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Facilitating exports of Uzbekistan: creation of favorable environment and effective institutions

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Introduction

Current development of the world economy features globalization of international economic ties, expansion and enhancement of economic interaction among the countries, lowering of trade barriers and growing interdependency of nation-states. In the modern world, the rates of economic growth of a country and living standards of its population in many respects depends on the extent of how comprehensively the country has embraced the advantages of globalization and international division of labor.

Further integration of Uzbekistan into the world economy is tightly related to the enhancement of economic reforms and structural transformation of the national economy. Emergence and development of private sector as well as development of market infrastructure are the most important prerequisites for establishment of effective market mechanism, i.e. emergence of truly competitive environment. Hence naturally the development of Uzbek exports, particularly of processed products, can and must become an important element of structural transformation and technological modernization of national economy and its competitiveness.

In this regard, the issues of development and realization of the export potential of Uzbekistan as well as promotion of export operations of foreign trade entities are of paramount importance and relevance in the current stage of economic transformations. Furthermore, the significance of exports as a factor of support for manufacturing and source of hard currency is substantial. For instance, exports accounted for 40 percent of Uzbekistan's GDP in 2004, and foreign trade surplus amounted to nearly one billion U.S. dollars. Thus, the exports have ensured the inflow of substantial financial resources into the country, including into the national budget.

In the meantime, there are unaddressed issues facing Uzbekistan, which are related to reduction of country's dependency from the export of raw materials, diversification of exports and export markets as well as increase in the export of the goods with high value added. Expansion of the opportunities for access of the private sector including small businesses to the external markets and assistance in their export activities are the most important issues requiring effective solutions.

Hence this report is an analytical underpinning for effective and sustainable development of export potential of Uzbekistan, which would be impossible without creation of conducive environment and effective institutions to assist in facilitation of Uzbek exports.

Core objectives of this report are to review the current state of export facilitation in Uzbekistan and develop recommendations to create the environment and institutions to enhance export efficiency by reducing transaction costs of export operations by foreign trade actors and enhancing the performance of national export facilitation institutions.

The following issues have been raised and addressed in the report:

- ❖ Study of international experience of developed and developing nations in trade promotion and export facilitation¹;
- ❖ Review and assessment of the current state, trends, and structural shifts in Uzbek exports in recent years (2000 - 2002)
- ❖ Identify problematic aspects hindering export development, and identification of opportunities to reduce transaction and other costs in export operations;
- ❖ Critical analysis of the role and functions of the institutions promoting the development of export operations of Uzbek companies;
- ❖ Develop practical recommendations to enhance the competitiveness of local manufacturers and efficiency of export operations.

In order to address these tasks national experts have developed the "Map of Export Procedures" (Annex 4.1.), questionnaires were put together to conduct in-depth interviews and expert survey where

¹ See, Annex 1 and 6.

local exporters, forwarders, and representatives of transport organizations were involved (Annex 5). Then, a survey was conducted in Tashkent by assistance of the Center for Social and Marketing Research “Expert Fikri” and its outcomes formed the underpinnings for review of transactions costs of export operations and development of proposed actions for growth of export potential, product range, and export diversification (Annex 7).

In light of the above-mentioned, the first section briefly describes the current state of external trade of Uzbekistan and competitiveness of its exports. The second section identifies the main factors hindering effective development of national export operations and reviews the transaction costs of export operations. The third section of the report is dedicated to identification of main areas for improvement of government actions to facilitate exports in Uzbekistan.

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Section 1. Foreign trade and promotion of Uzbek exports

1.1. Promotion of Uzbekistan's foreign trade and competitiveness of its exports.

Foreign trade, particularly exports is an essential component of national economy. As displayed in the following table, the share of exports in Uzbekistan's GDP grew by 1.5 times for the last 5 years and stood at 40.6 percent in 2004. Sustainable growth of exports is an important factor in country's economic growth.

Table 1.1. Trends in Uzbekistan's foreign trade

	2000	2001	2002	2003	2004
Export of goods (mln. USD)	2815.6	2803.6	2513.5	3190.1	4279.4
Growth in percentages	-3,9	-0,5	-10,4	26,9	34,1
Import of goods (mln. USD)	2696.4	2814.6	2425.7	2663.5	3391.5
Growth in percentages	-5	4,4	-13,8	9,8	27,3
Exports/GDP (%)	26.5	30.8	31.6	36.8	40.6
Imports/GDP (%)	26.7	31.9	31.0	30.7	31.9
GDP growth (%)	3.9	4.2	4.2	4.4	7.7

Source: State Statistics Committee, 2005

Yet it is notable that higher ratio of exports against GDP does not imply a liberalized foreign trade regime. As the international experience has shown, ratio of national exports to GDP depends more on the country's scale and self-sufficiency in natural resources, rather than liberalization of foreign trade. In many developing countries (except for major countries like India, Brazil and China), including the ones with strong protectionist regime against foreign trade, share of exports in GDP exceeds 30 percent and more².

It is assumed in theory that a lion's share of a land-locked country's foreign trade should be oriented towards the adjacent countries (CIS in our case)³, however, due to the emerged commodity composition of foreign trade, Uzbekistan has found reliable partners in the countries of so-called "far abroad".

Table 1.2. Geographic distribution of Uzbekistan's foreign trade in 2000-2004 (%)

	2000	2001	2002	2003	2004
Foreign trade turnover	100	100	100	100	100
CIS countries	37,0	35,7	32,0	31,5	34,6
Countries of far abroad	63,0	64,3	68,0	68,5	65,4
Exports	100	100	100	100	100
CIS countries	35,9	34,2	27,6	26,0	31,5
Countries of far abroad	64,1	65,8	72,4	74,0	68,5
Imports	100	100	100	100	100
CIS countries	38,2	37,2	36,9	38,3	38,6
Countries of far abroad	61,8	62,8	63,1	61,7	61,4

Source: State Committee for Statistics, 2005

² N. Sirajiddinov, "Issues in enhancing the effectiveness of foreign trade", monograph, UWED, Tashkent 2004.

³ For instance, EU accounts for more than 60 percent of total Swiss exports. Switzerland is located in the middle of Europe, and despite being land-locked, its convenient geographic location enables her efficiently use her comparative advantages.

Assuming the existence of a link or even interdependency between being land-locked and respective economic policy or reform, then it is imperative for Uzbekistan to redefine the composition and distribution of its external trade, main suppliers, and consumers.

In the meantime, capitalizing on comparative advantages or raising capital for development of export sectors is feasible only given certain prerequisites, which may not always be available for a land-locked country located far from major markets and with no feasible access to reliable transit routes to the seas. Copying export-oriented growth strategy that was successful in one part of the world does not necessarily mean it will bear needed results in the country with remote location from world markets.

Box 1. Government actions to stimulate exporters in South Korea

In 1961-1973 South Korea conducted aggressive policies for export facilitation along with protection from imports. Tight control over trade and exchange rates were combined with consistent financial and industrial policy. Trade policy was clearly oriented towards export facilitation, while being rather neutral towards the composition of exports. Exporters were supported through multiple exchange rates, direct financial infusions, permits to use hard currency earned for import of goods they needed, and permission to raise loans in foreign currency. Concurrently Korean exporters were eligible for significant deductions in imports control and customs preferences. Support was also provided by the government-controlled banking sector. The government used to determine the activities or industries in need of bank loans. These loans often were preferential. Export operations were used as collateral of the borrowers.

However, this strategy sets significant requirements to the government staff and government to have clear strategy and sufficient authority to uphold their position in order to implement this strategy despite all resistance and conflict of interests.

Source: World Bank, Moscow, 2005.

Currency market of Uzbekistan was liberalized in 2003, thus eliminating sharp disproportions related to distortions of multiple exchange rates. Year 2003 was also the year of growing prices for major raw commodities exported by Uzbekistan such as gold, cotton fiber, copper, etc. Unification and devaluation of local currency as well as the economic growth in the CIS countries, particularly Russia and Central Asian countries have become major factors in enhancing competitiveness of local producers and achievement of substantial foreign trade surplus in recent years.⁴

Yet review of the factors with the strongest impact on the growth of exports in the recent years reveals the two: growing world prices for raw commodities; and devaluation of local currency.

Table 1.3. Trends in Uzbek exports and prices of raw commodities in the world markets in 2000-2004.

Year	Commodity exports – total	Including (%)					Indices of world prices (2000-100)			
		Cotton fiber	Precious metals (GS 71)	Energy resources	Non-ferrous metals	Other commodity exports	Cotton fiber ⁵	Gold ⁶	Natural gas ⁷	Copper ⁸
2000	100	31,86	25,12	11,90	7,02	24,10	100	100	100	-
2001	100	28,30	30,97	11,52	7,19	22,04	81,2	97,1	109	100
2002	100	26,65	34,70	9,69	6,55	22,41	78,3	110,9	115	106,7
2003	100	23,17	35,14	11,42	6,06	24,21	107,3	130,2	121	147,0
2004	100	20,47	30,39	14,06	7,24	27,84	104,9	146,8	131	214,7

Source: State Statistics Committee, 2005

As illustrated in the table above, raw commodities accounted for 64 percent of total exports in 2004. In comparison with Year 2000 the share of raw commodities in overall national exports decreased by 4 percent. Export of non-raw commodity goods grew by nearly 76 percent in the last five years (Table 1.4.). Hence, the following conclusions may be made: first, traditionally large share of raw commodities

⁴ In 2004 foreign trade surplus slightly exceeded USD 1 billion.

⁵ Source: www.cotton.org

⁶ Source: www.kitco.com

⁷ Source: estimated based on average annual growth of export prices of natural gas to Russia and Europe

⁸ источник: www.nymex.com

in overall cost composition of national exports is preserved⁹, this figure was reduced by 4 percent since 2000 despite high world prices for raw materials; secondly, faster growth of world prices than growth of cost volume of raw commodity exports may mean lack of growth in physical volume of raw materials in the reviewed period¹⁰.

In addition to growing world prices for major raw commodity exports of Uzbekistan, other factors such as devaluation of local currency and economic growth of CIS economies have positively impacted the growth of exports. These factors ensured higher rates of growth of the non-raw commodity segment of Uzbek exports.

Table 1.4. below illustrates trends in the Uzbek non-raw commodity exports.

Table 1.4. Trends in the Uzbek non-raw commodity exports in 2000-2004 года

Год	Exports total %.	В том числе (%)							Exchange rate as of year end	GIP ¹¹ (%)
		Machinery, equipment, etc.	Foodstuffs	Vehicles	Chemical products	Services	Textiles	Other ¹²		
2000	3264,7	44,4	176,4	67,4	90,9	449,1	237,6	2198,9	325,0	5,9
2001	3264,9	39,1	124,9	83,8	80,5	461,3	224,8	2251,0	686,9	7,6
2002	2988,4	31,1	105,7	70,9	85,4	474,9	192,8	2013,1	970,0	8,5
2003	3425,0	116,6	102,1	101,7	95,0	534,9	245,9	2228,8	979,4	6,2
2004	4853,0	153,7	186,8	203,9	171,5	573,6	247,9	3315,6	1058,0	9,4

Source: State Committee for Statistics, 2005

In 2004 non-raw commodity exports (including services) accounted for 36 percent of total exports. In 2004 distribution of non-raw commodity exports was as follows: textiles, chemicals, foodstuffs, vehicles (mainly cars), equipment and other industrial products as well as services to the non-residents. During the review period nominal exchange rate was devalued more than six times and amount of cost volume of non-commodity exports grew by 1.5 times. Industrial production grew by 35 percent in this period.

Table 1.5. Composition of non-raw commodity exports of Uzbekistan in 2000-2004 (%)

Year	Total exports (in mln. USD).	including						
		Machinery, equipment, etc.	Foodstuffs	Vehicles	Chemical products	Services	Textiles	Other
2000	100	1,4	5,4	2,0	2,8	13,8	7,3	67,3
2001	100	1,1	3,8	2,6	2,5	14,1	6,9	69,0
2002	100	1,5	3,5	2,4	2,9	15,9	6,5	67,4
2003	100	3,8	3,0	3,0	2,8	15,6	7,2	63,9
2004	100	3,9	3,8	4,2	3,5	11,8	5,1	67,6

In the meantime, composition of non-raw commodity exports shifted in 2000-2004. If export of services made up 13.8 percent of total exports, in 2004 its share was reduced to 11.8 percent, although exports of services has topped among the non-raw commodity exports in this period. It is notable that the share of services in the exports was growing in 2000-2003 but it contracted in 2004. As for textiles, there is a clear and consistent reduction of its share from 7.3 percent to 5.1 percent. But there have been no significant shifts in terms of costs in this period. It is particularly notable that the share of goods where

⁹ This can be broken down into the following groups: cotton fiber, precious metals, energy resources, and non-ferrous metals.

¹⁰ Large investments are essential for increase in physical volume of major commodities, and their effect will be visible only after several years.

¹¹ Growth in industrial production

¹² With 5 percent deviation, volume for exports in this line coincides with the sum of four major raw commodity exports of Uzbekistan (see Table 1.1.).

Uzbekistan has “recognized” comparative advantages has been falling relative to overall exports in 2004.

Box 2. Carmaker Uz-Daewoo increased output by 97.7%

Uzbek-Korean joint venture Uz-Daewoo Auto produced 26,290 cars in January-March, 2005, which signifies 97.7 percent increase against the same period of the previous year, reported State Statistics Committee of Uzbekistan. The carmaker manufactured 70,070 cars in 2004, 57.8 percent greater than the previous year. Last year the carmaker exported 35,659 cars primarily to Russia (17,002 in 2003). According to the forecasts of the company, exports should reach 56,926 cars in 2005. // [Reuters](#)

Nevertheless, it is notable that export composition is yet at very low degree of diversification, while promising export sectors (where country has substantial advantages) are not building on the breakthrough in nation’s exports.

Some local and foreign economists believe that export-oriented development external trade is the key in enhancing the share of non-raw commodity exports. It is universally recognized that Uzbekistan has many advantages including: rich deposits of many types of mineral resources; climate favorable for cultivating many agricultural crops, heat- and energy-efficiency; rich cultural and historical legacy to create favorable medium for development of tourism and related types of businesses; relatively inexpensive and highly-qualified labor force; significant scientific potential and applied research; developed infrastructure, etc.

Yet assessment of comparative advantages of the nation requires comprehensive rating method. Comparative advantages may be assessed in a simpler form in ratio of production costs or prices for the same or analogous product in world markets. Based on standard methods and expert assessments¹³ conducted by the authors, comparative advantages of Uzbekistan by their competitiveness (by cost regardless of the product quality) in various groups of commodities can be broken into: competitive, nearly competitive, and currently non-competitive products.¹⁴

At the same time, fostering competitive environment is an essential pre-requisite for building-up and further development of nation’s export capacity. A number of local and foreign economists believe that the following is essential to foster the competitiveness of local producer:

- *Creation of equal opportunities for all business entities, i.e. all privileges should cover entire industry;*
- *Greater resource mobility, primarily ensuring free flow of capital by enhancing the effectiveness of banking system as well as liberalization of commodity markets, reject administrative regulation and distribution of raw commodities for manufacturing and exports;*
- *Demonopolization of the system of concerns, associations, holdings, and national companies, where elements of support for high monopoly prices is preserved that along with limited access to imports leads to higher prices along the technological chain;*
- *Improvement of taxation system and its administration;*
- *Liberalization of external trade.*

Development of non-commodity exports, particularly exports by processing industries in a great extent depends on access to the overseas markets. Whereas raw commodity exports do not face virtually¹⁵ any barriers in accessing overseas markets, non-raw commodity exports often encounter various tariff and non-tariff barriers overseas.

¹³ See Annex 2 for estimated results.

¹⁴ This method is described in greater detail in the article by Eskender Trushin, Valentina Pribitkova, and Ashraf Trushin “Comparative advantages of Uzbekistan in foreign trade”, *Economicheskii vestnik Uzbekistana*, # 3, 2000.

¹⁵ Except for transport limitations.

1.2. Geographic distribution of Uzbek exports and potential for its growth

Geographic distribution of exports can be conventionally divided into the following: (i) exports into the foreign countries and (ii) export into the CIS countries¹⁶. Exports to the foreign countries, in turn, can be divided into the following three regional markets.

First – Western markets are the exports oriented towards the countries of the European Union, whose share accounts for 25,6% of exports into the foreign countries, and 17,8% of total exports of the republic.

This market is characterized by high solvent demand, however, the countries of this region themselves have a well-developed system of production of various goods and services, in a number of cases being the leaders in technical equipment, trendsetters both in manufacturing of equipment and consumer goods. Tough requirements for qualitative features of products, orientation to consumer demand, following trends in this market along with price indicators are the most important factors of success.

