



ANALYSIS OF BILATERAL TRADE BETWEEN KAZAKHSTAN AND UZBEKISTAN

International trade is one of the important factors, which contribute to economic growth, diversifies economies, reduces poverty and stimulates development. Some countries prioritize export promotion while others implement import substitution policies. A country's openness is a key indicator, determining its competitiveness.

Uzbekistan, the largest country in Central Asia in terms of population, started its openness policy since Shavkat Mirziyoyev became president. The country revised its attitude toward trade policy and is in the process of joining the World Trade Organization. Uzbekistan has also obtained an observer status in the Eurasian Economic Union, where its Central Asian partners, Kazakhstan and Kyrgyzstan, are members. Thus, Uzbekistan's policy changes will have a significant impact on trade in Central Asia. Therefore, this brief aims to analyze bilateral trade between Kazakhstan and Uzbekistan using data from the International Trade Centre. Moreover, it develops recommendations to strengthen bilateral cooperation using trade tools.

Bilateral trade between Kazakhstan and Uzbekistan increased significantly for the last two decades. In 2001, it was equal to \$231 million. In 2019, this indicator amounted to \$2.75 billion, of which \$1.98 billion and \$0.77 billion were Kazakhstan's exports and imports, respectively. Kazakhstan's main export items to Uzbekistan include mineral fuels, agricultural products, in particular, wheat and flour, and metals. In 2001, the share of mineral fuels was insignificant and equaled 0.3%. Thereafter, it started to increase and peaked in 2009 reaching 48.7%. In 2019, this share decreased to 10.9%.

Agricultural exports of Kazakhstan to Uzbekistan show one of the important trends due to significant changes. In general, the share of agricultural exports in total exports is high and in 2019 was equal to 38.4%. Uzbekistan was one of the main consumers of Kazakhstan's wheat and flour. In 2001, the shares of cereals and products of the milling industry in agricultural exports equaled 83.5% and 15.2%, respectively. In 2003, this trend changed substantially. The share of cereals decreased to 3.4% and the share of the milling industry products increased to 87.3%. This meant that Uzbekistan decided to rely on Kazakhstan's flour supply instead of developing its own milling industry. However, it revised its policy in 2011, when it started to increase the import of cereals to produce its own flour. As the result, Kazakhstan's export of wheat flour decreased from \$311 million in 2011 to \$77 million in 2019. For the same period, the export of wheat increased from \$80 million to \$373 million. However, Uzbekistan not only started to satisfy its internal flour needs, but

also became one of the competitors of Kazakhstan's flour producers on the market of Afghanistan. Higher competition led to significant losses for Kazakhstan's producers, and the number of mills in the country significantly declined. For instance, about 70% of flour mills were idle in South Kazakhstan in 2019. Experts note, however, that the problem stems not from flour producers, but from the shortages of Kazakhstan's trade policy. As the result, several large flour milling companies from the Turkistan region and two companies from the Karagandy region constructed flour mills in Uzbekistan and shifted their production due to a better business environment and a higher level of state support in Uzbekistan.

In recent years, Kazakhstan significantly increased the export of live animals to Uzbekistan. In 2017, it equaled \$619,000, and then the number increased to \$23 million and \$93 million in 2018 and 2019, respectively. Responding to this situation, the government of Kazakhstan banned the export of live animals explaining its decisions by the need to diversify the livestock breeding industry in order to meet the demand at the internal market.

Exports of metals, in particular, iron and steel, have also shown a significant increase. While in 2016, the export of iron and steel was equal to \$142 million, it increased to \$384 million and \$356 million in 2018 and 2019, respectively.

Uzbekistan is an important import partner of Kazakhstan. Uzbek producers mainly supply fruits and vegetables, gas (petroleum gas), clothes and other finished products. The share of agricultural imports in total imports from Uzbekistan changed substantially, increasing from 5.1% in 2001 to almost 38% in 2019. It should be noted that this indicator peaked in 2016 and amounted to 54.3%. Agricultural imports mainly consist of vegetables and fruits, the value of which in 2019 was \$88 million and \$176 million, respectively. Therefore, Uzbekistan is an important contributor to the food security of Kazakhstan.

Initially, Uzbekistan's exports to Kazakhstan mainly consisted of gas, the share of which in 2001 was 69%. Since then bilateral trade between the two countries has expanded both in terms of the volume and the list of commodities, so in 2019 the share of gas in total imports of Kazakhstan decreased to 15%. At the same time, Uzbekistan significantly increased the export of apparel. For example, while in 2010, Uzbekistan's export equaled \$220,000 and was extremely low, in 2019 it increased to \$18 million or by 82 times.

Uzbekistan is also an important supplier of plastics to Kazakhstan, and its import also demonstrates an upward trend. In 2010, Ka-

zakhstan imported plastics worth \$15 million and this number increased to \$85 million in 2019. Uzbekistan's exports to Kazakhstan also consists of iron and steel, electrical machinery and other equipment.

