

ARTICLE

Evaluation of the Economic Relations between Turkey and Uzbekistan

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Abstract

This paper aims to analyze the economic relationship between Turkey and Uzbekistan, placing special importance on trade relations. To this end, the data of selected macroeconomic indicators, selected development indicators, selected demographic indicators and indicators for technology and communication, tourism and foreign direct investments are reported and examined. In order to analyze the trade patterns between Turkey and Uzbekistan, as a contribution to the existing literature, in this paper, we will use a complementarity index and bilateral revealed comparative advantage indexes simultaneously to evaluate the trade relations between Turkey and Uzbekistan in detail. The findings of the paper show that there is huge potential to further develop economic relations between Uzbekistan and Turkey. Strengthening and developing Uzbekistan-Turkey relations will create gravity for the other countries in the region and will play a key role in sustaining not only the relations between Turkey and the regional countries, but the relations among the regional countries.

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Introduction

Turkey was the first country to recognize the declarations of independence of all the Central Asian countries, including Uzbekistan's declaration of independence on December 16, 1991. Former Uzbek President Islam Karimov was the first leader of an independent Central Asian country to visit Ankara. Since that time, Turkey has attempted to deepen its relations with the Central Asian countries by using official and diplomatic channels intensively, encouraging the newly independent countries' efforts to shift toward a market economy and build secular democracies. In this regard, Turkey has offered economic assistance to these countries. For example, Turkey's Eximbank offered credit facilities totaling more than \$1 billion to develop their market economies. Joint ventures between Turkish banks and Central Asian banks were created to promote the development of the banking sector. In order to help to modernize these countries' transportation systems, many Turkish construction firms have been engaged in various projects in the region, and the Turkish Cooperation and Coordination Agency (TIKA) was established to provide foreign aid to assist these countries in the transition period.

Uzbekistan is the second largest economy in the region after Kazakhstan. With its population over 30 million, market potential, geographical position in the heart of Central Asia, rich natural resources, military power, long history and rich cultural values, Uzbekistan has great potential to become the leading country in the region. Cooperation with Uzbekistan in all fields has always been an attractive prospect for Turkey. Since gaining independence, Uzbekistan has implemented liberal economic policies and has tried to adopt a free market economy model, and economic programs encouraging privatization and free trade have been carried out in the country. Turkey's geographical position as a strategic hub between Central Asia and the European Union (EU) poses an important opportunity for landlocked Uzbekistan to diversify its trade along the westward energy corridor, and Turkey's access to the EU markets has attracted the interest of the Central Asian countries including Uzbekistan.

Since independence, bilateral relations between Turkey and Uzbekistan

have followed a positive route. The Turkish-Uzbek Business Council was established in 1993, and more than 90 bilateral agreements and protocols were signed in between 1992 and 2019 in various areas to form the legal basis of relations. Turkish businesspeople have invested in many sectors in Uzbekistan such as infrastructure, energy and communication. Relations between Turkey and Uzbekistan have continued to develop since the establishment of diplomatic ties in 1992 and have been sustained with agreements, high level visits, trade and tourism—but not at the desired level. Because of the political problems between the two countries, which started in 1994 and worsened in 1999 and 2005, most of the steps taken to promote economic relations could not be fully implemented. Turkey has at times been an important cultural pole for Uzbekistan. For example, 2,000 Uzbek citizens studied at Turkish universities in the 1990s. This tendency made Turkey the most popular country for Uzbeks to study abroad. However, in 1994, the Uzbek government called 1,600 of the 2,000 Uzbek students studying in Turkey to return home. After enduring bumpy relations for more than two decades, relations between the two countries have recently improved.¹

Turkey plays an important role in the trade relations of all the Central Asian countries. For example, in absolute numbers, Turkey realizes the largest volume of bilateral trade with Kazakhstan. However, in 2017, bilateral trade with Kazakhstan was only slightly higher than Turkish-Uzbek and Turkish-Turkmen trade. As far as the share of Turkish trade in the turnover of the Central Asian countries is concerned, it varies from 12% in the case of Turkmenistan (2nd place) to 2.5% in the case of Kazakhstan. Turkey also occupies high positions in the trade volumes of Tajikistan (4th place, 8%), Uzbekistan (5th place, 7%) and Kyrgyzstan (6th place, 4.5%). It can thus be said that, despite poor political ties, Turkey's trade relations with Uzbekistan seem relatively strong. Although diplomatic relations subsequently worsened, before the adoption of restrictive measures affecting Turkish businesses in the country in 2010, Turkey was Uzbekistan's 3rd largest export destination and ranked 4th in 2017. In spite of the fact that Uzbekistan then ranked 45th for exports and imports in terms of Turkey's global trade partners, both grew in 2017. Turkish goods exported to Uzbekistan in 2017 were valued at \$680 million, up from \$147 million in 2016. Imports from Uzbekistan totaled \$823 million in 2017, up from \$114 million from 2016, and trade volume in 2017 between Uzbekistan and Turkey reached \$1.5 billion. Turkey's direct investments in Uzbekistan now amount to more than \$1 billion, and the number of completed projects has reached 88, with a total value of \$2 billion. At present, there are 500 Turkish firms and

companies working in Uzbekistan, 100 of which are representation offices, in sectors such as construction, textiles, food, hotel service, commitment, building materials, medication and plastic. All of the Central Asian countries except Kazakhstan have a surplus employable population, so in addition to the traditional routes of labor migration to Russia, Turkey is regarded as a destination with potential for work. Currently, about 300,000 Uzbek migrants are working in Turkey, most of whom are illegal migrants without documents for temporary residence and work.²

In February 2017, after Shavkat Mirziyoyev took over Uzbekistan's Presidency, Turkey and Uzbekistan signed a cooperation agreement to enhance economic relations. President Mirziyoyev visited Turkey on October 25–26, 2017, which was the first official visit at the presidential level in 20 years. During this visit, 25 agreements worth \$3.5 billion were signed in order to implement around 35 projects in energy, construction, pharmaceuticals, transportation, electronics and agriculture, indicating that bilateral relations were once again normalized, after having been frozen for more than two decades. Since then, bilateral relations have been developing in various areas such as diplomacy, security, economy, culture and education. Trade volume between the two countries is expected to increase in the upcoming years, as both countries are keen to improve economic ties. For example, the presidents of both countries expressed their will and engagement to increase bilateral trade from the current \$1.2 billion to \$5 billion in the coming years. All of these developments show that there is a move toward the construction of a multi-dimensional strategic partnership in Turkey-Uzbekistan relations.

It is possible to analyze the relations between Turkey and Uzbekistan in social, cultural, political and other fields. In this sense, there is a wide range of literature about relations between Turkey and the Turkic Republics. However, there is a very limited number of papers focusing on trade relations by using trade indices, and most of these make descriptive evaluations. Yücememiş, Arıcan and Alkan evaluate the economic relations among Turkey, Kazakhstan and Uzbekistan by giving special importance to the banking system. They describe the prominent advantages of Uzbekistan in terms of the richness of its natural resources, high population, customs union possibilities applied with the CIS countries, low input costs (especially energy, raw materials and labor) and its unsaturated and growing market. They also note that, as a landlocked country, Uzbekistan has to work harder to develop international trade.³ Altay, Çelebioğlu and Şen use export and import intensity indices for 68 countries, including Uzbekistan,

to investigate Turkey's international trade relations. They provide evidence that Turkey's trade relations are more intensive with countries that share a common border, language, history, culture and tradition.⁴ Kızıltan and Sandalcilar analyze Turkey's comparative advantages in the Economic Cooperation Organization (ECO) region, and find that the fundamental cause of Turkey's trade deficit against ECO is the import of oil, petroleum products and natural gas.⁵ Doğruyol examines the intra-industry trade between Turkey and ECO by using trade indices such as Grubel-Lloyd and Brühlhart, finding that the intra-industry trade level is not high between Turkey and ECO members.⁶

The focus of this paper is on the economic relations between Turkey and Uzbekistan, and it attaches greater importance to international trade. In this framework, a general-to-specific methodology has been followed. First, data on the main macroeconomic indicators of the two countries, and then various economic data are evaluated to reveal the individual and bilateral economic performance and potential of the two countries. After determining the overall macroeconomic structure of two countries, the foreign trade data is examined. Specifying the general structure of foreign trade, trade indices are used to clearly prove the foreign trade potential of the two countries. The indices used in this paper present evidence related to comparative advantage and complementarity. While the findings gathered via trade indices are evaluated throughout the text, the policy implications of these findings are presented in the conclusion.

