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### **Economic aspects of the Kazakh-Uzbek relations in international law**

Initially, the economic cooperation between Kazakhstan and Uzbekistan have developed quite successfully. This is confirmed by statistical data. For the post-Soviet history of bilateral economic relations greatest volume of trade recorded in 1992. According to the Executive Committee of the Interstate Council of Kazakhstan, Kyrgyzstan and Uzbekistan, in this year the trade turnover between Kazakhstan and Uzbekistan reached a record level of 2.6 billion USD. At the same time Kazakhstan's exports to Uzbekistan amounted to 15.2% of turnover with the CIS countries, and imports of Uzbek goods in Kazakhstan – 12.9%.

**Key words:** economic system, Kazakhstan, Uzbekistan, international law.

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#### **Қазақстан мен Өзбекстанның халықаралық заң аясындағы экономикалық қарым-қатынастары**

Қазақстан мен Өзбекстанның экономикалық байланыстары олардың тәуелсіздікке қол жеткізгеннен соң жандана бастады. Екі мемлекет бүгінгі таңға дейін көптеген халықаралық шарттарға қол қойған. Соның бірі екі ел үшін де аса маңызды экономикалық қатынастар болып есептеледі. Мақалада қазақ-өзбек экономикалық қарым-қатынастарының жан-жақты аспектілері зерттелген. Олар нақты сандармен көрсетілген.

**Түйін сөздер:** экономикалық байланыстар, Қазақстан, Өзбекстан, халықаралық шарттар.

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#### **Казахстанско-узбекистанские экономические отношения в рамках международного права**

В январе 1994 года для активизации хозяйственного сотрудничества между Республикой Казахстан и Республикой Узбекистан был подписан Договор о создании единого экономического пространства, к которому вскоре присоединилась Кыргызская Республика, а затем Республика Таджикистан. По своему содержанию указанный документ имел явную интеграционную направленность. В частности, он предполагал свободное перемещение товаров, услуг, капиталов, рабочей силы и обеспечивал условия для проведения согласованной кредитно-расчетной, бюджетной, налоговой, ценовой, таможенной и валютной политики.

**Ключевые слова:** экономические отношения, Казахстан, Узбекистан, международное право.

In January 1994, to enhance economic cooperation between Kazakhstan and Uzbekistan signed a treaty on the establishment of a common economic space, which soon joined the Kyrgyz Republic, and then the Republic of Tajikistan. By their nature, the document had a clear integration focus. In particular, he assumed the free movement of goods, services, capital, labor, and provide

conditions for the agreed-bank settlement, budget, tax, price, customs and monetary policy [1].

At the heart of the so-called lay cooperation project approach. The program was developed by the economic integration of the States Parties to the year 2000, which included the implementation of more than 50 joint projects in various sectors. Interstate and prime ministers of the three countries

were defined 10 priority projects to be funding as a priority specially created Central Asian Bank. Prepared by the Kazakh-Uzbek scientific and technical program consisting of 107 projects in 16 priority areas of science and technology [2].

Initially, the economic cooperation between Kazakhstan and Uzbekistan have developed quite successfully. This is confirmed by statistical data. For the post-Soviet history of bilateral economic relations greatest volume of trade recorded in 1992. According to the Executive Committee of the Interstate Council of Kazakhstan, Kyrgyzstan and Uzbekistan, in this year the trade turnover between Kazakhstan and Uzbekistan reached a record level of 2.6 billion USD. At the same time Kazakhstan's exports to Uzbekistan amounted to 15.2% of turnover with the CIS countries, and imports of Uzbek goods in Kazakhstan – 12.9% [3].

However, in the future, since 1993, the pace of integration of the economies of the two neighboring countries has abated. Unfortunately, it should be noted that this tendency continues in the moment [4].

Today, in a state of stagnation staying major areas of economic cooperation, including trade, joint ventures, projects on industrial cooperation and economic integration between the two countries. Rapid decline in the annual bilateral trade has led to the fact that the real parameters of this indicator in 1999, according to the Uzbek customs statistics, fell to 249.1 million USD. Thus, in comparison with 1992, the volume of bilateral trade has decreased more than 10 times [5].

Kazakhstan fully liberalized economic activity and floated tenge. In Uzbekistan, on the other hand, there remains the leading role of the state in the economy. Many medium and large bulk of the Uzbek enterprises still remain in state ownership or control. This complicates the organization of direct contacts between economic entities of the two countries. In some cases, requires the imposition of special government decisions [6].