With obvious competitive advantages in the labor costs, domestic producers will face the following problems and challenges here:

- Large share of transport costs due to non-existence of direct access to maritime ports;
- High technical requirements for trade on the part of European countries (requirements for quality, certification of products, labeling, packaging of goods, sanitary and phytosanitary measures, complexity of procedures of access to market, non-existence of direct contacts with minor wholesale consumers).

This sets the current composition of exports to Western markets. These are mainly raw materials, including cotton fiber, yarn, and fabrics, non-ferrous metals, and plain items made thereof. The ratio of ready-made product exports is not large, and is measured by the groups of goods only by the tenths of hundredths of percentages. These are primarily fresh and processed fruits and vegetables, chemical products, mostly raw materials, and plastics in their initial forms.

Second – Asian markets including the countries of South-East Asia, namely Japan, South Korea, China, India, Vietnam, Malaysia, Singapore, whose share accounts for 10% of exports to the foreign countries, and 6,8% of the total exports of the republic.

This group of countries represents rapidly developing economies featured by the aspiration to their due place in the world market of goods. Competitive advantages of these countries include their geographic location on the crossroads of trade routes, high potential demand for the goods by the virtue of the number of their population, low labor costs, and development of new manufactures on these underpinning by bringing in foreign investments.

The most promising of them is the export of raw commodities and materials as it is actually recorded in the statistics. Compared with Western markets, composition of Uzbek exports is represented in a greater variety in the Asian markets. This includes cotton fiber, silk, yarn, fabric and other textile products, technical oils, chemical threads and fibers, various types of machinery and equipment.

Trade and exports to these markets could be diversified. Uzbek companies could compete with the products of these countries in cost and quality indicators, yet large transportation element in the cost of goods make the delivery to these countries practically non-competitive. Besides that, if raw materials are purchased from exporters of the republic by partners from these countries, then the enterprises of the republic do not have sufficient skills in independent advancement of a wide nomenclature of products. Certain difficulties are caused by language barrier, mentality, weak knowledge of legislative-legal aspects of market access.

Third – Southern markets, including Near and Middle East, while Iran, Israel, Turkey, Afghanistan, United Arab Emirates, Saudi Arabia and Egypt being the group of countries account for the largest share in the exports of Uzbekistan - 21,6% of exports into the foreign countries and 16,1% of the total exports of the republic.

¹⁶ See generalized table of geographic distribution of Uzbek exports in Annex No 1.3

Southern markets demand the greatest diversity of the goods made in Uzbekistan. Along with raw materials and commodities, semi-processed and ready-made goods are also supplied to these countries. These include cotton fiber, yarn, and fabric, other textile products, ferrous and non-ferrous metals (copper, zinc, and items made thereof), food products, including grain, construction materials, cement, mineral, and chemical products, including chemical fertilizers, chemical threads and fiber, products obtained as a result of oil and gas processing.

Afghanistan market is very promising for the goods of Uzbekistan. However, the advancement of Uzbek goods is restrained by the absence of effective transport communications. Access to southern ports through Iran may completely change the composition of exports into the countries of the South as well as of the East Asia, and South-East Asia enables to take advantage of the full investment potential of Asian international financial institutions, financial resources of UAE and Saudi Arabia, technologies of Israel, industrial products of China, Turkey, and other countries.

Among the hindrances faced by domestic producers and exporters of goods, it is worthwhile to mention complicated regulatory mechanisms of market access in the non-WTO member-countries, such as Iran where regulatory functions are implemented primarily not by tariffs but by the system of taxes, permits, and percentage rates of bank financing.

The factors affecting exports certainly include the aspiration of the countries to protect their markets and support domestic producers as well as rather high level of current tariffs. For example, in India, average rate of the current tariffs is 34,9%, in Egypt - 26,8%, in Vietnam – 18,2%, in Korea - 12%.

The analysis of geographic distribution of exports shows that *the CIS countries account for 31,5%*, including more than 95% to Russia, Ukraine, Kazakhstan, Tajikistan, Turkmenistan, Azerbaijan, and Belarus.

A distinct feature of the exports in this direction is also the most diverse composition of deliveries, which includes virtually entire range of Uzbek exports. Along with raw materials and materials and agricultural products, export products of the domestic enterprises such as energy carriers and products of obtained as a result of their processing, plastics and items made thereof, cars, aircrafts, agricultural machinery, electric machinery and equipment, cable-conductor machinery and many other industrial goods are supplied to these countries in a great volume. The exports of consumer goods also accounts for significant share including that of fresh and processed fruits and vegetables, nuts, other food products, textile and knitted clothes, electric equipment, various other durable goods and daily necessities.

This is facilitated by technological compatibility, similar requirements for quality, production cooperation, and collaboration of enterprises in the production of goods and services, long-term trade and partnership ties, established itineraries, and schemes for delivery of goods, well-developed scheme of forwarding and banking services.

Competition is beefing up the requirements for the goods of CIS markets as well. Currently foreign trade operations between the CIS countries are carried out in regime of free trade when the goods originating from CIS countries and delivered thereto are not subject to tariff policies.

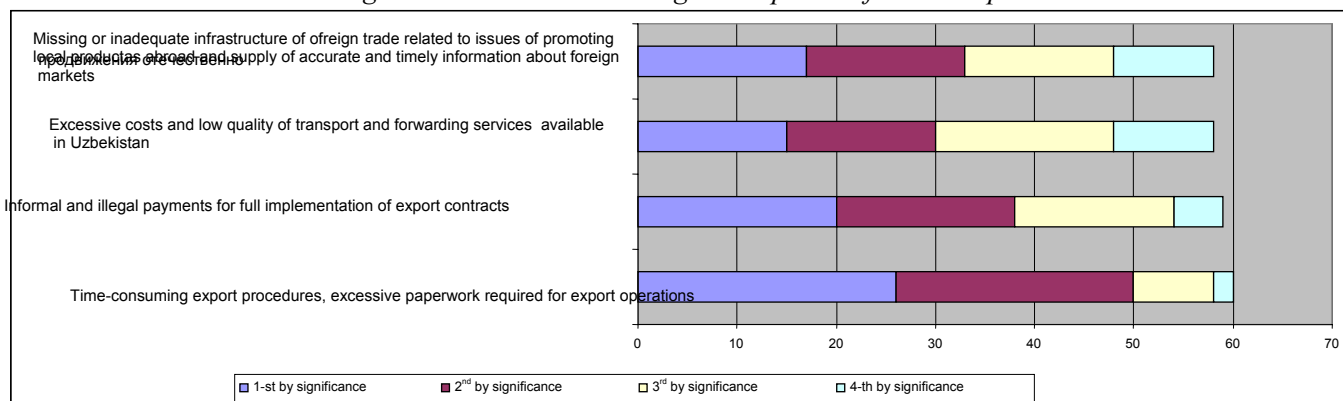
The goods of manufactured by domestic producers also face rigid competition with the foreign analogues, which in a number of cases are more competitive in quality of packaging, labeling, and regularity of delivery. Not only novelty of goods along with the maintenance of domestic brands but also effective marketing to promote goods into the market and its advertisement become important.

Significant transportation costs, due to relatively high tariffs for railway transit as well as the need of transit through third countries serve as additional factor for reduction of potential competitive advantages of domestic goods at the time of their delivery to the markets of Russia, Ukraine, Azerbaijan, and Belarus.

Section 2. Main factors hindering effective export development

In order to identify problematic factors and assess transaction costs of exports, an expert survey and many interviews with private sector exporters and transporters were conducted and the map of procedures and stages of export activities was drawn¹⁷.

Diagram 2.1. Factors hindering development of Uzbek exports



Source: outcomes of expert survey; number of respondents N=60

As illustrated in the diagram above, according to the opinions of respondents four most significant factors hindering and limiting the development of export operation by Uzbek businesses have been identified.

2.1. Legal and regulatory restrictions of the development of export activities

A major problem encountered in facilitation of country's exports is high level of tariff and non-tariff protectionism towards imports. It is shown in theory that high tariff and non-tariff barriers erected to limit imports adversely affect the development of exports due to rising real exchange rate.

Box 3. Lerner's Symmetry

The main idea of the Lerner's symmetry is that the protection from imports impacts the prices and volume of production not only in the industries competing with imports but also in export-oriented sectors. The reason is that the factor that determines the distribution of resources between the industries is the *relative price of goods but not the absolute price*. In order to understand why this happens that way, let us consider two industries: one of them competes with the imports, and the other exports the products abroad. Tariff on imports will increase the price of imported goods in relation to exported goods. This means (for countries with small economy) that the profits into the industry competing with imports will grow, and as a result the firms and investors will aspire to invest more capital into these branches than into the export-oriented sectors. Consequently, the resources such as capital and skilled workforce will move into the industries that compete with the imports in order to expand these sectors. As a consequence, the volume of production of the protected sector will expand and the production of the exporting industry will go down. That is, one can state that the protection from imports has the same impact on exporting sectors as export tax. This means that a weighty argument against the protection from imports is that such protection forces export industries to downsize.

However, the practice has demonstrated that high trade barriers limit the imports of not only consumer goods (goods for end users) but also intermediate goods essential for development of both local export-oriented and domestic market-oriented industries. Furthermore, limitation for external competition in the domestic markets create incentives for inefficient distribution of economic resources and enhances the interest of national market agents to seek "rental income" as relative competitiveness of the industries protected from imports will be reduced in the medium-term and long-term.

¹⁷ See, Annex 4. – Map of export procedures, analytical executive summary of expert survey and basic description of the respondents involved in the survey.

In our view, the existence of a list of goods prohibited from export is also an important hindrance that prevents the development of exports¹⁸. Prohibition from export of the majority of these goods was determined by the existence of a significant gap between the currency exchange rates of Central Bank and informal market. Currently as free convertibility of soum was introduced for current account transactions, abandonment of the ban on the majority of goods in this list can become an important factor of growth of exports and export potential of the country, and enhancement of foreign trade. In addition, it should be noted that for the recent years the quantity of goods banned for export tends to be decreasing. In particular, goods such as dry milk, tea, rough tea and ethyl alcohol were excluded from the list in 2002, i.e. gradual reduction in the list of goods banned from exportation was initiated. Their number to date has been reduced to 11, and objective prerequisites were provided for further reduction of the list.

Besides, in accordance with Article 11 GATT 1994, it is prohibited to use bans or quotas for export, with the exception of cases when such ban is applied temporarily for purposes of eliminating or mitigating a significant shortage of foodstuffs and other products of importance for the exporting country.

Box 4. Excerpt from the interview conducted with co-owner of JV “Nurit”¹⁹

Currently the joint venture is engaged primarily in the production of both beef and pork products. For the production of meat items, imported components and materials are used for quality processing of meat. JV’s products are in great demand in Tashkent city and the attempts of the company to expand into the regions of the republic did not bring desired results.

As an alternative of the prospective growth and the possibility of expansion of the company’s operation both in terms of volumes of production and the geography of sales the company sees the development of its export potential. However, currently the company does not export its products to foreign countries – the reason is the ban for exports of meat and meat sub-products. Along with this, there are multiple facts when shuttle traders take out hundreds of kilograms of cooked meat products of the company into the territory of neighboring Kazakhstan. A reasonable solution to the existent situation is the liberalization of external trade.

Due to the fact that the company imports components and materials necessary for the production of meat products, the company is in urgent need of additional hard currency resources. Moreover, regulation of import customs duties as well as reduction of expenses for carrying out import transactions would enable the company to significantly increase its competitiveness for entry to foreign markets.

It is also essential to streamline the procedures for preliminary registration of some categories of export contracts at the Agency for Foreign Economic Relations of the Republic of Uzbekistan. In accordance with the current legislation, there is a list of export goods required for pre-registration of contracts at the Agency for Foreign Economic Relations of the Republic of Uzbekistan²⁰.

In addition to specific licensed goods, this list also includes such goods as metal-rolls, scrap and waste thereof, crude oil and natural gas, cotton fiber and lint, which are not viewed as strategic goods or goods of special importance in the context of provisions of GATT Articles XX and XXI. It seems that improvement of system of customs valuation of exported goods will create preconditions for the abolition of the system of preliminary registration of such contracts.

In our view, replacement of the preliminary registration of export contracts by a more effective system of customs declaration of exported goods will enable the growth of exports and increase of export potential of the country.

Box 5. Excerpt from the interview with the deputy director of JV “Color Sintez”²¹

JV’s operations are geared for the production of assortment of paints for construction and renovation works. The main export markets of the company are the countries of Central Asia and Russian Federation. Along with that, the company imports many components necessary for the production of high-quality paints.

The major problem for export of company’s products is a search of buyers who pay in hard currency, since the relationships developed with the Russia and other CIS countries in legitimate soum payments collapsed after the adoption of a regulation on export of some types of products only for hard currency.

¹⁸ Currently, the following list of goods is prohibited from exportation in the republic: (1) grains; (2) bakeries; (3) cereal flour; (4) cattle and poultry; (5) meat and edible meat sub-products; (6) sugar; (7) antique items; (8) vegetable oils; (9) rough leather; (10) scrap and waste of non-ferrous metals; (11) silk cocoon, rough silk (untwisted), silk wastes¹⁸.

¹⁹ Name of company was changed at the request of the entrepreneur

²⁰ This measure is mainly connected with the regulation of the practice of state trade in Uzbekistan.

²¹ Name of company was changed at the request of the entrepreneur.

Often during export transactions, the company has to go through expert examination of export prices conducted by the state departments, at the same time, the departments often times do not take into account that industrial products are usually differentiated by both quality and price. Moreover, there were cases when export procedures of the contract registration in commercial banks and customs services have been substantially delayed, which eventually meant time losses for the company as well as the loss of markets of export products taking into account the seasonal nature of the market of paint-and-varnish products.

Currently, producers-exporters enjoy significant tax and other privileges in exports, whereas *intermediary firms do not have these* privileges. However, are there many small and medium-sized businesses especially among agricultural producers with the capacity to expand the export of their products? After all, the world market sets stiff competition for markets. Sale of any product abroad requires carrying out marketing studies, researching demand, advertisement of own products, costly transportation, concluding agreements for delivery and if necessary, protection of own interests in court.

Can and most importantly, should the producer, particularly a small business deal with all of this? In the entire world, one group of persons is engaged in manufacturing the products and others – in its sale and exports. This allows to fully benefit from the advantages of the division of labor. Intermediary firms specializing in exports can deal with these problems professionally and effectively. Hence, there is a necessity to create favorable conditions for those procurement organizations and intermediary firms engaged in purchases from producers, especially from small and medium-sized enterprises (including dehkan and farmer businesses), and export of products. It would be expedient to grant the same privileges for producers-exporters to these organizations and firms.

Box 6. Excerpt from the interview with the manager of JV «Stroyservis»

The company has manufacturing and intermediary operations in sales of construction of materials. A few of years ago, the company made an attempt to export its products through a foreign trade intermediary but failed. During tow months, the company's partners were "running" around different authorities and constantly collecting all kinds of documents. However, later they discovered that export transaction through an intermediary falls under the regime of re-exporter and is subject to 25% excise tax. Since an intermediary is not entitled to tax and customs privileges in this situation, this greatly restrains the development of exports, at least, of our products. By virtue of the fact that the strategy of our enterprise consists in promotion of the goods through numerous intermediaries to various regions, the company does not use its privileges as it does not yet export its products independently, and similar privileges could help intermediary partners of the company to further export or re-sell domestic products.

The facilitation of exports through representative offices and trade representations abroad does not seem attractive for a company as it requires additional investment as well as examination of market infrastructure in foreign countries. Given the limited own funds, experience and opportunities, the company hopes to receive organizational support of the government in this matter.

In addition to tariff and non-tariff restrictions mentioned earlier, there are a number of regulations in domestic and foreign trade, as well as economic policies, which also have restrictive impact on the volumes of exports.

Firstly, it is related to *hard currency used for calculation*. Currently, foreign trade operations involve primarily freely convertible currencies (US dollars, Euro, British pounds, Swiss francs and others). In transactions with the Russian Federation and Ukraine it is permitted to use both national currencies of these states and soums. However, there is a list consisting of 54 products to be exported only for hard currency²².

Secondly, there are restrictions related *making payments*. For example, there is a regulation in the republic, according to which customs registration of goods for export by residents of the republic (with the exception of centralized FOB and Ex-Warehouse deliveries, as well as in case of export of goods to subsidiary enterprises established abroad with the participation of Uzbek founders) can be carried out only if there is a bank guarantee, received pre-payment or open letter of credit. Plus there are established deadlines for payments on export deliveries – 90 days, and in case of export of goods to subsidiary enterprises established abroad with participation of Uzbek founders - 180 days. For the failure to meet the established timeframes for hard currency proceeds, the violators shall be subject to penalties in

²² See: Attachment 1 to the Resolution # 174 of CabMin issued April 15, 1999 "On activities to enhance the effectiveness of mercantile exchanges and trade fairs".

accordance with the current legislation. However, 100 percent prepayment for exported goods is widely practiced otherwise, which significantly restricts the export opportunities for enterprises, and introduction of modern payment mechanisms.