The rest of the paper is organized as follows. The next section presents the methodology of the paper. The following section evaluates the historical background of Turkey-Uzbekistan economic relations and current economic developments; the next section discusses the trend and structure of these countries' trade and analyses the trade pattern between the two countries using various trade indices. The final section is the conclusion, which includes recommendations for improving bilateral trade between Turkey and Uzbekistan.

An Evaluation Based on Main Economic Indicators

In this section, the economies of Turkey and Uzbekistan are evaluated based on main economic indicators. These indicators are presented as follows: selected macroeconomic indicators, selected development indicators, selected demographic indicators, indicators on technology and communication, tourism and foreign direct investments.

Selected Macroeconomic Indicators

Gross Domestic Product (GDP) is a key indicator for measuring the performance of a country's economy. It shows the market value of all the final goods and services produced in an economy over a specific time period. Nominal GDP is measured by current prices and shows general economic performance, while real GDP is measured by constant prices and represents the goods and services produced in a country. When these indicators are considered, it can be readily seen that GDP has grown in both countries in recent years.

Table 1: Selected Macroeconomic Indicators, 1992–2017

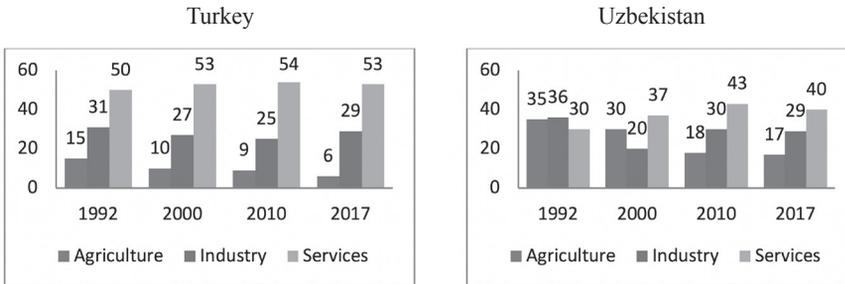
| | TURKEY | | | | UZBEKISTAN | | | |
|---|---------|---------|---------|-----------|------------|--------|--------|--------|
| | 1992 | 2000 | 2010 | 2017 | 1992 | 2000 | 2010 | 2017 |
| GDP (current \$) (billions) | 158,460 | 272,980 | 771,900 | 851,550 | 12,940 | 13,760 | 39,330 | 49,680 |
| GDP (constant 2010 \$) (billions) | 386,460 | 520,940 | 771,900 | 1,206,040 | 18,080 | 20,050 | 39,330 | 65,780 |
| GDP growth (%), (compared to the previous year) | 5.0 | 6.6 | 8.5 | 7.4 | -11.2 | 3.8 | 8.5 | 5.3 |
| GDP per capita (current \$) | 2,842 | 4,316 | 10,672 | 10,546 | 603 | 558 | 1,377 | 1,533 |
| GDP per capita (constant 2010 \$) | 6,932 | 8,237 | 10,672 | 14,936 | 842 | 813 | 1,377 | 2,031 |
| Inflation, GDP deflator (%) | 65.2 | 49.3 | 7.0 | 10.8 | 712.1 | 47.3 | 16.5 | 20.6 |

Source: World Bank, World Development Indicators Database (accessed April 4, 2019).

Although GDP and GDP growth rates are the most commonly used macroeconomic indicators, they ignore population. So, it is also important to take per capita GDP into account. This indicator implies welfare, which is accepted as the final purpose of all economic activities. According to the World Bank classification, Turkey is an upper middle-income country, while Uzbekistan is in the group of lower middle-income countries regarding income level per capita.

Inflation rate also affects welfare. Inflation reduces real incomes and causes a decline in competitiveness. The uncertainty stemming from inflation can lead to a lower investment level and lower economic growth rate. It should be noted that both countries have high inflation rates within the period considered.

Figure 1. Compositions of GDP by sector (%), 1992, 2000, 2010, 2017



Source: World Bank, World Development Indicators Database (accessed April 4, 2019).

Evaluating the production structure of economies clarifies the dynamics of economic growth. Economies are generally divided into three sectors: agriculture, industry and services. Figure 1 shows that the sectoral share of agriculture in GDP has decreased over time in both countries. In Turkey, the contribution of services is much larger than the other sectors. Despite political measures applied to promote industrialization, the share of industry in GDP has remained quite stable in Turkey.

In Turkey, the share of agriculture decreased by 60%, the share of industry decreased by 6.45% and the share of services increased by 6% in 2017 compared to 1992. In Uzbekistan, the share of agriculture decreased by 51.4%, the share of industry decreased by 19.4% and the share of services increased by 33.3% in 2017 compared to 1992.

Selected Development Indicators

Selected development indicators are summarized in Table 2. According to this table, the two countries have almost the same level of life expectancy at birth in each year. Longer life expectancy implies greater development level. The Human Development Index (HDI) is one of the leading, comprehensive indicators of development. HDI is a summary measure of average achievement in three key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living. If the HDI value of a country is between 0.700–0.799, the country is classified in the high HDI category.⁷ In previous years, Uzbekistan was in the medium HDI category, while Turkey was in the high HDI category. In 2017, Turkey and Uzbekistan were both in the high HDI category, ranking 64th and 105th out of 189 countries, respectively.

Table 2: Selected development indicators, 1992, 2000, 2010, 2017

| | TURKEY | | | | UZBEKISTAN | | | |
|---|------------------|------------------|------------------|------------------|------------|------------------|-------------------|-------------------|
| | 1992 | 2000 | 2010 | 2017 | 1992 | 2000 | 2010 | 2017 |
| Life expectancy at birth, total (years) | 65.275 | 70.008 | 74.154 | 65.275 | 66.368 | 67.154 | 70.005 | 66.368 |
| HDI (value) | 0.589 | 0.655 | 0.734 | 0.791 | .. | 0.595 | 0.666 | 0.710 |
| HDI (rank) | 83 rd | 85 th | 83 rd | 64 th | .. | 95 th | 102 th | 105 th |

Source: World Bank, World Development Indicators Database and UN Human Developments Reports, <http://hdr.undp.org> (accessed April 5, 2019).

Selected Demographic Indicators

As for demographic indicators, Turkey has a larger population than Uzbekistan. Population in the world grew at a rate of around 1.16% in 2017; Turkey and Uzbekistan have higher population growth rates than the world average. This means that Turkey and Uzbekistan both have young populations, unlike many countries in the world. Having a young population implies having more innovative minds, which is a key factor in the developing world. On the other hand, if there is a young labor force but not enough job opportunities, countries have higher unemployment rates, implying important socio-economic problems. Turkey has a higher unemployment rate than Uzbekistan. The unemployment rates of these two countries, and their female unemployment rates, are higher than 5.65% and 6%, which are the average unemployment rate and female unemployment rate of high-income countries in 2017 respectively. When labor force participation rate, especially female labor force participation rate indicators are considered, it can be seen that both rates in Uzbekistan are higher than those in Turkey. Furthermore, as of 2017, the female labor force participation rate in high-income countries is 52.23%, which is lower than that of Uzbekistan. Uzbekistan's labor force participation rate (total) is also higher than high-income countries' labor force participation rate, which is 60.25% in 2017. Finally, urban population is lower in Uzbekistan when compared to Turkey. Turkey's young and urban population makes this country an attractive market for the rest of the world.

