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Contact Us

policybrief@undp.org

www.undp.uz

Tel: 99871 1203450
99871 1206167

Fax: 99871 1203485

UNDP Uzbekistan Country Office

4, T. Shevchenko Str.
Tashkent, 700029
Uzbekistan

Policy Briefs (PBs) represent succinct and concise analytical summaries providing insights into top-priority policy issues and offering policy recommendations and policy options. PBs are intended for targeted audiences such as policy makers, development stakeholders, the donor community and other interested parties.

How to Boost Exports in Uzbekistan:

Policies and Institutions

Introduction – At the crossroads

Increasing exports is important for economic growth and development at many levels. In macro-economic terms, export development boosts the trade balance and expands GDP. In micro-economic terms, it enhances the competitiveness and sustainability of domestic companies. At the household level, exports can provide an important source of income and employment. Many developing countries have focused on export development because it fosters job creation, boosts foreign exchange earnings, strengthens the private sector and most importantly, develops industrial capacities.

The success of export-led economic growth strategies of East Asia provides many lessons for transition countries. After World War II, countries such as Japan and South Korea, which had emerged from the war in economic and financial ruin, adopted economic stabilization programs with a number of objectives: a) to control inflation through balancing the government budget, b) to link their economies with international markets by fixing undervalued exchange rates, and c) to strive for economic independence through export promotion and industrial modernization[1]. It was already clear at the time that cheap labor and exports of primary commodities or assembled goods were insufficient to support rising living standards. In order to boost the value of their indigenous industries, governments of the first generation East Asian 'Tigers' took proactive measures to suppress "market failures" and structural disadvantages such as lack of information, skills shortages in their labor market, weak capital markets and poor support for institutions and firms. The combination of these measures, which were adopted as export-led economic growth and industrialization policy, proved highly successful for the emergence of East Asian 'Tiger' economies.

For Uzbekistan, the adoption of a similar strategy would, among others:

- allow producers to tap into world markets, take advantage of economies of scale, and boost their competitiveness vis-à-vis foreign competitors;
- increase the country's export earnings and improve its external balance, and consequently would boosts the modernization of the national economy;

- promote the country to further shift towards making products with higher added value;
- encourage inflow of foreign direct investments.

Moreover, as international experience shows, export promotion is more effective than import substitution for economic growth in the medium and long terms.[2] In the short term, a rapid shift to an export-oriented trade policy might cause structural problems in the economy. Yet, if the changes are accompanied with a prudent economic stimulus package to ensure socio-economic development, the policy shift would eventually pay off. Thus, an important measure to suppress short-term structural costs would be to elaborate a gradual and consistent strategy for import liberalization and export promotion. Structural costs can be minimized by informing economic agents in advance of the implementation of such a strategy in order to prepare them for competition with imports. A gradual shift in policy would move the country from an ineffective import-substitution policy, which mostly favors uncompetitive firms to one that promote competitive industries.

At the moment however, current agreements and guidance on trade liberalization provided within the framework of the World Trade Organization (WTO) put severe restrictions on direct public support to stimulating exports in member countries. Ironically, the successful rejuvenation of East Asian 'Tigers' would not have been possible today, since the export subsidies, tax incentives and selective liberalization on which they widely relied have since been banned. Moreover, the strict rules of protection of intellectual property enforced by the WTO are not conducive to the intellectual and industrial breakthroughs needed for developing countries to catch up with the west.