Development of economic relations is constrained by the lack of convertibility, as well as ongoing policy of Uzbekistan to protect the domestic market from the influx of foreign goods, including manufactured in neighboring countries.

Serious differences in domestic economic legislation states lead to the fact that they often contradiction is of the same bilateral international instruments. As a result, the latter in some cases simply had no practical mechanism. For example, the free trade agreement, which came into force in May 1998, could not be used to the full in connection

with unliberal foreign trade and the lack of free access to the currency conversion in Uzbekistan [7].

The above circumstances prevent the formation of a single economic space. Unsatisfactory state of economic cooperation was largely predetermined by the improper performance of the provisions of the previously signed bilateral and multilateral agreements and treaties. Currently, between Kazakhstan and Uzbekistan provide valuable joint legal base, numbering 91 document. Their regulatory influence extends to practically all the possible forms of cooperation [8].

Overall, the economy of modern Uzbekistan is in a state of protracted crisis – low share of industry in GDP (about 16%), mainly represented by the mining, oil, textile and food industries, the closed nature of the economy, weak development of the private sector, a significant level of poverty in the country. Domestic consumption remains stagnant. High unemployment, supported by growth in the young working population, increases social tensions [9].

Scope of mutual trade is one of the traditional and important areas of bilateral cooperation. Uzbekistan is the third largest in the CIS in terms of trade with Kazakhstan. According to the customs statistics of the Republic of Kazakhstan, during the period from 2000 to 2006, the trade turnover between Kazakhstan and Uzbekistan reached \$ 2,478,900,000 – the export of \$ 1.3497 billion and imports of \$ 1,129,200,000 [10].

In general, there is progressive increase in turnover, with the exception of 2002 when there was a significant decline of Kazakhstan's exports. However, the dynamics of the trade is characterized by changes in trends in export and import flows.

Export growth is due to increased supply from Kazakhstan in the framework of groups of commodities: wheat, barley, flour, sugar and sugar products, calcium phosphates, asbestos, ores and concentrates, crude oil, petroleum products, including motor gasoline and diesel fuel, alloys, waste and scrap iron or steel, rolled metal, ball or roller bearings, lead, and other products.

In 2004-2005. the situation has changed. The balance of bilateral trade in Kazakhstan was negative due to a significant increase (2.5 times) of Uzbek imports. This is due to increased supplies from Uzbekistan foodstuffs, clothing, ethyl alcohol, lubricating oil, natural gas, mineral or chemical fertilizers, the profile of the iron and steel, various machinery, equipment for agriculture, horticulture, poultry and other commodities. In 2006, Kazakhstan's exports greatly exceeded

imports from Uzbekistan, which provided a surplus for Kazakhstan [11].

Development of mutual trade constrains the practice of trade with Uzbekistan exemptions and duties. At the last in 2005 in Tashkent, Kazakh-Uzbek intergovernmental negotiations head of the Kazakh delegation said: «Our two countries have a free trade regime, which provides for exceptions and limitations. The talks was about to drastically reduce the range and number of such exceptions and limitations ...». On this issue, the delegations signed a separate protocol [7].

According to the Uzbek side level of trade does not correspond to the potential of the two economies. Should ensure the removal of all barriers to mutual trade, as the two economies are complementary to each other. In this case, between countries often artificially created barriers that must be removed to ensure the normal operation of free trade.

In this case, there is a difference in the estimates of the volume of trade between countries. The above data of the Kazakhstan Customs Committee several of them with the statistics cited by the news agency UzA. According to him, the volume of trade in 2004 totaled \$ 425.9 million, and in 2005 – \$ 516.4 million. This increase of \$ 9.5 billion was due to the favorable situation in world cotton prices, precious and non-ferrous metals and an increase of Uzbek exports of foodstuffs, machinery and equipment [11].

In recent years, an increasing number of joint ventures. According UzA in 2006 in Uzbekistan, there were about 50 workers in the field of trade, construction, food processing, machine building, light industry, metal processing. In the field of light and food industry, transport, building materials are representative of 24 Kazakhstan firms and companies [12].

In turn, in Kazakhstan with the participation of investors in Uzbekistan created more than 100 companies. They operate in the sphere of trade, food, pharmaceutical industry, construction, construction materials, fertilizers, cotton processing, wood, furniture and glass products.

Increase in the number of joint ventures and the development of direct contacts between business structures promotes signed in 2005 an agreement on «Cooperation between the Chamber of Commerce and Industry of Uzbekistan and the Union of Chambers of Commerce of Kazakhstan.»