Table 3: Selected demographic indicators

| | TURKEY | | | | UZBEKISTAN | | | |
|--|--------|--------|--------|--------|------------|--------|--------|--------|
| | 1992 | 2000 | 2010 | 2017 | 1992 | 2000 | 2010 | 2017 |
| Population, total (millions) | 55,750 | 63,240 | 72,330 | 80,750 | 21,450 | 24,650 | 28,560 | 32,390 |
| Population growth rate (%) | 1.6 | 1.5 | 1.4 | 1.5 | 2.3 | 1.4 | 2.8 | 1.7 |
| Urban population (% of total) | 60.52 | 64.74 | 70.83 | 74.64 | 42.31 | 46.13 | 50.96 | 50.55 |
| Labor force (total), (millions) | 20,180 | 21,410 | 25,220 | 31,280 | 7,920 | 9,730 | 12,980 | 15,310 |
| Labor force participation rate, total (%) | 55.44 | 48.79 | 47.70 | 51.62 | 62.29 | 62.91 | 64.12 | 65.65 |
| Labor force participation rate, male (%) | 79.59 | 72.62 | 69.64 | 71.94 | 74.77 | 74.59 | 75.67 | 77.88 |
| Labor force participation rate, female (%) | 34.56 | 27.87 | 29.59 | 36.13 | 54.51 | 55.81 | 56.41 | 57.25 |
| Unemployment rate, total (%) | 8.51 | 6.49 | 10.66 | 11.26 | 6.31 | 8.28 | 8.19 | 7.18 |
| Unemployment rate, male (%) | 8.91 | 6.63 | 10.42 | 9.77 | 6.22 | 8.34 | 8.31 | 7.25 |
| Unemployment rate, female (%) | 7.59 | 6.12 | 11.24 | 14.40 | 6.44 | 8.19 | 8.03 | 7.07 |

Source: World Bank, World Development Indicators Database (Accessed April 18, 2019).

In recent years, the number of Uzbeks in Turkey has been growing. It increased by 90.08% in 2018 over 2016. Most Uzbeks come to Turkey with a short-term residence permit. Many Uzbeks reside in Turkey with a family residence permit, a work permit or by means of other opportunities.

Table 4: Number of Uzbeks in Turkey with a residence permit

| | 2016 | 2017 | 2018 |
|------------------------------------|---------------|--------------|---------------|
| Total | 18,270 (8/10) | „ | 34,727 (8/10) |
| with a short-term residence permit | 11,884 (5/10) | 23,995 (,) | 24,319 (7/10) |
| with a family residence permit | 2,330 (8/10) | 2,781 (6/10) | 3,537 (6/10) |
| with a work permit | 2,081 (6/10) | „ | 3,573 (6/10) |
| with other motives | 1,580 (6/10) | 3,321 (5/10) | 2,701 (8/10) |

Source: Republic of Turkey's Ministry of Interior, Directorate General of Migration Management (accessed April 5, 2019).

Note: The numbers in parentheses indicate the ranking of Uzbekistan in Turkey's top 10.

Migration and emigration have an important effect on economies. Many citizens migrate in search of better life standards and economic conditions. While many Turkish people migrate to other countries, there are even more people immigrating to Turkey. Uzbekistan is in 6th place on the list in Table 5, which shows the top ten countries whose citizens immigrate to Turkey.

Table 5: Immigrants and emigrants in Turkey by country of citizenship, 2017 (Top 10)

| Country of citizenship | Immigrants | | | Emigrants | | | Net migration |
|---------------------------|------------|---------|---------|-----------|---------|---------|---------------|
| | Total | Male | Female | Total | Male | Female | |
| Total | 466,333 | 244,083 | 222,250 | 253,640 | 136,870 | 116,770 | 212,693 |
| Turkish Republic citizens | 101,772 | 59,360 | 42,412 | 113,326 | 66,400 | 46,926 | - 11,554 |
| Foreign nationals | 364,561 | 184,723 | 179,838 | 140,314 | 70,470 | 69,844 | 224,247 |
| Iraq | 97,054 | 51,174 | 45,880 | 28,645 | 16,095 | 12,550 | 68,409 |
| Afghanistan | 37,747 | 22,342 | 15,405 | 6,413 | 3,620 | 2,793 | 31,334 |
| Syria | 28,189 | 17,613 | 10,576 | 9,382 | 5,808 | 3,574 | 18,807 |
| Azerbaijan | 20,865 | 10,736 | 10,129 | 10,555 | 5,769 | 4,786 | 10,310 |
| Turkmenistan | 20,317 | 8,093 | 12,224 | 4,001 | 1,595 | 2,406 | 16,316 |
| <i>Uzbekistan</i> | 17,871 | 5,663 | 12,208 | 5,528 | 1,794 | 3,734 | 12,343 |
| Iran | 17,794 | 9,471 | 8,323 | 5,065 | 2,710 | 2,355 | 12,729 |
| Kyrgyzstan | 8,982 | 2,529 | 6,453 | 4,596 | 1,340 | 3,256 | 4,386 |
| Egypt | 8,582 | 5,432 | 3,150 | 1,250 | 776 | 474 | 7,332 |
| Germany | 8,440 | 4,028 | 4,412 | 4,047 | 1,901 | 2,146 | 4,393 |

Source: "International Migration Statistics," *TurkStat*, 2017, http://www.goc.gov.tr/files/files/Goc_%20idaresi_2017_.pdf (accessed April 5, 2019).

Foreign remittances are money transfers from workers abroad to their home countries. They are of great importance in terms of balance of payments and economic growth. Remittance flows to Turkey fell by 77.02% after the 2008 global financial crises. The data on foreign remittances are not available for Uzbekistan in 2000 and 2017. Foreign remittances to GDP ratio is below 1% for Turkey, while this ratio is almost 5% in Uzbekistan in 2015.⁸

Table 6: Foreign remittances (million \$)

| | 2000 | 2010 | 2017 | Percentage change in 2017 over 2000 |
|------------|-----------|-----------|-----------|-------------------------------------|
| Turkey | 4,560,000 | 1,819,000 | 1,048,000 | -77.02 |
| Uzbekistan | .. | 2,858,000 | .. | n/a |

Source: The World Bank data (Accessed April 18, 2019).

Indicators on Technology and Communication

When their young and educated population is taken into account, the Information and Communication Technologies (ICT) sector appears to be a promising sector in both Turkey and Uzbekistan. The ICT development index has been published since 2009 by the International Telecommunication Union (ITU), which is the United Nations specialized agency for ICTs to monitor and compare developments in ICTs between countries and over time. This index consists of three sub-indices: ICT access, ICT use and ICT skills. While Turkey rose five places, Uzbekistan rose eight places in 2017 compared to 2016. So, it can be said that the ICT sector is developing in both countries.

Table 7: ICT development index

| | | 2016 | 2017 |
|------------|-------|------|------|
| Turkey | Rank | 72 | 67 |
| | Value | 5.66 | 6.08 |
| Uzbekistan | Rank | 103 | 95 |
| | Value | 4.48 | 4.90 |

Source: International Telecommunication Union, <https://www.itu.int/net4/ITU-D/idi/2017/index.html> (accessed March 25, 2019).

E-government index can be evaluated as an indicator presenting the adoption level of national governments to ICTs. It is a composite measure of three dimensions: provision of online services, telecommunication connectivity and human capacity. Table 8 shows that both Turkey and Uzbekistan have made progress in these dimensions in recent years. Utilizing information and communication technologies in public services will increase service quality and speed even further.

Table 8: E-Government development index

| | | 2010 | 2016 | 2018 |
|------------|-------|--------|--------|--------|
| Turkey | Rank | 69 | 68 | 53 |
| | Value | 0.4780 | 0.5900 | 0.7112 |
| Uzbekistan | Rank | 87 | 80 | 81 |
| | Value | 0.4498 | 0.5434 | 0.6207 |

Source: UN E-Government Knowledgebase, <https://publicadministration.un.org/egovkb> (accessed March 25, 2019).

