



## FOREIGN TRADE OF UZBEKISTAN

International trade plays a crucial role for Uzbekistan. The country has been one of the most important suppliers of agricultural products, including cotton, fruits, and vegetables. Since independence, Uzbekistan started to conduct gradual reforms. Import-substitution policy with strong protection of the internal market were the features of the country's economy. At the same time, Uzbekistan strongly supported its exports. However, with the new open economic policy, which is being implemented by the current President Shavkat Mirziyoyev, the country changed its attitude towards many trade-related issues. Therefore, the aim of the commentary is twofold. Firstly, it analyzes the dynamics of foreign trade in Uzbekistan. Secondly, it provides evidence on the country's new trade policy, which will have important implications for the Central Asian region. It should be noted that data unavailability restricts analysis of Uzbekistan's trade dynamics. Therefore, this study commentary uses data from the International Trade Centre (ITC) from 2017 to 2020.

Uzbekistan's foreign total trade increased from \$22 billion in 2017 to \$36 billion in 2019. During the reported period, the trade indicators demonstrated positive dynamics, which were disrupted by the pandemic. In 2020, the country's foreign trade volume decreased to \$33 billion. For instance, in 2017, the country exported products worth \$10 billion, while its imports amounted to \$12 billion. In 2020, exports and imports of Uzbekistan correspondingly equaled \$13 billion and \$20 billion. As a result, the trade deficit widened to minus \$7 billion.

The pandemic had a significant impact on Uzbekistan's trade flows. Due to imposed restrictions, the country experienced reductions in both exports and imports. The country's agricultural exports decreased from \$1.57 billion in 2019 to \$1.52 billion. For the reported period, the cotton exports declined from \$1.29 to \$1.2 billion. The mineral resource sector experienced the most significant reductions. In particular, exports of mineral fuels decreased from \$2.52 to \$0.64 billion, including reduction of petroleum gas and other gaseous hydrocarbons products exports from \$2.3 billion to \$0.5 billion. Thus, petroleum gas and other gaseous hydrocarbons products exports dropped by 4.6 times. This decrease in exports can be explained by the two pandemic-induced important factors. Firstly, China issued a force majeure note to its suppliers in March 2020 to halt supplies. Secondly, Uzbekistan stopped supplying natural gas to Russia. Therefore, despite the process of ongoing industrialization, mineral fuels continue playing an important role in Uzbekistan's economy and trade.

At the same time, Uzbekistan purchased higher amounts of agricultural products. In 2020, it imported agricultural and food products worth \$2.3 billion, while in 2019 its imports were equal to \$2.1 billion. Imports of mineral fuels also increased from \$0.9 billion to \$1.1 billion.

Uzbekistan imported pharmaceutical products worth \$1.2 billion, while in 2019 the purchases amounted to \$0.9 billion. Imports of machinery demonstrated reduction. In particular, it decreased from \$5.6 billion in 2019 to \$4.8 billion in 2020.

A list of Uzbekistan's top export partners includes China, Russia, Turkey, Kazakhstan, and Kyrgyzstan. In 2020, the country's exports to all these markets, excluding Kyrgyzstan, decreased. Supplies to China and Russia experienced substantial reduction due to a drop in petroleum gas exports. In particular, exports to China decreased from \$1.77 billion in 2019 to \$1.28 billion in 2020. For the reported period, supplies to Russia declined from \$2.07 billion to \$1.16 billion, to Turkey – from \$1.15 billion to \$0.95 billion, and to Kazakhstan – from \$1.24 billion to \$0.73 billion. At the same time, exports to Kyrgyzstan increased from \$0.64 billion to \$0.71 billion. These trade flows show that Uzbekistan's main markets are located outside of Central Asia. It is important to note the increasing role of Turkey as a promising market for Uzbekistan's products.

Uzbekistan's top import partners include China, Russia, Kazakhstan, South Korea, and Turkey. The country also experienced a reduction in import flows from its partners, excluding Russia and Kazakhstan. For instance, its imports from China decreased from \$5.1 billion in 2019 to \$4.4 billion in 2020. For the reported period, Uzbekistan's purchases from South Korea declined from \$2.5 billion to \$1.9 billion, while a reduction in imports from Turkey was insignificant and changed from \$1.3 billion to \$1.1 billion. At the same time, Uzbekistan's purchases from Russia increased from \$4 billion to \$4.1 billion. The country's imports from Kazakhstan also experienced growth from \$1.9 billion to \$2.1 billion. Therefore, Uzbekistan's imports demonstrated different dynamics.

