

Possibilities of Uzbekistan's Access to Eurasian Economic Union

Mirzoumid Khamdamov

PhD in Economics, University of World Economy and Diplomacy, Tashkent, Uzbekistan

ABSTRACT

In this article Author analysis prospects and problems of joining Eurasian Economic Union (EAEU) for Uzbekistan by providing literature analysis of uzbek scientists and specialists. Besides, some possible effects of joining Uzbekistan into Eurasian Economic Union are also studied.

KEYWORDS: *economic integration, economic reforms, Uzbekistan, EAEU, problems, prospects*

How to cite this paper: Mirzoumid Khamdamov "Possibilities of Uzbekistan's Access to Eurasian Economic Union" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-6 | Issue-1, December 2021, pp.1613-1617, URL: www.ijtsrd.com/papers/ijtsrd49088.pdf



Copyright © 2021 by author (s) and International Journal of Trend in Scientific Research and Development Journal. This is an Open Access article distributed under the terms of the Creative Commons Attribution License (CC BY 4.0) (<http://creativecommons.org/licenses/by/4.0>)



Currently, Uzbekistan is in the process of dynamic structural transformation. This process was driven by rapid progress in implementing a number of important changes in economic policy. These include, in particular, the reform of the customs system, the liberalization of foreign economic relations and the foreign exchange market. Thanks to the reforms, the business and foreign trade conditions and the investment climate for private and foreign entrepreneurs have improved, and these measures have begun to have a positive impact on the economy of Uzbekistan, with an expected GDP growth of 5.5-6%. Currently, joining the World Trade Organization (WTO) is considered by Uzbekistan as one of the ways to further liberalize foreign economic activity and more closely integrate the economy into global trends. When a country joins the WTO, the government needs to make adjustments to its economic policy, which include reducing import tariff rates, removing non-tariff barriers, and mechanisms for subsidizing and protecting certain sectors of the economy, which can significantly reduce the government's ability to implement import substitution

policies and influence certain sectors of the economy. In this regard, before joining this organization, it is very important for Uzbekistan to clearly understand its macroeconomic consequences and take appropriate measures to reduce the negative effects and maximize the benefits of such a step.

Shavkat Mirziyoyev, having become the new President of the Republic of Uzbekistan in 2016, began implementing large-scale reforms in all spheres of society. An Action Strategy was adopted on five priority areas of development of the Republic of Uzbekistan in 2017-2021, which reflected priority areas for improving the system of state and public construction, ensuring the rule of law and further reforming the judicial and legal system, developing and liberalizing the economy, developing the social sphere and security, interethnic harmony and religious tolerance, as well as implementing a balanced, mutually beneficial and constructive foreign policy. A number of key reforms in the economic sphere have been implemented as part of the implementation of the annually adopted State

programs for the implementation of the Action Strategy¹.

Uzbekistan has embarked on the path of transformation and building a more open and market-oriented economy. The Government of the Republic is undertaking large-scale reforms in the socio-economic sphere aimed at improving the investment climate, which has significantly increased the international image of the country. For example, in 2019, Uzbekistan was named the country of the year by the British edition of The Economist due to the democratic reforms that were implemented after the change of power in the country. The comprehensive reforms carried out in the economy in recent years have ensured relatively stable rates of economic growth².

In 2019, economic growth accelerated to 5.6%. On the supply side, the largest contribution to GDP growth was made by the service sector (1.7 percentage points), which increased by 5.1% compared to 2018. The share of the service sector in the sectoral structure of GDP was 35.5%. The industry saw an increase in value added by 6.6%, the contribution of industrial production to GDP growth amounted to 1.6 percentage points. The share of industry in GDP decreased compared to the previous year and amounted to 30%. In 2019, there was a positive growth rate of agricultural production at the level of 2.5%, the contribution of this industry to GDP growth was 0.7 percentage points, while its share in GDP decreased to 28.1%. There was also a significant increase in the volume of construction works by 19%, the contribution of the construction industry to GDP growth was 1 percentage point, and its share in the GDP structure increased to 6.4%. On the demand side, investments remained the main factor of economic growth – gross fixed capital accumulation increased by 33.9% compared to the previous year³.