There is a growing interest in Tashkent in attracting Kazakh investments. The Government of Uzbekistan adopted the proposal of the Development Bank of Kazakhstan to open a representative office

in the country with the words «in order to promote cooperation in the banking and investment sectors, as well as the integration of the economies of Uzbekistan and Kazakhstan.»

However, in accordance with the legislation of Uzbekistan, opens an office as a foreign legal entity cannot carry out banking transactions. A lack of correspondent accounts of Kazakh banks constrains the development of cooperation between economic entities republics.

Progressive development of relations in the field of gas transportation. Kazakhstan great interest here is the Uzbek natural gas. They provide for the needs of the southern regions of Kazakhstan, increasing significantly during the heating season. Work is gas companies of the parties for the delivery of Uzbek gas to Kazakh consumers and further its transit.

In December 2005, between the NC «KTG» and «Uztransgaz» signed an agreement on the reception and transmission of natural gas in the amount of 1.58 billion cubic meters in 2006, at the same time the cost was \$ 55 per 1 thousand. M<sup>3</sup> [8].

Within the framework of bilateral cooperation, the role of transport, as active trade implies an increase in freight traffic. For example, the transit of Kazakh goods through Uzbekistan to the south over the past four years has increased by almost 20%. Kazakhstan takes measures for the development of transportation. For example, in 2005 the Uzbek side was provided reduction factors to the tariffs for railway transportation of agricultural products, chemical, mining and metallurgical industry [13].

Since 2006, there are reduction factors for the carriage of goods on the site «Aktau – Oasis» (0.5 to rate Tariff Policy railroad RK), transportation of copper (0.83), fruit and vegetable products (0.6).

For advancing cooperation on transport in 2006, the parties signed an intergovernmental agreement on international road transport, a new procedure for transport of goods to the permit-free basis.

Despite the fact that our economies are agrarian-oriented, the level of cooperation in the agricultural sector remains low. Here, activities are mainly limited to the export and import of agricultural products.

So, from Kazakhstan to Uzbekistan exported wheat and meslin, barley, flour, sugar and sugar products, wool, and from Uzbekistan to Kazakhstan imported livestock, fruit and vegetables, including grapes, kenaf. According to statistics of Uzbekistan, of the total exports (more than 2 million tons of fruits and vegetables per year) Kazakhstan occupies only 4% in the export of this commodity group (ie, about

80-90 thousand. Tons). The issue of increasing the volume is usually solved one-off measures – in the form of agreements on the organization of direct deliveries. Such an important item in the structure of the Uzbek import as cotton fiber, Kazakhstan occupies a small amount – about 5% [9].

In general, cooperation in this field, in particular the increase in the volume of trade in agricultural products is constrained by restrictive measures on the part of Uzbekistan on the export of goods to foreign countries, including Kazakhstan.

One of the key issues of bilateral cooperation is to meet the growing needs of both countries in a wide range of goods. Thus, the increase in Kazakhstan fruit and vegetable imports from Uzbekistan in the northern regions of the country, especially in the spring, will provide a low level of prices for these products.

Here in the first place necessary measures to remove artificial barriers to the provision of increasing turnover. It is necessary to consider the following areas:

1. Cancel to certain goods of exceptions and limitations to reduce their ultimate cost and increasing trade. There is the question of drawing up a priority list of goods and applicable restrictions as well as the mechanism of their formation phase cancellation, cancellation procedures agree on a timetable.

2. Facilitation of customs clearance of goods at the border in order to accelerate the export of goods from the customs territory in both directions. Today acts introduced in 2005 a simplified procedure in respect of the importation of fruits and vegetables up to 1 ton, which also reduced the cost of customs clearance. Nevertheless, on the one hand, we must continue to work to expand the range and volume of goods under a simplified procedure of customs clearance, on the other -Ensure reduced fees for customs clearance [7].

In general, the practical implementation of these measures should contribute to a real increase in turnover and the formation of co-operation at a later stage full free trade area, not only bilaterally, but also in the Central Asian region.

Cross-border cooperation is a new trend in bilateral relations. In particular, in March 2006 during the ninth session of the joint Kazakh-Uzbek intergovernmental commission on bilateral cooperation Kazakh side proposed the establishment of a joint center for cross-border cooperation. It is intended to be placed in the territorial area Saryagash. Establishment of the center will simplify customs

procedures in the supply of products between the two countries, as well as regulate trade in the border regions [3].