Tourism

Turkey benefits from its rich cultural heritage, with seventeen World Heritage cultural sites, two World Heritage natural sites, several international fairs and exhibitions and strong creative industries.⁹ Turkey has begun to offer attractive prices on sun-and-beach products similar to those of competitors in the Mediterranean against the economic crisis. At the same time, Turkey has started to direct its destination-marketing efforts toward more diversified travel segments, such as winter sports, cultural experience, health tourism and sailing tourism.¹⁰ In terms of tourism receipts, Turkey is ranked 14th and 6th in the World and in Europe, respectively, in 2017. Turkey is ranked 8th and 5th in the World and in Europe, respectively, in terms of international arrivals in 2017.¹¹

Table 9: Tourism statistics, 2000, 2010, 2017

| | | 2000 | 2010 | 2017 |
|---|------------|-------|--------|--------|
| International tourist arrivals (thousand people) | Turkey | 9,586 | 31,364 | 37,601 |
| | Uzbekistan | 302 | 975 | 2,690 |
| International tourism inbound receipts (current million \$) | Turkey | 7,636 | 26,318 | 31,870 |
| | Uzbekistan | 63 | 121 | ... |
| Average receipts per arrival (\$) | Turkey | 796.6 | 839.1 | 847.6 |
| | Uzbekistan | 208.6 | 124.1 | ... |

Source: World Bank (accessed 18 April 2019).

Uzbekistan is one of the leading countries in the world in terms of its rich cultural and historical potential. The country has more than 7,000 monuments of cultural heritage, including the historical centers of Bukhara, Khiva, Samarkand and Shakhrisabz, which are inscribed on the UNESCO

World Heritage List.¹² After Uzbekistan gained independence, a policy of promoting the tourism sector was adopted. The number of tourists traveling to Uzbekistan has consistently increased, as seen in Table 9.

Table 10: Tourism between Turkey and Uzbekistan, 2017

| | Arrivals from Uzbekistan to Turkey | Arrivals from Turkey to Uzbekistan |
|--|------------------------------------|------------------------------------|
| | 195,745 | 48,371 |
| Percentage change in 2017 over 2016 | 45.72 | 21.76 |

Source: Republic of Turkey’s Ministry of Culture and Tourism (accessed April 18, 2019).

The number of people traveling from Uzbekistan to Turkey and from Turkey to Uzbekistan has been increasing over the years. However, it should be noted that these numbers are well below the potential.

Business Environment and Foreign Direct Investments

The ease of doing business index is widely used to measure business regulations and the environment of the economies. This index measures regulations on various areas related to business life, namely, starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. Minor revisions are made almost every year. For example, in 2017, getting electricity, protecting minority investors and resolving insolvency are included, while employing workers, closing a business and protecting investors are excluded. Both Turkey and Uzbekistan have been making progress in conducting business operations and improving their investment climate in recent years. Uzbekistan’s achievement is especially remarkable. Uzbekistan rose 63 steps from 2010 to 2017 with the help of the measures it has taken to attract foreign investments.

Table 11: Ease of doing business

| | | 2010 | 2017 | Change in Position in 2017 vs 2010 |
|-------------------|-------|-------------------|------------------|------------------------------------|
| Turkey | Rank | 73 th | 69 th | 4 positions up |
| | Value | 63.85 | 68.46 | |
| Uzbekistan | Rank | 150 th | 87 th | 63 positions up |
| | Value | 38.74 | 61.87 | |

Source: World Bank (accessed April 18, 2019).

Foreign direct investment (FDI) is desirable for sustainable growth and development, especially in under-developed and developing countries. FDI inflows to Turkey and Uzbekistan dramatically increased in 2017 over 1992. However, the FDI inflow to GDP ratio is generally below the world average. According to the Central Bank of the Republic of Turkey, the largest portions of FDI are directed to the following sectors in Turkey: finance, manufacturing, energy, ICT, wholesale and retail trade, transport and storage and construction. Oil and gas, power generation, telecommunication and IT technology, construction and construction materials, road construction, drinking water supply and sewage, textiles, agriculture and water management are the sectors to which FDI is directed in Uzbekistan.¹³

Table 12: FDI inflows (thousands \$)

| | 1992 | 2000 | 2010 | 2017 | Percentage Change in 2017 over 1992 |
|-------------------|-------------|---------------|---------------|---------------|-------------------------------------|
| Turkey | 844,000 | 982,000 | 9,099,000 | 10,886,000 | 1,190 |
| % of GDP | 0.5 | 0.4 | 1.2 | 1.3 | |
| Uzbekistan | 9.000 | 74.700 | 1.636.449 | 95.770 | 964 |
| % of GDP | 0.1 | 0.5 | 4.2 | 0.2 | |
| World | 153,248,000 | 1,461,000,000 | 1,864,000,000 | 1,950,000,000 | 1,172 |
| % of world income | 0.6 | 4.4 | 2.7 | 1.3 | |

Source: World Bank (accessed April 18, 2019).

Consequently, it can be summarized that Turkey is an upper middle-income country, while Uzbekistan is a lower middle-income country in terms of income group classification. Both Turkey and Uzbekistan have high HDI scores. While Turkey is a World Trade Organization (WTO) member, Uzbekistan is not. These factors make it interesting to analyze the trade patterns of these two countries.

Table 13: Basic classifications, 2017

| | Income Group Classification | HDI Classification | WTO Membership |
|------------|-----------------------------|--------------------|----------------|
| Turkey | Upper middle income | High | Yes |
| Uzbekistan | Lower middle income | High | No |

Source: World Bank, UN Human Developments Reports and World Trade Organization (accessed April 4, 2019).

An Evaluation of Trade Relations between Turkey and Uzbekistan

Foreign trade is of great importance in both the Turkish and Uzbek economies. According to data gathered from the World Bank, the share of exports in GDP is 14.39%, 19.45%, 20.45% and 24.80% in Turkey in 1992, 2000, 2010 and 2017, respectively. The share of exports in Uzbekistan's GDP is quite a bit higher than Turkey's. The export/GDP ratio is 24.66%, 31.27% and 29.80% in Uzbekistan in 2000, 2010 and 2017, respectively. The data implies the importance of exports in terms of national income and economic growth, especially in Uzbekistan.

Table 14 shows the trade volume and growth between Turkey and Uzbekistan. Turkey's trade relations with Uzbekistan started in 1992, and Turkey's trade balance was generally positive in the first years of bilateral trade. After 2003, there was an unbalanced trade structure between these countries in favor of Uzbekistan. Bilateral trade grew dramatically from 1992 to 2017. Turkey's exports to Uzbekistan increased by 1,148%, while Turkey's imports from Uzbekistan rose by 3,817% in 2017 over 1992. As seen in Table 14, the economic crises in 1994, 2000 and 2001 had a great effect on Turkey's foreign trade. In these years, Turkey's exports to Uzbekistan substantially decreased. As for import dynamics, Turkey's imports from Uzbekistan were more volatile during the period considered.

