

## **Analysis of the trade and commodity structure of China and the five Central Asian countries**

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### **Abstract:**

Along with the "One Belt One Road" initiative, trade between China and Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, the five Central Asian countries, is becoming increasingly close. This paper presents a comprehensive analysis of the current trade situation and commodity structure between China and the five Central Asian countries, using the SITC Rev.3 commodity classification method to obtain relevant data from the UN Commodity Trade Database. The results show that the scale of trade between China and the Central Asian countries continues to expand, that China is generally in surplus, and that the commodity structure of bilateral trade shows a concentrated and complementary character. Based on the findings of the study, countermeasures such as promoting the diversification of trade commodity structure, relying on the "One Belt, One Road" to promote economic and trade development, deepening production capacity cooperation to achieve a win-win situation, promoting the construction of bilateral free trade zones, and leveraging cross-border e-commerce to boost the development of small and medium-sized enterprises are proposed.

**Keywords:** Five Central Asian countries Trade status Commodity structure

### **Introduction**

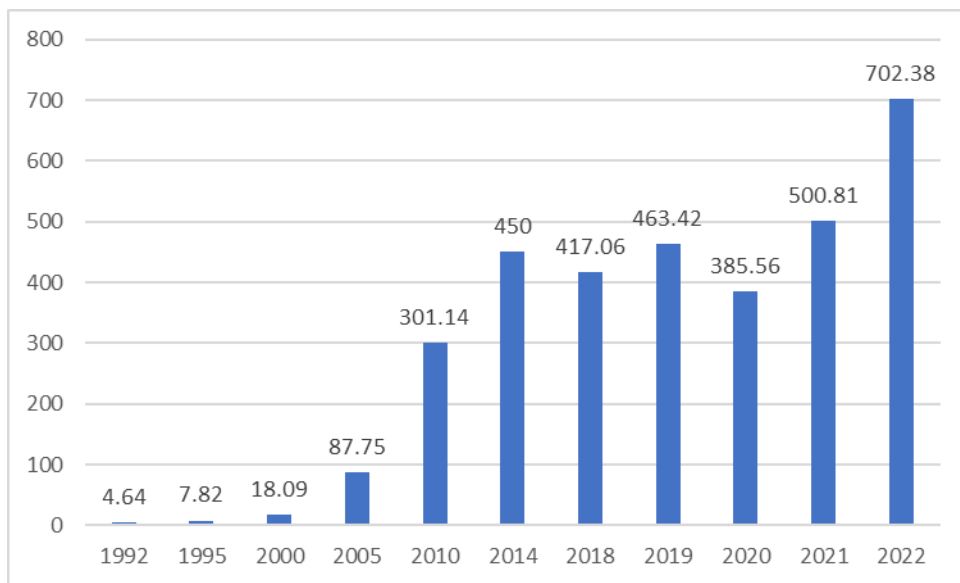
Central Asia is located at the heart of China's Silk Road Economic Belt and is a major transportation hub for the Eurasian continent. China was one of the first countries to establish diplomatic relations with the five Central Asian countries, and after years of development, the two sides have achieved leaps and bounds in economic and trade relations.

### **1. Analysis and Results**

#### **1.1 Current status of trade between China and the five Central Asian countries**

##### **1.1.1 Analysis of trade development trends**

Since January 1992, China has established diplomatic relations with five countries in Central Asia, and since then, trade between China and Central Asia has been expanding. In three decades, the trade volume between the two regions increased from US\$464 million in 1992 to US\$70.238 billion in 2022, a 151-fold increase in the scale of trade.