¹ Указ Президента Республики Узбекистан «О стратегии действий по дальнейшему развитию Республики Узбекистан» от 7 февраля 2017 года №УП-4947 <http://www.lex.uz/ru/docs/3107042>

² The Economist's country of the year. Which nation improved the most in 2019? <https://www.economist.com/leaders/2019/12/21/which-nation-improved-the-most-in-2019>

³ Сиражиддинов Н., Султанова Г.К., Мингишев Л.У. Резюме научно-исследовательской работы по теме: «Социально-экономическое развитие Республики Узбекистан и Евразийское партнерство: стратегия и анализ тенденций» <http://inveb.ru/attachments/article/529/%D0%A3%D0%B7%D0%B1%D0%B5%D0%BA%D0%B8%D1%81%D1>

The reforms of recent years aimed at stimulating exports, optimizing imports and, in general, the policy implemented in the country in order to achieve a balanced foreign trade, led to an increase in the republic's foreign trade turnover by the end of 2019 to 42.2 billion US dollars, which increased by 8.7 billion US dollars, or 26.2% more than in 2018. This result is recorded as the highest indicator in the history of the country. Of the total WTO volume, exports reached 17.9 billion US dollars (growth rate - 128.0%), and imports – 24.3 billion US dollars (growth rate - 124.9%). The passive balance of foreign trade turnover in the amount of \$6.4 billion was noted. One third of the WTO volume falls on the CIS countries and in recent years there has been a downward trend in this indicator. This, in turn, indicates the expansion of the geography of foreign economic relations⁴.

The issue of Uzbekistan's accession to the Eurasian Economic Union (EAEU) has been actively discussed in the last few months. The following benefits were announced during public discussions: improving the status of our migrant workers in Russia and other EAEU countries, increasing the export of Uzbek products, primarily fruits and vegetables, to the EAEU and attracting investments from the EAEU member states into the economy of Uzbekistan.

At the same time, joining the EAEU is often considered as an alternative to joining the WTO, i.e. the EAEU is presented as a “mini-WTO”. Supporters of such a “mini-WTO” suggest that the EAEU will help Uzbekistan, among other things, significantly reduce the size of the shadow market, get rid of the monopoly of the domestic automotive industry, reduce duties, eliminate discriminatory excise taxes, and improve competition due to closer integration with the EAEU countries.

However, it remains unclear how these goals will be coupled with the expected strengthening of protectionist policies towards export-oriented industries of goods and services. Such “strengthening” is aimed at reducing imports by increasing duties, excise taxes, the use of non-tariff barriers, etc. How will such “strengthening” relate to the negotiations with the EAEU and at the same time the WTO? What should (or should not) be expected from deeper integration with the EAEU while

http://web.stat.uz/open_data/ru/makroko'rsatkichlar1_ru.pdf

⁴ Данные Государственного комитета по статистике Республики Узбекистан <https://cbu.uz/ru/monetary-policy/annual-inflation/>

postponing the issue of WTO accession? Do we always clearly understand what the EAEU is and what awaits us there?

Participation in integration processes is natural in the modern world, however, it is very important to understand the sequence in the stages of integration. When WTO member countries are ready to participate in a deeper degree of integration on certain issues/sectors, this is quite a consistent solution. But the situation in which a country strives for a deep degree of integration without passing legislative and institutional reforms within the framework of WTO accession is a rather paradoxical solution.

Nevertheless, there is no deep understanding in society of what the EAEU is, what its ultimate goals are and at what stage it is on integration issues. In this article we will try to clarify some aspects of the EAEU activities. We will also discuss the degree of Uzbekistan's readiness to participate in various integration processes taking place in the EAEU. We do not consider here the political aspects of the expediency or in expediency of Uzbekistan's accession to the EAEU, focusing only on trade, economic and legal aspects.