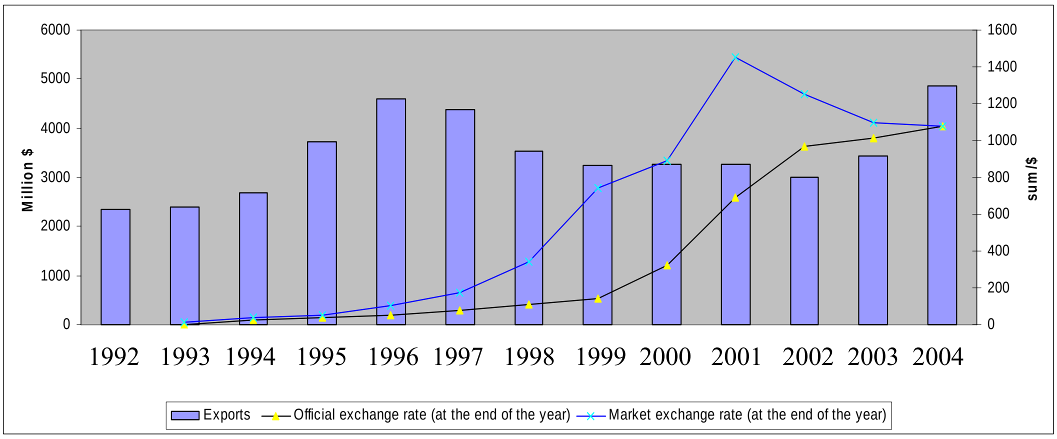
Nonetheless, Uzbekistan can still learn from the success stories of East Asian 'Tigers' and develop and implement its own export-led strategy for industrial development. In order to position itself in a highly competitive global economy, Uzbekistan's export-led economic growth strategy should take into account a number of factors, including the country's geographic and geopolitical situation, developments in the multilateral (global) trade regime as well as accelerated dialogue on regional cooperation in Central Asia and the wider Eurasia. At the same time, Uzbekistan's approach has to address the most critical domestic issues – improving the living standards of the population through employment generation based on accelerated structural and institutional reforms.

In support of such a strategy, this issue of Policy Brief focuses on the current challenges in Uzbekistan, and provides policy recommendations for increasing and diversifying exports that can be adopted in the short and medium terms.

Situation Analysis

As Diagram 1 shows, the volume of exports in Uzbekistan has risen, fallen and then risen again since 1992, with higher rates recorded during the periods when the country pursued a more liberal trade policy and foreign exchange regime (and, of course, when its major export items benefited from favorable world commodity prices).

Diagram 1. Trends in Exports and Exchange Rates of the National Currency, 1992-2004.



Source: Uzbek State Committee on Statistics, 2005

A comparison of the top five export items between 1995 and 2004 (see Table 1) points to a number of significant changes during this period: (1) foodstuffs are no longer among top five exports; (2) vehicles have become new items in the main exports; (3) cotton fiber has lost its dominant position; (4) precious metals lead exports in 2004 at over 25% of the total share,; and (5) exports have become more diversified, with the top five's share dropping from 85% to 70%.

Table 1. The 5 Main Export Items of Uzbekistan in 1995 and 2004

1995		2004	
Product name	**Share in total exports**	**Product name**	**Share in total exports**
Cotton fiber	46	Precious metals	27
Precious metals	17	Cotton fiber	22
Mineral fuels	12	Mineral fuels	12
Foodstuffs	5	Copper and articles thereof	5
Copper and articles thereof	5	Vehicles other than railway or tramway	4
Total	**85**	**Total**	**70**

Source: "Uzbekistan: Social and Structural Policy Review" *World Bank Report # 19626*, Tashkent,1999; and Uzbek State Committee on Statistics, 2005

Since the break-up of the Soviet Union, the nature of Uzbek export did not alter, although their destination changed radically, due in part to the collapse of the Soviet-era trade clearing system[3]. In 1992, 62% of Uzbek exports were to the Commonwealth of Independent States (CIS) and 38% to non-CIS countries. By 2004, however, the percentage had virtually reversed, with CIS countries accounting for 32% of exports and non-CIS countries for 68%. The reorientation of foreign trade from the markets of the former USSR to non-CIS countries enabled Uzbekistan to earn much-needed foreign currency from its exports such as cotton fiber, gold, copper, and other raw materials.

In 2004, exports accounted for nearly 40% of the GDP[4]. Raw materials accounted for more than 65 % of exports, making the country vulnerable to fluctuations in commodity prices. However, over the past five years, exports of processed goods grew by 76%. A number of factors contributed to this strong growth, such as the continuing economic growth in CIS countries (particularly in Russia and Kazakhstan), sharp devaluation of the national currency to foreign exchange and the introduction of currency convertibility on current account[5].