However, cross-border cooperation in the future should be considered in a broader context, including in the list of areas not only trade, but also co-operation, joint ventures entities on both sides, carrying out their activities in the border area.

It seems useful to the development of measures for the development of the Kazakh-Uzbek border cooperation that will enhance various areas of trade and economic relations between the entrepreneurs of the border area. These measures include: the study of the existing cross-border cooperation experience to adapt and apply it to the format of the Kazakh-Uzbek relations; simplification and harmonization of taxation tariff regulation procedures for cross-border trade; providing support at the state level economic entities of both parties involved in cross-border cooperation, including questions of payment and settlement relations of economic agents of the parties; optimization of operating conditions across the border residents of border areas, products, and other factors of doing business. Mechanism for the implementation of these measures can be issued in the form of an appropriate intergovernmental agreement on the development of cross-border Kazakh-Uzbek cooperation [5].

Agreement on a significant increase in the volume of trade between the two countries suggest steady growth in freight traffic. This implies a strengthening of the role of transport in the sphere of development of bilateral cooperation and, therefore, greater interaction transport complexes on both sides to each other, that will increase the efficiency of transportation. Joint activities of the parties should be directed to the development of transit potential of our countries, the gradual reduction of tariffs for cargo transportation, optimization procedures of customs control at the border and transportation infrastructure services.

#### 1. Tariffs for transportation.

This direction should be aimed at improving the competitiveness of international transport. It should continue to work together to develop a mechanism for gradual reduction in transportation tariffs. The decrease should be carried out in respect of payment for transport in export-import and transit in the area. In the future, it is advisable to consider the formation of a unified system of tariff application as for freight and passenger transportation.

#### 2. Simplification of customs control procedures.

Increase the competitiveness of international transport services, including transit, will contribute

to simplifying and speeding up customs control. In this area, it is advisable to take measures aimed at:

facilitation of crossing the border all modes of transport by combining the border, customs, transport and other controls between themselves;

implementation at checkpoints service vehicles and people on the basis of a one-stop; optimization procedure of customs clearance of vehicles and also reducing the list provided for this document.

### 3. The development of transport infrastructure.

Transport capacity is largely dependent on the state and level of development of transport infrastructure. In this vein, efforts should be directed at the development of transport networks and routes, the modernization of transportation facilities, reducing the cost of transportation, improving the quality of transport services, the introduction of new types of transportation. Here to work through issues: reconstruction of highways south and west transport corridors, «Tashkent – Shymkent – Taraz – Bishkek – Almaty – Khorgos – Urumqi», «Kungrad – Beyneu – Aktau» and section «Beyneu – Atyrau»; reconstruction of railway routes of the corridor «Bishkek – Tashkent – Aris – Kyzylorda – Kandagash – Aktobe – Uralsk – Saratov»; modernization repair base of road and rail vehicles; renewal of the rolling stock; implementation of information management systems of international transport; infrastructure objects of roadside service, and especially on motorways transit corridors [4].

The financial sector today has become one of the most promising areas of cooperation. Experience and capacity of the banking sector in Kazakhstan, the pursuit of its subjects to enter the foreign markets enables its financial institutions to participate in the activities of the financial sector in

Uzbekistan. One of the main segments that require the development of banking, investment and may be lending.

There is some interest in Tashkent to promote cooperation in this field. The first concrete step was the decision of the Government of Uzbekistan to open a representative of the Development Bank of Kazakhstan and the beginning of the legal proceedings in his desk. The possibility of the bank will allow to implement various joint projects. In this connection, it should generate a list of priority projects, primarily related to the production, storage and transportation of hydrocarbons.

However, the arrival and expansion of the Kazakhstan business structures on the territory of Uzbekistan is constrained by the lack of correspondent accounts of banks in Kazakhstan banking structure in Uzbekistan.

In this case, the banking legislation of Uzbekistan has various restrictive rules on the operation of representative offices of foreign banks and companies. Necessary to adopt an intergovernmental agreement aimed at creating favorable conditions for the activities of representative offices of Kazakhstan companies and banks in Uzbekistan.

Cooperation in the oil and gas sector should be focused on the creation of a common oil and gas market. The main objectives here are to increase the depth of processing of hydrocarbons and the quality of the oil. Existing capacity of the Atyrau, Pavlodar and Shymkent (Kazakhstan), as well as Bukhara and Fergana (Uzbekistan) refineries are equipped with mainly primary refining technologies. The quality of the fuel and its content of valuable by-products are not high enough that detects low prices on the product.

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