As shown above, both countries are important suppliers of agricultural products. Kazakhstan exports wheat and wheat flour and imports vegetables and fruits, and the countries have become competitors on the markets of third countries. The current industrialization policy in Uzbekistan will intensify this competition in the future. The country attracts investments from a number of advanced countries including South Korea, the United States, Singapore and France. It cooperates with more technologically advanced developing countries such as India and Belarus. Moreover, it uses loans from global financial institutions for industrialization purposes. Areas of cooperation are wide and vary from agriculture to pharmaceutical and chemical industries. This policy will certainly affect bilateral trade patterns.

Thus, how Kazakhstan can benefit from these changes? Firstly, and most importantly, it should escape trade wars, which will affect wellbeing of both states given the structure of trade. Moreover, the policy of import or export bans should be carefully analyzed. For instance, if the private sector develops some market and the government decides to impose export restrictions and bans, then losses for producers and exporters will be significant. Higher competition from Uzbekistan will reduce prices and improve quality of internal producers, which will have to respond by higher levels of investments and innovations. Secondly, given an impossibility of a free trade agreement between the countries due to the Eurasian Economic Union, Nur-Sultan and Tashkent should be interested in strengthening cooperation by resolving sensitive issues such as transit and non-tariff barriers at the bilateral level. Resulting negotiations and potential agreements can create an environment for fair competition on regional and external markets. Thirdly, Kazakhstan should attract investments from Uzbekistan and promote its own investments in Uzbekistan. This will create convergence of economic interests, supply chains, and trade in services, which can reduce policy uncertainty in the future. Fourthly, a growth of manufacturing and industrial development of Uzbekistan will help Kazakhstan to diversify its sources of imports, which can reduce both economic and political risks. The countries of Central Asia can benefit from a higher level of regional trade. Thus, cooperation with Uzbekistan is essential and Kazakhstan should take concrete steps in order to strengthen its competitiveness both at the local and regional levels.

Politics, Foreign Affairs, and Security

- President of Tajikistan Emomali Rahmon signed an edict on the development of a draft agreement between Tajikistan and Russia on the creation of a unified regional air defense system. The Tajik Minister of Defense is designated responsible for further negotiations and amendments to the agreement. In the absence of a common border with Russia, Tajikistan will allocate a separate area of collective security within its territory and airspace (Sputnik, 22.09.2020).
- At an online meeting of foreign ministers of the member states of the Conference on Interaction and Confidence Building Measures in Asia (CICA), Tajikistan transferred the chairmanship to Kazakhstan. As stated by the Kazakh side, Kazakhstan as the CICA chair for 2020-2022 will focus on further institutionalization of the organization. This will enable the expansion of cooperation between the member states and the promotion of the CICA's status in the international arena (MFA of Kazakhstan, 24.09.2020).
- First President of Kazakhstan – Elbasy Nursultan Nazarbayev held a working meeting with President of Uzbekistan Shavkat Mirziyoyev in the town of Sarvagash, Turkistan region of Kazakhstan. The parties exchanged views on the current state and prospects for the development of Kazakh-Uzbek relations of strategic partnership, especially in the post-coronavirus period. They also discussed issues of cooperation in Central Asia and within the framework of the Turkic Council (President.uz; Elbasy.kz, 25.09.2020).
- The ministries of foreign affairs of Turkmenistan and Uzbekistan held bilateral political consultations in a videoconference format. The parties exchanged views on key directions of Turkmen-Uzbek cooperation and made a number of proposals for its further development. Special attention was paid to the discussion of regional issues, such as the Aral Sea problem and water management in Central Asia, the provision of assistance to Afghanistan, and the implementation of major energy and infrastructure projects (MFA of Turkmenistan, 21.09.2020).
- Newly appointed Minister of Foreign Affairs of Azerbaijan Jeyhun Bayramov made his first official visit to Tbilisi and held talks with President of Georgia Salome Zourabichvili and other high-ranking Georgian officials. The parties discussed ways to intensify political, economic and security cooperation between the two countries. In particular, President Zourabichvili stated that the finalization of the border delimitation process between Georgia and Azerbaijan is in their “mutual strategic interest” (The Financial, 25.09.2020).
- Large-scale fighting between the Azerbaijani and Armenian armed forces broke out in the Armenian-occupied Nagorno-Karabakh region. The two countries reported heavy destruction and casualties, including among civilians, and accused each other of initiating the clashes, which became the worst escalation of violence since 2016. Baku and Yerevan declared martial law, while the United Nations, European countries, Russia, and the United States urged both sides to cease hostilities (RFE/RL, 27.09.2020).