Table 14: Turkey-Uzbekistan bilateral trade volume and growth (1992–2017)

| Year | Export (to Uzbekistan) | Growth Rate (%) | Import (from Uzbekistan) | Growth Rate (%) | Grade Balance |
|------|---------------------------|--------------------|-----------------------------|--------------------|---------------|
| 1992 | 54,483,118 | | 21,019,268 | | 33,463,850 |
| 1993 | 213,507,941 | 291.88 | 31,933,572 | 51.93 | 181,574,369 |
| 1994 | 64,473,039 | -69.80 | 78,625,080 | 146.21 | -14,152,041 |
| 1995 | 138,039,808 | 114.10 | 61,528,676 | -21.74 | 76,511,132 |
| 1996 | 229,793,568 | 66.47 | 56,477,976 | -8.21 | 173,315,592 |
| 1997 | 210,513,744 | -8.39 | 94,771,584 | 67.80 | 115,742,160 |
| 1998 | 155,863,488 | -25.96 | 96,201,832 | 1.51 | 59,661,656 |
| 1999 | 99,077,310 | -36.43 | 47,470,695 | -50.66 | 51,606,615 |
| 2000 | 82,129,921 | -17.11 | 85,794,461 | 80.73 | -3,664,540 |
| 2001 | 89,725,260 | 9.25 | 36,045,330 | -57.99 | 53,679,930 |
| 2002 | 93,472,575 | 4.18 | 75,196,689 | 108.62 | 18,275,886 |
| 2003 | 138,422,361 | 48.09 | 99,461,910 | 32.27 | 38,960,451 |
| 2004 | 145,225,516 | 4.91 | 178,671,343 | 79.64 | -33,445,827 |
| 2005 | 151,070,824 | 4.02 | 261,466,105 | 46.34 | -110,395,281 |
| 2006 | 175,995,482 | 16.50 | 415,840,964 | 59.04 | -239,845,482 |
| 2007 | 225,612,432 | 28.19 | 613,809,936 | 47.61 | -388,197,504 |
| 2008 | 337,130,217 | 49.43 | 580,810,110 | -5.38 | -243,679,893 |
| 2009 | 279,963,522 | -16.96 | 413,078,836 | -28.88 | -133,115,314 |
| 2010 | 282,666,367 | 0.97 | 861,373,489 | 108.53 | -578,707,122 |
| 2011 | 354,489,516 | 25.41 | 939,882,369 | 9.11 | -585,392,853 |
| 2012 | 449,884,446 | 26.91 | 813,287,488 | -13.47 | -363,403,042 |
| 2013 | 562,525,829 | 25.04 | 815,416,701 | 0.26 | -252,890,872 |
| 2014 | 603,013,101 | 7.20 | 780,706,584 | -4.26 | -177,693,483 |
| 2015 | 488,653,539 | -18.96 | 711,555,111 | -8.86 | -222,901,572 |
| 2016 | 533,018,382 | 9.08 | 709,292,468 | -0.32 | -176,274,086 |
| 2017 | 680,104,359 | 27.59 | 823,274,751 | 16.07 | -143,170,392 |

Source: <http://comtrade.un.org/> (accessed April 12, 2019),

Bilateral trade between Turkey and Uzbekistan needs improvement, Namely, Uzbekistan's share in Turkey's total exports is 0.30%, 0.25% and 0.43%, while Uzbekistan's share in Turkey's total imports is 0.16%, 0.46% and 0.35% in 2000, 2010 and 2017, respectively.

Table 15: Turkey's trade partnership ranking with Uzbekistan (1992–2017)

| Years | Export Ranking | Import Ranking | Years | Export Ranking | Import Ranking |
|-------|----------------|----------------|-------|----------------|----------------|
| 1992 | 41 | 57 | 2005 | 59 | 50 |
| 1993 | 17 | 57 | 2006 | 60 | 42 |
| 1994 | 45 | 38 | 2007 | 62 | 42 |
| 1995 | 34 | 52 | 2008 | 56 | 45 |
| 1996 | 25 | 54 | 2009 | 55 | 47 |
| 1997 | 27 | 49 | 2010 | 57 | 39 |
| 1998 | 31 | 44 | 2011 | 55 | 39 |
| 1999 | 43 | 54 | 2012 | 49 | 44 |
| 2000 | 48 | 52 | 2013 | 50 | 45 |
| 2001 | 48 | 60 | 2014 | 45 | 46 |
| 2002 | 54 | 56 | 2015 | 49 | 45 |
| 2003 | 51 | 59 | 2016 | 47 | 46 |
| 2004 | 55 | 53 | 2017 | 45 | 45 |

Source: <http://comtrade.un.org/> (accessed April 12, 2019),

Turkey's trade partnership rankings with Uzbekistan are shown in Table 15. In the period covered, Uzbekistan is one of Turkey's top 65 trade partners. Among Turkey's export partners, Germany was at the top, while the United Kingdom was second, The United Arab Emirates was the third, Iraq was the fourth and the United States was positioned in fifth place in 2017. China, Germany, the Russian Federation, the United States and Italy were the top five countries (from the top to the fifth) from which Turkey imported in 2017.

Table 16: Uzbekistan's top trade partners in 2017

| Export (million \$) | | Import (million \$) | |
|---------------------|-------|---------------------|-------|
| Switzerland | 3,680 | China | 2,720 |
| China | 1,400 | Russia | 2,620 |
| Russia | 1,010 | Kazakhstan | 1,250 |
| Turkey | 823 | South Korea | 1,180 |
| Kazakhstan | 714 | Turkey | 680 |

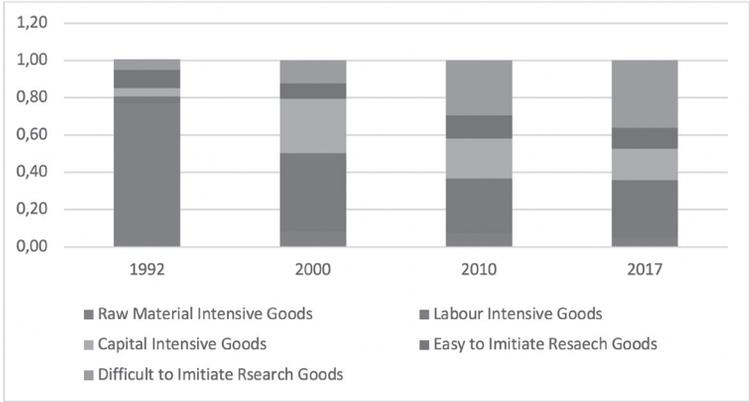
Source: <http://comtrade.un.org/> (accessed April 12, 2019).

The top destinations for Uzbekistan's exports are Switzerland, China, Russia, Turkey and Kazakhstan. Uzbekistan's top import origins are China, Russia, Kazakhstan, South Korea and Turkey. Turkey is thus one of Uzbekistan's biggest trading partners.

The data used hereafter is annual with three-digits compatible with the Standard International Trade Classification (SITC), taken from the United Nations Comtrade Database covering 1992, 2000, 2010 and 2017.¹⁴ We classified these industrial data in terms of factor-intensity based on Hufbauer and Chilas,¹⁵ including labor-intensive industries (LI-I), capital-intensive industries (CI-I), raw material-intensive industries (RMI-I), easy-to-imitate research-intensive industries (EI-I) and difficult-to-imitate research-intensive industries (DI-I).¹⁶ Two hundred fifty eight different industries at the three-digit level (61 labor-intensive, 45 capital-intensive, 78 raw material-intensive, 23 easy-to-imitate research-intensive and 50 difficult-to-imitate research-intensive industries) are employed in the calculation.

When the trade structure between Turkey and Uzbekistan is considered, the sectoral shares of Turkey's exports to Uzbekistan indicate that there is a shift from raw material-intensive industries to difficult-to-imitate research industries. Figure 2 shows that the share of easy-to-imitate research goods remains almost the same. The share of labor-intensive goods increased significantly in 2000 when compared to 1992. There is a gradual decrease in the share of labor-intensive goods afterward. This may have resulted from reduced demand for labor-intensive goods in Uzbekistan, the fact that this need was provided from another lower-cost country, or from the development of Uzbekistan's import substitution industries in this area.

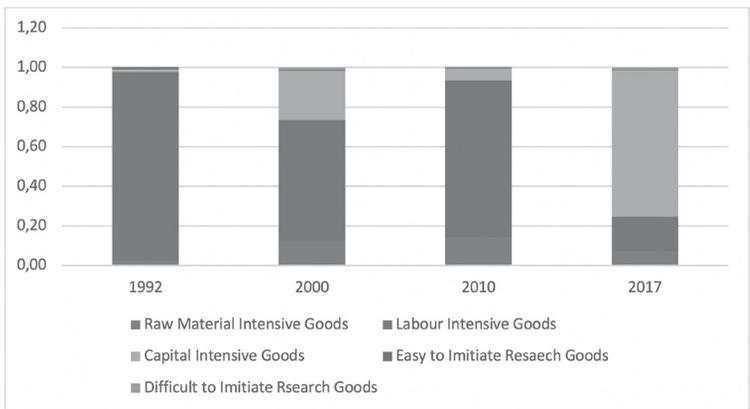
Figure 2: Sectoral share of Turkey’s exports to Uzbekistan, 1992, 2000, 2010, 2017 (%)



Source: Calculated by authors using STIC Rev.3 from <http://comtrade.un.org/> (accessed April 12, 2019).