Exports have always played an important role in the Uzbek economy. Since independence, the sector has been viewed as a primary source of foreign exchange earnings needed to finance imports and maintain the balance of payments. At the same time, however, exports can provide an effective stimulus for economic growth through enhancing the manufacturing sector. As such, they can become the main driving force of structural change in the country's economy. Therefore, an export-based industrial policy, regardless of limitations of a lean domestic market, would allow the manufacturing sector to gain economies of scale and enhance productivity and competitiveness. Moreover, the export of industrial products may have an influence on the general business environment in Uzbekistan. As the experience of South Korea shows, during domestic business downturns, the country's exports generally tend to hold steady and sometimes even increase, thereby softening the effect of a domestic recession.

Export promotion in Uzbekistan requires a comprehensive approach based on the creation of a favorable environment and supportive institutions that would allow private businesses to increase their profits by expanding into new markets.

The Policy Brief explains some of the constraints and challenges that such a comprehensive approach faces in Uzbekistan today.

Explaining the High Cost of Uzbekistan's Exports

In order to identify new opportunities for growth and diversification of exports, the Centre for Economic Research (CER) conducted a survey among a sample of sixty representatives of exporters, forwarders and transporters in Uzbekistan in April 2005.[6] The survey, based on questionnaires and interviews, found that the high cost of Uzbek exports could be explained by four interrelated factors: (1) overall trade policy; (2) export barriers; (3) deficiencies in transport and transit; and (4) insufficient attention to export promotion.

1. Overall Trade Policy: From Import Substitution to Export Promotion With High Added Value

Since independence, import regulations in Uzbekistan have been subject to various regimes, from liberal to more protectionist by nature. After the collapse of the Soviet Union, a liberal import regime helped prevent social tensions as Uzbekistan was highly dependent on imports of consumer products. During the first years of independence, liberalization led to the expansion of imported consumer products, while the balance of payments was threatened by the continuously declining world commodity prices.[7] By mid-1990s, it was clear that Uzbekistan needed to lower its dependence on cotton mono-culture and exports of raw materials, and industrialization came to be viewed as a potential force that could contribute to the overall economic improvement and to export diversification. As the global commodity markets declined, Uzbekistan introduced restrictions to imports, first through controlling access to foreign exchanges and later through raising tariff and non-tariff barriers to imports. Thus, Uzbekistan employed a trade regime based on an import-substitution industrialization policy.

The current protectionist trade policy in the mean time restricts not only imports but also exports. Restrictions on imports decrease the demand for foreign exchange, thereby increasing the real exchange rate which consequently also decreases exports. Moreover, experience has demonstrated that high trade barriers limit the imports of not only consumer goods but also intermediates which are essential for the development of both export-oriented and domestic market-oriented industries. Overall, limited competition in the domestic market creates incentives for an inefficient distribution of economic resources and encourages rent-seeking behavior in industries which are highly protected from competition.

An import-substitution strategy can work for a while in large countries with manufacturing plants large enough to take advantage of economies of scale even without exporting. For small developing economies like Uzbekistan, however, an import-substitution trade policy could lead to significant price distortions.[8] Small developing economies do not have enough absorptive capacity in their domestic markets to take advantage of economies of scale because of the low income and small scale of their populations.

As a consequence of protectionism, domestic prices for a majority of goods can be significantly higher in Uzbekistan than world prices, and these can affect the purchasing power of the population (see Table 2). High barriers to imports also encourage the smuggling of goods into the country, which represents not only a loss of state revenues but also erodes business ethics and further distorts the domestic market. As part of the policy on import protectionism, substantive limitations are placed on the quantity of goods, and on the licensing requirements for the export of some goods, which also hinder on the development and diversification of exports.

Table 2. Price Increase of Certain Categories of Imported Goods (%, as of December 2005)

Product	Total increase	Due to				
		Excise tax	Import tariff	VAT	Customs clearance	Others
Processed fruits and vegetables, juices	112.2	29.7	26.7	19.8	0.2	
Oil and petroleum products, light and medium distillers	76.2	13.1	26.2	26.2	0.2	
Leather products, clothing and other goods	100.2	19.9	29.9	19.9	0.2	19.9
Natural and artificial fur and its products	106.2	23.5	28.2	18.8	0.2	18.8
Carpets and other textile	184.2	48.8	16.2	10.8	0.1	10.8
Tape recorders, video recording and video production equipment	130.2	34.5	23.0	15.3	0.2	15.4

Source: Based on the findings of the CER Survey, 2005

At the same time as curbing excessive import protectionism, it is therefore important to also introduce improvements in export regulations. The current export regime of Uzbekistan is based on the Customs Code and various Cabinet of Ministries' decrees which fall short of fully harmonized export regimes of many countries in the world. In order to develop a favorable export regime, it is therefore important to start by correlating definitions and categories, as well as financial, fiscal and other incentives consistent with international regulations, especially with those related to the Regional Trade Agreements (RTAs) and WTO.

