framework agreement on cooperation. CNPC intends to implement a number of projects in the oil and gas industry of Uzbekistan. Most of these projects are still in the preliminary stage, however. The only exception is a project for the construction and operation of the Uzbek section of the Sino-Central Asian gas pipeline, which was implemented in June 2008. The above pipeline originates from the gas field of Samandepe (an area of gas deposits known as Bagtiyarlyk in the Lebap region of eastern Turkmenistan) and passes through the territory of four countries: Turkmenistan (188 kilometers of pipeline), Uzbekistan (530 kilometers), Kazakhstan (1,300 kilometers), and China (over 4,500 kilometers), thus connecting major gas reserves in eastern Turkmenistan with the industrial centers of the Chinese province of Guangdong. The total length of the pipeline is more than 7,000 kilometers.

There are plans to build a fourth gas pipeline (line "D") but unlike the three existing ones, it will bypass Kazakhstan and it will go through Kyrgyzstan and Tajikistan en route to China

The official launch of the pipeline, with a transport capacity of 13 billion cubic meters per year, took place on December 14, 2009, in the presence of the leaders of China, Kazakhstan, Turkmenistan, and Uzbekistan. The official opening of the second pipeline took place in December 2011, and the third pipeline is scheduled to come online at the end of 2014, after which the combined capacity of all three pipelines will total 65 billion cubic meters of gas per year. In addition, there are plans to build a fourth gas pipeline (line "D"). This route is not intended to run in parallel to the existing three pipelines, which currently pass through Kazakhstan, but will rather bypass the latter instead traversing Kyrgyzstan and Tajikistan en route to China. The transport capacity of the fourth pipeline is expected to be about 25 billion cubic meters per year, the construction costs of which will be incurred by the Chinese side. CNPC (or one of its subsidiaries) is likely to be an operator of the project. There is no confirmed information as of yet on the funding and terms as well as the timeframe for this project.

Another project worthy of note is that concerning preparations for the development of oil and gas fields in the Uzbek part of the Aral Sea (north-western Uzbekistan). Gas reserves were originally estimated at approximately 1 trillion cubic meters, while oil reserves were put at about 150 million tons. The project is being implemented by an international consortium of investors. Since 2005 the consortium has been comprised of Uzbekneftegaz (Uzbekistan), LUKOIL (Russia), Petronas (Malaysia), CNOC (Korea), and CNPC (China). The project is operated by a specially established company called Aral Sea Operating Company. Under the agreement, signed on the basis of a 35 year-period (2005-2040), China's share in the consortium stands at 10 percent. If the estimated gas reserves are confirmed, the industrial production in these fields could potentially reach at least 25 billion cubic meters of gas per year. The initial cost of exploration was estimated at $100 million. Funds were invested on a parity basis by all foreign participants of the consortium (excepting, of course, Uzbekneftegaz).

Electricity

Since 2006, China has financed a number of projects in Uzbekistan's electricity sector. These projects are mainly focused on the construction of small hydropower plants (SHP), implemented by the Uzbek company Uzsuvenergo under the Ministry of Agriculture and Water Resources of Uzbekistan, and are funded by loans provided by the EXIM Bank of China. These projects are part of a program implemented by Uzbekistan which envisages the construction of 41 such plants.

Transport

Uzbekistan does not share a border with China, and transportation between the two countries is conducted through the territories of Kazakhstan and Kyrgyzstan. Therefore, in terms of the development of transport communications, Uzbekistan is of interest to China only as a transit country within the system of trans-Asian international routes. Accordingly, Chinese transport interests are focused on the construction of the Uzbek section of the railway to China via Kyrgyzstan as well as a road following the same route—which has not yet begun.

Construction

Since 2008 China has displayed interest in Uzbek construction materials. Possessing huge reserves of primary commodities, including materials for cement production, Uzbekistan plans to significantly increase production by attracting foreign investment. However, until now China and Chinese businesses have been relatively inactive in this sector.