As for the sectoral share of Turkey’s imports from Uzbekistan, Turkish imports mainly consisted of labor-intensive goods in 1992. The share of raw material goods gradually increased during 1992–2010. Also, there is a sharp increase in the share of capital-intensive goods within the period 2010–2017. The share of labor-intensive goods reached its lowest level in 2017.

Figure 3: Sectoral share of Turkey’s import from Uzbekistan, 1992, 2000, 2010, 2017 (%)



Source: Calculated by authors using STIC Rev.3 from <http://comtrade.un.org/> (accessed April 12, 2019).

Considering Figure 2 and Figure 3 together, one can conclude that Turkey has exported difficult-to-imitate goods to Uzbekistan and imported capital-intensive goods from Uzbekistan in recent years.

Trade Pattern Indices and Results

Trade complementarity index and bilateral revealed comparative advantage measurements are used in order to analyze the trade patterns between Turkey and Uzbekistan. These measurements are briefly introduced below. Later, the findings are also presented and evaluated.

Trade Complementarity Index

The trade complementarity index was introduced by Michael Michaely to measure a country's trade structure complementarity with other countries.¹⁷ This index is useful to predict the potential of trade agreements by showing to what extent the two countries are "natural trade partners."¹⁸ So, a high degree of this index implies that two countries will benefit from enhancing their trade volume.

The trade complementarity (TC) index is calculated as follows:

$$TC_{ij} = [1 - \sum(|m_{ik} - x_{ij}|/2)] \quad (1)$$

In Equation 1, represents the share of goods i in the total imports of country k, while represents the share of goods in the total exports of country j. If the index is zero, it means that no goods are exported by one country or imported by the other country. The index is 1 when the export and import shares perfectly overlap.

Table 17: Trade complementarity index between Turkey and Uzbekistan

| | Turkey-Uzbekistan | Uzbekistan-Turkey |
|------|-------------------|-------------------|
| 1992 | 0.07 | 0.27 |
| 2000 | 0.23 | 0.34 |
| 2010 | 0.25 | 0.45 |
| 2017 | 0.17 | 0.49 |

Source: Calculated by authors using SITC Rev.3 from <http://comtrade.un.org/> (accessed April 12, 2019).

Evaluating the TC index for the years 1992, 2000, 2010 and 2017, Table 17 shows that Turkey and Uzbekistan are initially competitors, rather than complementors, when the Turkey-Uzbekistan part of the table is considered. In other words, Turkey's import structure does not fit very well with the goods exported by Uzbekistan. Similarly, the Uzbekistan-Turkey part of the table indicates to what extent Uzbekistan's import structure matches with Turkey's export structure. The values are higher and increasing, as seen in Table 17. The TC index value reached 0.49 in 2017, which is quite high, meaning that Uzbekistan's import structure fits with the goods exported by Turkey. It implies that Uzbekistan has the potential to be an export market for Turkey.

Bilateral Revealed Comparative Advantages

In the theories of international trade, comparative advantage is an important concept for explaining the pattern of trade represented by the Heckscher-Ohlin (H-O) model. Comparative advantage underlies economists' explanations for the observed pattern of inter-industry trade. According to the H-O model, a country's comparative advantage is simply determined by its relative factor scarcity. Balassa proposes that it may not be necessary to include all the constituents affecting a country's comparative advantage. Instead, he suggests that comparative advantage is revealed by observed trade patterns, and in line with the theory, one needs pre-trade relative prices, which are not observable.¹⁹ Thus, inferring comparative advantage from observed data is called "revealed" comparative advantage (RCA). In practice, this is a commonly accepted method in analyzing trade data.²⁰

Although this index is usually computed in comparison to world trade, it is also possible to compute a bilateral RCA (BRCA). BRCA gives us an indication of how much a given country is exporting to a given market relative to how much the world is exporting to that market. A bilateral RCA above one will tell us that for that particular good, country *i* has a revealed comparative advantage in country *j*'s market, compared with the rest of the world.²¹ BRCA is calculated as follows:

$$BRCA_{ik}^j = (x_{ik}^j / X_{itk}) / (x_{wk}^j / X_{wkt}) \quad (2)$$

In Equation 2, x_{ik}^j and X_{itk} are country *i*'s export of goods *j* and its total export to country *k*, and x_{wk}^j and X_{wkt} are the world's export of goods *j* and the world's total export to country *k*. A value of this index smaller than 1 reveals a comparative disadvantage in country *j*, while an index value above 1 represents a comparative advantage in country *j*.

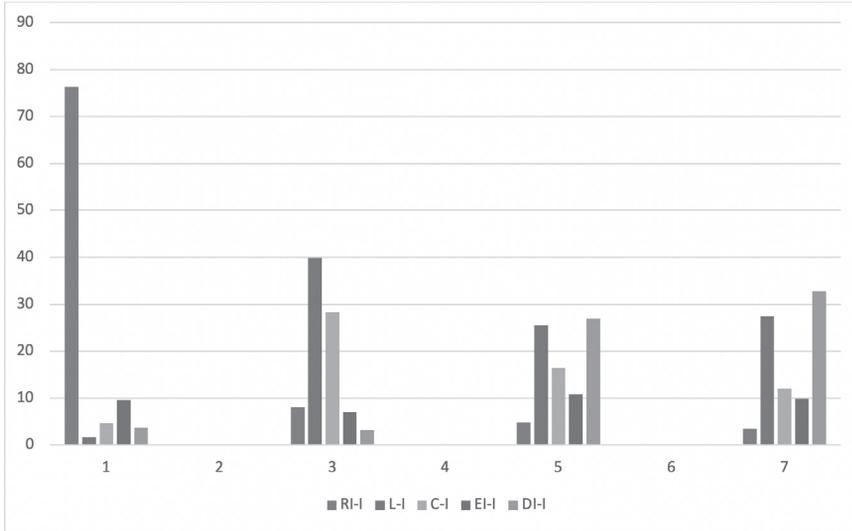
Table 18: Bilateral revealed comparative advantage (BRCA) index for Turkey's export to Uzbekistan (1992, 2000, 2010 and 2017) (number of product groups)

| | Total | BRCA<1 | Export share | BRCA>1 | Export share |
|------|-------|--------|--------------|--------|--------------|
| 1992 | 56 | 33 | 0,04 | 23 | 0.96 |
| 2000 | 194 | 112 | 0,13 | 82 | 0.87 |
| 2010 | 213 | 103 | 0,16 | 110 | 0.84 |
| 2017 | 207 | 117 | 0,15 | 90 | 0.85 |

Source: Calculated by authors using SITC Rev.3 from <http://comtrade.un.org/> (Accessed April 15, 2019)

In order to assess whether Turkey-Uzbekistan bilateral trade is consistent with the comparative advantage principle, or to assess the comparative advantages of Turkey's exports to Uzbekistan's market, BRCA was calculated for four years (1992, 2000, 2010 and 2017). The summary of the BRCA of Turkey's export to Uzbekistan is reported in Table 18. Overall, the trade values of high BRCA product groups (BRCA>1) account for over 85% of Turkey's export to Uzbekistan. Though its number of products that have high BRCA increased from 23 to 110, the export share of those items slightly decreased in these years. In 1992, Turkey displayed BRCA in 23 industries, out of a total of 53. By 2017, about 90 industries enjoyed comparative advantage out of the total 207. If we consider the number of industries that have comparative disadvantage, then one observes that these generally constitute the majority. Hence, measures for competitiveness improvement should be considered for Turkey to promote its exports further.