**Figure 1 Trade between China and the five Central Asian countries, 1992-2022**

Unit: USD billion

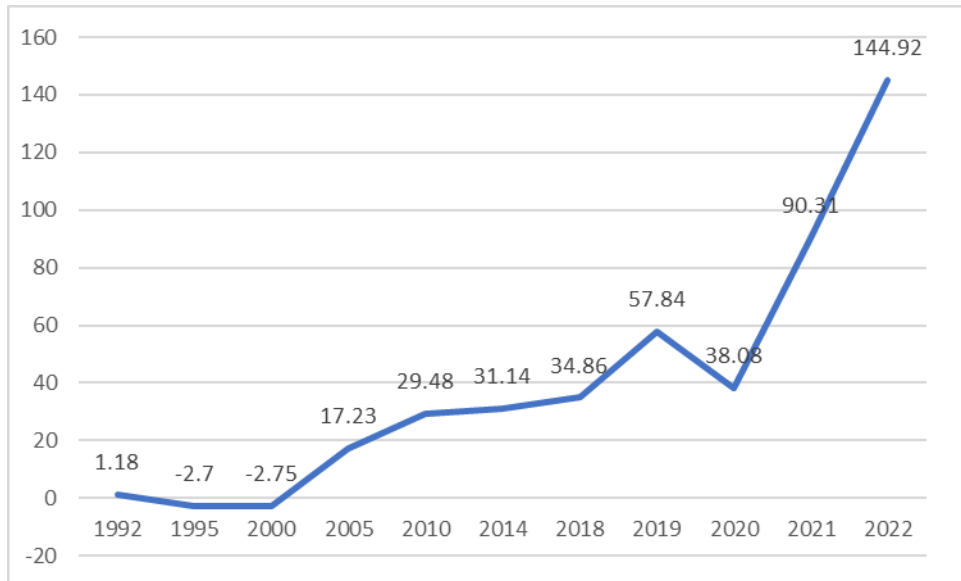
Data source: UN database, China General Administration of Customs

Before 2002, China's trade with Central Asian countries was small in scale and grew at a slow pace; after 2003, trade between the two sides entered a phase of rapid growth, exceeding US\$50 billion for the first time in 2013. In 2020, due to the impact of the epidemic, the bilateral trade volume shrank to a five-year low, and in 2021, after the epidemic was gradually brought under control, the annual trade volume between the two sides resumed its rise.

The year 2022 marks the 30th anniversary of the establishment of diplomatic relations between China and the five Central Asian countries. After years of development, China has become the number one trading partner of Uzbekistan, Kyrgyzstan and Turkmenistan, the second largest trading partner of Kazakhstan and the third largest trading partner of Tajikistan.

**1.1.2 Analysis of changes in the trade deficit and surplus**

In the early years of diplomatic relations between China and the five Central Asian countries, the Central Asian countries were in the early stages of transition, with limited domestic demand and China's need for large amounts of energy resources at the time, and the abundance of energy-based trade products in Central Asia led to a trade deficit for China during this period. Chinese industrial products of all kinds began to enter the Central Asian market in large quantities. At the same time, China's economy also began to enter a period of rapid development, and the scale of imports of mineral resources products increased year by year. During this period, China's trade with the five Central Asian countries alternated between a surplus and a deficit due to changes in international energy prices and other factors, but overall, China's surplus was predominant.



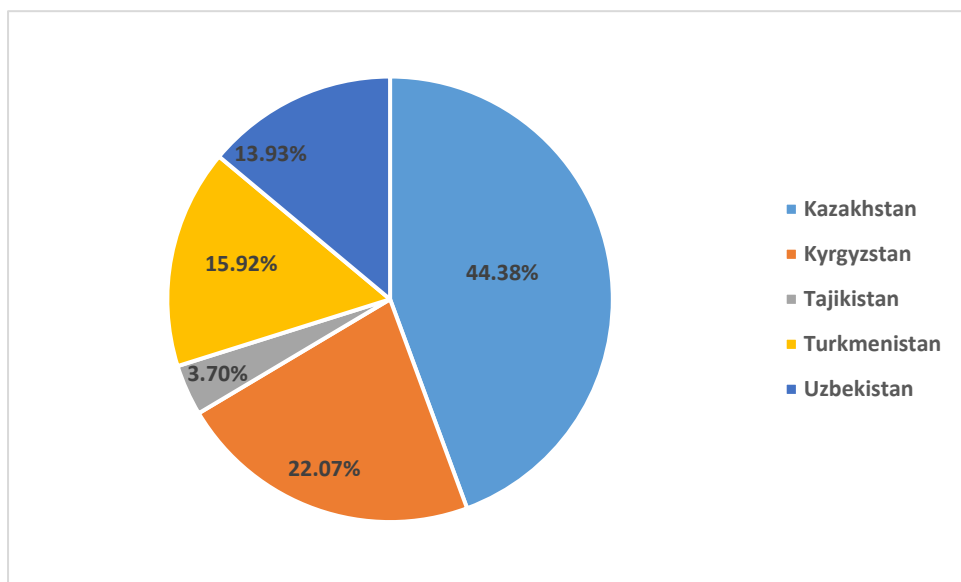
**Figure 2 Folding line chart of China's trade balance with Central Asian countries, 1992-2022**

Unit: USD billion

Data source: UN database, General Administration of Customs of China

**1.1.3 Analysis of trade volume as a percentage**

For a long time, Kazakhstan is the largest country in China's trade with the five Central Asian countries, Tajikistan is the smallest trade scale, while Kyrgyzstan, Tajikistan, Uzbekistan's share of the ranking situation is not stable, which is mainly related to each country's national economic volume, industrial structure, trade policies.



