

The Impact of Uzbekistan’s Membership into Eurasian Economic Union on Textile and Sewing Industry

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ABSTRACT

This article analyzes impact of changes in tariff policy on imports of textile and clothing products as a result of Uzbekistan’s accession to Eurasian Economic Union and changes in tariff revenues from imports of these products. The results show that although Uzbekistan’s accession to Eurasian Economic Union has resulted in a slight increase in imports of textiles and garments, a sharp change in imports can be observed in certain groups of goods. It is also expected that reduction of import tariffs and tax rates on textiles and garments will lead to a reduction in customs revenues to state budget, but an increase in customs revenues due to abolition of existing tariff preferences in country after integration.

KEYWORDS: Regional trade integration, Eurasian Economic Union, textile and garment products, tariffs

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INTRODUCTION

Currently, Uzbekistan has signed agreements in the field of trade and economic cooperation with the CIS countries, most of which are members of the Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia) by establishing “free trade regime” [9,1] and conducts its own trade policy in relation to third countries. The fact that Uzbekistan is a member of the Eurasian Economic Union in the future means that the Union will adopt a single customs system. This requires the introduction of a number of important changes in the tariff regulation system of imports of Uzbekistan.

In particular, as a result of the decrease in import tariffs caused by the accession of Uzbekistan to this economic integration, on the one hand, there will be a decrease in the level of protection of local producers from foreign competition and a decrease in tariff revenues to the state budget, on the other hand, positive aspects like purchasing products not from internal source with low quality, but high quality products from external sources (import), increase in consumption as a consequence of decreasing price of

goods, reduction of transaction costs and others can be observed.

Literature review

Patrizia Tumbarello (2005) defined the positive impact of integration membership by assessing the impact of the CIS countries’ membership in regional trade integration on economic well-being through a partially balanced model. This study also assessed that accession of CIS countries to the WTO before joining regional trade integration would have a more positive impact on economic prosperity [6,12].

Golam Mostafa, Monowar Mahmood (2018) analyzed the history and evolution of the Eurasian Economic Union, as well as its success, challenges and prospects, and highlighted the negative impact of mistrust between member countries [2,4].

Vaagn Khachatryan (2020) analyzed the results of Armenia’s membership in Eurasian Economic Union and found that economic development of member countries was unsustainable in the first 5 years, the share of these countries in total trade in 2014-2018

was significantly below the minimum threshold of integration stability [8,6].

KasymkhanKapparov, AkmaralKamalieva (2020) came to conclusion that Eurasian Economic Union has not yet become a full-fledged union, that is, in the process of formation by analyzing main directions of Kazakhstan's membership in the Eurasian Economic Union. It was also noted that within the framework of this union there are obstacles to the free movement of goods, these obstacles can be eliminated by further harmonization of legislation within the Union [3,4].

According to the analysis of Beyond Investment Group Bishkek (2020), the share of tax revenues from small and medium-sized enterprises in the 4-year period of membership of the Kyrgyz Republic in EEU decreased almost twice as compared to 2014 (from 44,4 percent to 22,4 percent of GDP). Nevertheless, Kyrgyzstan's accession to EEU has become an important factor in improving the business environment in country [1,16].

NishanbaySirajiddinov, Umida Khaknazar, ZiyodulloParpiev (2020) think that If Uzbekistan joins the WTO, it would be advisable at the same time to sign free trade zone agreements with the EAEU and its main trading partners that provide for duty-free trade and harmonization of non-tariff barriers. Joining the WTO, reforming its trade regime in accordance with its standards, and signing free trade zone agreements with the EAEU and other main trading partners would allow Uzbekistan, as an observer in the EAEU, to make a deeper assessment of the long-term trends in the development of foreign trade and the trade regime both in the EAEU and in Uzbekistan. They came to conclusion that this would help Uzbekistan determine the most optimal path of integration into the world economy, which will maximize the growth of the economy and the prosperity of its people in the long term [5,14].