Figure 4: Turkey’s BRCA>1 industries by category (1992, 2000, 2010, 2017)



Source: Calculated by authors using SITC Rev. 3 from <http://comtrade.un.org/> (accessed April 15, 2019). Graph indicators are lined from left to right.

To be consistent with the empirical work employed in the previous section, exports are divided into five categories: labor-intensive industries, capital-intensive industries, raw material-intensive industries, easy-to-imitate research-intensive industries and difficult-to-imitate research-intensive industries; the industries with BRCA>1 are grouped in terms of these five categories. The composition of BRCA>1 in 1992 is dominated by raw material-intensive industries, in 2000 by labor-intensive industries, and in 2010 and 2017 by difficult-to-imitate research-intensive industries. Except for 1992, the share of raw material-intensive industries is small and has a decreasing trend in other years.

Table 19: Turkey's top 10 BRCA industries in Uzbekistan markets (1992, 2000, 2010, 2017)

| 1992 | | | | | 2000 | | | | |
|-------|------|--|------|--------------|-------|------|---|------|--------------|
| Type | Code | Industry Name | BRCA | Export Share | Type | Code | Industry Name | BRCA | Export Share |
| DI-I | 883 | Cinematograph films, exposed & developed | 21.3 | 1.40% | LI-I | 264 | Jute, other textile bast fibers, n.e.s., not spun, tow; Vegetable textile fibers, not spun, waste of them; Liquefied propane and butane; Cork manufactures | 24.1 | 0.00% |
| | | | | | LI-I | 265 | | | |
| | | | | | RMI-I | 342 | | | |
| | | | | | LI-I | 633 | | | |
| DI-I | 733 | Mach. tools for working meta, excluding removing mate. | 6.7 | 0.36% | LI-I | 613 | Fur skins, tanned or dressed, excluding those of 8483 | 24.1 | 1.33% |
| RMI-I | 277 | Natural abrasives, n.e.s. (incl. industrial diamonds) | 6.7 | 0.00% | CI-I | 786 | Trailers & semi-trailers | 20.9 | 5.75% |
| RMI-I | 073 | Chocolate, food preparations with cocoa, n.e.s. | 6.6 | 0.25% | RMI-I | 277 | Natural abrasives, n.e.s. (incl. industrial diamonds) | 19.9 | 0.00% |
| RMI-I | 048 | Cereal preparations, flour of fruits or vegetables | 6.4 | 0.65% | LI-I | 659 | Floor coverings, etc. | 13.0 | 14.3% |
| CI-I | 783 | Road motor vehicles, n.e.s. | 6.2 | 4.42% | RMI-I | 062 | Sugar confectionery | 10.7 | 1.82% |
| EI-I | 542 | Medicaments (incl. veterinary medicaments) | 6.2 | 7.56% | RMI-I | 073 | Chocolate, food preparations with cocoa, n.e.s. | 8.9 | 1.29% |
| RMI-I | 061 | Sugars, molasses, and honey | 6.1 | 22.9% | LI-I | 642 | Paper & paperboard, cut to size or shape, articles | 8.5 | 4.68% |
| DI-I | 731 | Machine tools working by removing material | 5.9 | 2.10% | EI-I | 583 | Monofilaments, of plastics, cross-section > 1mm | 8.2 | 0.35% |
| DI-I | 771 | Electric power machinery and parts thereof | 5.9 | 0.04% | RMI-I | 431 | Animal or veg. oils & fats, processed, n.e.s., mixt. | 7.6 | 0.44% |

| 2010 | | | | | 2017 | | | | | |
|-------|------|--|------|--------------|-------|------|--|------|--------------|--|
| Type | Code | Industry Name | BRCA | Export Share | Type | Code | Industry Name | BRCA | Export Share | |
| RMI-I | 244 | Cork, natural, raw & waste (incl. blocks, sheets); Liquefied propane and butane; Coal gas, water gas, etc. | 29.4 | 0.00% | LI-I | 611 | Leather | 16.2 | 0.03% | |
| RMI-I | 342 | | | | | | | | | |
| RMI-I | 345 | | | | | | | | | |
| EI-I | 581 | Tubes, pipes and hoses of plastics | 16.1 | 2.33% | RMI-I | 272 | Crude fertilizers (excluding those of division 56) | 15.8 | 0.13% | |
| RMI-I | 025 | Birds' eggs and egg yolks, egg albumin | 15.8 | 0.24% | LI-I | 642 | Paper & paper-board, cut to size or shape, articles | 12.5 | 5.95% | |
| RMI-I | 277 | Natural abrasives, n.e.s. (incl. industrial diamonds) | 15.2 | 0.00% | LI-I | 268 | Wool and other animal hair (incl. wool tops) | 12.2 | 0.00% | |
| LI-I | 265 | Vegetable textile fibers, not spun, waste of them | 14.8 | 0.00% | CI-I | 531 | Synth. organic coloring matter & color lakes | 9.7 | 2.42% | |
| LI-I | 611 | Leather | 13.2 | 0.04% | RMI-I | 072 | Cocoa | 9.1 | 0.49% | |
| LI-I | 642 | Paper & paper-board, cut to size or shape, articles | 13.0 | 4.23% | DI-I | 727 | Food-processing machines (excluding domestic) | 8.2 | 4.75% | |
| RMI-I | 344 | Petroleum gases, other gaseous hydrocarbons, n.e.s. | 12.3 | 0.01% | LI-I | 265 | Vegetable textile fibers, not spun; waste of them | 7.9 | 0.00% | |
| LI-I | 651 | Textile yarn | 11.9 | 5.69% | CI-I | 562 | Fertilizers (other than those of group 272) | 6.5 | 0.26% | |
| DI-I | 711 | Vapor generating boilers, auxiliary plant, parts | 11.4 | 0.42% | LI-I | 656 | Tulles, trimmings, lace, ribbons & other small wares | 5.9 | 0.99% | |

Source: Calculated by authors using SITC Rev.3 from <http://comtrade.un.org/> (accessed April 15, 2019).

Considering comparative advantage by industry, the top 10 industries are reported in terms of high BRCA scores for 1992, 2000, 2010 and 2017 in Table 19. Export shares of these industries are also shown in the same table. Generally, it can be said that Turkey enjoyed a comparative advantage primarily in raw material-intensive industries in 1992, and labor-intensive

industries and difficult-to-imitate research-intensive industries in other years. Taken together with high BRCA score and export share, 061 Sugars, molasses, and honey (RMI-I), 542 Medicaments (incl. veterinary medicaments (EII-I) and 783 Road motor vehicles (CI-I) in 1992, 062 Sugar confectionery (RMI-I), 786 Trailers & semi-trailers (CI-I), and 642 Paper & paperboard, cut to size or shape, articles (LI-I) In 2000, 651 Textile yarn (LI-I), 642 Paper & paperboard, cut to size or shape, articles (LI-I) and 581 Tubes, pipes and hoses of plastics (EI-I) in 2010 and 642 Paper & paperboard, cut to size or shape, articles (LI-I), 727 Food-processing machines (excluding domestic) (DI-I) and 531 Synthetic organic coloring matter and color lakes and preparations based thereon (CI-I) come to the forefront.

Conclusion

Located on the historical Silk Road, Uzbekistan was the center of many economic and cultural activities and a homeland for many civilizations for centuries. At the present time, the world is in a process in which the balance of economic power is shifting from West to East. In this sense, the importance of all the Central Asian countries on the Silk Road, including Uzbekistan, has increased and will continue to increase. Especially since 2013, China has played an active role in Central Asia by launching the One Belt One Road (OBOR) initiative, and China's economic power in the region has been increasing. For example, in 2017, Uzbekistan's major trade partner was China, and China invested in Uzbekistan's transportation and energy infrastructure, as it did in other Central Asian countries. Due to the fact that Uzbekistan is located in the middle of the Central Asian countries, i.e., double landlocked in terms of access to the seas, the OBOR initiative should be carefully considered in terms of its potential benefits and challenges.

