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Economic Transformations in China and Uzbekistan: Cooperation and Strategic Relations Between Them

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Abstract: Beginning in 1979, China launched several economic reforms. The central government initiated price and ownership incentives for farmers, which enabled them to sell a portion of their crops on the free market. In addition, the government established four special economic zones along the coast for the purpose of attracting foreign investment, boosting exports, and importing high technology products into China. Additional reforms, which followed in stages, sought to decentralize economic policymaking in several sectors, especially trade. Economic control of various enterprises was given to provincial and local governments, which were generally allowed to operate and compete on free market principles, rather than under the direction and guidance of state planning. Uzbekistan's unique post-independence experiment with development was led by Islam Karimov until his sudden death in September 2016. Despite defying international advice on structural reforms, under Karimov's rule, Uzbekistan achieved an average annual growth rate of 5% in the period 1996–2016, which was particularly impressive (over 8%) in 2004–2016. Karimov also left behind strong macroeconomic fundamentals for his successor. Since taking over the presidency in December 2016, Shavkat Mirziyoyev has introduced wide-ranging reforms, creating an impression of a de facto start to transition in Uzbekistan.

Key words: China, America, World Trade Organisation (WTO) , Uzbekistan, Central Asian countries, Diplomacy, Tajikistan, Kazakhstan, Kyrgyzstan, Turkmenistan, Afghanistan, Gross Domestic Product (GDP) , World Bank, International Monetary Fund (IMF) , People's Bank of China (PBC) , Xiaochuan Zhou, McMahon, Greenwood, Kaihatsu, Kurozumi, Justiniano, United States, Xu, Chen, Mehrotra et al, Yuan and Feng, Zhang et al, Tyler-type rules, Keynesian model, Metropolis–Hastings, Made in China, Information and Communication Technology (ICT), Internet Industry Report (IIR), E-commerce, France, Germany, Japan, United Kingdom, Islam Karimov, Sovet Union, Gradualism, Uzbek Paradox, National Development Strategy, Shavkat Mirziyoyev, Uzpakhtasanoat, Navoi, Bukhara, Syrdarya, Sustainable Development Goals (SDGs).

INTRODUCTION

The economy of China accounts at present for about half the economy of the whole of Asia, and the entry of China into the World Trade Organisation (WTO) in 2001 has reinforced its position at regional and global level. Chinese experts estimated that if these trends continued, the Chinese economy would be larger than that of America and the largest in the world by 2015.

In comparison with not only Uzbekistan, but also all Central Asian countries, China is dominating in economy with statistics in WTO and also accomplishing reforms in order to improve its economic position. Indeed, these kinds of reforms help to develop drastically and among other cooperative countries, economic relations will be at the top in turn.

I consider that the reforms in all fields that have been carried out over the years, especially in terms of economy, China's position on the world scale, are worthy of praise. Because, it is one of the leading countries in the world regarding its production capabilities, delivery and reception of goods and products.

As for Uzbekistan, real economic reforms first had been started to commit inside the country after the independence. This freedom of the nation was a pivotal contributor for all fields, such as science, agriculture, economy, education and so on. After this, moreover, the flag, and anthem of Uzbekistan were established, and another noteworthy is that the Diplomacy of the Republic of Uzbekistan was established to create strategic cooperation with other developed countries in various fields.

Uzbekistan also established high-level relations with neighboring countries: Tajikistan, Kazakhstan, Kyrgyzstan, Turkmenistan, and Afghanistan during this period. This caused Uzbekistan to accelerate development strategies in the economic spheres. As a result, the economic growth rate of the country has been increasing since independence.

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During the stages of development, not only Uzbekistan, but also China has its own indelible history, implemented strategies, and difficulties during the process and prospects in this field. This article aims to describe the pace of development of these countries in the economic sphere and relations between them, and gives probable and clear answers to the questions related to them.

ECONOMIC TRANSFORMATIONS IN CHINA

China was on the first step of growth, so its economy was poorly strategized about 40 years ago. In 1979, China came to the world's trade and had the leading so far. Gross Domestic Product (GDP) which was a significant role for the country's economy constituted 9.5% in 2018. This was reported by the World Bank "it is the fastest sustained expansion by a major economy in history".

The Growth rate of GDP made up the substantial decrease with 14.2% in 2007 and 6.6% in 2018, and it doubled in every 8 years. Therefore, in those years, 800 million Chinese people was out of poverty. It was projected by the International Monetary Fund (IMF) to fall to 5.5% by 2024.

