

Recent trends and developments in Central Asia's trade: Uzbekistan's case

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Introduction

The issue of involvement of Central Asian Republics (CAR) into World trade following their independence and market reforms after 1990's has been subject of many geopolitical and economic debate. Right after collapse of Soviet Union the countries took the course of economic liberalization for the first time under the country specific circumstances and started market reforms under the similar conditions. So far CARs have reached different levels of economic development and have varying level of involvement in international trade.

There are a number of features that make trade of CARs much interesting topic to discuss. First of all, Central Asia has to overcome its inconvenient geographic location, i.e landlockedness and limited or no access to seaports. The region is one of the two large concentrations of landlocked developing countries in the world. Being landlocked, Central Asian countries have a population of around 70 million people, ranking 5 among Asian subregions by populations. These landlocked developing countries are similar in terms of economic development and exceptionally dependent upon their foreign trade and transit connections as a source of economic diversification. Thus CAR has to search for the alternatives for its inconvenient location to trade with developed and other distant countries and reap benefits from participation in international trade.

On the other hand, the CAR's location is very strategic for other countries as it is located at the crossroads between Europe and South and East Asia. Besides, the region is so close to some of the world's biggest and fastest growing markets, such as China, India, and Russia. Moreover, the Central Asian Countries have inherited significantly integrated transport routes from the Former Soviet Union, which cross their national borders but they are not yet fully integrated into international transport networks. As mentioned above, CARs started their economic reforms in the same period of time under similar economic conditions (high inflation, unemployment, weak or absence of national currency), but they have reached different level of integration to world economy. More precisely, some of them achieved trade liberalization including currency exchange reforms which facilitated their trade with east and west, when some are still maintaining protectionist trade policy in order to solidify competitiveness of national economy. Even though the countries have achieved varying levels of economic development, there are still common development patterns as they shared history, governance structure, the same economic policy three decades ago. Thus this article takes closer look at the Uzbekistan's case, as the most populous country and the 2nd biggest economy in Central Asia, which is still classified as lower middle income country (World Bank, 2022). We aim to arrive

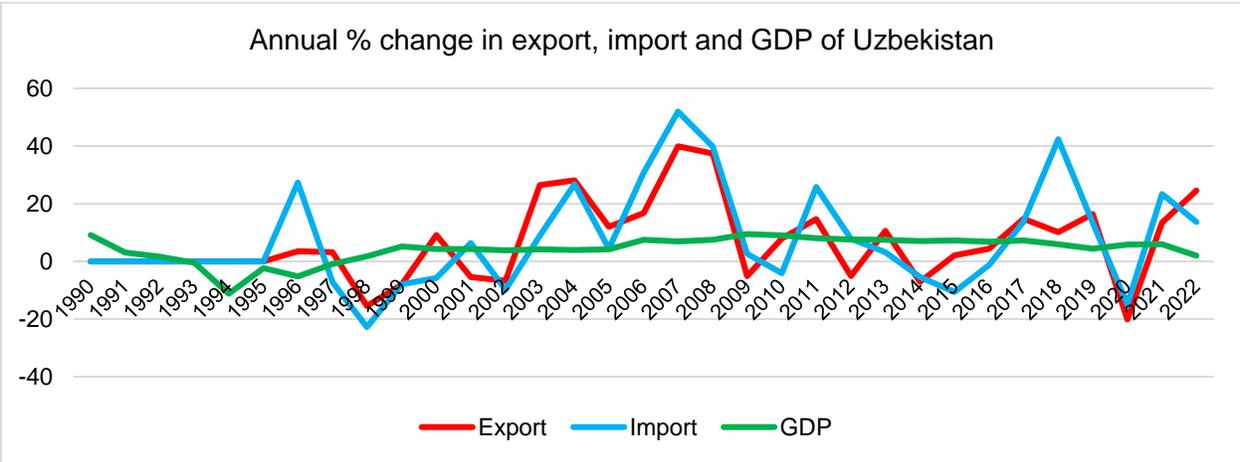
at policy recommendations and conclusions on trade policy, examining how product and market structure have changed and how trade policy has been shaped since independence.