International experience demonstrates that export-promotion policy is more effective than import-substitution industrialization policy to promote industrialization in developing countries. Countries which are considered successful have adopted an export-promotion policy based on selectively targeting industries with high export potential, together with gradual trade liberalization. For example, the South Asian 'Tigers' have been able to attain high levels of economic growth through maintaining real exchange rates at relatively lower levels and engaging in effective import protectionism which did not distort relative prices.

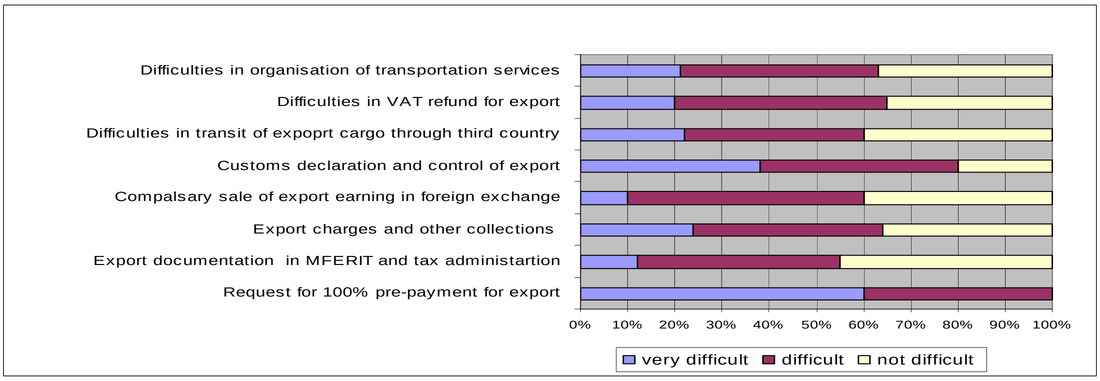
In Uzbekistan, an export-promotion strategy could rely on domestic labor-intensive industries with high income elasticity of demand. Thus, textile, food processing, construction materials industries and services (tourism, transportation, telecommunications and others), have high export potential for the country[9]. Given that Uzbekistan is also rich in natural resources, the chemical industry and energy sectors, although they may be more capital intensive, might also be right targets, especially through attracting foreign direct investments into these sectors.

At the same time, one has to carefully monitor the protectionist tendencies in the main markets. In this respect preferential trade and investment agreements, as well as use of good business practices are crucial factors that might mitigate adverse affects of potential constrains of market access imposed by trade partners. Moreover, along with bilateral trade agreements, it is important to join multilateral institutions and seek partnerships with transnational corporations that facilitate integration into the world economy.[10]

2. Export Barriers

According to the CER survey, export operations are regarded by many companies in Uzbekistan as 'burdensome' given that they involve significant time and cost. A list of Uzbek exporters' perceptions of their difficulties connected with export procedures is shown in the following Diagram 2.

Diagram 2. Uzbek Exporters' Perceptions of Difficulties Connected with Export Activities



Source: Based on the findings of the CER survey, 2005 (number of respondents N=60)

The biggest obstacles were identified as financing, customs clearance (with a mandatory fee of 0.2 per cent of the value of exports), as well as transport and transit constraints that adversely affect the timely delivery of goods to customers. Furthermore, the cumbersome export documentation required by the Ministry of Foreign Economic Relations, Investment and Trade (MFERIT) and the Tax Committee were also identified as difficulties by exporters.

The rule of 100% prepayment for most export contracts poses a major difficulty for exporters. Almost all of those surveyed had to rely on this particular method of payment for exports because alternative methods were not available. This payment method could prohibit prospective importers from purchasing domestic products, since it requires them to tap into their liquid funds for a certain period of time.[11] Furthermore, the 100% prepayment or letter of credit, along with the mandatory sale of hard currency receipts, imposed as an instrument of monetary control, entail delays and additional costs to exports.