According to the Law of the People's Republic of China on the People's Bank of China, 'the objective of the monetary policy shall be to maintain stability of the value of the currency and thereby promote economic growth'. The People's Bank of China (PBC) is by no means an inflation-targeting central bank, like many other modern central banks, and its objectives extend far beyond price stability.

As former PBC governor Xiaochuan Zhou has said, China's monetary policy has the following objectives: maintaining price stability, promoting economic growth, supporting employment and achieving a balance-of-payments equilibrium (Zhou 2016). In addition, the 2017 PBC Work Conference called for monetary policy to achieve a balance between economic growth, economic reform, economic structure, household welfare and financial stability (McMahon et al. 2018). Without a well-defined monetary policy rule, it will be difficult to accurately model China's macroeconomy.

The financial friction mechanism is of the type introduced by Bernanke et al. (1999) to model market imperfections in the financial sector. The investment-specific technology shock was suggested and developed by Greenwood et al. (1988, 1997) as a viable alternative to neutral technology shocks as sources of business cycles. Studies by Kaihatsu and Kurozumi (2014) and Justiniano et al. (2011) find that the financial friction shock and the investment-specific technology shock are important sources of business fluctuations in the United States. There are a number of studies applying DSGE models to the Chinese economy—for example, Xu and Chen (2009), Mehrotra et al. (2013), Yuan and Feng (2014) and Zhang et al. (2014). None of these studies has explicitly taken into account financial friction or shocks to investment.

It is reasonable to expect that these factors are significant drivers of China's business fluctuations. Past studies of China's monetary policy tend to make a choice between Taylor-type rules and quantity rules that have been used in studies of advanced economies. For example, Zhang (2009) argues that a Taylor-type rule is likely to be more effective than a quantity-type rule in managing the economy. Liu and Zhang (2010) show that both rules outperform a single rule in a four-equation new Keynesian model.

China, first was unable to utilize innovation so sharply and it resulted in economic depletion. However, China understood this before other countries and started to focus more on innovation. It is possible that it can be an optimal way of communicating with people fastly via Internet and branding products to advertise around the world. For instance, "Made in China "being well-known in 2015 was so branding and so popular and this could attract all people to products, also developed manufacturing processes in the country and dominated in global markets with this. I think it is not anticipated before.

Development in Information and Communication Technology (ICT) lead to the country to digitalize every field, especially economy. Thus, it could have the dramatic rise over a decade, starting from 2007. Along with the rapid expansion and upgrading of internet infrastructure, as well as the formation of the enormous internet user population, the digital economy has become an increasingly important part of China's economic landscape. Based on the *2018 China's Internet Industry Report* (I Research Global 2018), the gross value of the digital economy reached RMB 27.2 trillion in 2017, accounting for 32.9 per cent of national gross domestic product (GDP)—2.6 percentage points higher than in 2016. Moreover, it is particularly noteworthy that the digital economy contributed approximately 55 per cent of overall GDP growth, serving as a powerful engine of growth and encouraging a range of socioeconomic developments in China.

E-commerce accounts for a large share of the digital economy. In comparison with other countries, China was not an early adopter of e-commerce development. The first online transaction in China was completed in April 1998, and growth was slow over the next decade (Cao and Zhang 2009). China's e-commerce took off in 2008, when it experienced exponential growth. During the following decade, the total transaction value of e-commerce increased tenfold, from RMB 3.14 trillion to RMB 31.63 trillion (Xinhua News Agency 2019). China is now a major player in the global digital economy. The country comprises 42% of global e-commerce and has more annual e-commerce transaction value than France, Germany, Japan, the United Kingdom, and the United States combined.

During the same period, the annual transaction value of online retail increased dramatically. In 2008, online retail sales in China accounted for only 1.3% of total retail sales. This proportion was significantly lower than in the United States (3.72%) and the United Kingdom (4.5 per cent). This modest position, however, quickly became history. In 2013, the total value of online sales in China reached RMB 1.89 trillion, a more than tenfold increase from RMB 130 billion in 2008. For the first time, China surpassed the United States to become the world's largest e-commerce market (China E-commerce Research Centre 2016), a position that has since been solidified. In 2016, the total value of online sales in China reached RMB 5.33 trillion, accounting for 14.9% of total retail sales. By 2018, the annual value of online retail sales had surpassed RMB 9 trillion. Meanwhile, the number of online business owners increased from 7.9 million in 2008 to 50 million in 2016. Regardless of the measure one uses, China is by far the world's largest online retail market. Today, China is a major investor in and consumer of digital technologies.