It is important to note some trade-related achievements of Uzbekistan, which will have a significant impact on the structure of its exports and implications for Central Asian markets. Uzbekistan intends to become a new hub of electric scooters production. The country's President Shavkat Mirziyoyev signed a decree to provide subsidies and benefits to electrical industry producers. Uzbekistan successfully promotes its footwear exports. The number of countries, importing its footwear, has increased since 2020. According to data from the Uzbek Leather Industry, the country started to supply its products to markets of the United States, the United Arab Emirates, Kuwait, Latvia, and Moldova. The State Customs Committee reported that since 2020, the country has exported almost 24 million pairs of shoes worth \$28 million. Exports of footwear increased by 91% compared to the same period in 2019, while imports decreased by almost 74%. Uzbekistan's leather association reports that the country prepares to launch the production of

Nike and Adidas footwear in the 4<sup>th</sup> quarter of 2021. Initially, the enterprise will produce 3 million pairs of sports shoes annually and the full capacity will be reached in the 3<sup>rd</sup> quarter of 2022. Uzbekistan plans to export 50% of the shoes to Central Asian countries. The share of its domestic market will be 20%.

However, there are trade-policy-related controversies. For instance, during the four months of 2021, sales of Uzbek Chevrolet cars in Kazakhstan surged by almost 5000% compared to the same period last year. In particular, citizens of Kazakhstan purchased 8923 Uzbek cars, while in the previous year sales amounted to 186 units. At the same time, Uzbekistan itself is suffering a shortage of cars. To buy a car, citizens must pay 85% of its cost according to the contract, and wait about 4-5 months for its production. Therefore, Uzbekistan also needs to satisfy internal market demand through both higher volumes of production and imports.

At the same time, Uzbekistan achieved significant progress in reform implementation, which will also affect its future trade flows. These reforms include its reconsideration of the role of both regionalism and multilateralism. Uzbekistan obtained observer status in the Eurasian Economic Union, resumed negotiations with the World Trade Organization, and started active cooperation with the International Labor Organization. The European Commission granted Uzbekistan the Generalized System of Preferences plus status. Under this system the number of products Uzbekistan can export to the European Union will increase to 6200. This status may bring significant benefits to the country's exporters.

It is important to note that Uzbekistan's trade policy and proposed reforms can be considered as political and peace promotion tools, which are in high need in Central Asia, given several unresolved border disputes and conflicts. In this field, Uzbekistan proposed to establish free trade areas with Kyrgyzstan and Tajikistan and the International Center for Trade and Economic Cooperation "Central Asia" with Kazakhstan on border regions. While the total area of the Center is 400 hectares and its daily capacity is expected to be equal to 35 thousand people and 5 thousand trucks in both directions, it is planned to increase the bilateral trade of the countries to 10 billion dollars through the Center.

Thus, the trade turnover of Uzbekistan demonstrated growth. The pandemic led to reductions in both exports and imports of the country. Mineral fuels were the most affected products, exports of which decreased substantially. It is important to note that Uzbekistan is implementing several important reforms, including criminalization of forced labor, which will be able to change the structure and patterns of trade in the Eurasian region. Moreover, the proposals to establish free trade areas on the border regions can bring peace and prosperity to the region of Central Asia.