Yet, these requirements are also adopted as a protective measure against risks of foreign partner's insolvency as per any international transactions. Given that exporters may have limited means to leverage such risks, specialized public institutions are needed to properly deal with 'market failures' resulting from the nature of international transactions. For example, many developed and developing countries have established export-import banks and export insurance systems which are regulated mainly by government financial organizations. Such banks provide collateral funds, sometimes in collaboration with private banks, specifically targeting transactions that private banks would not finance under normal conditions, such as those that require medium and long-term financing. In Uzbekistan, however, the

National Bank of Uzbekistan, which is supposed to deal with export and import financing, puts more emphasis on financing of imports, while very little credit is provided to exporters.

Box 1. The Role of Commercial Banks in Export Financing

In international practice, it is mainly commercial banks that ensure the fair practice of payments under foreign trade transactions. First, they establish partner relationships with exporters, enabling them to inform clients engaged in cross-border trade about the solvency and honesty of importers. Second, commercial banks consult their clients on the proper methods of payment, taking into account the solvency of a buyer and the risks of non-payment, depending on the size of the importing firm and the value of the consignment being sold for export. They ensure that the recommended method of payment is the least costly and most effective method for both importer and exporter.

Source: *Based on the findings of the CER survey, 2005*

At the same time, export insurance systems also ensure the healthy development of export trade and other overseas dealings by compensating for risks which cannot be covered by the usual commercial insurance schemes. In many countries, the government directly guarantees such insurance for exports by creating a special account for its operations. Such insurance can be provided for export prices, foreign exchange fluctuations export bill, export guarantee, consignment sales export, among others.

Apart from financing and insurance for exports, the taxation system is also important for promoting exports. Currently, producer-exporters enjoy significant tax exemptions and other privileges, but these do not apply to intermediary firms. Furthermore, intermediary firms – typically small and medium-sized companies – are not entitled to VAT reimbursement when exporting domestically-produced goods. These intermediary firms need better support from the state to be able to successfully compete in world markets. The sale of any product abroad requires market studies, an evaluation of consumer demand, advertising, costly transportation, delivery agreements, and, if necessary, legal protection. To allow for an optimal division of labor where one group produces and another successfully sells, procurement organizations and intermediary firms must be encouraged to professionally handle purchasing from producers, especially from small and medium-sized enterprises (including dekhkan (small and private agricultural producers) enterprises and farms), and exporting of their products. It would be expedient to grant the existing export incentives to these intermediate organizations and firms as well.[12]

Other difficulties concerns the optimization and standardization of export procedures, such as the registration of export contracts within the MFERIT-affiliated bodies[13] and Uzbek customs, as well as the application for certificates of compliance are presented in the Annex. The registration of export contracts in Uzbekistan need to be rationalized, taking into account national and international public interest. In many cases, such registration is done for statistical purposes only (apart from cases when certain export items are subject to export control). Yet, the fact that various public bodies participate in exporting dictates the necessity of coordinating and ensuring the transparency of their activities with a view to facilitate trade.

With regard to customs bodies, the revised Kyoto Convention[14] envisages that customs bodies must aspire to the followings: (i) to achieve transparency and predictability for all participants of international trade; (ii) to use mechanisms of risk management; (iii) to cooperate with other respective bodies and the trade community; (iv) to apply proper international standards. Hence, Uzbekistan's entry into the revised Kyoto Convention and standardized frameworks of International Customs Organization would provide an impetus for addressing existing problems in this area.

After the optimization of all phases of export procedures[15], only 24 of the 39 currently existing phases would remain requirements (see Attachment 1), and 15 of them be eliminated in the future, as national legislation becomes more harmonized with international practice. Redundant and non-essential procedures tend to be mere formalities associated with the receipt of "pieces of paper (certificates)" without adequate provision of appropriate services. If such procedures constitute up to 1% of the value of exports, then combined potential losses are about $40 million. Moreover, by automating and computerization of export procedures, the period for registration and customs clearing of export contracts could be reduced from three weeks to one week[16].

3. Deficiencies in Transport and Transit

Respondents of the CER survey also identified transportation and transit difficulties as major hurdles to export activities. These difficulties are related to both the countries' land-locked geography and excessive administrative barriers to exporting[17]. As a land-locked Central Asian nation, Uzbekistan faces acute transportation and transit problems.