The government must pay close attention to innovation in economic development and, according to the needs at different stages of innovation and development, carry out policymaking and strategic planning to effectively promote innovation. The innovation index system of Chinese listed companies consists of five major sectors: the innovation environment, innovation inputs, technological innovation, model innovation and innovation outputs. It should be noted that in this framework, technological innovation and model innovation are regarded as the intermediate processes between innovation input and innovation output. A Moscow-centric transport system made it difficult to get this crop to new foreign markets but the state's marketing monopoly ensured that a substantial share of the accrued revenues went to the government. As a result, the Uzbek state was able to maintain social services better than other Central Asian countries.

ECONOMIC TRANSFORMATIONS IN UZBEKISTAN

Over the decade of the 1990s Uzbekistan was the best-performing of all Soviet successor states, despite its rejection of the rapid "shock therapy" reform recommended by the International Monetary Fund (IMF), World Bank and others. Although data on the region were imperfect, economists at the IMF confirmed that Uzbekistan's good performance was real and not a statistical artifact.

In 1989, Islam Karimov was appointed as the first President of the Republic of Uzbekistan, and the country gained independence in 1991, 31th August. After this, Uzbekistan created its rules, flag, anthem and constitution step by step. This indicates that another competitive country has entered the world. Islam Karimov's approach to economy was gradualism. To explain, gradualism - a policy of a gradual reform rather than sudden change or evolution. The biggest problem in the economy of Uzbekistan was its adaptation to the system of the Soviet Union. This has been an obstacle for us even after independence. For example, the currency of the USSR is the ruble, which was used in all colonial territories in the 20th century. In addition, post-decolonization Uzbekistan had to establish its own currency and implement macroeconomic reforms to prevent hyperinflation in all ruble economies in the region.

In 2003, Uzbekistan made its currency convertible, but at the same time maintained many bureaucratic means of limiting access to foreign currency. Nevertheless, as the economy enjoyed steady growth between 2003 and 2008, the currency black-market more or less disappeared. The "Uzbek Paradox" remains today a much-debated topic. Supporters highlight the strong economic growth and diversification that occurred under "heterodox" policies, while critics question the accuracy of Uzbekistan's GDP data and the sustainability of its pre-reform economic model.

The economic growth of the first years of the twenty-first century was clearly driven by the commodity boom. The diversification out of agriculture, supported by import-substituting industrialization projects, did not promote much growth in manufacturing. As agriculture declined in importance between 2000 and 2010, rapid growth occurred in services, construction and mining, but not in manufacturing.[6]

Despite these issues and shortcomings, the key legacies of President Karimov's more than two decades in power were the preservation of sovereignty and the overall maintenance of stability. The status of the Uzbek economy at the end of 2016 provided an opportunity for the country's new leader, Shavkat Mirziyoyev, to initiate a new round of reforms from a position of relative strength and security, rather than in response to a crisis. This, more than anything else, boded well for their chances of success.

The reform agenda in the economic sphere, just as in other spheres, has been comprehensive and very ambitious, and well-articulated in multiple public statements of the president and governmental documents. In February, 2017, Uzbekistan adopted a thoroughly crafted reform manifesto: *2017-2021 National Development Strategy* (hereafter, "The Strategy"). The Strategy identified five priority areas: reform of public administration; reform of the judiciary and strengthening the rule of law; economic development and liberalization; the social area; and security and foreign policy.

In terms of economic development and liberalization, the Strategy includes five priority directions. The first is a further strengthening of macroeconomic stability and the maintenance of high rates of economic growth. The second is to increase the competitiveness of the national economy by deepening structural reforms, and by modernizing and diversifying its leading industries. The third is the modernization and intensive development of agriculture. The fourth is the continuation of institutional and structural reforms aimed at reducing the state's presence in the economy, further strengthening the protection of rights and private property, and stimulating the development of small business and private entrepreneurship. The fifth is the comprehensive and balanced social and economic development of regions, districts and cities.

In September 2017, the President issued a decree on "Priority Measures for the Liberalization of Currency Policy", which made the national currency fully convertible. Later that same month, a presidential Resolution "On Measures to Further

[6] Source: Cornia, "Uzbekistan's Development Strategies", p. 5, based on World Bank World Development Indicators.

Streamline the Foreign Economic Activity of the Republic of Uzbekistan" sharply reduced customs duties on more than 8,000 categories of imported goods. This included zero rates of customs payments for 3,550 items and a modest excise tax for 1,122 items. The average customs rate for imported goods was now established as 6.45 percent.