How did trade structure change over time in Uzbekistan?

Since Uzbekistan set out to build an economy based on free market principles, structural reforms have been conducted in evolutionary manner without sudden and unexpected leaps. In the initial years after disintegration from the Soviet Union, the country’s economy was resource dependent, being vulnerable to price volatility of raw cotton and minerals in the world market, which highlighted pressing need for diversification of trade. Uzbekistan’s foreign trade has been uneven throughout the whole period. It is worth noting though that the country has demonstrated notable growth in terms of all trade indicators up to the present. In particular, exports of goods and services grew eight-fold over the past 30 years. Obviously, exports of the country experienced on average 26.5% annual increase during 2003-2008, supported by devaluation of the national currency, strong external demand and the rise in world commodity prices. Growth of merchandise imports averaged 23.7% per annum during the same period, driven by strong domestic demand and the rise in import prices.

Growth of exports decelerated noticeably in 2009 because of the global financial economic crisis, weakened external demand and the fall in export prices. It underwent modest increase in the following years, as the world economy began to recover, external demand started to strengthen, and export prices began to rise. Imports of goods and services declined in 2009-2010 due to slower economic growth, reduced availability of foreign exchange, and lower import prices. Afterwards, Uzbekistan’s imports began to expand in 2011 as economic activity picked up and import prices rose.

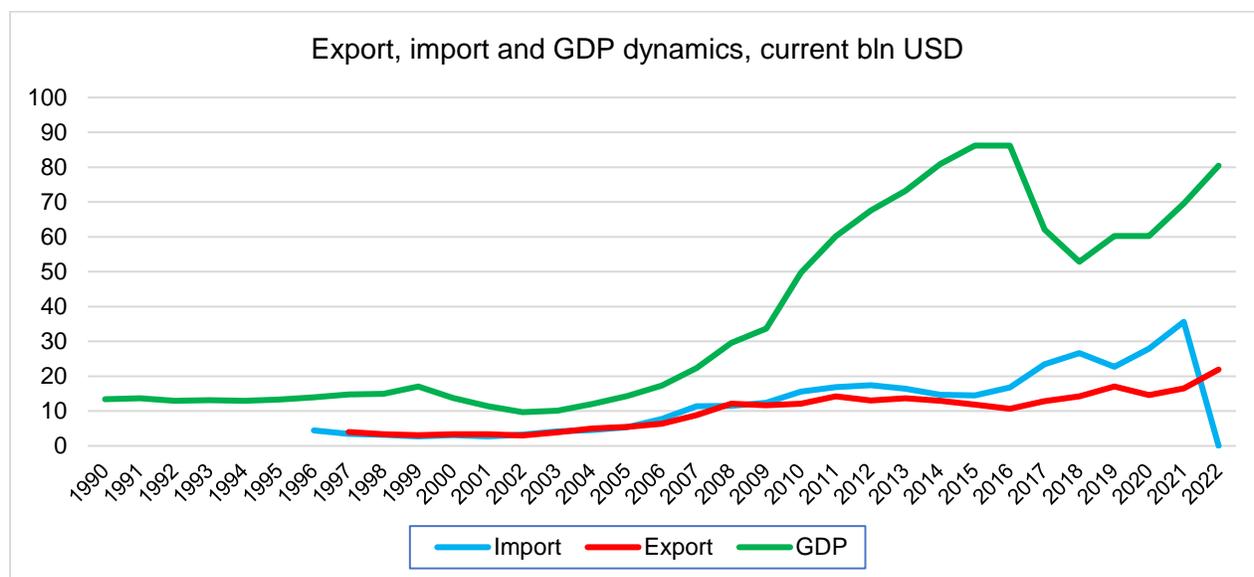
Figure 1. Annual percentage change in the volume of GDP, exports and imports of Uzbekistan, 1990-2022



Uzbekistan’s transition into floating exchange rate system, and depreciation of national currency in relation to other major currencies created favorable condition for the country’s export, which can be observed as a

surge after 2017 in Figure 1. Recent global pandemic has also hit the country's foreign trade, which is reflected by decline both in imports and exports, as global supply chains were heavily affected.

