

The Integration of Uzbekistan into the World Economy.

Khusnia MURADOVA, Oydin KHUSAINOVA

Development of foreign economic relations became the important part of economic independence of Uzbekistan. At present, Uzbekistan conducts trade with more than 80 countries. Foreign trade balance for 1991-2001 has increased in five times; in this context export has increased in 4 times. The geographical structure of foreign trade has changed. Deep changes look place in export –import structure. Cotton–fiber share has diminished in export structure, while the export of ready goods, machines and equipment increased. At the moment, import of foodstuffs decreased in two times, while import of energy actually was stopped. Significant increase was made in buying modern equipment and technology. In the process of integration of Uzbekistan economy into the world economy and the liberalization on foreign trade activity the main role might be devoted to regional integration processes. Uzbekistan, became the member of several integration organizations such as Commonwealth of Independent States (CIS), Central-Asian Cooperation (CAC), Organization for Economic Cooperation (OEC), Shanghai organization for Cooperation and undoubtedly, the priority is its further deepening. However, such problems as water and power supply, custom barriers, intensification of terrorism threat, conflict of interests and unwillingness to compromise, currency convertibility issues, lack of coordination in transportation prevent the processes of regional integration. That is why the report will encompass the following issues: overview of foreign economic policy of Uzbekistan; development of regional integration process; the main benefit to Uzbekistan from entering WTO.

Foreign trade and foreign trade policy of Uzbekistan

Economic reforms, leading to the formation of a market economy, opened broad opportunities for the country's active participation in international trade with maximum utilization of advantages that international labor division and globalization may offer. Yet, during the early years of independence the young republic faced a number of problems in the sphere of international trade. These problems needed urgent resolution. The most difficult problem was the disruption of economic links between enterprises located in different republics of the former USSR, their insolvency, and the collapse of the existing system of payments. This was the main reason that forced the foreign trade of Uzbekistan to abandon the markets of the former USSR and seek success in the markets of distant foreign countries. Export structure was favorable as raw materials, of high demand in world markets, made up the majority of what the country had to offer. In 1994 about one third, and in 1996 about three fourths, of the entire export of Uzbekistan went to distant foreign countries.

Foreign trade re-orientation to markets of distant countries, the improvement of trade terms, and the liberalization of foreign trade activity enabled a considerable increase of the scope of foreign trade in 1992-1996.

But, in the period of 1997-1999 foreign trade output was reduced drastically. It can be explained by the following reasons:

- Considerable drop in world prices for basic export commodities of the country. The average world prices for cotton fiber had been gliding down by over 16% in 1996, by 14% - in 1997, and by over 8.5% - in 1998. According to estimates, our country lost USD 170-180 million in 1998 due to the reduction in oil, cotton, and copper prices. It is clear that situation brought a considerable loss of export revenues and worsened the state of the current account of the payment balance. Export reduction was also caused by the unfavorable situation in the world gold market. Gold dropped in price almost by 40% within 1997-1998;
- Russian crisis, which resulted in low demand for commodities and services from Uzbekistan in CIS countries, and, on the other hand, was the reason for the reduction of foreign investment flow into CIS countries as potential investors considered markets of CIS countries more risky than they had been before the crisis;
- Change of currency regime in the middle of 1996. The introduction of the regime for currency rationing, the real exchange rate of national currency, calculated on the basis of GDP deflator, considerably went up and that was a crucial factor in setting back export development.

Enhancement of import protectionism since summer of 2002 started exclusively for the support of national producers whilst arranging conditions for the regime of free convertibility of currency has also resulted in real exchange rate increase that constrains export development.²

Since independence, positive changes took place in export structure. Together with traditional commodities such as cotton, yarn, textiles, non-ferrous metals, and chemical products, products of oil refining, machines and equipment added their share to export structure. Yet, in spite of all progress, two thirds of the current exports are raw materials. It makes macroeconomic conditions in the country too sensitive to the unstable world conjuncture of the above goods.

Similar changes took place in import structure. Pursuing a policy of grain and energy independence, the country had drastically cut the share of food and energy resources as a total proportion of export. At the same time, the share of investment commodities grew significantly as a result of economic policy aimed at the economy restructuring.