**Figure 3 China's trade flows with the five Central Asian countries as a percentage of their total trade in 2022**

Data source: General Administration of Customs of China

**1.2 Commodity structure of trade between China and the five Central Asian countries**

This paper presents a statistical analysis of the commodity structure of China's import and export trade from five Central Asian countries with reference to the United Nations Standard Trade Classification (SITC Rev.3).

**Table 1 UN Standard Trade Classification (SITC Rev. 3)**

Name	Corresponding product categories
SITC 0	Food and live animals
SITC 1	Beverages and tobacco
SITC 2	Coarse material, inedible, except for fuel
SITC 3	Fossil fuels, lubricants and related materials
SITC 4	Animal and vegetable oils, fats and waxes
SITC 5	Chemicals and related products
SITC 6	Manufactured goods by material
SITC 7	Machinery and transport equipment
SITC 8	Miscellaneous products
SITC 9	Uncategorized products

**1.2.1 Structure of imported goods**

From the analysis of Figure 5, it can be seen that in the early years of diplomatic relations, the five Central Asian countries imported more SITC2 category and SITC6 products from China. The Central Asian region is rich in oil and gas resources and mineral resources. The oil reserves in Central Asia and the Caspian Sea region are about 200 billion barrels, accounting for about a quarter of the world's oil reserves, and the proven natural gas reserves amount to 7.9 trillion cubic metres, which is known as the "Second Middle East". Since 2000, Chinese energy companies have been investing and cooperating in various forms in Central Asian countries. 2006 saw the completion and commissioning of the Atasu (Kazakhstan) - Alashankou (China) oil pipeline, and 2009 saw the opening of the Central Asian gas pipeline. With the completion of a series of oil and gas pipelines, the proportion of SITC3 products in China's imports from Central Asian countries has gradually increased, becoming the most important category of China's imports from Central Asian countries; the proportion of SITC2 products has been decreasing year by year, and the proportion of SITC6 and SITC3 products in China's imports from Central Asian countries has been increasing.

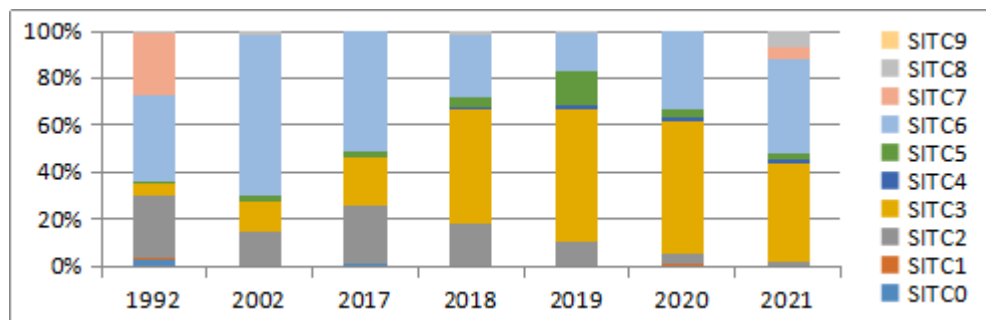


Figure 5 Share of China's trade goods imports to Central Asia, 1992-2021

Data source: UN database

**1.2.2 Export Commodity Structure**

From the analysis of Figure 6, it can be seen that China's commodity exports to Central Asia are mainly in the SITC6, SITC7 and SITC8 categories. In the early years of diplomatic relations, China's exports to Central Asian countries were relatively balanced, but as trade cooperation between China and Central Asia deepened, the commodity structure gradually concentrated on SITC6, SITC7 and SITC8 products, with the total export value of these three products accounting for more than 80% of the total export value. The commodity structure of China's exports to Kazakhstan is dominated by industrial manufactured goods, which is the opposite of China's imports to Kazakhstan. since the first Central Asian train departed in 2016, Chinese enterprises have been exporting a steady stream of mechanical and electrical products, machinery and equipment, automobiles, agricultural and sideline products, daily necessities, small household appliances, building materials, luggage, household appliances and high-tech products to the five Central Asian countries.