Figure 2. Dynamics of export, import and GDP in Uzbekistan, current bln USD, 1990-2022



Source: World Bank, 2022 (www.data.worldbank.org)

How did trade structure transformed over time in Uzbekistan?

If one closely scrutinizes Uzbekistan's foreign trade, its product and market composition has gone through some structural changes over the last two decades. The country's economy was hugely dependent on natural resource exports since obtaining foreign currency was vital for addressing the issues of structural changes, unsatisfied domestic demand. Raw cotton, minerals and precious metals were major export commodities making up almost 70 percent of export in 2000s. Resource dependence made the country very vulnerable to the price volatility of these commodities in the global market, which also can be observed in annual change of export line in Figure 1. Decline in the prices of ginned cotton and gold corresponded with the periods of sharp contraction in Uzbekistan's total export over 1997-2002, and decline in country's GDP.

The composition of Uzbekistan's import reflects the prioritization of imports of cars and equipment, whose total imported volume was the biggest in the region. It reflects the policy of the government aimed at the industrial development, and the extent of state control over currency which can be used for purchases of vital products. Since machinery and equipment are given priority in the imports of Uzbekistan, the largest expansion in share was recorded in this particular category. Comprising only 9,2 percent of imports in 1992, machinery and equipment purchase increased fivefold in 2000s, remaining the largest category of recorded imports of goods in 2021. The rise of metal imports in recent years can be explained by the development of domestic production of cars, and other electrical equipment in Uzbekistan, which use these commodities

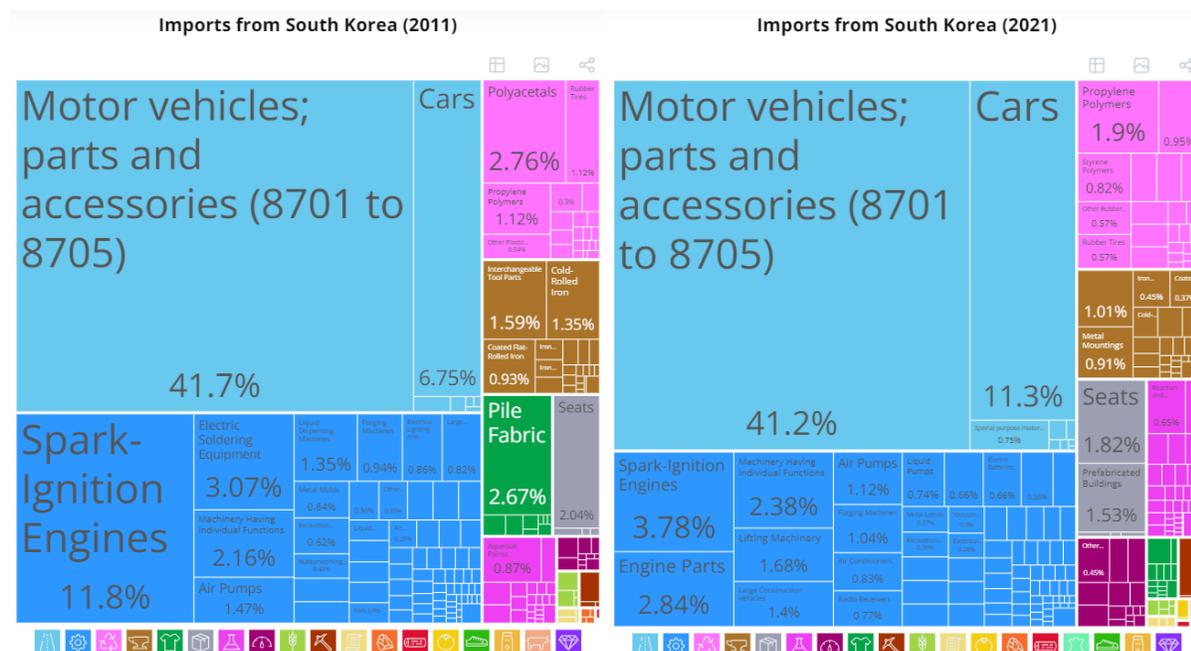
as raw material. In short, Uzbekistan have been mainly importing more products which is costly to produce domestically while exporting less sophisticated, refined and processed commodities.