Uzbek exporters can access international markets using three modes of transportation: air cargo, road and railway transport. Road and rail transportation is hampered by restrictive border regimes with neighboring states, underdeveloped infrastructure, outdated modes of transport and poor states of the roads. Air transportation, in the meantime, remains very costly.

Box 2. International Road Cargo Infrastructure in Central Asia

Regional and international trade cannot be improved without the development of transportation infrastructure in the region as a whole. At the moment, the major highways passing through the Central Asian countries lack modern terminal transit stations with associated infrastructure such as securely guarded parking lots, 24-hour cafeteria, shower rooms and hotels. This lack of facilities create difficulties for drivers who haul cargo across the region. Furthermore, domestic motor carriers are often not allowed to load cargo in many foreign countries for the return trip. This may be the result of the weak bargaining power of Uzbek transporters in foreign markets, especially in non-CIS markets. Thus Uzbek motor carriers return home without cargo, which makes ground transportation even more expensive.

Source: Based on the findings of the CER survey, 2005

The most acute problem for international road and railway transportation is the transit of Uzbek exports through third countries. The table below demonstrates an example of the economic costs of transit through third countries using motor transportation.

Table3. Transport and Transit Costs of Exports of Fruit and Vegetable Exports From Uzbekistan to The Russian Federation (Tashkent – Tomsk) [18]

Expenditure Item	Cost in USD	% of cost
Transit costs related to purchase of TIR carnet[19] and transit permit	287	8.2
Fuel and others	1,200	34.2
Driver's wages	250	7.1
Official collections for crossing borders	50	1.4
Unofficial and informal fees	825	23.5
Revenue and profit	900	25.6
TOTAL	**3,512**	**100.0**

Source: Based on the findings of the CER survey, 2005

Experts and cargo shippers interviewed for the CER study noted that transit problems were mainly connected with crossing borders along international transport corridors, as well as with staying in and transiting through Central Asian countries. For example, drivers face unreasonable delays at borders, irrational requirements set for dimensions and carrying capacity of motor vehicles, illegal payments, requirements for escort, as well as requirements for guarantees and deposits on certain types of transit cargo on certain transit routes. On other routes, additional problems include the need to obtain visas and arbitrary tariffs (i.e. bribes).

Informal payments made to supervisory bodies on both sides of borders increase the price of goods, often making them uncompetitive when they reach their market destination. The absence of coordination among border authorities in Central Asia also causes major delays and additional expenses for the transportation of goods. For example, an analysis of cargo transit time by road shows that some 50% of the time is spent waiting at border crossing points.

All these obstacles raise the price of exports. The CER Survey shows that the cost of transportation and forwarding (including logistics costs) in Uzbekistan accounts for 24% of the value of exported goods, excluding that of gas, which is one of the highest in the world. In the EU, the cost does not exceed 13% of the value of goods, and in Latin America, it is 17%.[20]

Yet, there are many possibilities to reduce the cost of transportation in Central Asia. For example, electronic data interchange (EDI) can be introduced by creating a competitive and efficient market of transportation and forwarding services, and by reducing the time needed to cross borders. Furthermore, costs can be lowered through regional cooperation among Central Asian countries in the sphere of transportation and forwarding. Measures can include the harmonization of legislative and normative regulation, the use of electronic documentation for customs, simplification of transit procedures, as well as the creation of a general transportation market, which could substantially reduce the cost of transportation.

In the meantime, air transport should be boosted for delivery of cargo from Uzbekistan to the Near East, Far East and other distant regions. Air is the fastest form of transport and allows exporters to sell small and perishable products in foreign markets. Yet, air transportation is currently not an attractive option for private and small exporters given the high tariffs, the virtual non-existence of market regulation of air transport and forwarding services, as well as the lack of logistical infrastructure. The high tariffs reflect the monopolistic nature of the air transportation market in Uzbekistan today.

4. Insufficient Attention to Export Promotion

Since independence, it may be fair to say that the government’s polices to support and promote exports in Uzbekistan have not been clear, systematic or consistent. It may be therefore important to accelerate measures towards access to foreign markets and favorable treatment of exports. Since a considerable portion of Uzbekistan’s exports consists of raw materials, sales to overseas markets depend heavily on timely and cheap transportation.