Turkey aims to improve its relations with the Turkic-speaking countries in Central Asia in particular by developing trade-oriented relations and by diversifying and deepening the institutional basis of these relations. This means that Turkey gives priority to trade and cultural relations with these countries in both the short and medium term. Turkey's ethnic, cultural, linguistic and religious links with these countries have definitely made a great contribution to deepening trade cooperation. Moreover, Turkey's geographical position presents a great opportunity for the landlocked Central Asian countries to diversify their trade and energy exports to the EU following a westward energy corridor. However, compared to other powerful actors such as China, Russia and the United States, Turkey has not

been able to play as influential a geopolitical role. Turkey should follow a new, realistic road map after making a decision about its priorities and the primary problems related to the Central Asian countries by taking regional issues and axis shift into consideration. Turkey should construct a strong connection with the countries in Central Asia by considering the other actors that play an active role in this region. In other words, Turkey should pursue a foreign policy that aims at cooperation—or at least good relations instead of competition—with these actors. In brief, instead of regional competition, Turkey should strengthen its relations with the region by sustaining cooperation, because this kind of approach is also compatible with the ‘balance policy’ of the Central Asian countries.²²

The Uzbekistan economy under and after Karimov can be analyzed as follows.²³ Looking at main macroeconomic indicators, per capita GDP at \$1,533 is the third lowest of the ex-Soviet countries, ahead only of Kyrgyzstan and Tajikistan. In 2017, the unemployment rate was over 7%, and this rate rose to over 8% in 2000 and 2010. Unemployed Uzbeks had to immigrate to Russia to work. It is generally stated that unemployed young Uzbeks are also more vulnerable to radicalization and exhibit a rising tendency to join terrorist organizations. Import substitution and self-sufficiency were the priorities of foreign trade and investment. As for currency liberalization, until September 2017, the official exchange rate was tightly pegged. The floating of the Uzbek currency, the *som*, had an immediate and dramatic effect. Almost overnight, the currency devalued by almost half, and the black market disappeared. In the longer term, currency liberalization should help to attract more investment while making the economy more open and competitive. Currency liberalization is probably the biggest single step toward making Uzbekistan more attractive for investors, but other measures are also being taken to simplify some of the bureaucratic procedures faced by entrepreneurs. Additional measures were announced to attract foreign investments in Uzbekistan in 2012. In this context, a wide range of new initiatives were implemented, such as providing visa convenience to investors and their families and lowering taxes.²⁴ These improvements are reflected in Uzbekistan’s ranking in the World Bank’s Ease of Doing Business index, which jumped from 150th out of 190 countries in 2010, to 87th in 2017. Since 2016, 11 new free economic zones have been created, in addition to three pre-existing ones. In spite of all these developments, however, there are still many factors preventing foreign investment in Uzbekistan. Telecommunications, finance, media and transport are some of the sectors in which foreign investments are prohibited or severely restricted. Many investors are ready to invest when they see an opportunity, yet uncertainty in an investment climate is avoided. In trade, Uzbekistan

has significantly reduced tariffs and set a roadmap for accession to the WTO. The country currently benefits from reduced tariffs on some exports to the EU under the latter's Generalized Scheme of Preferences, and hopes for additional tariff reductions under the GSP+. In order to qualify for the latter scheme, Uzbekistan still needs to ratify two out of 27 international conventions.²⁵

In Uzbekistan, there are some important economic reforms that need to be emphasized. For example, in order to help to tackle the unemployment problem, the government handles the country's education system, vocational education in particular, to make it more suitable for the needs of employers. Meanwhile, Uzbekistan is taking steps to strengthen the independence of the Central Bank. From 2016 to 2018, Uzbekistan's ranking in the Economic Freedom Index, which reflects the country's efforts to loosen state control, rose to 152nd place out of 180 economies. According to Uzbek government figures, economic performance has improved in some areas. For example, FDI increased by 40% in 2017. On the other hand, economic growth has slowed, from an average 8% during the previous ten years (7.8% in 2016) to a still impressive 5.3% in 2017. Despite all these figures, the Uzbek economy is still regarded as a closed and state-controlled economy. The IMF recommends lifting price controls, for example on energy prices, which are still heavily subsidized.

A draft Presidential decree titled "Uzbekistan's Strategy for Further Development" for 2017–2021, in addition to Uzbekistan's main foreign policy priorities, identifies some other important policies related to the economy as follows: improving state and social construction, ensuring the rule of law and reforming the judicial system, developing and liberalizing the economy and developing the social sphere. The policies raised in the Decree suggest that Uzbekistan is ambitious to become a more active regional actor and an attractive country in the region for foreign investments.

Saud (2018) presents a wide-range evaluation of the changing dynamics of Uzbekistan's foreign policy and emphasizes the importance of regional integration.²⁶ As Karimov's protectionist trade policies are gradually lifted, the economic relations between the two countries are expected to expand in the coming years. Shavkat Mirziyoyev, who came to power after Karimov, adopted a more liberal policy in foreign relations. Then Uzbek Minister of Finance Jamshid Kuchkarov stated that they have met with companies such as Fitch, Moody's and Standard & Poor's and stated that they are determined to participate in the international economy. The main economic goals of the new administration include ending protectionism, increasing exports, attracting international investments, establishing

a free market mechanism and creating a new private entrepreneur class. In addition, Mirziyoyev's call for investments from Turkish businesspeople strengthens the expectations that economic relations between the two countries will increase in the future. Visas with many countries have been abolished to improve tourism. All of these developments are expected to affect the trade between the two countries positively.

As stated in the research objectives, this paper is exploratory and preliminary. The findings of this paper may serve as recommendations, through the usage of trade indices as an input into the process of evidence-based policymaking, for policy makers to improve bilateral trade between the two countries. From the TCI results of recent years, it can be deduced that Turkey and Uzbekistan are becoming complementary countries. This means that bilateral trade benefits both countries. In today's world, increasing globalization pushes countries to develop not alone by themselves, but through regional and global cooperation.

All five Central Asian countries and Turkey are members of the ECO. Although the ECO has not been able to actualize its full potential, as stated by Ögütçü, it could nonetheless provide significant opportunities for Turkey and the Central Asian countries.²⁷ The ECO aimed to create a regional approach on connectivity issues even before the China-led initiatives, thus offering alternative options to help member countries diversify and benefit from complementary opportunities. For this reason, the ECO should be discussed while negotiating to enhance bilateral relations between the countries.

Turkey has a relatively balanced relationship with Uzbekistan, based on the bilateral trade dimension. Strengthening and developing Uzbekistan-Turkey relations will create gravity for the other countries in the region, and also will play a key role in sustaining not only the relations between Turkey and the regional countries, but also relations among the regional countries. Moreover, with their geostrategic positions, strong geo-economic potential and the opportunities stemming from their young, dynamic and well-educated population, there is a huge potential to further develop the economic relations between Uzbekistan and Turkey. However, it will be necessary for both countries to further strengthen their relations in order to increase trade and bring investments to higher levels in the coming years. From this perspective, developing a "Strategic Partnership" between Turkey and Uzbekistan gains great importance. However, if the necessary measures are not taken, it can be said that Turkey's economic relations with Central Asia will not be developed faster than the ties with other regions.

Endnotes

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- 12 Erkin Baydarov, “The Developments in the Tourism Sector in Uzbekistan,” Şimşek, Parkhomchik & Şimşek (eds.), *Eurasia Outlook 2016*, p. 89.
- 13 Erkin Baydarov, “The Current Situation of the Foreign Direct Investments in the Economy of Uzbekistan,” Şimşek, Parkhomchik & Şimşek (eds.), *Eurasia Outlook 2016*, pp. 124–125.
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- 20 Nevzat Şimşek, Dilek Seymen & Utku Utkulu, “Turkey’s Competitiveness in the EU Market: A Comparison of Different Trade Measures,” *Dokuz Eylül Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*, Vol. 12, No. 2 (2010), p. 109.
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