Even though the share of raw cotton and other unprocessed products has noticeably shrunk over two decades between 2000 and 2021, the country foreign income is still heavily dependent on natural resource exports. More specifically, gold accounted for almost 30 percent of the country's exports. As for the import structure, it also did not go through any profound changes. Uzbekistan is continuing import of higher value added and more sophisticated product purchase from abroad within 20-year period.

Market structure of foreign trade of the country also has gone through some transformations in line with country foreign trade policy of the country. Countries other than CIS dominated in the country's import of high technology goods in order to reequip the real sector. While CIS countries are still remaining major trade partners of Uzbekistan, the country has turned towards trade with China. In 2000 China merely made up for 1 % of Uzbekistan's foreign trade, whereas at the present it is Uzbekistan's biggest import and export partner. Composition of export from Uzbekistan to China includes cotton yarn and minerals, whereas machinery, garment products and metals are the largest imported items from China.

Imports of goods from the other Central Asian countries more than tripled and Kazakhstan remained the top origin country in Central Asia for imports of goods. Merchandise imports from Kazakhstan more than quadrupled due mostly to increases in imports of energy products, flour and ferrous metals, which comprised more than three-fourth of merchandise imports from Kazakhstan in 2021.

Figure 7. Uzbekistan's import from South Korea, 2011 - 2021



Source: [OEC](#)

South Korea has remained Uzbekistan's one of the main origins of automobile sand industrial machinery, becoming 4th biggest import partner. Imports of goods from South Korea expanded primarily due to increases in imports of automobile components and spare parts, machinery and equipment, which comprised more than four-fifths of merchandise imports from South Korea in 2021 (Figure 7). In comparison to 2000s, South Korea's share in Uzbekistan's import has shrunk to 8 percent from previous 13 percent (OEC world), even though the structure of the import remained relatively unchanged.

South Korea's share in Uzbekistan's export decreased to 0.2 % from 0.59 % (to 29.6 mln USD from 36 mln USD) between 2011 and 2021 (Figure 8). The biggest change one can notice in the export of Uzbekistan to South Korea is relative diversification over the last 10-year period. Whereas chemicals (uranium) and raw textile materials such as cotton yarn were the two main biggest export items from Uzbekistan to South Korea in 2011, in 2021 export became more diversified and distributed among several product categories. To be specific, Uzbekistan started exporting paper goods, heavy metals, minerals, agricultural products along with chemicals and cottons, which dominated the country's export previously. However, resources and raw materials still dominate the export of Uzbekistan to South Korea.

Figure 8. Uzbekistan's exports to South Korea, 2011 - 2021



Source: [OEC](#)

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In conclusion, the country's foreign trade is still concentrated on few countries which again puts Uzbekistan's trade at risk in the face of geopolitical changes and highlights the need for geographic diversification of trade. One possible argument for the need to diversify the trade geography is recent consequences of Russia-Ukraine war, sanctions against Russia by the West, and secondary sanction towards Russian trade partners.

Trade policy: the status quo and how it can be geared towards development

Overview of the Uzbekistan's foreign trade and policy suggest that some progress towards overcoming logistical and institutional impediments for foreign have been achieved. However, the following challenges still need to be addressed in order to leverage foreign trade potential:

Trade policy in general. Since 1991 trade regime of our country went through several stages from protectionism towards liberalization of trade. Despite the fact that import liberalization attempts were taken by switching to floating system and lifting trade barriers for certain sectors, considerable tariff regulations for imports in order to develop national industrial potential exists. Average tariff rates are still higher than regional and world average. Besides Uzbekistan is remaining one of the few countries which has not yet joined World Trade Organization, which would make room for improved competition in the domestic market, quality improvement, and increase of the varieties of goods and services. The cases from other countries imply that pursuing import substituting policy for a long time may lead to increase in domestic prices, give rise to illegal imports, limit competitive environment and hinder technological development. So, government should be able to make wise selection while deciding on protection of perspective sectors.

Transactional costs. Sophisticated nature of the procedural formalizing of external trade operations has the negative impact on the efficiency of transportation and finally to foreign trade.