Uzbek exports should be able to have market access into CIS markets, as well as into those of developed and developing country markets. Uzbek products currently benefit from preferential market access to CIS countries under the free trade zone agreements. Moreover CIS countries have similar standards and technical regulations.[21]

Most developed countries have already granted Uzbekistan with Most Favored Nation status (MFN). Technical regulations and standards are the main barriers to Uzbek exports in industrialized countries. Access to developed markets, as the experience of East Asian countries shows, would significantly depend on integration of the competitive domestic industries into international value chains through foreign direct investments and updating business standards and practices.

As for access to the markets of developing countries, Uzbek products face high tariff and not-tariff barriers. Bilateral and multilateral negotiations thorough various RTAs and development of transportation links through Afghanistan would potentially improve trade with many developing countries.

Improving export treatment is another important aspect of export promotion in Uzbekistan. In most successful economies, programs to promote exports have included improvements in export back-up, financing, special tax system, insurance, inspections and promotion of better design and trade controls. However, while these measures have proved advantageous to exports, it has been the private sector which has drawn up detailed export plans for research, sales and after-sales services for export marketing.

Box 3. Export Promotion Strategies: The International Experience

International experience shows that there is no single strategy for export promotion universal for all countries of the world. Many have used divergent approaches to export promotion which have taken into consideration their political economy and stages of development. World Bank experts have identified three types of strategies which have proven conducive to the liberalization of foreign trade and promotion of exports. Neither of them however provides an optimal remedy for boosting and diversifying exports. The government needs to decide which strategy is most suitable to the current development of the country in order to ensure effective transformation from restrictive to liberal trade regimes.

(i) Export Promotion Zones (EPZ)

EPZ, created to foster the emergence of companies capable of competing in export markets, have played an important role in boosting the export of manufactured products. These zones provide exporters with powerful financial and fiscal stimuli; therefore, exports from these zones are directly and indirectly subsidized. However it must be noted that EPZs work best in conditions where industrialization is advanced, there is a transparent custom regime, and where the country is geographically close to production centers (to attract a diverse and skilled workforce), and to international transport routes.

(ii) Export Diversification Strategy

This strategy is based on a fixed and devalued foreign exchange rate as well as on a gradual and systematic trade liberalization. A key factor of success is boosting social spending to foster equality in income distribution while adhering to stiff fiscal management, which helps to create macroeconomic stability and a favorable investment climate.

This strategy was mainly designed to promote industrial policy through targeting industries with high export potential. A particular feature of such policy is that preferences are given to the entire industry without subjectively 'picking winners'. Moreover, this strategy mainly focuses on handling 'market failures' in order to increase investment attractiveness of targeted industries.

(iii) Trade Liberalization and Active Export Promotion.

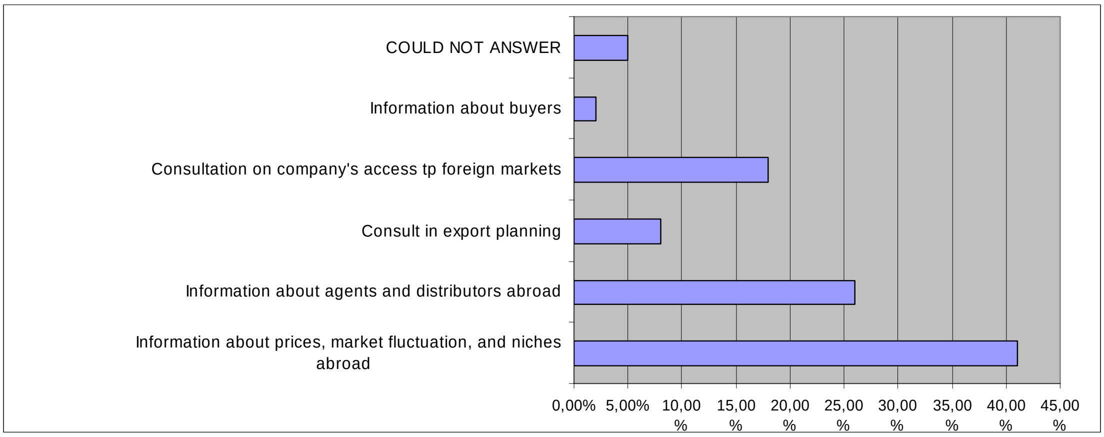
Between 1961 and 1973, South Korea adopted aggressive policies that promoted exports and discouraged imports. Tight controls over trade and exchange rates were combined with a consistent financial and industrial policy. The trade policy was clearly oriented towards export promotion, while at the same time being rather neutral towards the composition of exports. Exporters were supported through multiple exchange rates, direct financial subsidies, permits to use hard currency earned to import the goods they needed, and permission to take loans in foreign currency. Borrowers used their export operations as collateral. This strategy, however, is very difficult, if not impossible, to replicate in developing and transition countries given that it mainly relies on good governance and highly efficient and honest authorities, who take responsibility for the distribution and allocation of resources.