Telecommunications

From 2005 onward, the telecommunications services market has developed apace in Uzbekistan with the number of mobile phone users having increased significantly. In January 2007, a government decree was signed on the further development and modernization of the state joint stock company Uzbektelecom, which gave a significant boost to the development of the telecommunications industry in the country. As a result, the industry has attracted the close attention of Chinese businesses. Chinese companies such as ZTE, Huawei Technologies Co. Ltd., and Alcatel Shanghai Bell have long been present in the market of Uzbekistan and have been involved in implementing a number of telecommunications projects, including those related to trade and services.

Chemical industry

China's involvement in the chemical industry of Uzbekistan has been limited to only one fairly large project—which, however, is of considerable importance for Tashkent. The project in question is the construction and operation of a plant for the production of soda in Kungrad (Republic of Karakalpakstan, north-western Uzbekistan). Back in 2002, the Chinese company CITIC Group signed an agreement with the Uzbek state company Uzhimprom to design and construct a plant ($32.3 million) for the production of soda. The plant with a capacity of producing 100,000 tons of soda ash per year became operational in 2006. Part of the production is exported to China. The contract was funded by a loan from the Industrial and Commercial Bank of China to the tune of $29.2 million with the remaining $3.1 million provided by Uzpromstroybank of Uzbekistan.

Agriculture

China's presence in the agricultural sector of Uzbekistan as a whole is small and limited mainly to exports of agricultural machinery. These supplies are financed through loans from EXIM Bank of China. Information on this is fragmentary. Nevertheless, it would appear that there will be a continued growth of interest from China in this industry.

Textile industry

It is known that in 2013 China and Chinese companies began to show more interest in setting up several textile industries. Most likely, this trend will develop further and we should expect large-scale projects and investments from China in the Uzbek textile industry in the coming years.

The overall scale of China's economic presence in Uzbekistan is still relatively small

Conclusions

In the early 1990s, China's economic ties with Uzbekistan, as well as other countries of Central Asia, were in a nascent stage and focused exclusively on small-scale trade. The trade was mainly conducted close to the border with Kazakhstan and Kyrgyzstan: these were the only countries of the region to have direct transport links with China. At the same time, so-called shuttle trade was growing, which was also concentrated mostly in Kazakhstan and Kyrgyzstan, from where Chinese products were re-exported to Uzbekistan and the rest of the region, including to Russia.

Whereas up to 2002 Sino-Uzbek economic ties had been limited mainly to trade China's economic activity in Uzbekistan became increasingly visible after 2003. A rapid increase in bilateral trade was made possible mainly thanks to the ongoing China export credit program which provides targeted loans that are used for the purchase of Chinese goods and services. In addition to an increase in Sino-Uzbek trade, various investment projects began to appear with Chinese companies displaying interest in a number of sectors of the Uzbek economy: primarily oil and gas, as well as electric power, chemicals, transport, textiles, and agriculture. In spite of the above, the overall scale of China's economic presence in Uzbekistan is still relatively small. And while theoretically Chinese business interests could be involved in the production of strategic raw materials (for example, gold, base metals, uranium) and the development of innovation and industrial sectors, there has been no active cooperation in these areas so far.

In recent years, Uzbekistan has been trying to attract Chinese investors to participate in the country's ongoing privatization program of major economic projects, but Beijing and Chinese businesses have responded less enthusiastically to signals coming from Tashkent. By and large, China's economic presence in Uzbekistan beyond the energy sector is limited and mainly focused on providing loans to certain projects which are deemed important for Tashkent, as well as provision of services and concluding trade agreements (by tender) to supply certain types of Uzbek commodities to China. It is difficult to envisage how China's economic presence in Uzbekistan will evolve in the future. In the light of a worldwide economic and financial crisis, Beijing is focused on buying assets in the resource industries of many countries and regions. However, so far Tashkent has rightfully refrained from the large-scale sale of its raw materials and strategic assets to foreign companies, including Chinese.

Recommendations

It would appear that industrial cooperation could become one of the most promising activities for China in Uzbekistan, especially in such industries as agriculture, construction, coal, textiles, the automotive sector, as well as agricultural machinery. The projects outlined below could be particularly beneficial.