Thirdly, acceptance of inventory balances of production and distribution of products approved annually by the Cabinet of Ministers for major industrial products as well as mandatory registration of contracts for export of major raw commodities constituting significant share of exports can be regarded as additional export restrictions.

But the foremost problem for exporters is transaction costs related to the search of information, including: prospective partners abroad; export-import procedures in foreign countries; nature of non-tariff barriers (for example, certification of products); terms of delivery and payment, and others.

Box 7. Excerpt from the interview with deputy director of TPO “Gulchekhra”²³

The enterprise specializes in the production of ready-made garments, such as working clothes, bed linen, pillow-cases and others. The company is not experienced in exporting its products abroad. However, its products are periodically taken abroad to Russia and Kazakhstan by individuals who purchase the company products in large quantities. As the export by legal entities means a number of legislative requirements, the company is reluctant to export independently without state support.

The major difficulty related to the exports is the search of potential buyers. The company understands that it does not have necessary knowledge and experience in marketing and promotion of its products in the foreign markets. Also, the representative of the company states that they are absolutely unaware about either terms of importing or certification of products on the territory of other states, or demand for products abroad.

In addition, there are various imported raw materials that the company uses manufacturing process: fabric, threads and accessories and others. Given no tax and customs privileges, the cost of raw components increases (there has even been introduced an excise tax on importing some of them), accordingly there is an increase in product cost, which due to high quality imported raw materials becomes competitive in terms of quality but uncompetitive in terms of price. For this reason, the company has mainly oriented itself towards local market in the recent years, where working clothes are in steady demand so far.

Taking into account small manufacturing and financial capacity of the enterprise as well, the representative of the company thinks that the strategy for creating one's own trading house or representative office abroad is costly and ineffective idea for the company.

2.2. Transaction costs of export procedures

The volume and composition of transaction costs related to export procedures are the foci of this study. In our view, streamlining the export procedures, ensuring transparency of legal and regulatory framework, harmonization of these measures with international standards as well as transition to electronic document turnover while improving the export procedures will enable not only to release significant funds from the systems of export regulations but also it will allow to ease up the export operations of private small businesses and entrepreneurs.

According to the survey results, 45% of respondents consider the export procedures in Uzbekistan to be “burdensome” for implementing export contracts, and another 15% respondents neutrally regard the existing system of export regulations. Thus, majority of those surveyed indicated that going through internal procedures for implementation of an export contract poses a barrier for them.

The expert survey conducted also illustrated that the share of expenses related to all export transactions inside the country on average makes up 18%²⁴ of the value of export. This means that the export procedures in Uzbekistan can be very costly. At the same time, it should be taken into account that the respondents, who reported high costs, as a rule, were financing the export through a received through informal payments²⁵. However, even disregarding the nature of bank crediting of exports, average costs equal to 8 - 10% - i.e. additional surcharge (indirect tax) on the price of export products.

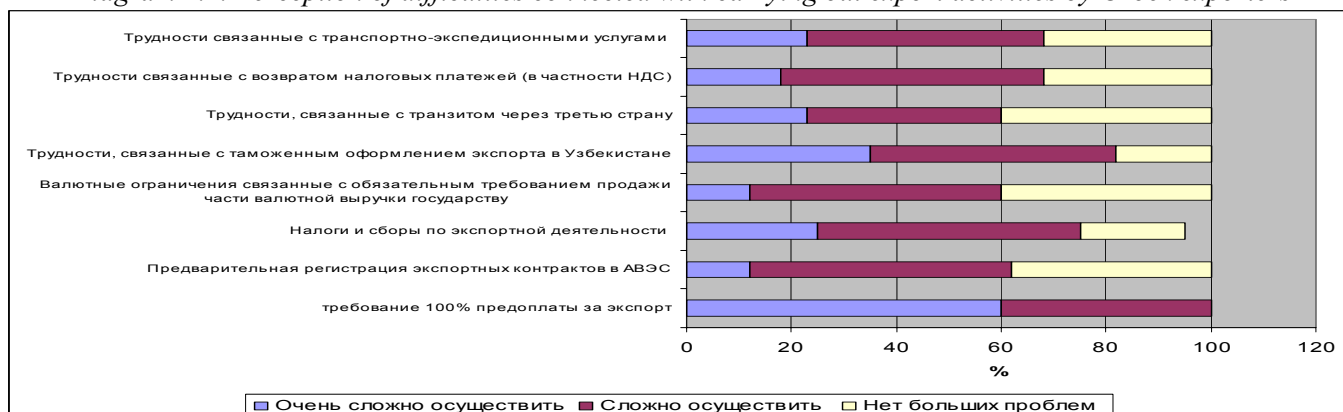
Distribution of the degree of difficulty going through some stages of export activities is presented in the diagram below according to the results of expert survey.

²³ Name of the company was changed at the request of the entrepreneur

²⁴ accounts for 21%

²⁵ Cost of such payments varied between 8-10% of the cost of loan

Diagram 2.2. Perception of difficulties connected with carrying out export activities by Uzbek exporters



Source: the results of expert survey, number of respondents N=60

As it is illustrated in the diagram, the major difficulties for exporters are posed by the requirements of 100% prepayment under export contracts. Among the exporters surveyed, 95% practice this particular method of payment for exports. At the same time, the respondents indicated that alternative methods of payment for them are simply inaccessible. Then the cost of this requirement is the potential refusal of prospective importers to purchase domestic products, since this is related to expropriation of liquid funds from their turnover for a certain period of time²⁶.

In international practice, mainly commercial banks themselves ensure fair practice of payments under foreign trade transactions. Commercial banks, first, establish partner relationships with exporters enabling themselves to inform the clients engaged in cross-border trade about the solvency and honesty of payers (importers) in order for the exporters and banks financing respective trade operations to be much more aware about the risks born. Secondly, commercial banks consult their clients on proper ways of payment, taking into account solvency of a buyer and risks of non-payment depending on the size of the importing firm and the value of consignment being sold for export. Meanwhile, the recommended method of payment must be less costly and most effective for both importer and exporter. In our view, further development of financial and banking system of the country must provide such opportunities for all exporters regardless of the size and forms of ownership.

In the meantime, requirement for 100% prepayment for export contract stems not only from “underdeveloped” banking and financial sector but also from the government policy regarded as non-tariff barrier in trade. Being an instrument of monetary control, 100% prepayment or letter of credit along with mandatory sale of hard currency receipts are related to the delays and additional costs of foreign trade transactions.

Hence, in case of arrears in payment for exports, taking legislative actions to introduce sanctions for overdue payments in order to encourage timely payment on recognized commercial terms as well as entry into international agreements and conventions is advisable²⁷.

The following in the line are problems of customs registration of exports in Uzbekistan. Many measures of export control are reasonable, taking into account national and international public interests. Nevertheless, based on the continuous cooperation, one needs to ensure proper balance of private and state interests. The fact of participation of various bodies dictates the necessity to coordinate and ensure transparency of their activities with the view of facilitating trade as a whole. Speaking of customs bodies, the revised Kyoto Convention²⁸ envisages that customs bodies must aspire to the following: (i) achieve transparency and predictability for all participants of international trade; (ii) use the mechanisms of risk

²⁶ As a rule, 102 months will be required at minimum for a full delivery of cargo to the importer and sale of goods in foreign market. Also, assuming the interest rate is 12%, then pure import losses for 2 months can amount to at least 2% of the value of import. This means that price competitiveness of the Uzbek exports is reduced by 2%.

²⁷ For instance, encouraging the collaboration of Uzbek exporters with importers in possession of certificate of quality ISO 9004:2000, etc.

²⁸ Revision of International Convention for the Simplification and Coordination of Customs Procedures, Brussels, June 26, 1999.

management; (iii) cooperate with other respective bodies and trade community; (iv) apply proper international standards. This, Uzbekistan's entry into the revised Kyoto Convention will allow, in our opinion, to regulate the existing problems in this area.

Transportation and transit difficulties relating to export activities were also touched upon by respondents - participants of the survey. The problems related to this aspect of export activities are addressed in detail in the paragraph below.

The rest of difficulties, such as obtaining certificate of origin of goods at AFER²⁹, export taxes and fees, as well as return of VAT are all the issues concerning optimization and standardization of export procedures presented in the table below.

Table 2.1. Major export procedures for standard export contracts³⁰

<i>№</i>	<i>Name of procedure</i>	<i>Number of phases required</i>	<i>Number of mandatory phases</i>	<i>Number of recommended phases</i>	<i>Number of phases not recommended³¹</i>
1.	Obtaining of a certificate of compliance in UA "Uzstandard"	5	- (to use declaration of the manufacturer in the future)	5	5
2.	Obtaining quarantine certificate and payment for laboratory analysis	5	- (to use the declaration of manufacturer in the future)	5	5
3.	Obtaining the certificate of the country of origin of goods in AFER	10	3	4	4
4.	Obtaining licenses and permits for export in central authorities (in case of goods subject to licensing)	-	-	-	-
5.	Registration of export contract in the customs body	3	3	-	-
6.	Registration of export contract at a commercial bank and opening of account	2	1	(unification of phases)	(summing up the phases)
7.	Services of the customs broker	3	3	2	2
8.	Customs clearance of export and exportation of goods	4	2	2	2

Based on international experience, as well as taking into account the recommendations of the UN European Economic Commission (EEC) for the simplification of procedures of international trade it is established that after optimization of all phases of export procedures, then of the 39 currently existing phases only 13 will remain in real demand. We believe that 18 phases of export procedures could be eliminated in future as domestic legislation becomes harmonized with the WTO norms and requirements³².

Thus, about 50% of phases of standard export procedures are excessive and costly both in terms of the time and money they require. Some excessive procedures of export activities tend to be mere formalities associated with the receipt of "certain pieces of paper (certificates)" without adequate provision of appropriate services and works. In this view, if one concludes that such procedures constitute

²⁹ Many experts named this measure as "preliminary registration of export contracts", actually it is not so in reality. However, as a rule, it is issued by CCI of the respective country.

³⁰ Mapping of export procedures is attached

³¹ Usually these stages contain inessential elements not used in international practices.

³² It is notable that there separate stages of export procedures related to export financing (in legally established procedure) that are often burdensome yet employed in international practice. In this case, there are 8 stages.

up to 1% of the value of export³³, then combined losses will make about 40 million USD. Moreover, as a result of automation of all phases of procedures of export and its automation, total time of full registration of export contract will be reduced to one week³⁴.

2.3. Transportation and transit costs of export activities

Buoyant development of foreign economic relations of the Republic of Uzbekistan in many respects depends on the solution of existent transportation and transit problems faced by virtually all Central Asian countries. Uzbekistan is located in a great distance from world markets and does not have direct access to sea –which by itself is a significant cost. Prior to independence, Uzbekistan could carry out its foreign economic relations through three sea ports – in Ilyichevsk, in St. Petersburg and in Vladivostok, with respective distances to them of 4114, 3500 and 5000 kilometers. However, during the years of independent development of the country, due to purposeful policies of the government of Uzbekistan, the situation is changing diametrically.

For entry into international markets, the exporters can potentially use three modes of transportation, with relatively well developed infrastructure: air cargo, automobile and railway transport. Every mode of transport has its advantages and shortcomings. In Uzbekistan's conditions, the major problems related to automobile and railway transport in foreign economic relations are the transit and crossing of border with neighboring states, whereas major problem of air transport is its cost. Moreover, underdevelopment of transportation and forwarding services is one of the most acute problems faced by domestic exporters.

Table 2.2. Export-import transportation of cargoes of the Republic of Uzbekistan (in %)

	2000		2001		2002		2003	
	Export	Import	Export	Import	Export	Import	Export	Import
Total	100	100	100	100	100	100	100	100
Railway	87,1	56,5	87,3	79,5	88,1	81,6	89,3	82
Air	0,3	0,3	0,3	0,4	0,2	0,3	0,2	0,3
Automobile	12,6	43,8	12,4	20,1	11,7	18,1	10,5	17,7

Source: State Statistics Committee 2003; * - the data may differ from the statistics of the State Customs Committee of the RUZ.

As it can be seen from the table above, railway transport prevails in export-import operations. In exports the share of railway transport is 88% on average. At the same time, share of automobile transport in export transportations for the recent years tends to decrease – from 12,6% in 2000 down to 10,5% in 2003. Although for this period, the volume of export increased by 5% on the average per year. Export for air transportation also tends to be developing inertly, which is most likely related to the nature of Uzbek exports³⁵.

In a number of factors, air transportation is an ideal type of transport for delivery of cargoes from Uzbekistan to the countries of Near East, Far East and some other countries. Definitely, important advantages of this type of transportation are effective and much faster transportation of cargoes³⁶, as well as the possibility to sell small wholesale and perishable products in foreign markets³⁷.

At the same time, the existent civil fleet of aircrafts³⁸ is obsolete with an average age of about 15-20 years. Usage of obsolete civil aviation park for purpose of passenger transportation is inexpedient, though

³³ Expert assessment based on empirical research given in Annex 1 with consideration given to 0.2% cost of customs clearance for exports and informal payments.

³⁴ As per survey results, average time spent in going through all stages of export procedures is 20-22 days.

³⁵ As shown in the first section, more than 70% of goods export is represented by raw materials with high co-efficient of volume-weight/price.

³⁶ During 2-3 days throughout the Eurasian continent

³⁷ For example, external sale of dried fruits, flowers, fruit-and-vegetable products, textiles and others.

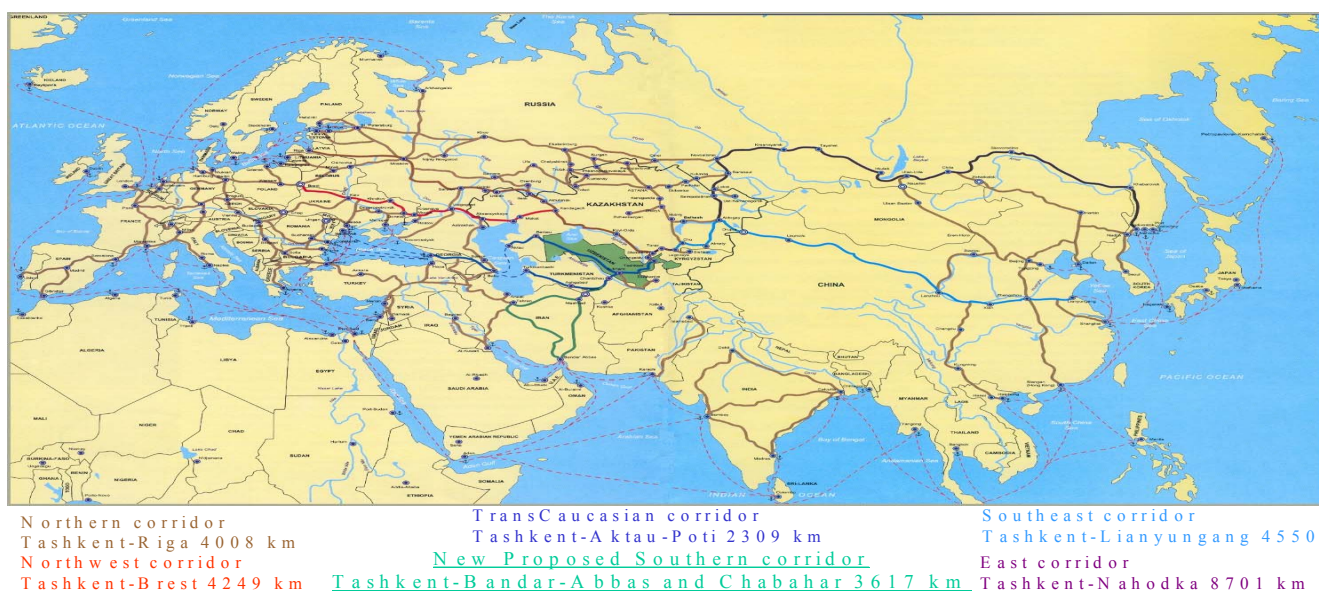
³⁸ Comprising of about 180 aircrafts

modernization of old aircrafts like Il-62, Tu-154, and An-24 into cargo modifications can quite as well increase the competitiveness of transportation means³⁹.