The foreign trade policy of the republic since independence can be conditionally divided into certain periods. During each period, depending on the tasks of macroeconomic development, the current situation in the country and neighboring countries, several instruments of trade regime were used. Very often these instruments co-existed with relevant instruments of currency, monetary, and budget policy. At the first stage (1991-1994) a number of decisive documents formed the basis of the custom - tariff system. At that time/the main principles of the policy in regards to imports were the absence of non-

tariff restrictions and low cost (5-10% of custom price) of import tariffs, and the use of various types of tariff and non-tariff methods to regulate exports. Incentives for imports and the setback of exports were functional due to the need to flood the consumer market by goods in "rouble zone" conditions, the disruption of economic links between enterprises of the former Soviet republics, and the existence of considerable disparity between domestic and world prices for export commodities of the country. During the second period (1994-1996), policy on import liberalization continued.³ It was dictated by the necessity to ensure the purchasing capacity of the national currency introduced on July 1st, 1994, ; provide enough goods for the domestic market and to reduce the inflation rate that had already exceeded 1,000%. Tariff policy relevant to exports in that period did not change fundamentally; duty rates were increased to the level of 10 -50%, for some goods like antique articles, rates were as high as 100%.

The third period of the foreign trade policy embraces 1996-1998 when the country shifted from non-tariff to tariff methods of export regulation. In that period the number of goods, exported on the basis of quotas and licenses, reduced significantly. Quotas and licenses remained valid first for commodities for which domestic and world prices were considerably different (cotton fiber, non-ferrous metals, energy resources, and a number of raw materials). Thirteen types of goods were included into the list of commodities banned for export. Fixed rates of import duties varied from 5% to 50% of the contract cost, export duties – from 110% to 50%. Increased rates of export duties were mainly applied to raw materials.

The fourth period (from 1998 to the middle of 2002) is characterized by the considerable reduction, and later, by the ban of export custom duties, and the considerable unification of import custom duties. At last, the fifth period (from the middle of 2002 till present time) is known as the period when import protectionism has jumped up to support national producers upon preparation of conditions for the regime of the free convertibility of currency.

In compliance with the existing system of import tariff regulation (in force since July 1, 2002), import customs duties are levied from 97 commodity groups at rates from 10% to 30%, although a zero import duty was fixed for a number of goods. Goods imported by the budget organizations or by their order on account of budget allocation for their own needs are exempted from duties and excise tax.

In addition to customs duties, imports are subject to VAT, which normally equals the approved rate of 20%. At that base, according to the Custom Code, the calculation of the value added tax on goods with consideration of custom duties and excise tax.

The taxation of imports has widely spread in Uzbekistan within the last years. Currently there exist excise taxes on imports (29 commodity groups with rates from 5% to 90%) and dues levied from the importation of consumer goods.

The more active and efficient involvement of Uzbekistan in world economic relations in short and medium terms suggests the free convertibility of soum on the current transaction account and the liberalization of foreign trade, both by the reduction of import taxes, and by the removal of other restrictions erected across the board in foreign trade, i.e. the absence of free domestic markets of basic export goods, technical barriers on import, and restrictions related to currency of payment, etc.

Economic cooperation between Uzbekistan and EU

In June 1996 the Agreement on partnership between the Republic of Uzbekistan and the European Union and their Member States was signed. The most important aims of this partnership are the following: support of the efforts of the Republic of Uzbekistan on strengthening democracy, economic development and achieving transition to market economy; promoting trade, investment and harmonic economic relations between the Partners; providing the basis for legislative, economic, social, financial, scientific, technological and cultural cooperation.

The economic cooperation includes trade relations development and integration promotion of Uzbekistan into world economy: assistance with joining the World Trade Organization (WTO);

assistance with providing the conformity of goods to the international standards, development of a legislative package in accordance with the partnership with EU and participating in WTO for expanding trade and investments; regional cooperation development – assistance with placing the focal point in the CIS region to economic and financial cooperation, subregional unions support, assistance in the sphere of environment protection, production modernization, implementation of modern information technology, personnel training, establishment of a modern banking system, creation of favorable conditions for attracting national and foreign capital, assistance to industrial cooperation, partnership programme support in the field of research and development.

Since Uzbekistan gained its independence, the EU started providing large-scale assistance within several programmes including TACIS. Uzbekistan was provided assistance through TACIS in the following fields: 1) reorganization of state enterprises and private sector development; 2) public management, social services and educational system reform; 3) agriculture; 4) energy; 5) transport; 6) communications; 7) consultative aid on management; 8) environment protection.

In December 1994 Uzbekistan has applied to joining the WTO. The Memorandum on joining the WTO, representing information on aspects of the economy and acting trade regime of the country was submitted to WTO Secretariat in 1998. Since then multi-part talks have taken place with using the provided information. The representatives of Uzbekistan have prepared complete answers to the questions of the workgroup members – WTO member countries (Australia, EU, Switzerland, New Zealand and USA) on the text of Memorandum and submitted them to WTO Secretariat in 2001.

On July 17, 2002 the first session of the workgroup on Uzbekistan joining to WTO was held. 14 countries have expressed their intentions to support the process of Uzbekistan joining the WTO. The next workgroup session is planned to be held in March – April 2003.

For Uzbekistan joining the WTO opens access to the world markets, promotes competition in the domestic market, provides opportunities to settle trade issues and increases trust of the trade partners and investors to the country.