Production of packaging/containers for fruits and vegetables

This is a very promising area as Uzbekistan has a well-developed agricultural system and relatively high export opportunities for vegetables, and particularly fruits, melons, and grapes. Annual production of fruits and vegetables is more than 5.5 million tons; more than 1.5 million tons of melons and over 2 million tons of fruit crops (mainly grapes) are harvested annually. Currently there is a tendency in Uzbekistan to reduce acreage of cotton and simultaneously increase areas under cultivation for food crops, including vegetables, fruits, grapes, and melons. In addition, cold storage facilities are being constructed in the country for these products. In the future, production of the above items will only continue to increase in Uzbekistan. These products are in great demand—as organic products they contain no artificial additives and are not genetically modified—and their production could be even more profitable than the sale of cotton.

Uzbek fruit and vegetable products are mainly exported to the post-Soviet markets (mostly Russia and Kazakhstan). However, exports of these products to the EU (especially the promising markets of Germany, France, and the UK) are hampered by the lack of packaging/packing lines which conform to European standards. Consequently, setting up the production of container/packaging facilities for fruit and vegetables corresponding to the highest European standards will promote large-scale, highly profitable exports of horticultural products—both to the markets of the former Soviet Union and Europe. An optimal way to implement such projects is through the establishment of a series of joint ventures and/or businesses fully financed by Chinese capital; Uzbekistan has no experience in the organization of such production. The Chinese could supply the managers and engineers while Uzbeks could comprise the local workforce. Moreover, there is already a conducive environment in Uzbekistan to set up such a manufacturing sector, as polyethylene is produced at Shurtan Gas Chemical Complex in the Kashkadarya region, which is mainly used in the food industry.

Supplies/production of refrigerator cars for transporting fruit and vegetables

Transportation of large volumes of fruits and vegetables from Uzbekistan to the post-Soviet markets and Europe is most profitable when done by rail. What is needed, though, are refrigerated wagons, which can be provided by Chinese companies. There are two parallel ways to achieve this: delivery of finished refrigerator cars from China to Uzbekistan funded by Chinese loans; or production of refrigerator cars in Uzbekistan within a joint venture.

Storage and processing of fruits and vegetables

This is a very promising direction for future projects. It is proposed to construct special refrigerated storage for storing fruits and vegetables based on sandwich panels and the organization of deep processing of fruits and vegetables to obtain products with high-added value. Of particular interest is the organization of production/export of baby food processed from organic Uzbek fruits and vegetables (which, as previously stated, contain no chemicals and are not genetically modified). There could be two ways to implement the project: either through setting up a series of production facilities with 100 percent Chinese capital and/or a series of joint ventures with Uzbek partners.

Production of construction materials

This also constitutes a promising avenue as Uzbekistan has huge reserves of primary materials used for the production of all kinds of building materials: gypsum, limestone, chalk, raw materials for cement production, vermiculite, fluorspar, feldspar, graphite, mineral wax, quartz, marble, building stones, and so on. Currently, private Uzbek companies sell deposits containing primary resources for the production of building materials. In this regard, Chinese companies have a chance to buy such deposits and their resource base to set up the production of building materials. Moreover, there are potential new deposits for development. There are two models: acquisition of deposits and establishment of enterprises wholly owned by Chinese capital; or acquisition of deposits on a par with Uzbek companies and setting up of a joint venture with Uzbek partners.

Coal processing and construction of coal terminals in the Ferghana Valley

Currently Uzbekistan seeks to greatly reduce its domestic gas consumption. In this context, it is planned that energy consumption in the Ferghana Valley (Namangan, Ferghana, and Andijan) be shifted from natural gas to coal. The Uzbek coal industry produces 7 to 8 million tons of coal annually. However, given that gas has traditionally been and remains a main source of energy in all regions of Uzbekistan, the infrastructure of the coal market is poorly developed. In this regard, it is deemed reasonable to turn to the Chinese experience in the construction of coal terminals and processing enterprises of coal (removal of impurities, pressing, and briquetting). The most optimal form of implementation of such projects is to set up enterprises wholly owned by Chinese capital; indeed, Uzbekistan has little experience in this field. While the managers and engineers could come from China, the labor force could be supplied by Uzbekistan.