Price formation on international air cargo passenger transportations is one of the most difficult aspects of usage of this type of transport in foreign trade⁴⁰. Monopoly status in the air-cargo market, virtually non-existence of the market regulation of transport and forwarding services, as well as underdevelopment of logistical infrastructure⁴¹ reduce the degree of attractiveness of air transportations for private and small wholesale exporters, thus, they narrow the possibility for developing export potential of the country.

Currently automobile and railway transport corridors, illustrated in the map below provide the access of Uzbek goods to foreign markets.

Map 1. Major cross-border transportation corridors going through Uzbekistan⁴²



Each of the six major transportation corridors that ensure Uzbekistan's access to foreign markets has its advantages and shortcomings. Utilization of these transportation corridors by both railway and automobile transport has a number of internal and external (transit) problems, whose solution is important for increasing competitiveness of Uzbek exports on foreign markets⁴³.

Transportation of export by *railway transport* is the cheapest but at the same time the longest process.

Table 2.3. Transportation expenses on railway transport departing from Tashkent to the selected destinations (on average, for 20-foot container)

³⁹ As per assessment of specialists, modernization of old passenger aircrafts into cargo aircrafts can in total cost 100 for up to 400 thousand of US dollars with the possibility of exploiting them during three for up to five years on non-European routes. Carrying capacity of the cargo version of Tu-154 can be up to 15 tones, and range ability – up to 6000 km.

⁴⁰ In case of carrying by air-transportation, for each kilo one should pay at least 1,5-2 US dollars. Under the existing conditions, such type of transportation is most beneficial for exporting only very expensive goods having a low co-efficient of weight-volume/price.

⁴¹ Logistical infrastructure refers to the receipt and delivery of cargoes, warehousing, storage, electronic document circulation about the place and condition of cargo transportation, transportation of cargo, delivery, etc.

⁴² Uzbekistan has six corridors for entry to World Ocean: (i) Northern corridor Tashkent – Riga 4008 km; (ii) North-western corridor Tashkent – Brest 4249 km; (iii) TRACEKA Tashkent – Aktau – Poti 2309 km; Southern corridor Tashkent – Bandar Abbas 3617 km; (iv) South-eastern corridor Tashkent – Liayung (China) 4550; Eastern corridor Tashkent – Nahodka 8701 km.

⁴³ Competitiveness of Uzbek export, through the lenses of transportation, depends on the time and cost of delivery of cargoes from the country onto foreign markets. For comparison, Annex 3 lists quantitative characteristics of corridors that connect Far East with Europe.

Destination point	Price in USD	Time spent en-route (including standstill on the borders)
Baltic – Riga	1800	23
TRASECA – Poti	1400	15
Iran – Bandar Abbas	1630	15
Bishkek	350	5

Source: Studies conducted by authors (2005) on the basis of report “NEA Transport research study» MB, 2002

As the research in this area shows, “non-legal”⁴⁴ expenses in international railway transportations are rather limited due to the nature of railway transportations. However, unreasonable delays in the crossing points as well as difficulties connected with the formation of trains are impedimental factors for exporters (especially for small wholesale exporters). Major export goods that are transported by railway transport are, mainly, rough goods, ferrous metals, construction materials, cotton fiber, canned fruit- and-vegetable products, juices, etc.

State joint-stock company “Uzbekiston Temir Yullari” is a monopoly operator in the system of railway transport of Uzbekistan from carrying out passenger and cargo transportations both within the country and in foreign markets. In this connection, there is no potential competition in this area, which does not allow to improve overall effectiveness and quality of cargo and passenger transportation. Monopolist position of SJSC «UTY» is also explained by the existent practice of differential tariff policies in railway transport. Major characteristics of differential tariff policies are (i) passenger transportations are subsidized by cargo transportations; (2) internal cargo transportations are subsidized by external (export/transit) cargo transportations⁴⁵. This circumstance accounts for additional “export tax”⁴⁶.

Moreover, transport-forwarding business in railway transportation is not yet sufficiently developed in the country. Transport-forwarding operators in this market indicate the existence of a high barrier for entry into this business, which is a type of activities subject to licensing, with the mandatory requirement of making “insurance fee” in the amount equivalent to USD 50,000. Insurance fee is tied with the intention of the government to ensure that reliable transportation-forwarding companies operate in the market, although in practice, it is unlikely that real control is exercised to ensure the quality of provided services. Non-existence of interconnection between “insurance fee” and quality control gives birth to a flaw, when package of transportation and forwarding services offered by the existent operators is far from being complete (for example, there is no service for tracking the stages of movement of cargoes to the destination point). In this connection, foreign companies in the republic prefer to use the services of foreign carriers and forwarders, despite a much higher cost of such services, since they represent a wide spectrum of services and are more reliable. Moreover, a major problem for exporters, especially for small and private businesses is the absence of effective system for consolidation of cargoes in railway transport, such exporters end up waiting for cargo shipment for weeks and, in some cases, for months. Thus, for example during the survey, the respondents often indicated that there are certain difficulties relating to timely receipt of railway codes as well as high-quality reliable storage of cargoes in railway depot.

In contrast to railway transport, *automobile transport* is a more flexible and widely demanded type of transport in Uzbekistan. In the 1960-80s auto companies (so called vehicle parks) used to be created for a large number of vehicles with 200-300 motors each. Remaining logistical base was created accordingly. Vehicle parks have written off and rented out outdated vehicles, which led to the reduction of the number of cargo and passenger vehicles in each company down to 100-150. Current fleet is aging, hence cargo capacity is going down. In 2002 the share of trucks with the term of service less than 3 years

⁴⁴ Or informal expenses

⁴⁵ Comparative table of tariffs on railway transportation for internal and external markets is listed in Annex 3.4.

⁴⁶ Tariffs for transporting various types of products on railway road vary significantly and depend not only on the nature of the cargo, type of coach, itinerary, number of trans-shipment points and waiting period for the formation of railway train on traffic interchange and intermediate points. This also accounts for time period of cargo movement.

made up only 1.5% of the total number. The share of the trucks with more than 10 years of service equaled 72%.

Companies and organization of various forms of ownership as well as individuals are participating in the international cargo transport by road. As of January 1, 2003, 993 licenses and 2,979 cards had been issued for international cargo transport by road, including 945 licenses and cards for individuals. Thus, circa 48 legal entities nationwide with 2,034 vehicles and 945 individuals are engaged in international cargo transport. It signifies the fragmented nature and existence of intense competition in the international cargo transport markets.

Transportation of export cargoes by road transport is a relatively expensive service in comparison with railway transport but it is more convenient in the Uzbekistan conditions and its geographic location.

Table 2.4. Transportation expenses on road transport departing from Tashkent to selected destinations and returning to Tashkent (average for 20-foot container)

Destination	Price in USD	Time en-route	Non-legal payments in %	
			In customs office	Other
Tashkent – Bremen (via Klaipeda) – Tashkent	3200 – 3800	16 – 18	15	10
	7000 – 8000	16 – 18	15	10
Tashkent – Bandar Abbas – Tashkent	1600 – 1800	10	1	1
	2200 – 2800	10	1	1
Tashkent – Mersin (Turkey) – Tashkent	2000 – 2200	12 – 14	1	1
	4000 – 4500	12 – 14	1	1
Tashkent – Bishkek – Tashkent	600 – 700	2	10	5
	600 – 700	2	10	5

Source: Research conducted by the authors (2005) on the basis of report «NEA Transport research study» MB, 2002

From the above table, one can certainly conclude that non-official payments in northern corridor are much higher than such payments on the rest of routes by which Uzbek exports access foreign markets. What is more, it is interesting that the cost of international transportation of cargo from Tashkent is in fact twice as cheap as the cost of transportation on the return destination. Such state of affairs can most likely be explained by the existent competition of the market of Uzbekistan, where foreign cargo carriers have liberal access to the market of international transportations⁴⁷. Small number of modern trucks in the republic able to carry out cargo transportation in long distances, overcoming difficulties of terrain and locality in a long run leads to certain dependency of the country on foreign truck carriers under international contracts. There are about 1,500 modern trucks nationwide with engines of Euro standard to date.⁴⁸ Major difficulties for renewal of the fleet of trucks for international motor transportation are the established 30 %import duty and 20%VAT. In addition, when registering trucks with the state authorities, a 20% tax is collected from the customs value of trucks. Thus, after the implementation of customs procedures and registration, the price of such a truck automatically increases by 70 – 75%.

Another negative factor is poor state of the road network, which also results in increase of transport costs. Reconstruction of the regional road network must become an important priority for all Central Asian republics.

Box 8. Infrastructure of international road transport in Central Asia.

⁴⁷ Currently, only one document regulates the activities of foreign motor forwarders in the republic – the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan of January 11, 1995 “On the procedure for entrance, stay, transit and exit of foreign motor forwarders from the territory of the Republic of Uzbekistan”.

⁴⁸ In accordance with the statistics, overall 1350 trucks are in compliance with EURO standard, of them 37% are in compliance with Euro standard, 52% -Euro1 standards, 7% - Euro 2 standard, and 4% - Euro 3 standard.

Development of regional and international trade cannot be considered without the development of transportation infrastructure in the region as a whole. In particular, with regard to major routes going through the Central Asian countries, modern terminal transit stations are not sufficiently developed for heavy haulers with all the adjacent infrastructure including securely guarded parking lot, 24-hour cafeteria, shower room, and hotel. All this is currently relevant for motor carriers, who after delivering the cargo and waiting for the back loading are forced to stand idle on the non-official parking places, the so-called «patches», which do not have any basic sanitary-hygienic conditions (hot water, shower, etc.), not to mention comfortable conditions for waiting accompanying cargo. Here it should also be noted that domestic motor carriers often are not allowed to load cargo in many foreign countries – for return destination⁴⁹. In this connection, Uzbek motor carriers go back to the republic “without cargo”, which accounts for “ineffective” costs of international operations relating to motor transportation⁵⁰.

Furthermore, just like in the case with railway transport, international motor transportations encounter inefficiency of transportation and forwarding services also related to with low coverage of the needs of small and private entrepreneurship in international transport. In our view the existing difficulties are connected with the following factors: (i) difficulties of legalization and control over proper execution of trade and transportation-forwarding contracts and agreements; (ii) practice of frequent inspections and check-ups of cargo en-route as well as in cross-border points; (iii) unwillingness on the part of transportation and forwarding firms to undertake certain commercial risks related to this type of activities.

The most acute problem of international *motor and railway transportations is transit of Uzbek exports through third countries*. The box below contains an example to demonstrate economic constituent of the costs in connection with transit of Uzbek exports through third countries using motor transportation.

Box 9 . Transportation and transit costs of exports of fruit-and-vegetable products from Uzbekistan into Russian Federation (Tashkent (Chernyaevka) – Tomsk)	
1. Purchase of TIR carnet ⁵¹	120USD
2. Non-official payment to the employee of Uzbek customs service at the border Uzbekistan /Kazakhstan	75USD
3. Purchase of permit authorizing transit through the territory of Kazakhstan 162 USD	
4. Non-official payment to the employee of Kazakhstan customs service at the border Uzbekistan/Kazakhstan	100USD
5. Non-official payment for weighting of cargo (check-up of norms of overall dimensions)	300USD
6. Non-official payment to the employee of Kazakhstan customs service at the border Kazakhstan/Russia	50USD
7. Official payment for entry onto the territory of Russia	50USD
8. Non-official payment to the employee of Russian customs service at the border Kazakhstan/Russia	150USD
9. Fuel and lubricant costs	450USD
11. Costs in connection with maintenance of refrigerator	300USD
12. Driver’s salary	250USD
13. Non-formal payments to criminal groups and police outside of the territory of the republic	150USD
14. Expenses in connection with return to homeland	450USD
Total	2607USD
of which non-official and non-formal payments	825USD
Other costs and proceeds of cargo carrier	800 – 1000USD

⁴⁹ To Uzbekistan or third countries; it is related to the fact that these cargoes are regulated by bilateral government level agreements.

⁵⁰ According to the estimates of WB consultant L. Ojala, only in Tajikistan transport capacity (containers and empty trucks) equivalent of USD 5 mln. returned unused due to the existing problems in crossing the borders and inefficiency of transport markets.

⁵¹ That is, TIR carnet, which allows Uzbek forwarders to avoid mandatory procedure of export (and expenses related to it)_ in transit sections of international transport corridor.

TOTAL:**3407 – 3607USD**

If the structure of distribution of the overall costs of transportation of export cargo to Russia, then the following picture comes up:

Expense item	Cost in USD	% of the cost
Transit costs in connection with purchase of TIR and transit permit	287	8,2
Fuel and other	1200	34,2
Driver's salary	250	7,1
Official fee	50	1,4
Non-official and non-formal fees	825	23,5
Proceeds and other costs	900	25,6
TOTAL	3512	100

As demonstrated in private interviews conducted with the experts and drivers-carriers of cargo, transit problems of Uzbek exports are mainly connected with the procedure and practice of crossing the borders on international transport corridors as well as stay and transit through Central Asian countries. For example, there are unreasonable delays at the border, additional regulatory requirements set for dimensions and carrying capacity of motor vehicles, non-legal payments, requirements for accompanying escorts, and also the requirements set for guarantees and deposits on certain types of transit cargoes on the northern route. On other routes, in addition to the above mentioned, the problems include the requirements for getting visa, «arbitrarily» established tariffs for passing through the bridge, using a ferry, and others.

Moreover, absence of coordination between various border authorities is a major problem causing delays and additional expenses in transit of goods. The spheres of activities of the specified authorities overlap exacerbated by unclear differentiation of their powers. For example, the analysis of transit time and expenses of motor transportation carriages shows that some 50 percent of transit time is spent for waiting at border crossing points. There are also facts of collecting non-official payments by supervisory bodies of neighboring states, leading to price hikes and consequently to non-competitiveness of the exported products in foreign markets.

Based on standard methodology for assessment of the share of transportation and forwarding costs in the economy tested in various countries⁵² as well as taking into account the aforementioned the table below illustrates approximate assessment of the share of transport and transportation-forwarding services for the goods exports in total exports and GDP of the country.

Table 2.5. Approximate assessment of transportation and forwarding services in goods export of Uzbekistan (million USD, unless otherwise noted)

Name	Exports
Overall goods export for 2004 ⁵³	3679,4
Pure transportation costs of export (12% of the total goods export)⁵⁴	441,5
Other transportation and forwarding (logistical) costs of exports:	
Expenses for documenting and administering by cargo sender ⁵⁵	184,0
Costs of inventory(export) management ⁵⁶	220,8
Storage costs of (export) inventories ⁵⁷	73,6
Non-official payments and costs of “administrative and monitoring” nature ⁵⁸	73,6

⁵² For example, Ojala, L. (2004) Background paper on Tajikistan Trade Diagnostic Study, The World Bank

⁵³ Without the account of export relating to pipeline transportation (gas)

⁵⁴ Molnar, E. and Ojala, L. (2003) Transport and Trade Facilitation (TTF) issues in the CIS 7, for comparison, on Tajikistan this indicator constitutes 8,4%

⁵⁵ 5% of the value of export contract, in accordance with the results of expert survey

⁵⁶ 6% of the value of export contract, including costs of insurance of cargo, in accordance to the results of observation and results of report on textile

⁵⁷ 2% - if one takes into account that average time for storage lasts for up to 3 months at 16% rate of refinancing of CB.

⁵⁸ 2% of the value of export contract, in accordance with the results of expert survey

Total transportation and forwarding (logistical) costs of export	552,0
Total transportation and forwarding costs of export	993,5
Share of all transportation and forwarding costs in the total volume of goods export of the Republic of Uzbekistan	27%

Thus, it was established that approximate share of general transportation and forwarding services in the total volume of goods export (without the exports of energy carriers) is 27% - much higher than the analogous indicator in Tajikistan⁵⁹. Transportation and forwarding expenses of Uzbekistan represent one of the highest ones in the world, as in EU countries this indicator does not exceed 13%, and in Latin American countries - 17%.

In our view, there are huge internal and external reserves for the reduction of share of transportation and forwarding services in the cost volume of goods export. To this end, it is necessary to optimize logistical costs by means of faster introduction of electronic document turnover, create competitive and efficient market of transportation and forwarding services, reduce the time needed to cross the borders, and transit through the territory of third countries, etc.

In addition, regional cooperation of Central Asian countries in the transportation and forwarding through harmonization of legislative and normative regulation, customs electronic document circulation, simplification of transit procedures, as well as creation of general transportation market will allow to reduce the existing costs of transportation and transit nature for up to 15% in case of export of goods from Uzbekistan.