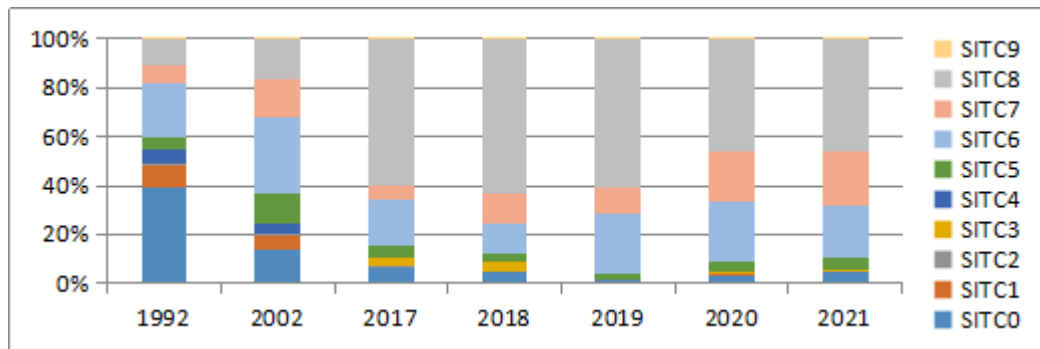


Figure 6 Share of China's trade goods exports to Central Asia, 1992-2021

Data source: UN database

**1.2.3 Conclusion**

China's imports from Central Asia are mainly SITC2, SITC3 and SITC6 products, which are mainly primary products, natural resource-based products and labour-intensive products. China's exports to Central Asia are mainly SITC6, SITC7 and SITC8 products, which are mainly manufactured goods. From the above analysis, it can be concluded that the commodity structure of China and the five Central Asian countries has the following characteristics:

Whether exported or imported products, bilateral trade is concentrated in two to three product categories, showing a homogeneous trade structure.

According to the H-0 theory, the abundance and scarcity of a country's factors of production determine the types of goods it exports and imports. The Central Asian countries' abundant natural resource reserves and the lack of demand for economic development within their region have led to mineral fuel-based products becoming their exports. At the same time, Central Asian countries generally have relatively backward industrial industries and are not very competitive in industrial goods, and therefore mainly import industrial manufactured goods in their bilateral trade. In contrast, China has a huge demand for fossil fuels in its economic development and has become the world's largest importer of crude oil and liquefied natural gas, while China has built a modern

industrial system with a full range of industries and an overall industrialisation index of 93 by 2020. the structure of bilateral exports and imports reflects the complementary nature of their trade relations.

III. Negative factors affecting the development of trade between China and the countries in Central Asia

### **1.3 Imperfect bilateral cooperation mechanism**

#### **1.3.1 Inadequate bilateral cooperation mechanisms**

At present, the cooperation between China and the Central Asian region is looking good. After the establishment of the Shanghai Organization, trade cooperation between China and Central Asia has been developing, and a number of bilateral economic and trade cooperation treaties have been signed for the purpose of trade exchanges. However, since the signing of these economic and trade treaties, many of their provisions have remained at a macro level, without detailed provisions on customs clearance, tax payment, animal and plant quarantine, etc., which are required for trade between the two sides.

#### **1.3.2 Poor logistics infrastructure**

The road traffic and transport conditions of the five Central Asian countries vary, with Kyrgyzstan's logistics and transport capacity being the most backward. The backwardness of logistics infrastructure has seriously affected the trade between the two sides. As a landlocked country, railways are an important mode of transport, while Chinese railways use international standard rails, the five Central Asian countries have wide rails, which leads to not only increased logistics costs but also delays in the transport between the two sides by rail as a result of track changes. As early as 1997, China proposed the construction of a Sino-Japanese railway, but the project has been delayed by political disagreements in Kyrgyzstan and interference from Russia.

#### **1.3.3 Insufficient number of relevant talents**

Each of the five Central Asian countries has its own national language, and since they were all historically part of the former Soviet Union, Russian was also adopted as their common language. However, there are only a few universities in China that offer majors in minor languages related to Central Asia, such as Beijing Foreign Language School and Central University for Nationalities. Although there are more universities offering Russian language courses, there are not many Russian language graduates compared to language professionals such as English, Japanese and French. The insufficient number of small language talents has affected the rapid development of bilateral trade.

## **2. Conclusion and Recommendations**

### **2.1 Promoting diversification of the commodity structure of trade**

In response to the single structure of foreign trade commodities, measures should be taken in various aspects. On the one hand, we should make use of the China-Central Asia Commodity Fair to increase Chinese people's understanding of the Central Asian countries through diversified means, so that the goods from Central Asian countries will be accepted and loved by the Chinese people and drive China's import demand for goods from the five Central Asian countries. On the other hand, we will further deepen the depth and scope of cooperation between Chinese enterprises and Central Asian enterprises, encourage Chinese enterprises to invest and build factories in

Central Asia, promote the cooperation between China and Central Asian countries in industrial industries, improve the manufacturing capacity of Central Asian countries in industrial products, and drive the export diversity of the five Central Asian countries by supply.