Number of procedural documents required for export and import of goods respectively comprises the following figures: China 8 and 5 procedural documents, Iran 7 and 11, Kazakhstan – 10 and 12, Kirgizstan – 9 and 10, Russia – 9 and 11, Tajikistan – 11 and 12, and Uzbekistan – 11 and 13. In addition to that, there are some issues connected to organization of risk management at the customs offices – as of today, practically 100% of freight and passenger traffic flows both at entry and at exit are subject to customs inspection. All this leads to elongation, in terms of time, of the customs procedures and to delays in the course of export, import and transit of goods.

Despite implementation of a number of measures on simplification of customs administration and reduction in numbers of the documents for customs registration, relatively long terms of export and import procedures are remaining one of the main barriers for further expansion of foreign trade.

Transportation costs. Since one of the strategic objectives of Uzbekistan is to enter perspective new markets for Uzbek goods in the course of transcontinental supply of commodities, simultaneous establishment of mutually beneficial cooperation with the neighboring and other countries can be achieved by resolving the problem of transport and communication. As Uzbekistan is doubly landlocked, transportation costs account for almost 50 percent of the price of cross border trade.

The most important characteristics of international transport corridors going through the territory of Uzbekistan include their linkage to administrative centers, the biggest of which is Tashkent. For the specific part of the crossing points at the border it is representative to have insufficient capacity due to their weak technical equipping, including utilization of information and communication technologies in the work of the customs service. This leads to delays and protraction of the inspection procedures of transit goods on the part of the authorized bodies, detention of transport vehicles at the border, etc. In connection with the grow of volumes of international road freight transportation, the time for crossing of the mentioned points by the large trucks comprises 5 days, that is negatively affected on the transit attractiveness of the road corridors of the country.

As of today, the main transport corridors going through the territory of Uzbekistan, not to the full extent possesses required infrastructure. According to World Bank's the latest logistic performance index, the country still needs significant improvements with regard to ease of customs procedure, quality of infrastructure and logistics.

Problems related to financial and technical support for exporters:

- the lack of information on an environment of foreign markets, inefficient operation of Uzbek trading houses and representative establishments abroad;
- insufficient market skills and knowledge among economic units involved in the foreign economic relations caused by poor access to regional and world markets, low legal and technical experience, both of which are integral part of foreign economic practice;
- the undeveloped system of technical assistance in the key areas of foreign economic relations;
- a comparatively low level of coordination among state agencies, including those directly involved in foreign economic relations
- underdeveloped system of financing, insuring foreign trade by commercial banks.

Perspectives on Uzbekistan – South Korea trade partnership

Along with political, cultural and developmental partnership, trade places South Korea among the top partners of Uzbekistan in the Asia Pacific region. Although there are insufficient studies on the subject, differences in culture, language and geographical distance, cumbersome customs procedure are among the mostly cited factors hindering trade exchange between Uzbekistan and South Korea (Khodzaev, 2012). Therefore, there is a noticeable growth in Korean FDI and investment in Uzbekistan, rather than cross border trade, which usually does not involve high logistics costs related to moving cargo from one point to another. Following the Most Favored Nation Treatment which was signed in 1992, representatives of the two countries met during the 13th Central Asia-South Korea Cooperation Forum in Seoul in November 2020, in which they discussed removal of remaining trade barriers and improving product quality and competitiveness. In January 2021, discussions of a so-called bilateral free trade agreement the "Agreement for Sustainable Trade and Economic Partnership" (STEP) were started, but not yet finalized. There are already high number of joint-stock companies operating in Uzbekistan, which are mostly concentrated on heavy industry such as oil and gas. Apart from these sectors, tourism, education, and healthcare seem to be promising areas in Uzbekistan which would benefit from Korea's excellence in these industries.

Moreover, wide scale realization of measures directed towards diversifying market and product structure, liberalizing trade by reducing tariffs, further improvement of customs and tariff regulations of foreign trade, unification of tax and customs administration, development of consistent infrastructure of foreign trade might ensure efficiency of foreign trade and leveraging potential of trade to achieve economic growth in Uzbekistan.

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