2.4. Institutional aspects of export facilitation

It should be recognized that without a well-developed and effective institutional underpinning, the development of export activities is not feasible. Given the legal and regulatory framework for encouraging exports, effective mechanisms for its implementation may be missing. This is often accompanied by inadequate work of state and non-state bodies or institutions engaged in promotion of exports or export-related activities.

There is a number of state and non-state organizations nationwide, whose functions include the preparation of proposals for improvement of legal and regulatory framework for export facilitation, including customs and tax administration of exports, the issues relating to transportation and transit inside and outside of the country, provision of necessary information on various goods in the markets of foreign countries, provision of consulting services, advertisement of export goods in the foreign markets, participation in national and international exhibitions, and other functions geared towards stimulation of exports. However, the growth of export and development of export activities in the country depend on the degree of effective fulfillment of the tasks at hand.

Below are certain institutional aspects of export stimulation.

➤ Selective approach to stimulation

Under the current legislation of the country, a number measures are applied for stimulating production and export, including taxation, customs and other privileges. However, in practice, these privileges benefit separate groups of enterprises, including those with foreign investments. Various enterprises operating in the same industry have different taxation, customs and other provisions, hence creating unhealthy competitive environment. In addition, manufacturing enterprises being created jointly with the participation of foreign investment often produce products oriented towards the domestic market and not for exports. The table below shows the position of enterprises with the participation of foreign investment in 2004 is occupied by importers to a greater degree rather than exporters. The products they produce is mainly oriented towards the domestic market since it is protected from imports of analogous goods by high customs duties and import excise tax. Such environment stimulates import-substitution but not exports.

⁵⁹ For example, consultant of WB has determined that for Tajikistan this share constitutes 22,7%

Diagram 2.3. Share of FDD in imports and exports in 2004



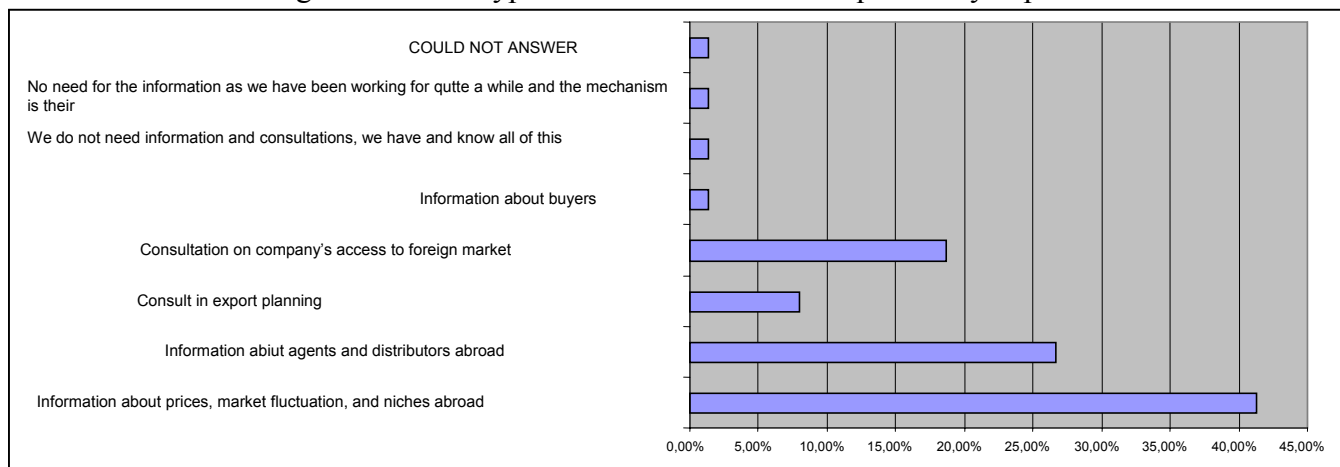
Source: State Committee for Statistics, 2005.

In order for an enterprise to be included into the Localization Program, its project should meet certain criteria of localization. However, there is no program yet to encourage inflow of FDD into expansion of export potential of the country.

➤ *Information support of domestic exporters and foreign importers and provision of consulting services*

To exercise effective exports, the exporters need information concerning the market position of exported goods. Currently domestic producers of export products intending to export them are faced with the need to receive appropriate information about the markets of specific goods in foreign states, in particular, the information about producers, their prices, capacity of market, overall customs and taxation regime of the importing country, etc. Receipt of such information is not easy for exporters and entails certain costs.

Diagram 2.4. The types of information most requested by exporters



Source: results of expert survey, number of respondents N=60

In accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan⁶⁰ it is envisaged to form the Foundation for the organization of information support of foreign economic activities and marketing research of foreign markets under the Agency. Although the funding sources of the foundation are envisioned to be diversified, including the fees for examination of export-import transactions, endorsement of certificate of goods' origin, and provision of information-analytical data in

⁶⁰ of 23.10.2002 № 368 "On organization of activities of the Agency for foreign economic relations of the Republic of Uzbekistan"

the area of Foreign Economic Activities to business entities, consulting assistance to the participants of foreign trade and investments is carried out only for charge. This strongly restricts the accessibility to such services for business entities, especially for small and private entrepreneurship. Furthermore, only a limited number of employees to be more exact 5-6 staff are engaged in preparation of necessary materials on market reviews in AFER. Considering a wide spectrum of countries-trading partners and goods in world markets, such a number of employees is insufficient for effective and timely provision of necessary information materials for exporters.

There are also other domestic companies providing foreign trade information services, however, the level of coverage of all the regions by their activities is not sufficient. The majority of such companies are located in Tashkent city, where the quality of information service is much better than in other regions of the country. The widest coverage of the regions was achieved to date by the company of Agency of Foreign Economic Relations – Agency for Trade Facilitation “Uzinkomcenter” designed to inform of the foreign markets about the export potential of the country and to conduct marketing research in certain industries and countries. However, according to the surveys conducted with private entrepreneurs and exporters, the activities of “Uzinkomcenter” as an institution for trade facilitation is not sufficiently active especially at the local (regional) level.

Various organizations where government has a share, such as associations, holding companies and others, also carry out important task for formation of a database of foreign markets, their market fluctuations as well as conditions for entry into these markets. However, such information is accessible to only a narrow group of exporters mainly engaged in centralized state exports. In addition, the activities of non-state suppliers of information are very limited in the domestic market.

Box 10. Involvement of businesses in foreign trade

Nearly 100,400 companies were registered in Uzbekistan in 2004, and only 4.3% of them conducted export-import operations. Furthermore, major share of exports is actually conducted by some 10 exporters⁶¹ who supply highly liquid raw materials and non-raw material goods.

Major factors that limit the development of effective market of information services are as follows:

- ❖ Lack of established network of overseas commercial information;
- ❖ Underdeveloped market infrastructure of marketing and consulting services;
- ❖ Inadequate capacity of government organizations involved in the foreign economic activities.

These factors have even greater impact on the potential exporters located in the regions of the country. Apart from difficulties connected with getting necessary information from state or non-state commercial organizations, another problem of the exporting enterprise themselves is notable. Many domestic enterprises themselves do not have sufficient knowledge about the type of information they need for effectively running an international business, not to mention the fact that the accessibility of commercial sources of information is very limited for the majority of them due to financial limitations of these enterprises. Taking into account the fact that the use of Internet is also relatively undeveloped in the sphere of FEA, entrepreneurs do not practice it widely.

The experience of state institutions of certain south-eastern countries that have a well-developed export potential, including Malaysia, shows that there are state-financed government institutions with

⁶¹ Specialized foreign trade firms – state joint-stock foreign trade companies such as UzMarkazExport, UzInterImpEx, UzPromMashImpEx, MarkazSanoatImpEx geared to ensure exports of prioritized industrial sectors and large national companies. Industry specific associations also have their foreign trade firms such as TzTashqiNeftGaz under UzbekNefteGaz, IpakImpEx under Uzbek Ipagi Association, Imte invest ImpEx with MasloJirTabakProm Association, Engmattijmarkaz within Uzbeklegprom company, etc.

major objective to provide free-of-charge essential information and render consulting services to exporters and foreign consumers⁶². Introduction of such measures in our country would allow domestic exporters to find out more about the market for their goods and their potential in foreign markets.

➤ *Relationships with local authorities*

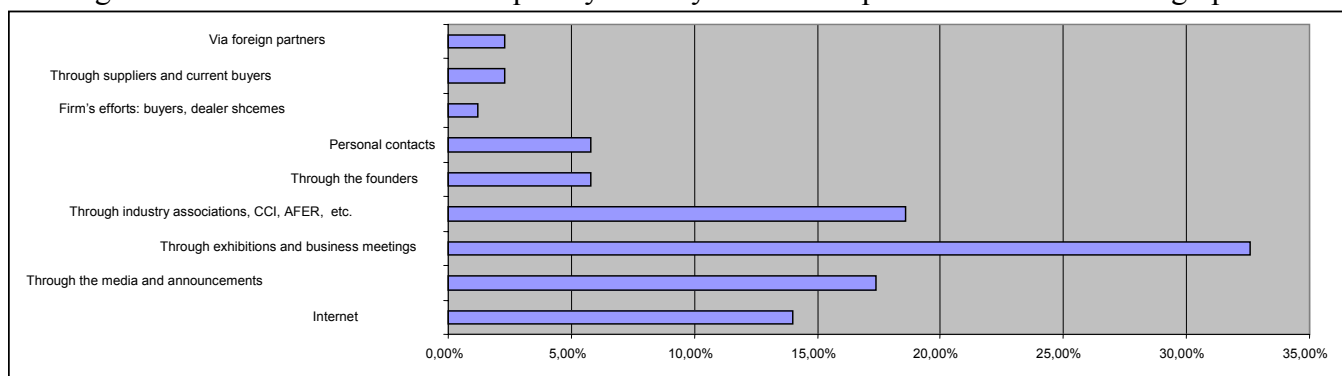
In the regions of the country, non-raw material exports are carried out mainly by small businesses, whose position constituted just about 6% in the total exports of the republic in 2004. Despite the growth of production of industrial goods, the position of non-raw material goods in the total volume of exports remains insignificant.

Constant intervention of local authorities into the activities of small businesses and their demands to finance certain facilities which must be fulfilled by local authorities create significant difficulties not only in the export of products of own production but also in ensuring normal operations of the enterprise itself. This problem is regulated in the capital city to a certain degree, however, small businesses undertake additional commitments that are imposed on them by local authorities in the regions of the country.

➤ *Participation in local and foreign exhibitions*

Under AFER, there is national exhibition center “Uzexpocenter” with major activities geared to rent out its premises. The center itself cannot finance the participation of exporters in exhibitions, as it only provides the space to companies holding exhibitions for exporter manufacturers for a fee.

Diagram 2.5. The methods most frequently used by Uzbek companies to find their foreign partners



Source: results of expert survey, number of respondents N=60

As it is illustrated in the diagram above, majority of respondents of the survey noted that in the most cases, they find their foreign partners through exhibitions and business meetings. Participation of potential domestic exporters in international exhibitions is directly related to awareness of exporters about the conduct of such event. Again it relates to the awareness of the exporters.

In new industrialized countries, for instance, in Malaysia, there is MATRADE (Malaysian Corporation for Trade Facilitation under the Ministry of Foreign Trade and Industry of Malaysia), which allocate funds for participation in the exhibitions both inside the country and in foreign states. Currently, such a mechanism does not exist in Uzbekistan, and the existing state institutions, including AFER, CCI and export-related bodies do not have sufficient funds for carrying out such events.

➤ *Electronic commerce*

Taking into account the fact that the majority of Internet service providers are located in large cities, Internet services are not yet widely provided in the periphery. In addition, many subjects of SME do not have Internet skills, which also restrict export possibilities of enterprises by electronic commerce.

⁶² See Attachment

It should be acknowledged that electronic commerce is not developed not only in exports but also in domestic trade as a whole. Nevertheless, a number of laws and governments resolutions as well ICT development strategies provide for development of information and communication technologies (ICT) and Internet.

Existing barriers for development of electronic commerce are related to transportation infrastructure, land-locked status, various customs requirements, and other aspects of foreign trade regulation.

➤ *Advertisement abroad*

Informing foreign consumers or companies-buyers about Uzbek goods is an important instrument of export facilitation. The effectiveness of advertisement is undisputable but as private interviews have shown, domestic exporters do not have sufficient funds for advertisement in foreign countries.

Box 10. The results of research conducted by weekly periodical “Goods and prices” in Russia

During 8 months in 2004, the weekly periodical “Goods and prices”, out of more than 121 thousand of offers regarding canned fruits and vegetables, the Uzbek goods were observed only 78 times (i.e. less than 0,1%), out of more than 25,7 thousand of offers regarding dried fruits and nuts – offers of Uzbek goods only constituted 172 (or 0,7%), out of 27,1 thousand of offers regarding wines – offers of Uzbek products came up only 19 times (less than 0,1%). Meanwhile, for the same period, the offers for sale of products manufactured in the Caucasian republics constituted 5,200 and 1,300 and 19,9% accordingly, Moldavian products – 6,2, 0,4 and 12,3%.

In new industrialized countries, in particular, in Malaysia, Corporation MATRADE (Malaysian corporation for trade facilitation under the Ministry of foreign trade and industry of Malaysia) issues grants to cover initial expenses on advertisement in foreign states, when a company intends to enter into foreign markets. Government institutions in Uzbekistan do not have such mechanisms for facilitation of exports.

In addition to the aforementioned facts, participation of the embassies of the Republic of Uzbekistan, in particular, counselors for trade and economic issues in encouraging the exporters or foreign importers of Uzbek goods is particularly notable. Embassy staff-economists should provide essential information to the government agencies of Uzbekistan in order for the latter to distribute such information among the interested local exporters. Similarly, economic advisers of the embassies need to distribute in the state where they stay the information, which they received from respective Uzbek organizations (AFER, CCI), about the goods produced in Uzbekistan, and which can be imported to the state where they stay.

➤ *Creation of trading houses and trade representative offices abroad*

According to Agency for Foreign Economic Relations, as of April 1, 2005, there were 422 trading houses abroad, of which 13 belong to JV «UzDaewooAuto Co», 1 belongs to SamKocAuto, more than 30 are the property of enterprises of SJSC «Uzbekyengilsanoat», more than 20 belong to the holding company “Uzplodoovoshvinprom” and others, including small businesses. As of April 1, 2005, the Uzbek enterprises invested 13,03 million USD into the creation of trading houses abroad. The geographic spread of these investments was as follows: all CIS countries, Latvia, Lithuania, Afghanistan, Turkey, South Korea, and USA.

In accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan, companies can export own manufactured products through trading houses opened by their own funds⁶³. This condition is applicable in practice only for large companies and does not let smaller businesses to establish and use the services of trading houses, since in case small volumes of production, maintaining a trading house/trading representations by each business abroad is economically unjustified.

In light of the above-said, the Chamber of Commerce and Industry initiated establishment of its own trading houses abroad, while granting businesses - members of CCI the rights to carry out consignment deliveries to the address of trade and investment houses of the Chamber. Although this right

⁶³ RCM № 260 of 8.07.2000

opens possibilities for small and private enterprises-members of CCI to implement export of their products through the system of trading and investment houses of the Chamber abroad, yet it does not address the number of legal and financial issues, such as the rights for property on consignment goods, financing and maintenance of trading houses abroad, and distribution of its proceeds, responsibilities of parties for the storage, after-sale service, quality, etc. Therefore, it also seems reasonable to create trade representative offices abroad under the umbrella of CCI at the first stage, as an initial stage of marketing Uzbek products in international markets.

Section 3. Main areas for improvement of government activities to facilitate exports of Uzbekistan

3.1. Encourage the development of the real sector of the economy and enhancement of national export potential

Study of problematic issues of the activities of the manufacturing companies has enabled to identify the number of systemic problems, and addressing them piecemeal or across-the-board may facilitate the enhancement of manufacturing and export potential. They are basically related to financial shortages and high tax burden.

Shortage of financial resources. Availability of working capital is an important prerequisite for establishment of a manufacture or sustainable operations of existing company, including the capital for upgrading the systems for manufacturing and marketing of products. In case of shortage in equity, one of the popular instruments such as raising the funds of credit institutions is applied.

In this regard, the perspective of manufacturers, who believe the financing is outrageously expensive due to high interest rates and difficult to get due to the logical collateral requirements of the banks.

The government is undertaking activities oriented at reduction of financing costs. Hence, refinancing rate of Central Bank has been consistently going down, leveling off at current 16 percent annual percentage rate (APR). Concurrently, commercial bank loan interest rates have also come down, amounting to at least 18 percent APR.

Nevertheless, this reduction does not yet meet the interests of the manufacturers. Further reduction in refinancing rate of Central Bank may be a way of the current situation, which is most likely related to further reduction in inflation. This action will enable to ameliorate the challenges of business financing.