Economy, Finance, and Energy

- The heads of Kazakhstan Temir Zholy and China Railway held online negotiations on increasing cargo transit and reducing administrative barriers between the two countries. Despite the COVID-19 pandemic, in January-August 2020, transit cargo transportation totaled 14.2 million tons, which is 30% more than in the same period last year. The parties expect that by the end of 2020 this volume will reach 21 million tons. The Kazakh side updated Chinese counterparts on the project to modernize the infrastructure of the Dostyk railway station (The Astana Times, 24.09.2020).
- According to the Central Bank of Uzbekistan, the country's total external debt equaled \$27.6 billion as of July 1, 2020. Compared to the beginning of the year, the debt volume increased by 12.7%, or by \$3.1 billion. During this period, the state external debt increased by \$1.7 billion and reached \$17.4 billion, while the debt of the private sector rose by \$1.4 billion and amounted to \$10.1 billion. Uzbekistan's banking sector is a major private borrower (Uzdaily, 23.09.2020).
- Afghanistan signed an international agreement on renewable energy worth \$160 million that is expected to add 110 megawatts to the country's grid in the next 16 months. A local company will develop solar and wind power projects in Kabul and the Balkh and Herat provinces in partnership with the U.S. Agency for International Development (USAID) and firms from India and Turkey. Currently, Afghanistan can only generate 400 megawatts from its dams and imports 1,200 megawatts of energy from Iran, Tajikistan, Turkmenistan, and Uzbekistan (Arab News, 24.09.2020).
- Azerbaijan's Agrarian Credit and Development Agency provided support to 1,895 farmers in the form of micro-credits. The financial assistance equaled \$10.5 million, \$8.8 million of which were allocated to farmers engaged in animal husbandry. The agency also provided agricultural producers with \$30 million worth of loans, as well as over \$37.6 million of preferential subsidies, for purposes such as the purchase of equipment and breeding animals. The annual interest rate is 12% for micro-credits and 7% for loans (Trend, 24.09.2020).
- The China-Belarus innovation center for industrial technology became the 65th resident of the Great Stone industrial park established by the two countries. This center is a joint project of the National Academy of Sciences of Belarus, the Academy of Sciences of China's Guangdong Province, and the Foshan Institute of Industry Technology. The center will serve as a platform to commercialize R&D in the park and conduct research in new materials, modern industrial technologies, digitalization, bio- and eco-technology (BelTA, 25.09.2020).
- Ukraine plans to attract a €300 million long-term low-interest loan from the European Investment Bank for the implementation of an energy efficiency project in public buildings. Under the project, energy efficiency measures will be implemented in kindergartens, schools, hospitals, administrative, social and cultural buildings of small towns. These measures will significantly reduce the burden on state and local budgets by saving energy costs (Ukrinform, 24.09.2020).

Society and Culture

- The Otandastar Foundation, together with the World Association of Kazakhs, held in an online format a grand opening of the Kazakh cultural and business house “Abai Uii” (Home of Abai) in the Russian city of Omsk. The objective of the “Abai Uii” is to promote and popularize the cultural heritage of Kazakhs, as well as to strengthen business and humanitarian ties with compatriots abroad. By the end of 2020, the foundation plans to open four more “Abai Uii” in Kyrgyzstan, Uzbekistan, Germany and Turkey (Kazinform, 22.09.2020).
- The International Turkic Academy and the Assembly of People of Kazakhstan organized a meeting entitled “Strong fraternal ties: from Manas to Abay”. The Kazakh version of the Kyrgyz “Manas” epos prepared by the academy and the academic edition of Abai's works in the Kyrgyz language were presented during the event, which was attended by officials, parliamentarians, diplomats, public figures, scientists, and representatives of ethnocultural associations (TWESCO, 23.09.2020).
- The Academy of Science of Turkey and the Embassy of Mongolia in cooperation with the Alanya Alaaddin Keykubat University organized the symposium on “Genghis Khan and his heritage” in Alanya. Academicians and experts from 12 universities and museums discussed a number of topics such as historic perceptions of Genghis Khan and the Mongolian heritage in Turkey and the Turkic world, and traces of Genghis Khan and his successors kept in Turkish museums and archives (Montsame, 21.09.2020).
- The European Union launched two new projects in Central Asia – “Promoting Energy Efficiency and Renewable Energy in the Community Based Tourism Sector” and “Silk Road Community-Based Tourism Initiative” worth €2.68 million and €1.28 million, respectively. The projects aim to improve the competitiveness of small rural enterprises in Kyrgyzstan, Tajikistan and Uzbekistan and reduce the carbon footprint in the tourism sectors of these countries (Avesta, 21.09.2020).
- Afghanistan and Tajikistan signed the first-ever bilateral memorandum of understanding on environmental protection. The five-year document is aimed at protecting the fragile mountain ecosystem of the Panj Amu Darya river basin. It focuses on five key areas: climate change adaptation; biodiversity conservation; monitoring of water quality; environmental assessment; and sharing of knowledge and expertise on ecosystem management. The two countries also commit to undertake environmental impact assessments of joint projects (UN Environment Program, 24.09.2020).
- The USAID announced a new five-year program titled “Healthy Mother, Healthy Baby” aimed at reducing maternal and child mortality, morbidity, and malnutrition in the Khatlon region of Tajikistan. The \$17.3 million program will be implemented in close cooperation with the Tajik Ministry of Health and Social Protection of the Population and regional health authorities. The program's end result will be a self-reliant health system in 12 districts of the Khatlon region (U.S. Embassy in Tajikistan, 23.09.2020).