Joining the WTO also has several problems, especially in the short-term period. They include increased difficulties for the domestic producers due to decreased state support – limitation of applied instruments of state regulating of economic exchanges and subsidies. Besides, decreased incomes from the foreign trade after lowering the customs duties negatively affects the budget, including the opportunities to preserve support means, authorized by the WTO. The need of minimizing these risks requires assistance of the EU during the preparatory period of joining the WTO.

Uzbekistan has become the member of several integration unions.

1) The basic integration format of the countries of the region, which meant to preserve traditional economic links and deepen them on a new level -

Commonwealth of Independent States (CIS), established in December 1991 has adopted the model of multi-level integration and was divided into several integration sectors. The most important multi-part agreements within its framework are the Economic Alliance Agreement (1993) and Free Trade Zone Agreement (1994). In 1997 the Agreement on Common CIS Agrarian Market was signed, Uzbekistan has joined this agreement later.

2) In 1992 Uzbekistan along with Azerbaijan, Turkmenistan, Kyrgyzstan, Tajikistan and Kazakhstan has become a member of the Economic Cooperation Organization (ECO) This organization was established in 1977 by Iran, Pakistan and Turkey aiming at economic, cultural and scientific-technical cooperation.

3) In 1994 by the Agreement on regional integration the Central Asian Union was established (Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan). In 1998 it became the Central Asian Economic Union. In February 2002 it was reorganized to the Central Asian Cooperation Organization.

4) In 1999 Uzbekistan joined the regional economic alliance of the GUUAM countries, founded in 1998 by Georgia, Ukraine, Azerbaijan and Moldova. In July 2002 at the summit in Yalta where Uzbekistan did not participate a decision was made to create the free trade zone.

5) In 2001 Uzbekistan has joined the Shanghai Cooperation Organization (SCO), which was founded in April 1996 by Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan as "Shanghai Five". There are objective conditions for further development of the Central Asian region countries on the basis of their integration. A unified economy and supply management system, high level of industrial cooperation, unified energy and transport network, unified water supply have and will be determining the development perspectives of the Central Asian region.

However, the normal process of regional integration is obstructed by water and energy supply, strong customs barriers as a result of increased international terrorism threat, non-conformity of interests, lack of coordination in the field of currency convertibility and transport.

Therefore lessons of EU and its assistance with regional integration development, subordination of national interests to long-term benefits of deepened integration, partial refusal of sovereignty in implementing the foreign trade regulation and protection of the domestic producers; and on a higher level – in implementing monetary-credit policy, fiscal and social spheres are of a great importance.

The main benefit to Uzbekistan from entering WTO

1) More guaranteed access to foreign markets. The internal market of Uzbekistan is not that big to equally respond to the discrimination against its export activity from trading partners; the WTO provides higher legal protection for a country's export from discrimination. It is necessary to admit that exporting of raw commodities and selling industrial goods mostly to the CIS countries – non-members of the WTO – don't allow Uzbekistan to expect huge benefits at the moment. At the present time, Uzbekistan receives most favored country treatment from 38 largest trading-countries and the privileges in GSP trade (General System of Preferences) from USA, Japan and European Union.

A membership in the WTO also does not provide the removal of "non-Market" Economy label. However, the experience shows that anti-dumping actions against the WTO member-countries are significantly lower than against non-member countries. Thus one can expect some profit growth from the export of goods that belong to those sectors, whose products are a subject to anti-dumping measures (e.g., color metallurgy).

Besides, the export of non-raw commodities, which is actually a high priority of the government, compared to the export of raw commodities is more exposed to the discrimination from trading partners.

2) Benefits to national welfare. The entrance into the WTO demands significant liberalization of trading regime. Neo-classic theory of economics proves that lowering of trade barriers brings many benefits for consumers, as well as for competitive manufacturers, through dynamic effects of learning, access to the higher variety of products and intensified competition. Lowered prices for imported products, first of all for consumer products, will improve living standard of low-income layers of the population. It will be related to lowering of customs duties and decreasing terms and costs of customs control. Income of the most population is bound to agricultural production, which is oriented to export and quite competitive.

3) Benefits to development of society institutes that determine long-term development of a country. The control of the trading regime of the country from the WTO allows limiting lobbying interests within the country that aims to limit competitiveness of the imported products.

4) Stability of the upper bar of protectionism that attach stability to business environment. The WTO rules do not allow a member-country to substantially increase the level of protectionism for longer periods.

The main disparities between economic regime of Uzbekistan and WTO rules.