In addition, government program of export financing concurrently with the insurance programme of export loans. It should specify the sources, procedures, terms and conditions for financing, ceilings of interest rates, procedures for insurance and re-insurance of loans based on existing experience of issuing insurance policies of export contracts.

Yet it is essential to make the real sector lucrative to ensure the inflow of capital. Trade liberalization and reduction in tax burden over the economy may substantially contribute to the inflow of capital, including foreign capital into the real sector. Favorable investment climate stipulated in clear legislation, moderate taxation, liberal financing policy, adequate oversight, ensuring legitimacy are the prerequisites in attaining sustainable economic growth and country's development.

Tax burden. According to the manufacturers, the current system of taxation of manufacturing companies does not let the businesses to count on adequate reward for their efforts to promote their business. That is, existing tax burden has exceeded the "golden medium" preceded by the area of incentives for entrepreneurial risk. Thereby, it creates adverse investment climate and hinders inflow of FDD.

The current situation does not let manufacturing potential of the country to unfold. Furthermore, such a situation:

Encourages informal sector activities. That is, the businesses who do not find the existing taxation system as economically conducive, they simply do not declare their income or declare it partially. Existence of informal sector itself may illustrate ineffectiveness of taxation policy;

creates breeding ground for corruption. No doubt these activities may not for long stay out of the sight of law enforcement bodies. In this case, developments may unfold in two scenarios, or its management will be sanctioned or business as usual. According to the entrepreneurs, cutting deals with inspecting authorities is less costly than paying taxes;

undermines investment activities. Requirements of making excessive payments to the government in the forms of mandatory deductions means either going informal or taking their business to more countries favorable in their opinion;

does not facilitate export growth. The funds left after payment of mandatory dues are not sufficient for systemic development of export activities, i.e. enhancing the quality of their products by introduction of better system of quality control, development of marketing activities, advertisement, creation of own overseas infrastructure, participation in exhibitions, etc.

It would be fair enough to note that only small private businesses is an exception in this situation, as their streamlined taxation scheme and relatively low tax rates ameliorates the problem of tax burden. At the same time this system actually cannot be applied to major companies due to limitations of the number of staff.

The programme of localization started in 2004 as well as tax and customs preferences it awards also stimulates businesses in their operations. Unfortunately, this programme has not been popular en-masse among manufacturing companies. Currently only 197 businesses are involved in it.

Summing up above-mentioned, it may be assumed the system for taxation of manufacturing companies is in need of major reform, including review of both total tax burden and methods of levying dues. That is, a producer should have opportunities to pay fair taxes, and in the meantime should not have the opportunities for their evasion.

Concurrently, further liberalization of the system of tax administration, including the methods for levying and estimating taxes, taking financial and other sanction will enable to streamline the system of taxation and make it more transparent, thereby preventing financial offences and violations, which will positively impact their businesses, and facilitate their exports.

In this framework, it is essential to ensure the stability of tax, customs, and foreign economic legislation for at least three years to enable businesses effectively plan their short- and medium-term operations as well as create additional guarantees for businesses.

3.2. Improvement and capacity building of national export facilitation institutions

Fostering favorable environment is a vital prerequisite of export development and diversification as well as of economic growth, as it provides for stability and support for the businesses and investors, facilitate emergence of fair competition, and prevent abuse. Further privatization, trade liberalization and gradual departure from government's regulatory interference into business operations to foster competition and efficiency, and to reduce manufacturing and marketing costs.

In many cases statutory action, i.e. adoption of new laws, may not be necessary to foster competitive environment. Instead focus should be on implementation of existing laws and statutory acts, creation of favorable institutional foundation for agencies authorized to regulate foreign trade operations (customs, AFER, commercial banks, etc.), capacity building for the judiciary, continuous awareness raising for specialists in legal issues and ensuring enforcement of existing laws as well as bilateral and multilateral agreements.

Capacity building for institutions regulating foreign trade should be primarily aimed at:

1. removal of "invisible" barriers, i.e. transaction costs hindering normal movement of goods across international borders. These barriers having administrative nature in most cases only increase trade costs.
2. removal of a number of hindrances, which, inter alia, include:
 - a. excessive paperwork and red tape;
 - b. poor automation and inadequate use of ICT;
 - c. lack of transparency;
3. boost coordination and cooperation to ensure implementation or understanding of existing instruments aimed to assist the development of Uzbek exports.

Improvement of state administration should also be reviewed in order to streamline the activities of all institutions involved, develop the concept of one-stop-shop, and to create the system of one-stop processing imports and exports as well as to enhance entire institutional framework.

Box 12. Single Administrative Record in the EU

So called Single Administrative Record, which is an electronic customs declaration in essence was adopted in the EU to replace and annul many dozens of records including shipping, transport, payment, and other records describing the commodity, its origin, price, and other features.

Development of transport infrastructure servicing exporters is a vital factor of boosting the competitiveness of local producers in external markets. Development of this infrastructure is a principal issue due to geographic location of Uzbekistan. Although the country does not have access to the seas, yet it has unique opportunities to become a transit country. But this means ongoing work to maintain roads and railways, expansion of capacity to offer transport services, enhance the management system by transport and storage facilities, including the use of ICT.

Development of regional integration processes may play a central role in improving the position of a land-locked country. As the international experience has shown, unification of nation into trade and economic blocs accelerates the rates of their economic growth due to greater trading opportunities, significant expansion of market capacity, and increase in the inflow of foreign investments, beefing up competition. Regional integration enables to effectively address "transport transit problems" by harmonization and streamlining of rules and regulations among transport communication among the countries of the region.

Special focus should be placed on building up manufacturing and marketing potential of exports. To this end, aim-oriented efforts should be undertaken to:

1. locating instruments and resources to fund the development of export-oriented companies and encourage establishment of new ones;

2. research existing markets for Uzbek products and stimulate exporters;
3. participate in holding more effective trade fairs abroad;
4. develop schemes for insurance of export credits and encourage export by creation of export insurance pool to insure from the risk of non-payment by importers;
5. facilitate access to pre-export financing through the commercial banks for those who really need it;
6. streamline customs records and procedures in exports;
7. enter into additional preferential agreements with foreign nations in order to expand the markets for Uzbek goods; and
8. establishment of the for Export Facilitation Council to develop overarching policy for export development and exports operations of Uzbek companies.

Fruitful dialogue between public and private sectors enables to identify the needs of the market more precisely and facilitate the search for reliable and long-term solutions. Input of entrepreneurial sector is also instrumental in identification and implementation of the export facilitation programs.

Conclusions and Recommendations

Analysis conducted in preparation of the report enables to elicit the following key conclusions and recommendations⁶⁴:

1. Despite the past successes in structural transformation of the economy and export diversification, continuous prevailing share of raw commodities in the composition of exports make the country very vulnerable to fluctuations in the world markets for raw commodities. It does not meet the country's potential and objectives to accelerate economic growth, and determines the necessity for structural transformation of the economy and diversification of exports by transition to the strategy of export facilitation;
2. In addressing the issues of structural transformation of the economy and export diversification, abolition of the export barriers, and export facilitation by various financial instruments as well as lowering import protectionism (import tariffs, import excise, technical barriers) are important factors to consider.
3. In order to augment manufacturing and marketing potential of exports, it is apt to put into place *adequate conditions for trade and dealer* firms undertaking the exports of products made in Uzbekistan;
4. In order to provide incentives to the companies to engage in exports, removal of inefficient financial costs and reduction in paperwork submitted as well as the time for their processing, it is expedient to streamline the procedures for and processing of essential papers for undertaking exports at Uzstandard agency, customs authorities, and commercial banks.
5. In order to increase the volume of export sales and the range of goods and services exported, *it is essential to improve* the quality and boost advocacy and marketing activities. It is essential to boost the work of government and public bodies (AFER, CTC, industry and business associations) to assist all foreign economic actors to promote local products in external markets, including free service to enhance the awareness of the companies in the domestic and foreign legislation, foreign markets, fluctuations of overseas markets as well as to expand the coverage of the foreign trade actors, topics and areas of specialty for business-forums, seminars, exhibitions, and fairs conducted both in Uzbekistan and abroad.
6. Currently export of goods is levied 0.2 percent of customs cost of the commodity exported. This practice, being a hindrance for exports, does not meet the requirements of GATT/WTO for correlation between customs fees and the actual volume of services provided by customs bodies. In this regard, it is essential to ensure that customs fee is not levied ad valorem but rather in the amount of services actually provided by the customs body.
7. For further export diversification and expansion of national export potential, it is essential to review the list of goods prohibited for export⁶⁵, and review the mechanism for licensing the export of "sensitive"⁶⁶ goods;
8. Expand the capacity of commercial banks to independently develop banking services related to export financing, insurance of export loans or extension of bank guarantees for effective implementation of export potential of the nation;
9. *Develop a* comprehensive strategy and a programme for development of transport and transport-forwarding services with the focus on facilitation of private entrepreneurship and competition in this sector;

⁶⁴ Detailed proposal of activities for enhancement of export potential, product range, and export diversification is given in Annex №7.

⁶⁵ Annex to Presidential Decree # KP-1871, issued 10.10.1997.

⁶⁶ Particularly "sensitive" goods may be those potentially affecting national defense capabilities, environmental security, human beings, and national security interests.

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10. Advance the efforts to harmonize and streamline transport and transit procedures in the Central Asian region and expand cooperation in this area in the framework of CACO and SCO;
11. Establish the Export Facilitation Council to develop overarching policy for export promotion and export operations of Uzbek companies, concurrently ensuring direct dialogue between public and private sector to develop and implement export facilitation programmes/strategies.

Attachment 1.1. Assessment data regarding the operational procedures of trade costs and benefits provided by streamlining trade procedures

Research	Coverage	Cost assessment	Benefit assessment	Comments
US NCITD (1971)	Direct costs: expenses relating to the registration Direct costs: expenses connected with document registration in conformity with the requirements of the government; financing and insurance; transporters; forwarder/brokers or their counter-agents	Average expenses of document registration make up USD 375.77 for exports and USD 320.58 dollars in case of imports. Total costs in combination amount to 7.5% of the total cost of exports and imports of USA.	(no assessment)	Based on the examination of commercial enterprises
Ernst and Whinney (1988)	1). Direct costs: expenses related to customs formalities; 2). Indirect costs: Road transportation and lost commercial opportunities	Expenses related to customs formalities (7,500 million ECU), expenses connected with the road transportations (415-830 million ECU) and cost of the lost commercial opportunities (4 500 – 15 000 million ECU). Approximately 1.5% of the total cost volume of trade inside of the EC countries are related to ensuring compliance with customs formalities; 1-3% - on lost commercial profits.	(no assessment)	Based on the examination of commercial enterprises; in respect to examinations on the lost commercial opportunities and expenses related to road transportations , there are certain methodological reservations.
SWEPRO (1985)	Direct costs: expenses related to implementation of customs formalities	Expenses related to the implementation of customs formalities amount to 4% of the cost volume of imports and exports, i.e. 8% of the total cost volume of trade of goods	(no assessment)	Some indicators were most likely received from Swedish customs bodies and commercial enterprises
Research	Coverage	Cost assessment	Benefit assessment	Comments
EU COST 306 Final Report (1989)	Direct costs: expenses related to document registration	Expenses related to registration of documentation make up 3,5 –	(no assessment)	There is no information with

		7% of the cost volume of trade of goods; when there are errors, this indicator reaches 10-15%		respect to methodology
APEC (1997)	APEC Programs in trade liberalization, including measures for the simplification of trade procedures, TBT, competition policies, government procurement and transparency issues	There is mention about assessment data estimated by Chekkini (1988), UNCTAD (1994b), as well as Di, Gaysler and Wotson (1996), however, there is no indication of which data were selected	5% of cost volume of trade of goods (only at the expense of measures for the simplification of trade procedures); 10% (if one takes into account TBT, competition policies, government procurement and measures for ensuring transparency)	In all probability, secondary reference data were used
Staples (1998)	Direct costs: expenses for the implementation of customs formalities	Expenses for the implementation of customs formalities make 7-10% of the cost volume of international trade	(no assessment)	In all probability, secondary reference data are used

Source: EAC, UNDP, Simplification of trade procedures: distribution of benefits form the process of globalization under the new safety conditions

Attachment 1.3. Geographical distribution of Uzbek exports

EXPORTS TO CIS COUNTRIES

COUNTRY	Average rate of the current tariff	Major export items	Major problems of market entry
Russia	9,9	Mineral fuel, ground transportation vehicles, cotton fiber, textile products, non-organic chemical compounds, non-ferrous metals, cable-conductor products, foodstuffs, wide list of machinery and mechanisms and their parts, services	Transit through Kazakhstan or Turkmenistan, high transportation element in the cost of goods, rising requirements to the quality of goods and growth of internal production
Ukraine	10,5	Mineral fuel, cotton-fiber, cotton yarn, cotton wool, textile items, various machinery and equipment, raw and processed fruits and vegetables, juices, ground transportation vehicles, non-ferrous metals and items made thereof.	Transit through two, three countries, attachment to gas main pipeline systems, rising requirements to quality and growth of internal production, orientation towards Western market.
Kazakhstan	12,0	Mineral fuel, products obtained as a result of processing and items made thereof, plastics and items made thereof, wide list of foodstuffs, products of organic and non-organic chemistry, cotton wool, fabrics, yarn, textile items, cardboard paper, furniture, ferrous metals, various types of machinery and equipment, ground transportation vehicles	
Turkmenistan		Energy carriers, construction materials (cement, glass), textile products, mineral fertilizers, reinforcing steel, foodstuffs, services	
Belarus	8,5	Raw and processed fruit-and-vegetable products, cotton fiber, products of organic chemistry, selected machinery and mechanisms, textile products	Transit through two, three countries, attachment to gas main pipeline systems, rising requirements to quality of goods and growth of internal production, orientation towards Russian market
Azerbaijan		Liquefied gas, fruits and vegetables, grain, electric equipment, paper, fabric, flying devices, ground transportation vehicles	
Tajikistan		Mineral fuel, ferrous metals and items made thereof, products of non-organic chemistry, organic chemical compounds, fertilizers, pharmaceutical products, wide list of foodstuffs, various types of equipment, devices and apparatuses, ground transportation vehicles, lime, cement, glass and items made thereof, textile materials, clothing, instruments, furniture	

EXPORT INTO CIS COUNTRIES

Asian markets

COUNTRY	Average rate of the current tariff	Major export items	Major problems of market entry
Japan	3,3	Silk, yarn, cotton fabric, non-ferrous metals, services	High transportation constituent in the price of goods, absence of direct borders and the need for transit through third countries, language barriers, complex legislative and procedural norms, special mentality, rather high level of tariff, existence of non-tariff restrictions
South Korea	12,4	Cotton fiber, cotton fabric and yarn, chemical threads, non-ferrous metals, foodstuffs, rough leather	
China	10,0	Products obtained as a result of processing of oil and gas, plastic and items made thereof, silk, non-ferrous metals, services, foodstuffs	
India	34,9	Non-ferrous metals, services of air transportations, chemical products, ferrous metals and items made thereof, machinery and equipment	
Malaysia	7,3	Services of air transportation	
Singapore	0	Cotton fiber, services of air transportation, equipment	
Vietnam	18,2	Cotton fiber, cotton yarn and fabric, products obtained as a result of processing of oil and gas, foodstuffs, equipment	

Western markets

COUNTRY	Average rate of the current tariff	Major export items	Major problems of market entry
EC	4,4	Cotton fiber, fabric, cotton yarn, non-ferrous and precious metals and items made thereof, services of air transportation, products of non-organic chemistry, plastic in initial forms	High requirements set for the quality of goods, high share of transportation expenses in relation to the price of goods, technical barriers in trade – quality requirements, product certification, marking, packaging, phyto-sanitary measures, complexity of procedures of market access.
Baltic states		Cotton fiber, products obtained as a result of processing of mineral fuel, chemical products, non-ferrous metals and items made thereof, components of machinery and equipment	
Hungary	9,5	Cotton fiber, services	
Bulgaria	11,0	Non-ferrous metals and items made thereof, cotton fiber, chemical products, fruit and vegetable products, services	

Southern markets

COUNTRY	Average rate of the current tariff	Major export items	Major problems of market e
Iran		Cotton fiber, mineral and chemical products, fertilizers, plastic, kaolin, chemical fibers, non-ferrous and ferrous metals and items made thereof, services	Complex regulatory mechanisms of market access, restricted carrying capacity of transportation corridors, direct border exists only