As a source of data on the situation in the EAEU, this material uses the study by Yuri Kofner "Did the Eurasian Economic Union (EAEU) create a common market for goods, services, capital and labor within the Union?". This study provides a lot of data and facts, with an appropriate analysis of not only the existing situation on the "four freedoms" in the EAEU, but also the prospects for their implementation in the future. To date, this is one of the most in-depth analyses of the real situation in the EAEU⁵.

The welfare effect of joining the EAEU

In the end, whether or not Uzbekistan will join the EAEU will depend on whether Uzbekistan will receive a real increase in well-being from integration within the EAEU. In any regional integration processes, two largely contradictory effects arise - the effect of creating and the effect of rejecting trade. They are best considered on the example of the Customs Union (they are also called static effects, distinguishing from dynamic effects that occur in the long term).

The effect of creating a trade. As a result of the creation of the customs union, a situation may arise when goods that have traditionally been purchased on

⁵ Умида Хакназар, Зиёдулло Парпиев "ЕАЭС: Вступать нельзя откладывать" <https://www.gazeta.uz/ru/2020/01/30/eeu/>

the domestic market will be more expensive than the same goods produced abroad. If before the creation of the Customs Union, local producers were protected by import duties, which made it unprofitable to purchase goods abroad, then after their abolition within the Customs Union, foreign goods turned out to be cheaper than local ones, and consumers began to buy it from abroad⁶.

As a result of the substitution of an internal producer by an external producer, trade arises where it did not exist before. This leads to the fact that resources will be used more efficiently. Thus, the creation of trade (trade creation) is the reorientation of local consumers from a less efficient internal source of supply of goods to a more efficient external source (import), which became possible as a result of the elimination of import duties within the Customs Union.

Such effects as reduced transport costs; access to new markets; free movement of labor resources between countries create trade. At the same time, the effect of creating trade for Uzbekistan is reduced due to the fact that the country is already a member of the CIS Free Trade Zone and conducts duty-free trade with the CIS countries, including the EAEU member states⁷. This fact means that Uzbekistan will not receive significant benefits due to the removal of customs barriers in the event of joining the EAEU.

The effect of trade rejection. The creation of the customs union means granting mutual trade preferences by its members to each other, but not to other countries. As a result of the mutual elimination of customs duties, both the effect of creating trade and the effect of rejecting trade may arise, which is essentially the opposite of the effect of creating trade, since the source of supply of goods from countries participating in integration is not always the most effective source.

Often, countries that do not participate in integration, but are fenced off from it by a common customs barrier of integrating countries, could ensure the supply of the same goods at significantly lower prices. Thus, the deviation of trade (trade diversion) is the reorientation of local consumers from the purchase of goods from a more efficient non-integration source of supply to a less effective intra-integration source, which occurred as a result of the elimination of import duties within the Customs Union.

⁶ Умида Хакназар, Зиёдулло Парпиев "ЕАЭС: Вступать нельзя откладывать" <https://www.gazeta.uz/ru/2020/01/30/eeu/>

⁷ Умида Хакназар, «Присоединение Узбекистана к зоне свободной торговли СНГ: союз без обязательств?»

The effect of trade deviation is manifested, on the one hand, through a decrease in the welfare of the population, faced with a rise in the cost of imported goods, and on the other, through a decrease in government revenues. Let's focus on this effect in more detail⁸.

In cases where Uzbekistan's import duties before joining are lower than the EAEU tariffs (for example, on aircraft), a sharp increase in prices should be expected due to the adoption of the union tariffs. All countries, with the exception of Russia, have experienced such an increase in prices. For example, before Kazakhstan joined the Customs Union in 2011, the average level of import duties was 6.2%, with the formation of the ETT, the average level of import duties on goods from third countries became 10.6%. Armenia and Kyrgyzstan also experienced a jump in prices due to higher tariffs of the EAEU. The increase in tariffs leads to a decrease in trade and there is a decrease in the welfare of the country.