Research methodology

There are several tools for analyzing international trade. Each of these methods has its drawbacks and advantages. In economic theory, partial equilibrium is an equilibrium in the supply and demand model of a particular market for goods or services, which is achieved only as a result of certain changes in the determinants of supply and demand, without taking into account exogenous parameters. This greatly simplifies the analysis and allows us to see the net effect of the change in a particular determinant (tariff in our case). In this assessment, it is useful to use the guidance of Paul Brenton, Christian Saborowski (2009) on assessing the impact of correcting changes in trade policy using a tool to simulate the impact of tariff reform [7,23].

The "Partial Equilibrium Model" was used to assess the economic consequences of changes in customs tariffs on imports of textiles and garments as a result of Uzbekistan's possible accession to Eurasian Economic Union. This model is not intended to analyze the consequences of changes in notarial trade policy, but allows to assess the impact of changes in import tariffs on import volumes, state budget revenues and others.

In studying the macroeconomic impact of Uzbekistan's membership in Eurasian Economic Union, we use the following data matrix among Uzbekistan's partner countries through Tariff Reform Impact Simulation Tool (TRIST):

Volume of imports of textiles and garments;

Normative income from customs duties on imports of textiles and garments;

Actual income from customs duties on imports of textiles and garments (= normative income from customs duties + benefits);

Excise tax revenues;

VAT receipts.

It should be noted that there are a number of specific reasons why a partial equilibrium model based on import data was chosen in the study. First, most countries where Uzbekistan exports textiles and garments do not impose import duties on these goods. This requires an analysis of the liberalization of imports of textiles and garments in our country. Second, the fact that the main requirement for Uzbekistan's membership in the Eurasian Economic Union is the import tariffs requires a change in import tariff rates. Third, Uzbekistan exports not only textiles and garments, but also all exports without tariffs. Therefore, it is important to analyze the economic consequences of changes in tariff rates on imports of textiles and garments as a result of Uzbekistan's accession to the Eurasian Economic Union.

It is good practice to experiment with different sets of elasticities as robustness checks when analyzing the revenue and production impacts of a trade policy scenario. The default elasticities used in this paper are 1.5 (exporter substitution), 1 (domestic substitution) and 0.5 (demand). Let us illustrate the changes in the projections when using the Kee et al (2004) and the SMART elasticities. As an example we consider an EPA between Nigeria and the EU. A once and for all reduction in Nigerian tariffs on EU imports is projected to lead to a 16.8 percent reduction in overall Nigerian trade tax revenues according to our default elasticities, a 14.6 percent reduction when using the

Kee et al (2004) estimated demand elasticities and a 14.3 percent reduction when using the SMART elasticities.

The study divided Uzbekistan's import partners in textiles and garments into three groups. The first group includes the countries of the Eurasian Economic Union, the second group includes the CIS

countries, which signed agreements on trade and economic cooperation with Uzbekistan, which is not a member of the Eurasian Economic Union, creating a "free trade regime". The third group of countries included other countries not included in the above groups.

Table 1. Changes in average import tariffs for textile and garment industry products as a result of Uzbekistan's accession to the Eurasian Economic Union (in percentage)

HS code 2017	Title of group of goods	Average rates of import tariffs relative to imports	
		Before joining the integration	After joining the integration
group 50	Silk	0,3	3,7
group 51	Wool, animal wool and fabric made of	15,3	6,6
group 52	Cotton	2,8	9,1
group 53	Other plant textile fibers	0,01	4,8
group 54	Chemical threads; straight and similar threads of chemical textile materials	0,2	6,0
group 55	Chemical fiber	0,2	10,0
group 56	Cotton wool, felt and non-woven materials; special yarn; threads, ropes and articles made of them	5,4	3,2
group 57	Carpet and other textile floor coverings	53,7	2,9
group 58	Special fabrics; woven textile materials; lace; tapestries; decorative materials; embroidery	16,6	9,8
group 59	Coated or repeatable textile materials; technical textile products	4,5	4,4
group 60	Machineorhand-wovenknittedfabric	18,4	7,2
group 61	Knitted clothes and clothes made in the car or in hand	36,6	9,4
group 62	Out-of-hand knitted or crocheted clothes on the machine	91,1	11,7
group 63	Other ready-made textile products; bundles	63,7	10,8
Overall		13,5	7,2

Evaluation results analysis

According to the results of our assessment, at the moment, the average tariff rates for imports of textiles and sewing and knitting products are 13,5%. As a result of Uzbekistan's membership in Eurasian Economic Union and a decrease in import tariff rates, the average tariff rates are almost twice as low (from 13.5% to 7.2%) (Table 1).