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Israel	5,6	Services, non-ferrous metals, foodstuffs	with Afghanistan, exit to other countries is only through territories of third countries
Turkey	10,2	Yarn and fabric, knitted fabric, clothing and ready-made textile items, non-ferrous metals, plastic ad items made thereof, paper, cardboard, silk, raw fruits and vegetables, oil-bearing seeds, rough leather, absorbent cotton, chemical fiber, certain types of equipment.	
UAE	4,8	Zinc, silk, perfumes, services	
Saudi Arabia		Transportation services, tourism	
Egypt	26,8	Silk, services	
Afghanistan		Foodstuffs, ferrous metals and items made thereof, energy carriers, machinery and equipment, mineral fertilizers, chemical products, construction materials	

**Assessment of the competitiveness of some categories of local products in overseas markets
(As of 2004) ***

Product title	Cost ratio against world market price **	Ratio of wholesale price to the world market price **
Machinery and metal processing		
IL-76ТД aircraft	1,13	1,226
IL-114Т aircraft	1,14	1,226
Mowing machine	4,267	5,927
Cotton seeder	0,470	0,652
Cultivator KXY-4A	0,983	1,449
Cotton harvesters	1,570	1,962
Cotton harvester "Кейс"	1,531	1,612
Power transformer	0,581	0,707
Passenger elevator	0,948	1,226
Car	0,990	1,414
Refrigerator	0,735	0,864
Air -conditioner	1,159	1,510
Color TV	0,981	1,153
Bare wire	0,901	1,154
Telephone cable	0,477	0,602
Fuel and energy		
Natural gas	0,114	0,251
Liquefied natural gas	0,433	0,526
Electricity	0,954	1,286
Oil	0,164	0,187
Gasoline	0,285	0,727
Aircraft fuel	0,611	0,767
Diesel fuel	0,333	0,701
Machine oils	0,876	0,950
Furnace fuel	0,429	1,063
Poliethylene	0,914	1,185
Non-ferrous metal processing		
Secondary aluminum	0,673	0,923
Metal zink	0,716	1,023
Tungsten trioxide	0,000	0,000
Metal molybdenum	1,075	1,535
Metal tungsten	1,025	1,464
Chemicals		
Ammonium nitrate	1,058	1,288
Carbamide	1,039	1,262
Ammophos	1,105	1,250
Nitron fiber	1,997	2,245

Paints and varnish	0,824	1,177
Ammonia	0,929	1,039
Acetic acid	1,993	2,246
Cellulose	0,524	0,749
Superphosphate	0,791	0,888
Construction materials		
Cement	0,744	1,033
Gypsum	0,621	0,823
Soft roofing	0,926	1,296
Slate	0,797	1,175
Granite blocks	0,425	0,561
Marble blocks	0,806	0,912
Construction glass	0,761	0,984
Limestone	0,963	1,188
Agriculture and textiles		
Cotton fiber	0,533	0,761
Cotton fabrics	0,514	0,606
Cotton fabric	0,654	0,721
Stockinet	1,148	1,169
Karakul (astrakhan fur)	0,079	0,113
Wool	0,767	1,096
Consumer goods		
Cotton oil	0,261	1,764
Margarine	0,789	1,234
Laundry soap	0,796	1,321
Face soap	0,754	1,349
Tomato soap	0,807	1,049
Canned products	0,960	1,152
Dried fruits	1,134	1,248
Concentrated juices	1,380	1,518
Wine materials	0,565	1,149

* Authors' estimates

** Mean annual rate for 2004 USD 1 = 1019,23 soums

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Attachment 2.1.1. Stages of export procedures under standard export contract

<i>№</i>	<i>Export procedure</i>	<i>Documentation</i>	<i>Average time (days)</i>
UA «Uzstandard»			
1.	Request for information and filling out application form	Application form	3 - 5
2.	Request for information and services	Receipt	
3.	Request for analysis and certification	Application form	
4.	Issuance of certificate of conformity	Certificate	
5.	Making payment for the certificate of conformity	Receipt	
AFER			
6.	Request for information and filling out application form for registration of participant of FEA	Application form	2
7.	Application for receipt of certificate of the country of origin with the appropriate documents and requirements	Application form	3
8.	Request for analysis	Application form	
9.	Laboratory analysis		
10.	Report on the results	Protocol	
11.	Issuance of certificate of the country of origin of goods	Certificate	
12.	Payment for the certificate of the country of origin of goods	Receipt	
13.	Request for statement of AFER on GNFEA codes	Application form	2
14.	Issuance of protocol	Protocol	
15.	Payment for statement on GNFEA codes	Receipt	
Ministries and Cabinet of Ministers			
16.	Receipt of a license for carrying out export activities	Application form and appropriate documents	10
17.	Receipt of an export license	Application form and appropriate documents	
Quarantine (in case of export of certain types of plants)			
18.	Application for receipt of an export permit	Application form	5 - 10
19.	Request for the analysis and certification		
20.	Testing and laboratory analysis	Protocol	
21.	Permit for export of certain types of goods	Certificate	
22.	Payment for rendered services	Receipt	
Statement of State Committee for Biological Control RCM 508 28.10.2004			
23.	Application and receipt of an export permit	Application form	
24.	Request for the analysis and certification		
25.	Testing and laboratory analysis	Protocol	
26.	Payment for rendered services	Certificate	
27.	Permit for export of certain goods	Receipt	
Customs Committee			
28.	Application for export authorization on the required documents: type of goods, reasons of export, contract, quality and certificate of complaint, certificate of origin, export license	Special letter	3
29.	Export authorization	Letter	
30.	Registration of export contracts in customs bodies	Customs declaration	
Commercial bank			
31.	Registration of contract in the authorized bank	Application	2
32.	Conditions of mandatory pre-payment or opening a letter of credit	Confirmation of receipt of money, or opening letter of credit	
33.	Payment for rendered services	Receipt	
Customs Broker			
34.	Registration of customs declaration		
Customs			
35.	Confirmation of payment	Application stamp	5 – 10
36.	Inspection of goods	Protocol	
37.	Sealing	Reference on the declaration	
38.	Escort to the border on request	Registration	
39.	Payment for escort	Receipt	

Attachment 2.1.2

Draft «Facilitating exports of Uzbekistan: creation of favorable environment and institutions»

A survey was conducted in the city of Tashkent from May 4 through May 13, 2005. 4 interviewers took part. Overall 60 enterprises-exporters were interviewed.

For selection, database of enterprises-exporters as well as the list of enterprises, which reported hard currency transactions were used, therefore, the data is reliable. In order to select the required sample, percentage ratio of micro, small and large businesses within total number of enterprises-exporters was calculated. And in percentage terms (12%-16%-12%) the quota was maintained.

In order to interview 60 enterprises we had to get in touch with more than 120 companies because it was needed to screen out enterprises engaged in services and other types of activities other than production and trade.

In average, interviews lasted from 30 to 45 minutes. 25% of interview was taken from 2 and more respondents because not always one of the respondents had full information. And not always (20%) the interview was completed during one meeting. We had to set time for another meeting or get in touch by the phone.

There were no interrupted interviews with the exception of several interviews, which were postponed for clarification of certain issues. Mainly, these were issues concerning payment and financial transactions, because many enterprises have several specialists engaged in export transactions and each of them works in his/her own domain.

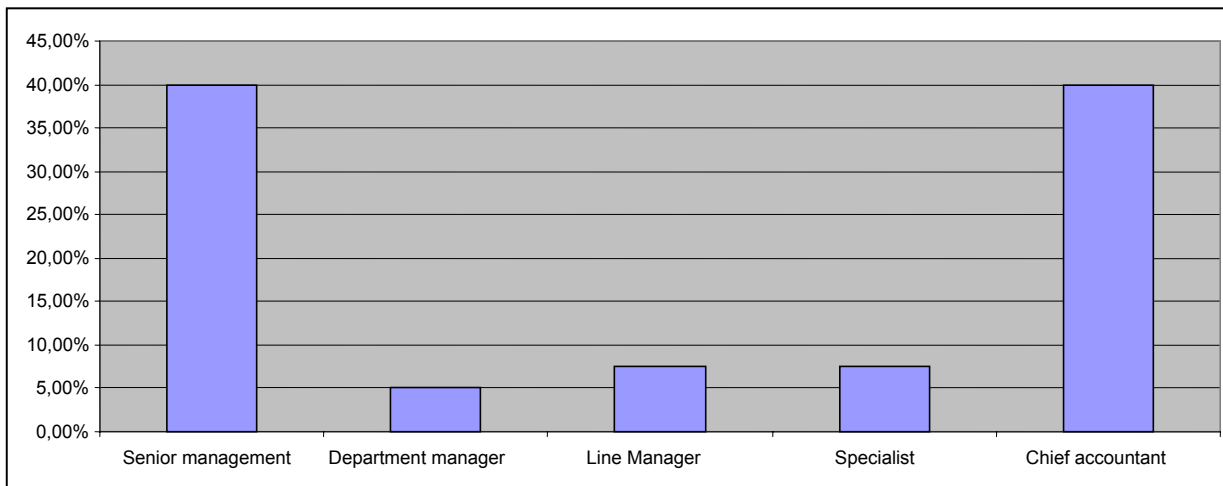
The hardest of all was to establish contact with the heads of large companies, such as «Coca-Cola» and «Deutsche-cable» as the consent of partners was required to hold a meeting.

Questions B, D4. and D5. were difficult for many respondents, in particular, if this was concerning non-official payments, respondents would avoid answering (about 30%). All questions were accessible for respondents' understanding. It was not difficult to set time for interview but everybody asked: why we needed this, what will this give for their business and what real assistance can we give in order to solve these problems.

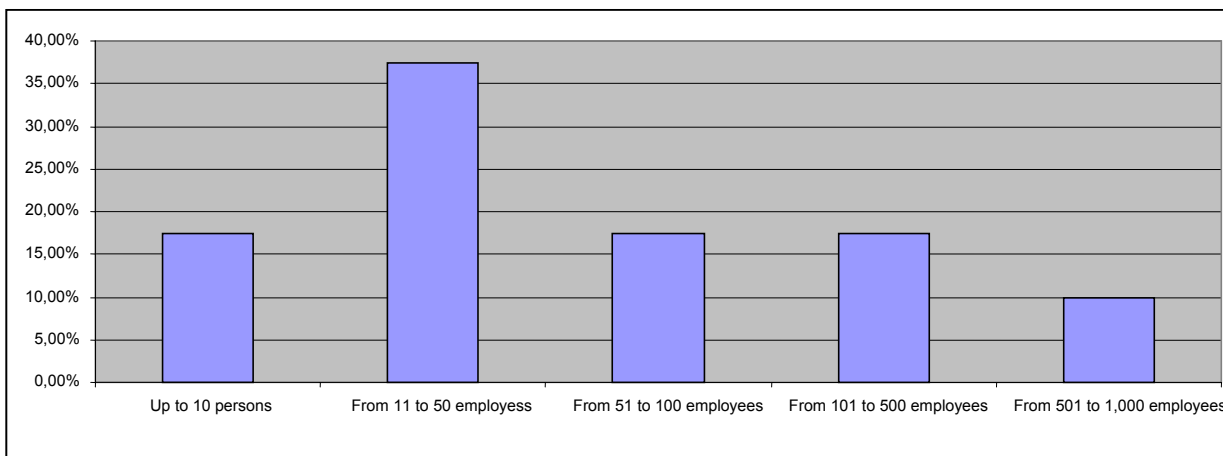
Despite the difficulty of some questions, respondents tried to answer sincerely and honestly.

* comments to questions are attached

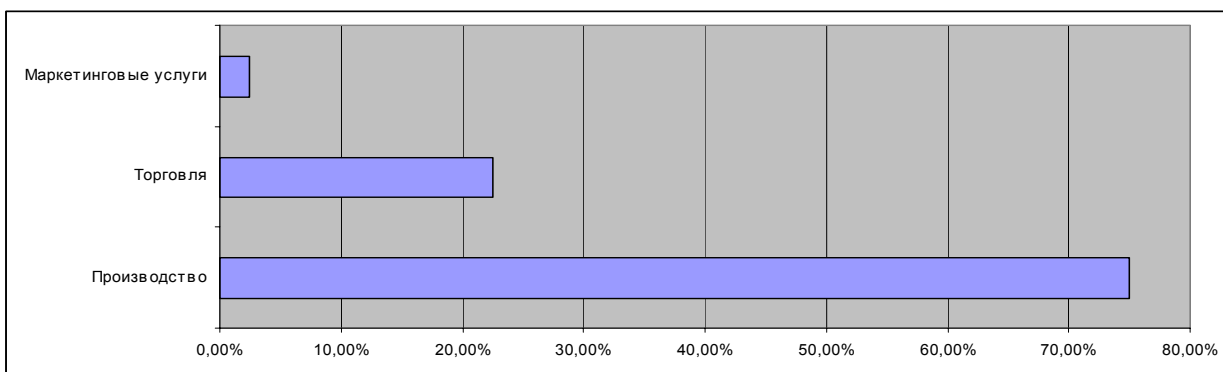
1. Position of respondent who took part in the examination of exporters



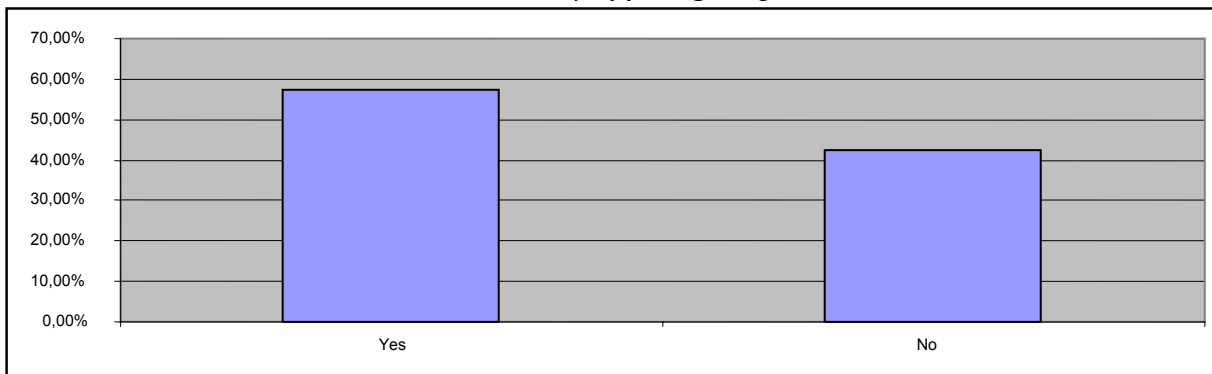
2. Distribution of companies by average number of employees



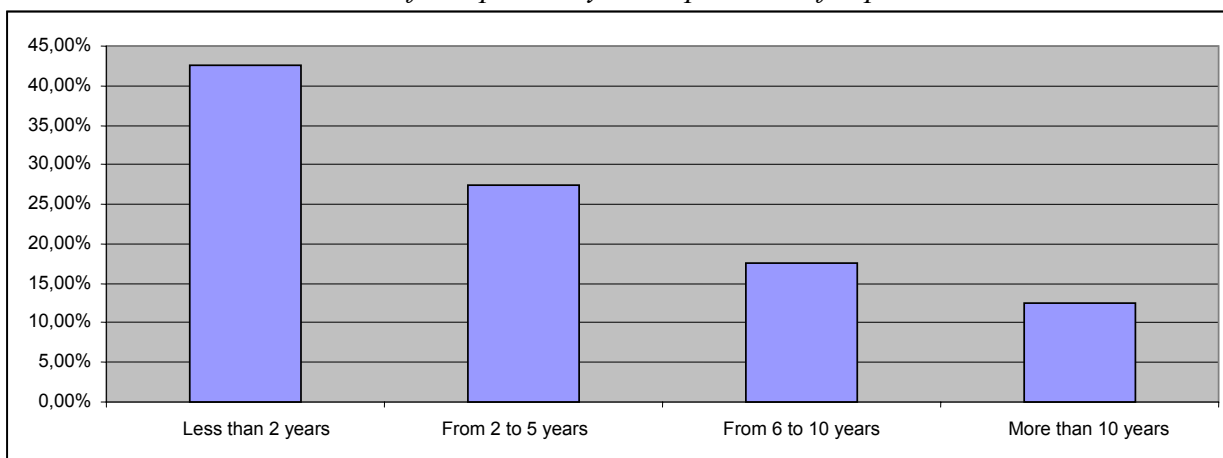
3. Distribution of companies by the types of activities