Cotton is considered a national treasure of Uzbekistan, and its price was very high in the mid-1990s. After the cotton crisis of 1996, whereas, the country took a long time to recover its production level. Cotton output in Uzbekistan contributes approximately 13% of GDP through cotton product exports.[7] Cotton revenue is so high because agricultural policies, institutions, infrastructure, and farming practices are all designed to ensure high levels of cotton production. The main policy that influences cotton production is the state cotton procurement policy, which requires farmers to achieve predetermined cotton output targets.

A significant element of the present agricultural reforms has been to allow textile factories to buy raw cotton directly from farmers, without the intermediary "Uzpakhtasanoat," the former Soviet state monopoly in charge of all sales of cotton fibers. In his address to the parliament, President Mirziyoyev excoriated the inefficiency of the existing system and spoke favorably of successful pilot programs to create cotton-textile clusters in the Navoi, Bukhara, and Syrdarya regions.

Uzbekistan endorsed the Sustainable Development Goals (SDGs) in 2015, and in 2018 adopted its national goals and targets until 2030. The targets are ambitious, focusing on the development of physical and human capital and on improving the environment. To reach the national SDG targets, the government established a coordination council and developed a road map for implementing and monitoring the SDGs. According to the road map, the government will develop annual implementation plans and indicators, and mainstream the national SDGs in the national census and state budget by 2030.

ECONOMIC RELATIONS BETWEEN CHINA AND UZBEKISTAN

The volume of trade between China and Uzbekistan in the 1990s was low. A growth was seen during the period 1992-1996, whereas there was a reduction during 1997-2000. In 2003, bilateral trade between China and Uzbekistan, at 216 million dollars, grew by more than 60% compared to the previous year (approximately 3.2% of Uzbek and 0.03% of Chinese trade). China considers Uzbekistan as a huge consumer market. For example, the volume of Uzbek exports to China amounted to 52 million dollars (1.4% of Uzbekistan's exports and 0.01% of China's imports), whereas Chinese exports to Uzbekistan were 164 million dollars (5.5% of Uzbekistan's imports and 0.04% of China's exports). Uzbekistan's exports to China included services (48%), machinery and equipment (19%), cotton (4%), foodstuffs (4.6%) and non-ferrous metals (1.5%). The range of exports from China included chiefly engineering products (approximately 48%), chemical products (approximately 19%) and foodstuffs (approximately 9%). [8]

The goal of establishing trade and economic cooperation between Uzbekistan and China is to connect the world's transportation and trade roads. The development strategies of "New Uzbekistan" for 2022-2026 were mentioned in Chinese language at the Shanghai cooperation meeting held in Beijing. It was mainly about economic infrastructure of the country.

Traditionally, Russia was a top partner of Uzbekistan compared to these days. In 2021, China's share for Uzbekistan was 17.7% to Uzbekistan's foreign trade, more than Russia. By 2020, foreign debt of Uzbekistan from China was 3 billion; investment of China was 9 billion by the end of 2021. As for investment, China tend to invest in cotton production in Uzbekistan with exporting heavy equipment to facilitate growing cotton.

Uzbekistan's government aims to reach a $100 billion GDP, double exports to exceed $30 billion, and have 80% of GDP produced by the private sector. By 2030 or earlier, Uzbekistan wants to join the World Trade Organization, and become a country with a GDP per capita in the upper middle-income level. To achieve these goals, Uzbekistan needs foreign direct investments into industrial sectors and infrastructure. In this sense, cooperation with China may play an important role in the diversification of Uzbekistan's economy. Although current bilateral relations between Uzbekistan and China remain promising, risks should be taken into considerations.

CONCLUSION

Each country will have its own economic strategy. These reforms will have a high impact on its economic performance. Therefore, the economic strategies of China and Uzbekistan differ from each other. However, their great cooperation in this field means that both of them will go through the stages of development together very quickly. Given the structure of bilateral trade, overreliance on China's investments, loans and aid can cause biased decisions. The government of Uzbekistan needs to increase competition among external powers in terms of investments and implementation of joint projects, which will significantly reduce risks and lead to a higher level of economic opportunities.

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[7] State Statistical Committee of Uzbekistan, 2010
[8] Source: Republic of Uzbekistan State Statistics Committee, 2004.

monetary policy is a rule that sets the nominal interest rate of the economy. It is a price rule as it sets the price of money, the interest rate on risk-free deposits, and it is a variant of the original Taylor rule, proposed by Taylor (1993).

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