Table 2. The impact of Uzbekistan's membership in the Eurasian Economic Union on imports of textile and sewing products

HS code 2017	Title of group of goods	Import volume, thousand USD		Import change in percentage
		Before joining the integration	After joining the integration	
group 50	Silk	132,4	130,1	-1,73
group 51	Wool, animal wool and fabric made of	4036,7	4154,3	2,9
group 52	Cotton	18999,1	18340,6	-3,5
group 53	Other plant textile fibers	23737,7	23172,1	-2,4
group 54	Chemical threads; straight and similar threads of chemical textile materials	72217,4	70108,8	-3,0
group 55	Chemical fiber	60857,7	57818,8	-5,0
group 56	Cotton wool, felt and non-woven materials; special yarn; threads, ropes and articles made of them	42703,9	43055,1	0,8

group 57	Carpet and other textile floor coverings	5655,8	6616,6	17,0
group 58	Special fabrics; woven textile materials; lace; tapestries; decorative materials; embroidery	16964,0	17457,7	2,9
group 59	Coated or repeatable textile materials; technical textile products	38365,7	38421,1	0,1
group 60	Machine or hand-woven knitted fabric	40349,3	42025,5	4,2
group 61	Knitted clothes and clothes made in the car or in hand	25280,7	26945,5	6,6
group 62	Out-of-hand knitted or crocheted clothes on the machine	18424,8	21821,2	18,4
group 63	Other ready-made textile products; bundles	9417,8	10598,1	12,5
Overall		377142,9	380535,3	0,9

Although as a result of Uzbekistan's accession to the Eurasian Economic Union, only a slight increase in imports of textiles and sewing products was estimated at 0.9%, it is possible to observe a sharp change in imports of individual goods (Table 2). Also, changes in import tariffs and domestic prices lead to significant structural changes in the economy in different directions and proportions. In particular, the change in rates of import duties and domestic prices leads to a corresponding change in the volume of receipts, imports and domestic production from import tariffs to the state budget.

According to the results of the partial equilibrium model, the greatest increase in imports due to Uzbekistan's membership in the Eurasian Economic Union is observed for the following textiles and sewing and knitting products groups:

- Out-of-hand knitted or crocheted clothes on the machine (HScode group 62) – up to 18,4%;
- Carpet and other textile floor coverings (HScode group 57) – up to 17,0 %;
- Other ready-made textile products; bundles (HScode group 63) – up to 12.5%;
- Machine or hand-woven knitted clothing and apparel (HScode group 61) – up to 6,6%;
- Machine or hand-woven knitted fabrics (HScode group 60) – up to 4,2%;
- Wool, animal wool and fabric made of it (HScode group 51– - up to 2.9%;
- Special fabrics; woven textile materials; lace; tapestries; decorative materials; embroidery (HS Code group 58) – up to 2.9%; (2 table).

Conclusions

With the accession of Uzbekistan to Eurasian Economic Union, reduction in import tariffs and tax

rates on textiles and sewing and knitted products will lead to a reduction in tax revenues to state budget.

According to the results of assessment, as a result of Uzbekistan's membership in the Eurasian Economic Union, tariff revenues from imports of textiles and sewing and knitted products can be expected to decrease by 23496 thousand US dollars or 46,3% compared to tariff revenues before membership in the Union. (The rates of VAT and excise taxes are taken into account as unchanged).

According to the customs office of the Republic of Uzbekistan, in 2019, tax tariff preferences were applied for imports of total textile and sewing and knitted products worth 17136.1 thousand USD. This resulted in a 33.8 percent reduction in imports of textiles and sewing products compared to total tax revenues. As a result of Uzbekistan's accession to Eurasian Economic Union, these benefits will be abolished and it is possible to observe an increase in revenues of the state budget.

In addition, as a consequence of Uzbekistan's accession to Eurasian Economic Union, level of competition among producers will increase, and as a result, dynamic effects such as the rise in the quality of products, the decrease in their prices, the introduction of modern technologies will occur. As a result of integration, the participating countries will begin to benefit from the advantages of scaling, which will allow an increase in production and a decrease in costs.

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