In cases when the initial level of tariffs in Uzbekistan is higher than in the EAEU ETT, they are reduced to the level of ETT. For Uzbekistan, this can increase prosperity by increasing trade (creating trade), but it should also be expected that those industries that flourished under high protectionism may turn out to be economically untenable.

The answer to the question whether the accession of Uzbekistan will have a positive impact on well-being depends on which effect - the effect of creating or rejecting trade - prevails in each particular case.

In addition to the static effects that manifest themselves immediately after the country's accession to the Customs Union, there are also dynamic effects of economic integration that manifest themselves in the longer term. These effects can also be both positive and negative. Let's briefly list both negative and positive dynamic effects

For a long time in economics, the theory of the 'second best' was considered another weighty argument in favor of joining regional customs unions. For example, the best option for Uzbekistan is to join the WTO, but it is not available due to the lack of political will or the influence of all-powerful lobbyists. Then the theory of the «second best» says that a less desirable, but more affordable option for integration into the world economy is to join the EAEU.

⁸ Умида Хакназар, Зиёдулло Парпиев "ЕАЭС: Вступать нельзя откладывать"
<https://www.gazeta.uz/ru/2020/01/30/eEU/>

However, by eliminating tariffs within the customs Union, at the same time the Customs Union maintains high barriers in relation to third countries. It may turn out that instead of integrating into the world economy, the country is integrating into the regional economy with dubious prospects. The theory of the «second best» may be illusory, and there is no alternative to the policy of multilateral free trade, that is, the WTO.

Uzbekistan's position towards the EAEU is twofold: on the one hand, the EAEU member states want Uzbekistan to become a full-fledged member of the EAEU. On the other hand, Uzbekistan's trade regime, which has been formed over 25 years of import substitution and protectionism policy, does not allow the country to actively integrate into the process of creating a full-fledged economic union. As noted above, in order to demand corrections and improvements in legal and institutional regulation within the framework of the EAEU, it is necessary to demonstrate a steady desire expressed in concrete reforms in the field of economic liberalization.

In this sense, WTO accession can become an effective mechanism for reforming the regulatory and institutional system affecting trade and its further strengthening. Therefore, first of all, it is necessary to accelerate the process of joining the WTO and make more active use of trade development opportunities within the framework of the CIS Ozone Free Trade Agreement. In this regard, serious investments will be required in training and retraining of personnel in all areas related to international trade.

Bibliography

- [1] Указ Президента Республики Узбекистан «О стратегии действий по дальнейшему развитию Республики Узбекистан» от 7 февраля 2017 года №УП-4947 <https://www.lex.uz/ru/docs/3107042>
- [2] The Economist's country of the year. Which nation improved the most in 2019? <https://www.economist.com/leaders/2019/12/21/which-nation-improved-the-most-in-2019>
- [3] Сиражиддинов Н., Султанова Г.К., Мингишев Л.У. Резюме научно-исследовательской работы по теме: «Социально-экономическое развитие Республики Узбекистан и Евразийское партнерство: стратегия и анализ тенденций» http://inveb.ru/attachments/article/529/%D0%A3%D0%B7%D0%B1%D0%B5%D0%BA%D0%B8%D1%81%D1%82%D0%B0%D0%BD_%D1%80%D0%B0%D0%B7%D0%B2%D0%B8%D1%82%D0%B8%D0%B5.pdf

- [4] Данные Государственного комитета по статистике Республики Узбекистан http://web.stat.uz/open_data/ru/makroko'rsatkic_hlar1_ru.pdf, Центрального банка Республики Узбекистан <https://cbu.uz/ru/monetary-policy/annual-inflation/>
- [5] Умида Хакназар, Зиёдулло Парпиев “ЕАЭС: Вступать нельзя откладывать” <https://www.gazeta.uz/ru/2020/01/30/eeu/>
- [6] Умида Хакназар, «Присоединение Узбекистана к зоне свободной торговли СНГ: союз без обязательств?»