## Politics, Foreign Affairs, and Security

- Russia and its Central Asian partners including Uzbekistan, Tajikistan, and Kyrgyzstan will hold joint military drills on the border with Afghanistan. Russia will involve air troops of its bases in Kyrgyzstan and Tajikistan and S-300 air defense systems to the drills. The troops will prepare for military operations in case of border crossing by the Taliban and other terrorist groups. After a series of drills, the countries will hold “Peace Mission – 2021” joint maneuvers (Kun.uz, 16.07.2021).
- The Foreign Minister of China Wang Yi arrived in Tajikistan at the invitation of the Minister of Foreign Affairs of Tajikistan Sirrojdin Murriddin. The Ministers discussed bilateral cooperation issues and the situation in Afghanistan. They also considered a collaboration between the two countries within the framework of international and regional organizations. Minister Wang will also participate in the next meeting of the SCO Council of Foreign Ministers and the first meeting of the SCO-Afghanistan Contact Group (ASIA-Plus, 14.07.2021).
- A delegation from the foreign affairs and inter-parliamentary relations committee of the parliament of Azerbaijan visited for the first time the Turkish Republic of Northern Cyprus (TRNC). The delegation, headed by the head of the Azerbaijani parliament foreign affairs committee Samad Seyidov, was received by the TRNC President Ersin Tatar, Speaker Onder Sennaroglu and Prime Minister Ersan Saner. The sides discussed issues of cooperation and opportunities for the TRNC within the context of the Turkic states. Samad Seyidov noted that the TRNC was part of the Turkic World and assured that Azerbaijan will defend the rights and justice of the TRNC at the European Council (Anadolu Agency, 17.07.2021).
- The Bashkan of Gagauzia Irina Vlah held a meeting with three Turkish parliament members, Kamil Aydin, Ahmet Arslan and Cemal Ozturk, who were observers in the July 11 early elections in Moldova. The sides discussed the socio-political situation in Moldova and Gagauzia. The parties also touched upon current projects that are being implemented in Gagauzia with the support of Turkey. Irina Vlah mentioned that the construction of an Industrial College with the support of Turkey would help to develop the local economy in Gagauzia (Infotag, 12.07.2021).
- The President of Uzbekistan Shavkat Mirziyoyev received his Afghan counterpart Ashraf Ghani, who arrived in Uzbekistan to participate in the International Conference “Central and South Asia: Regional Interconnectedness. Challenges and Opportunities”. The leaders discussed the possibilities of cooperation on issues of ensuring regional security, promotion of sustainable development and implementation of regional projects. President Mirziyoyev expressed Uzbekistan's readiness to assist Afghanistan in achieving peace in their republic (Centralasia.news, 15.07.2021).
- A meeting with participation of the Shanghai Cooperation Organisation (SCO) foreign ministers and SCO Secretary General Vladimir Norov was held in Dushanbe. The participants of the meeting exchanged views regarding the events in Afghanistan and discussed the ways of improving the situation in the region. By the end of the meeting, the representatives of the foreign ministries issued a Joint Statement, where they identified common positions and response plans to restore peace and stability in Afghanistan (Centralasia.news, 15.07.2021).

## Economy, Finance, and Energy

- Investments in Kazakhstan's agricultural sector increased substantially. Since the beginning of 2021, the sector has attracted more than \$501 million, which exceeded the indicator of 2020 by 47.5%. Almost all of the investments went to crop and livestock production. The highest amount of investments were attracted by the North Kazakhstan region, share of which in total investments reached 25%. Earlier, the Prime Minister of Kazakhstan Askar Mamin had announced that the total volume of investments in 2021 would reach \$1.6 billion (Qazaq TV, 16.07.2021).
- The Prime Minister of Pakistan Imran Khan visited Uzbekistan to attend the international conference “Central and South Asia: Regional Connectivity Challenges and Opportunities”. The two countries organized a business forum, following which the Prime Minister Imran Khan and the Uzbek President Shavkat Mirziyoyev signed a joint declaration on the establishment of a strategic partnership. Imran Khan expressed the importance of the railway project among Pakistan, Uzbekistan and Afghanistan for the participating countries. In total, Uzbekistan and Pakistan signed agreements worth \$500 million (UzReport, 16.07.2021).
- Trade in agricultural products between Russia and Vietnam is increasing. According to the Agroexport Federal Center under the Russian Agriculture Ministry, Russia became a top meat supplier to Vietnam in the first half of 2021. During the reported period, the country exported almost 62 thousand tons of meat to Vietnam, which was 2.6 times higher than in the same period last year. Russia's revenues from the export surged by 2.5 times and reached \$121 million (TASS, 15.07.2021).
- According to the State Customs Committee of Azerbaijan, the country's foreign trade surplus amounted to \$3.4 billion during the six months of 2021. For the reported period, Azerbaijan's trade turnover reached \$14.2 billion, of which \$8.8 billion was its exports. The list of Azerbaijan's trade partners include 171 countries. The European Union market remains a key destination for the country's products. During the reported period, Azerbaijan's supply to the EU market amounted to \$4.4 billion (AzerNews, 17.07.2021).
- During five months of the 2021 Kyrgyzstan's total trade volume equaled \$2.8 billion, increasing by 27.7% compared to the same period last year. Within this growth country's exports demonstrated insignificant growth of 4.4%, while its imports surged by more than 40%. Kyrgyzstan's trade with the members of the Eurasian Economic Union exceeded \$1.3 billion, increasing by almost 35%. Russia and Kazakhstan remain the main markets for Kyrgyz products (Kabar, 13.07.2021).
- According to the Iranian Ambassador to Azerbaijan Seyyed Abbas Mousavi, Iran plans to develop transit routes with Azerbaijan by rail and the Caspian Sea. He explains that transit routes are one of the advantages of the relations between the two countries. Mousavi mentioned a high importance of the development of the North-South corridor. Development of both land transit routes and the Caspian ports can increase bilateral trade between Iran and Azerbaijan by 2-3 times (Trend, 18.07.2021).