Processing of raw cotton, textile production/ garment products for export

This is an extremely promising direction. China is currently a main buyer of Uzbek cotton. However, it seems that Chinese companies may participate more effectively in the processing of Uzbek cotton locally with further sale of textile/ apparel products to the post-Soviet countries, and even Europe. There is a favorable environment in Uzbekistan for the organization of large-scale textile and garment production (ginneries, textile mills, garment factories, adequate infrastructure, cheap labor), and most importantly, there is political will to support these businesses. Currently, the shares of Uzbekistan ginneries are put up for sale where the Chinese companies can participate. In the Jizzaq free economic zone at least seven textile factories are being built with Chinese participation. In terms of set up, this could take the form of a Sino-Uzbek joint venture in textile and garment production, or through enterprises wholly owned by Chinese capital. In terms of the division of management and labor this could be the same as for the projects above.

Development of small hydropower capacities

Hydropower represents a promising sector. A state program is currently underway for the reconstruction of more than 60 small Soviet-era hydropower plants in Uzbekistan. In this context, China is already taking part in the reconstruction of a number of hydroelectric power plants. Reconstruction/construction of small hydropower plants is being implemented by the Uzbek state company Uzsuvenergo under the Ministry of Agriculture and Water Resources funded by loans from the EXIM Bank of China. The most optimal form for these projects is to fund construction through loans.

Production of automobile tires

Currently there are several assembling facilities for passenger cars, buses, and vans in Uzbekistan. The annual demand for tires exceeds 3 million units in the domestic market alone. The organization of production with 100 percent Chinese capital with Uzbek labor and Chinese management and engineering is optimal. Products can be sold to the Uzbek state automobile company Uzavtoprom, which is able to convert Uzbek currency into foreign currency. Another model for the project could be to set up a joint venture in cooperation with Uzavtoprom.

Production of electric motors

While there already exists a state-owned factory in Andijon specialized in the production of electric motors, it has ceased operations since 2008. It would be desirable to resume production of electric motors at the plant. The motors would be in demand both in Uzbekistan and abroad, at least in Central Asia and Afghanistan. This could be achieved through Chinese investment in the plant and the establishment of a company with 100 percent Chinese capital; or via a joint venture with the Uzbek side to use the plant. The division of labor could follow the same form as above.

Introduction of solar energy technologies

Uzbekistan pays considerable attention to the use of solar energy. Since the Soviet era the country has developed an appropriate scientific, technological, and infrastructural base. But while the possibilities for the use of solar energy in Uzbekistan are significant, they have hitherto failed to be sufficiently exploited. The technical potential of solar energy (a potential that can be activated with the existing technologies today) in Uzbekistan is huge and is estimated to be around 175 million tons of oil equivalent. However, the extent of the current use of solar energy in the country still makes up only about 0.6 million tons of oil equivalent, which corresponds to approximately 0.3 percent of what could potentially be harnessed. Some of the most feasible projects in terms of the use of solar energy would include setups for the production of solar panels, batteries, as well as the latter for use in street lighting and road signs. An optimal scheme for the project is an enterprise wholly owned by Chinese capital.

In sum, all of the above sectors for potential projects are beneficial both for Uzbekistan and China, and could be implemented in practice, especially if agreed upon at the highest political levels. However, the manufacturing industry and technological sector of the Uzbek economy still remains largely unattractive for China and Chinese businesses. On the one hand, Beijing is fairly satisfied with the resource orientation of the regional economies, which enables it to maintain industrial production at home, particularly in Xinjiang. On the other hand, there is a significant fragmentation of the Central Asian economic market (transport and customs limitations) which also hinders the development of full-fledged and mutually beneficial economic relations between the countries of Central Asia, including Uzbekistan and China.

Endnotes

1. This paper is based on a number of joint publications, primarily in collaboration with Alexei Strokov and also with Oleg Stolpovsky, which include the following books (in Russian): *Russia and China in Central Asia: politics, economy, and security* (Bishkek, 2008); *Chinese economic express in Central Eurasia: a threat or a historic opportunity?* (Barnaul, 2010); *Russia and China in the energy sector in Central Eurasia: rivals or partners?* (Barnaul, 2011). The section of this paper with recommendations is based on joint works with Bakhtiyor Ziyamov and Alexei Strokov.
2. Kazakhstan established diplomatic relations with China on January 3, Tajikistan on January 4, Kyrgyzstan on January 5, and Turkmenistan on January 6, 1992, respectively.