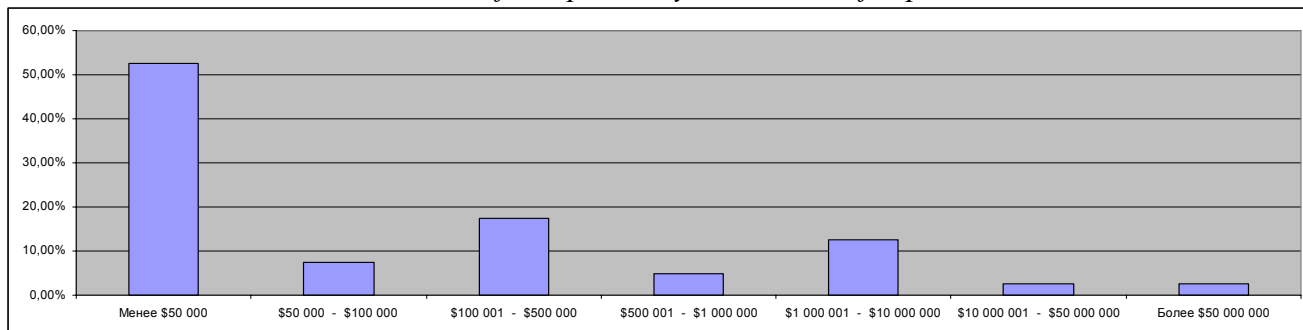
4. Availability of foreign capital



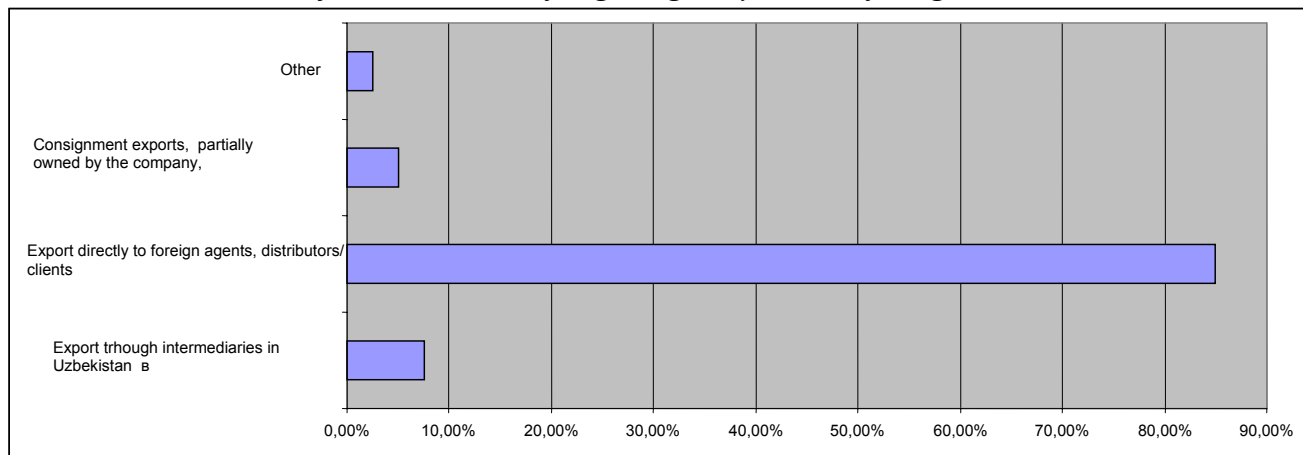
5. Distribution of companies by the experience of export activities



6. Distribution of companies by the volume of export sales



7. Major methods used for getting entry into the foreign markets



Attachment 4**1. Analysis of international experience on the development of export potential (in the example of countries of South-eastern Asia)**

Malaysia is one of many countries of South-eastern Asia, which created export-oriented economy. Thanks to well-elaborated industrial policies aimed at developing export potential, Malaysia is a country with competitive world-market economy. The formation of export-oriented economy is directly related to the reforms geared for industrialization. The stages of industrialization of Malaysia can be described as follows:

Phases of Malaysian industrialization

Phases	Industrial strategy	Industrial policy	Special importance
I	Import-substitution (1956 - 1970)	<ul style="list-style-type: none"> • Identification of pioneer branches 	<ul style="list-style-type: none"> • Light consumer goods • Local production
II	Export orientation (1970 – 1980)	<ul style="list-style-type: none"> • Law on promotion of investments, 1968. • Law on industrial coordination, 1975. 	<ul style="list-style-type: none"> • Export orientation • Free trade laws • Export of electronics and textiles
III	Import-substitution (1980 - 1985)	<ul style="list-style-type: none"> • Heavy industries 	<ul style="list-style-type: none"> • Durable consumer goods Means of production and interim products
IV	Export-oriented industries (1986 – 2005)	<ul style="list-style-type: none"> • Industrial Master Plan (1985-95) • Law on promotion of investments, 1968. • Second Industrial Master Plan (1995-2005) 	<ul style="list-style-type: none"> • Entry into new markets • Industries based on clusters • Strengthening industrial interrelations

As a result of conducted reforms, the country's export gradually increased. For the period of 1992-2004, export increased by some 4,8 times, and imports – by 4 times, and black inc – by some 40 times. As per 2003 data, the major export positions of the country were electronics and electric products in the amount of 55,57 billion US dollars or about 53% of the total exports of the country, products made of palm oil - 6,14 billion of US dollars (6%), chemical and mineral products - 5,42 billion of US dollars (5%), plastic items - 2,47 billion of US dollars (2,3%), textile items and clothing - 2,23 billion US dollars (2,1%), automobile vehicles - 269,3 million US dollars (0,3%), processed foodstuffs - 1,46 billion US dollars (1,4%), rubber items - 1,37 billion US dollars (1,3%) and items made of wood - 1,23 billion US dollars (1,2%). Exports of these goods are mainly directed to such countries as USA, United Kingdom, Japan, Singapore, China, Hong Kong and others.

Table. Dynamics of foreign trade of Malaysia for the period of 1992-2004.

(billion Malaysian ringgits (MR): in calculation of 1 US dollar = 3,8 MR)

Years	Export	Import	Balance
1992	103.66	101.44	2.22
1993	121.24	117.40	3.83
1994	153.92	155.92	(2.00)
1995	184.99	194.34	(9.36)

1996	197.03	197.28	(0.25)
1997	220.89	220.94	(0.05)
1998	286.56	228.12	58.44
1999	321.56	248.48	73.08
2000	373.27	311.46	61.81
2001	334.28	280.23	54.05
2002	357.43	303.09	54.34
2003	398.88	317.75	81.14
2004	480.71	400.09	80.62

*Source: Malaysia External Trade Development Corporation www.matrade.gov.my

In the development of exports, one of the major roles was played by the creation of clear functioning state institutions in charge of export promotion.

Malaysian Corporation for the Development of Foreign Trade (MATRADE)

Malaysian Corporation for the Development of Foreign Trade (MATRADE) was created on March 1, 1993 as a structural department of the Ministry of Foreign Trade and Industry (MFTI) responsible for export promotion. MATRADE operates as a focal point of Malaysian exporters and foreign importers for provision of information in the sphere of foreign trade. By means of provision of information concerning marketing studies and necessary consultations, MATRADE provides assistance to Malaysian exporters in promotion of their export products and services to competitive global markets.

The functions of MATRADE are as follows:

- To promote, facilitate and develop Malaysian foreign trade giving special importance to exports of industrial and semi-industrial products and services
- To develop and implement export marketing strategies and activities aimed at promoting foreign trade with the view of developing exports from Malaysia
- To conduct marketing research and to create comprehensive database for the improvement and development of Malaysian trade
- To organize training programs for upgrading of skills of Malaysian exporters in the sphere of international marketing
- To develop and to protect foreign trade investments of Malaysia abroad
- To promote, to develop and to provide assistance in the sphere of trade-related services.

MATRADE has established its 29 offices in many commercial cities of the world, including USA, Brazil, Germany, France, Italy, United Kingdom, Holland, Hungary, Russian, Australia, Saudi Arabia and others.

Provision of commercial information is one of the main types of MATRADE services. Under it, there operate computerized database about Malaysian exporters and foreign buyers for the distribution of mutual interests. This database is updated regularly. Also, there is business-library, which provides interested individuals the opportunity of conducting preliminary studies about the markets and goods. Trade directories, guidelines for exporters, monthly commercial bulletins and weekly research works are available in the MATRADE library. Apart from that, there one can receive information about foreign markets and business opportunities.

MATRADE also conducts its activities in trade facilitation. Corporation assists Malaysian companies with participation in international trade exhibitions, trade and investment missions organized in cooperation with the Ministry of Foreign Trade and Industry and Malaysian Agency for the Development of Investments (MIDA), in specialized marketing missions for identification and development of new opportunities in certain markets, in Malaysian Exhibition of Goods organized in individual markets for

Draft report for discussion. Not to be cited or distributed without written permission of the authors or CER administration purposes of promotion of Malaysian exports, in familiarizing the consumers about the Malaysian goods through advertisement organized jointly with major trading centers abroad. Corporation also distributes information about the Malaysian goods and services through reference bureau and catalogues on international trading exhibitions.

In the area of export development, MATRADE provides Market Development Grants for purposes of providing assistance to small and medium-sized businesses, including consultations, in carrying out activities on the development of export markets. Corporation conducts seminars for training new exporters and updating the knowledge of the existing pool of exporters on the development of trade and business opportunities in foreign markets.

Apart from MATRADE, Malaysian Investment Development Agency (**MIDA**) is engaged in investment aspects. This agency is the state body under the Ministry of Foreign Trade and Industry responsible for the promotion and coordination of industrial development of the country. The agency is considered an initial contact point for investors who intend to implement projects in the industrial sector or sectors related to it in Malaysia.

In regard to favorable conditions created for exports, it should be noted that in Malaysia, tax privileges are envisaged in the Law on promotion of investment of 1986, Law on income tax (proceeds) of 1967, Law on customs of 1967, Law on sales tax of 1972, Law on excise taxed of 1976 and Law on free trading zones of 1990. These Laws cover investments in industry, agriculture, tourism (including hotels) and approved sectors of services, as well as НИОКР, trainings and activities aimed at environmental protection.

Taking into account that tax privileges are divided into direct and indirect privileges, the direct tax privileges mean partial or full exemption from payment of income (proceeds) tax during a certain period of time, whereas indirect tax privileges are in the form of exemption from payment of customs payments, sales tax and excise tax.

Major tax privileges for enterprises that invest into industrial sector are Status of Pioneer or Investment Tax Privilege. Conditions for receiving the Status of Pioneer or Investment Tax Privilege are based on certain priorities, including level of value added, used technologies and industrial interrelations. Projects that are in conformity with these conditions are called “promotion activities” or “promoted goods”

An enterprise that received the Status of Pioneer is granted partial exemption from payment of income (proceeds) tax for the period of 5 years. It pays tax on the basis of 30-percent base subject to taxation during grace period, which starts from the day of production. At that, the day of production is considered the date, when the level of production reaches 30 percent of production capacities.

Applications for receipt of Status of Pioneer are submitted to the Malaysian Industrial Development Agency (MIDA).

For purposes of promoting exports, industrial enterprises in Malaysia can be granted:

- Tax privilege in the form of reduction of base subject to taxation, which is equivalent to 10 percent of the cost of grown exports, provided that exported goods contain at least 30 percent of value added; or
- tax privilege in the form of reduction of base subject to taxation, which is equivalent to 15 percent of the cost of the grown exports, provided that the exported goods contain at least 50 percent of value added.

Requirements for this issue shall be submitted to taxation authorities.

For further promotion of exports from Malaysia, local enterprise having at least 60 % of Malaysian share in charter fund, is eligible for the following privileges:

- tax privilege in the form of reduction of taxation base equivalent to 30 percent of the grown exports, provided that an enterprise reaches significant export increase;

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- tax privilege in the form of reduction of taxation base equivalent to 50 percent of the cost of grown exports, provided that enterprises enter into new markets;
- tax privilege in the form of full reduction of taxation base in the amount of grown exports, provided that an enterprises reaches the highest export growth in its category.

“Free Trading Zones” (FTZ) operate in the territory of Malaysia. Free Industrial Zones (FIZ) are the zones that have been specially formed for industrial enterprises that produce goods and are engaged in the assembly activities mainly for export.

FIZ allow these export-oriented enterprises to take advantage of minimal customs formalities and duty-free import of raw materials and materials, components, machinery and equipment that are directly necessary in the industrial process, as well as minimal formalities in exports of their ready-made products.

To date, there are 13 FIZ located in such areas as Sungai Ulu, Khulu Kelang, Kinta, Jelapang II, Peray, Bayan Lepas, Sama Jaya, Telok Panglima Garang, Peringgit I, Peringgit II, Peringgit III, Tanjung Kling and Pasir Gudang.

Enterprises can be part of the FIZ when:

- their full production or at least 80 percent of volume of manufacture of products are directed towards exportation
- their rough materials and materials and componentry are, mainly, imported. Nevertheless, the state encourages enterprises that are part of FIZ in using local raw materials and materials, and components.

In order for an enterprise to take advantage of FIZ conditions, where creation of FIZ is unfeasible or undesirable, enterprises are free to create a Licensed Industrial Warehouse (LIW). LIW are granted the same conditions as FIZ.

Enterprises, which may receive LIW, are those enterprises, whose:

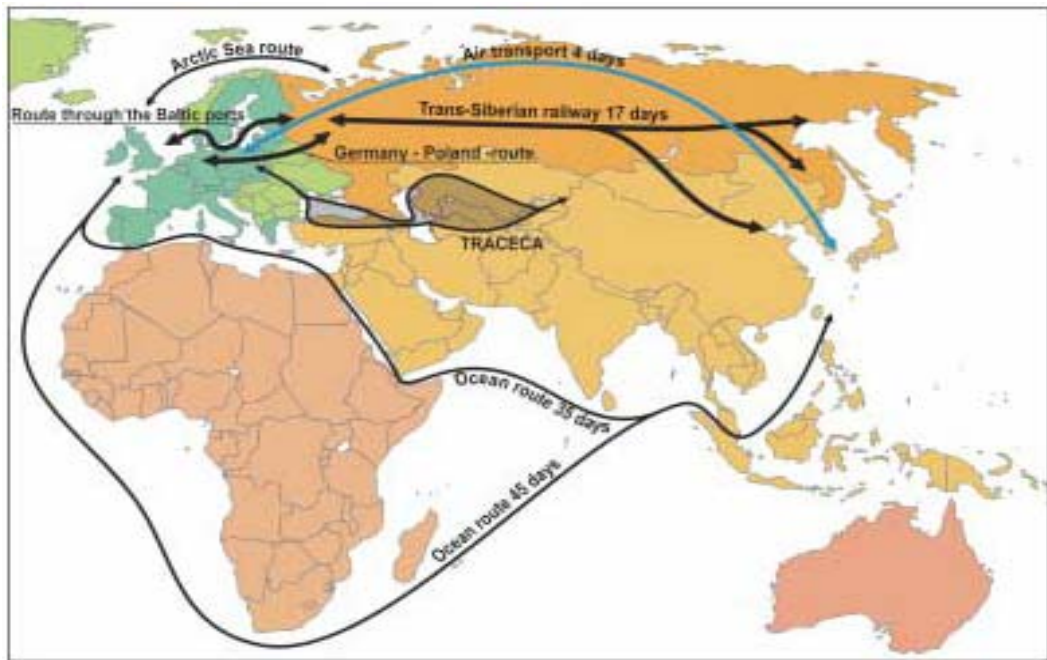
1. full production or at least 80% of production is directed towards export
2. rough materials and materials or componentry are, mainly, imported.

Goods exported from FIZ and LIW are exempted from payment of customs duties. However, (with the exception of cigarettes, liqueur, and motor vehicles), if goods can be sold on domestic market, which is called “Major customs zones” or MCZ, the following import customs duties are levied:

- a. For consumer goods and goods subject to immediate consumption, when such goods are produced in MCZ, will be levied import customs duties equivalent to the rates of General Existent Preferential Tariffs AFTA (CEPT)
- b. For consumer goods and goods subject to immediate consumption, when such goods are produced in MCZ, but the local rough materials comprise more than 51%, will be levied import customs duty in the amount of 5% advalore or equivalent excise rate (for excise goods), which exceeds another one,
- c. For consumer goods and goods subject to immediate consumption, which were not produced in MCZ, will be levied import customs duty in the amount of 3% advalore.
- d. For consumer goods, such as rough materials and materials, componentry, machinery and equipment for industrial sector, industrial enterprises of MCZ can apply for full exemption from payment of import customs duties.

Taking into account the aforementioned experience of Malaysia, it should be noted that the development of exports and export potential of Malaysia became the result of effectively conducted purposeful reforms in the area of creation clear mechanisms of industrial and export development, creation of institutional foundations for the development of export and investment into export branches.

Quantitative description of corridors linking Far East with Europe



Source: Lautso et al. (2005)

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