- I. *Disparity in the methods of industrial policy.* The WTO rules prohibit limitations of state regulation measures that can be viewed as export subsidization or import discrimination.
- II. *Insufficient transparency of state regulation.* The article X GATT and the article III GATS WTO oblige publication of reports and submit information to the WTO members on administrative decisions that influence international trade.
- III. *State regulation that mismatches market economy, or export subsidization or import discrimination.*
 - Insufficient level of privatization and development of the market mechanisms in the economy.
 - The existence of strong non-tariff measures of protectionism – currency control.
 - Monopolization of trade for the main exporting products by state agencies. This allows a possibility for export subsidies because monopoly in raw commodity export leads to lower internal prices for raw commodities for local industry when compare to world market prices.
 - Tax privileges for exporters – all export related privileges.
 - The existence of disparities in technical questions, which relate to fees for customs formalities, customs goods evaluation, pre-shipment inspection. As a rule, the possible procedures for the products being imported are discussed on a detailed level and the costs and terms of conducting of such procedures are limited.
 - Deficiencies in legislation and its application, including the areas of intellectual property rights, quality standards for import.

Costs of bringing the economic regime of the country to conformance with the WTO rules.

The process of entering into the WTO usually requires lengthy negotiations. The members of the WTO normally demand a lowered level of protectionism, and especially for key products of their export. Realization of some obligations on trade liberalization expected by the country that enters WTO can be postponed for several years or implemented upon the schedule that was negotiated and approved by the WTO. The country, theoretically, can discuss some special conditions for entering WTO with maximal delay of liberalization. The members of WTO can compromise and create special “mild” scenario for the large country-markets (such as China), so that they bring their economic regime to the conformance with WTO’s rules after their entrance into WTO, however, it is improbable case for Uzbekistan. It is necessary to aim entering into the WTO on standard conditions for obtaining standard rights of a WTO-member.

There are no clear rules on the level of maximum (bind) tariffs that a country is obliged not to raise. It is determined by the country itself and solved in the course of negotiations. However, if the country tries to fix its tariffs to a higher rate than is has at the time of entrance or to a rate, which is substantially higher than an average for similar countries, then one should not count on success at negotiations. Besides, after the entrance of Russia, Kazakhstan and Ukraine into the WTO, these countries may demand additional liberalization for their export into Uzbekistan’s market.

A country entering the WTO must:

- 1) Propose a detailed system of tariffs, the maximum level of which will be limited and “fixed” for the country. Raising this level later will be accompanied with difficulties of the WTO regulations. It is very likely that customs duties for automobiles, electronics and various consumer products will be required to lower, and an average level of import duties will be required to lower to a level not exceeding 15 %.
- 2) Show those concessions and limitations which are in force and which will be introduced to the foreigners on telecommunications and service markets, including financial sector.
- 3) Expected to sign special “non-obligatory” agreements within the frame of the WTO, for instance, agreement on civil aviation, since Uzbekistan has an aircraft construction plant, and providing an access for foreign firms to government orders.

In the course of negotiations, good relations with USA, European Union, Canada and Japan (the key players of the WTO) can facilitate the process.

Short-term negative consequences:

Reduced income flow into state budget because of reduced share of centralized trade, and first of all, centralized export. The possibility of reduced tax inflow from import duties, however, this amount in general budget incomes will be negligible.

Increase in bankruptcy and unemployment rate due to non-competitive; usually import substituting, manufacturing capacities. Profitability of many branches of industry, especially processing ones, in the coordinates of world prices is negative. However, these branches account only for a tiny part of GDP and general employment of the population.

Raw materials processors will suffer, the internal prices for whose material resources are significantly lower than on the world market (cotton, leather). The WTO members will quite possibly make a condition for liberalization of raw material prices, including the reduction in export duties that will result in leveling of internal prices with the world market prices. This may put the manufacturers of finished products in light industry (apparel, textiles) on the edge of bankruptcy. These costs will be inevitable once the economy is liberalized.

Additional costs will be incurred because of:

- Analysis and elaboration of amendments in legislation in order to bring it to the correspondence with the WTO norms.
- Purchase and maintenance of labs for the control of technical standards required by the WTO.
- Observance of intellectual property rights. The WTO rules require strict observance of the intellectual property rights from member countries, including the observance of patents and licenses for medicines, software products and technology. Anti-pirate struggle will be necessary against audio-, video- and computer product pirates.

After the WTO membership, the followings will also be necessary:

- Conducting an analysis of the key economic Decrees of the government to their conformance with WTO rules in order to avoid high-cost disputes.
- Explanation of the validity of damage for domestic manufacturers from unfair competition of imported products and an introduction of anti-dumping duties and compensating fees.
- Deployment of a mission in the WTO (in Geneva) from Uzbekistan for on-time resolution of trading disputes, conducting the negotiations and obtaining of trading information.

In future, the WTO may cover the regulation of social service (minimal requirements to labor conditions) and ecological standards for manufacturing.