## Society and Culture

- The United Nations Development Program (UNDP) launched a new climate change project jointly with the Committee for Environmental Protection under the Government of Tajikistan. The three-year project has a budget of \$2.7 million and is aimed at boosting the country's resilience to climate change. The Government of Tajikistan will benefit from the initiative by strengthening climate change adaptation planning at the national and sectorial levels. The initiative is being implemented within the framework of the UNDP project on “Facilitating Climate Resilience in Tajikistan,” funded by the Government of the Russian Federation (ASIA-Plus, 15.07.2021).
- UNICEF will help Uzbekistan to implement reforms in preschool education. The issues of implementing transformations in the preschool education system were discussed during the meeting of the Minister of Preschool Education of Uzbekistan, Agrippina Shin, with the Deputy Director General of UNESCO for Education, Stephanie Giannini. Currently, about 77% of children in Uzbekistan aged 6 years are enrolled in preschool education, and by 2025, it is planned to reach 100% (Centralasia.news, 16.07.2021).
- The initiative of the Islamic World Educational, Scientific and Cultural Organization (ICESCO) to declare Shusha Asian region's Capital of Islamic Culture in 2022 was discussed during a meeting of the Azerbaijani Ambassador to Morocco Oktay Gurbanov with ICESCO Director General Salim M. Al Malik. He noted that ICESCO will take all necessary measures to implement this important initiative at a high level. The ICESCO will also assist Azerbaijan in the restoration of monuments destroyed during the Armenian occupation (Azernews, 15.07.2021).
- “The Abai Uyi Culture and Business Houses” project was launched in Kazakhstan with the support of the Information and Social Development Ministry. The project is aimed at developing cultural, humanitarian and business ties with compatriots living abroad through realization of various projects. The Abai Uyi was already opened in Omsk, Tashkent, Berlin, Istanbul and Kyiv. It is planned to open Abai Uyi in Mongolia, Russia's Astrakhan and Kyrgyzstan's Bishkek (Kazinform, 12.07.2021).
- Azerbaijan and Georgia signed a memorandum on the establishment of twin city relations between Tbilisi and Baku. The document was signed by the Mayor of Tbilisi Kakha Kaladze and the Head of the executive power of Baku city Eldar Azizov during the visit of Mayor Kaladze to Azerbaijan. Different Azerbaijani and Georgian cities had established twin city relations long before that. Sumgayit and Rustavi became twin cities in 1952. Fraternal ties exist between the cities of Kutaisi and Ganja, as well as the cities of Nakhchivan and Batumi (Sputnik-georgia.ru, 13.07.2021).
- The International Institute of Central Asia (IICA) was opened in Tashkent on the initiative of the President of Uzbekistan Shavkat Mirziyoyev. The opening ceremony took place during the International Conference “Central and South Asia: Regional Connectivity. Challenges and Opportunities” and was attended by high-ranking honorable guests from Central Asian states, representatives of the UN, CIS, SCO, Turkic Council and other international organizations. The IICA is expected to serve as a platform for expert discussion of the prospects for regional cooperation in various areas (UzDaily, 15.07.2021).