### **2.2 Relying on "One Belt, One Road" to promote economic and trade development**

The "One Belt, One Road" policy is a policy proposed by China to promote globalisation and is mutually beneficial to the countries along the route. The five Central Asian countries are at the heart of the Belt and Road, while Kazakhstan has proposed the "Bright Road", Uzbekistan the "New Uzbekistan Strategy", Tajikistan the "National Development Strategy until 2030", and Kyrgyzstan the "New Uzbekistan Strategy", Tajikistan's National Development Strategy for the period up to 2030, Kyrgyzstan's Development Strategy for 2040 and Turkmenistan's Revival of the Silk Road. "The policy orientation of each country is in line with the "Belt and Road", creating a favourable policy environment for the rapid development of bilateral trade. In this context, the two sides can make full use of the Silk Road Fund and the Asian Investment Bank to strengthen cooperation in infrastructure construction and investment in the five Central Asian countries, especially the construction of roads, railways and other transport facilities and ports to improve the lack of transport capacity in the five Central Asian countries.

### **2.3 Deepening production capacity cooperation to achieve a win-win situation**

China and the five Central Asian countries are at different stages of industrial development. According to the product life cycle theory, China can transfer to Central Asia technologies that are already in the maturity and decline stages in the domestic market. In addition, China's demographic dividend is gradually disappearing and some labour-intensive industries are already moving out of the country. Therefore, China can transfer the labour-intensive industries in the lower part of the industrial chain to Central Asian countries and focus on the upper part of the industrial chain, so that both sides can complement each other's advantages. For countries like Kyrgyzstan, where agriculture is the mainstay industry, Chinese agricultural enterprises can rely on the huge domestic food consumption market and carry out cooperative business with Kyrgyz enterprises in the deep processing of food and moving matter products to make profits together.

### **2.4 Promoting bilateral free trade zones**

The promotion of economic globalisation and regional integration is a strategy that has been pursued in China and is an effective direction for economic development in response to the world economic development pattern. In the report of the 20th Communist Party Congress, it was proposed to "promote a high level of opening up to the outside world and implement the strategy of upgrading free trade pilot zones". At present, China has only established the Khorgos Free Trade Zone with Kazakhstan, and this port has become China's trade bridgehead to Central Asia. In the future, it should continue to expand the opening of Khorgos, improve its comprehensive service capacity and create a high-level open free trade zone. In addition, China and the five Central Asian countries should rely on the Shanghai Cooperation Organisation platform to actively promote the establishment of a "China-Central Asia Free Trade Area" study and negotiations.

### **2.5 The Sino-German-Ukrainian railway project will be launched as soon as possible**

In order to improve the bilateral railway freight capacity, the Sino-Japanese Ukrainian railway was finally confirmed by the heads of the participating Central Asian countries in 2022, "after the completion of the feasibility study, the construction will start in autumn 2023", and the construction



of the cross-border railway was also mentioned again in the memorandum signed by the Turkmen leader during his visit to China in early 2023. In the face of the official launch of the Sino-Japanese Ukrainian railway project, both sides will have to implement the details of the project as soon as possible. With the advanced technology of Chinese railway engineering, the Chinese government could encourage companies to enter into building a road development system for the five Central Asian countries and to improve the facilitation of railway freight transport in Central Asian countries.

### **2.6 Leveraging cross-border e-commerce to boost SME development**

With the development of the digital economy, e-commerce has become a new driving force for economic development. In recent years, Central Asian countries are also actively promoting the development of digital economy and the e-commerce market has great potential. 2020 national plan "Digital Kazakhstan" formulated by Kazakhstan clearly states to promote the development of e-commerce. Through cross-border e-commerce, it will not only help to increase the scale of trade between China and the five Central Asian countries, but also promote economic growth and poverty reduction efforts in Central Asian countries. However, the backwardness of Central Asian countries in terms of e-commerce infrastructure, financial payment systems and express service networks has restricted the rapid development of the scale of cross-border e-commerce transactions between the two sides. In the future, the governments of both sides need to strengthen the establishment of e-commerce cooperation mechanisms and guide China's outstanding cross-border e-commerce and logistics enterprises to establish branches in Central Asian countries. Encourage domestic Chinese universities with the capacity to offer small language courses in Central Asia to meet the large number of foreign language talents needed for cross-border e-commerce.

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