Overall all of these strategies rely upon a favorable and stable macroeconomic climate and different creative incentives for exporting. The main instruments for export promotion include: export subsidies and loans; tax and customs preferences; grants and preferential loans; controlled exchange rates; special government funds, institutions, and centers at home and abroad for export promotion and development.

Source: "Trade Policy And Accession To WTO For Economic Development Of Russia And CIS", Training Course of the World Bank, Moscow, 2005.

In addition to existing shortcomings in terms of special tax, financing and insurance systems, exporters in Uzbekistan do not have access to credible back-up systems such as market research, exhibitions, fairs, and advertisements. As Diagram 3 shows, potential exporters have various needs in terms of information in order to gain access to external markets, although obtaining such information is difficult and costly.

Diagram 3. Types of Information Most Requested by Exporters



Source: Based on the findings of the CER survey, 2005 (number of respondents N=60)

At the moment, Uzbekistan has several public and private organizations which provide information services geared to foreign trade services, but these services are neither sufficient nor available to all regions of the country. Public organizations which operate under the aegis of the Ministry of Foreign Economic Relations, Investment and Trade (MFERIT) provide their services for a fee, which in many cases are higher than what typical domestic private companies can afford. One of the main providers of such services is the Agency for Trade Facilitation 'Uzinkomcenter', designed to inform foreign markets about the export potential of the country and to conduct market research in certain industries and countries. However, "Uzinkomcenter" is not sufficiently active, especially at the local (regional) level.

Various organizations in which the government has a share, such as associations and holding companies, have also created databases on foreign markets, market fluctuations, and conditions for entry. However, such information is accessible to only a narrow group of exporters mainly engaged in centralized state exports. Non-state information providers are very weak and limited in number.

Among the major factors that limit the development of an effective market of information are the lack of an established network supplying overseas commercial information; an underdeveloped market infrastructure for marketing and consulting services; and the lack of capacity of government organizations involved in foreign economic activities. These factors create even greater difficulties for potential exporters located in the regions of the country. Furthermore, domestic enterprises often do not have sufficient knowledge about the type of information they need for running an international business, not to mention that commercial sources of information are limited for the majority of them given these enterprises' lack of finances. Such enterprises have not yet made use of the Internet either. Uzbek exporters often don't participate in fairs and exhibitions because they lack timely information about when such events are held. According to the CER Survey, domestic companies' often would like to make use of exhibitions and business forums, media, specialized associations, and the Internet as ways to access foreign markets.

Given the problems listed above, the private sector in Uzbekistan has not been as active as exporters. According to official data, only 4% of nearly 100,000 registered enterprises in 2004 were involved in export-import transactions. Furthermore, only 2% of small businesses conducted export transactions, while Government-owned foreign trade companies accounted for the bulk of national exports. In 2004, the 10 largest government-owned foreign trade organizations and associations accounted for more than 80% of national exports, while small businesses accounted for 7% of total exports. Furthermore, export operations of companies with foreign investment are also small, and they are primarily focuses on the domestic market.

Recommendation and Proposals

In order to reduce export transaction costs and provide incentives for businesses to boost exports, the Policy Brief recommends the following strategies to be adopted at the national level:

In the short-term:

1. Abolish the existing limitations and the levying of VAT and other taxes on the export of goods and services by intermediary companies and provide them with the same privileges that producer-exporters enjoy;
2. Improve the mechanism for reimbursement of VAT on exports within a certain time-frame (not more than 90 days);
3. Reduce the number of procedures necessary for export transactions;

In the medium-term it is critical to develop an export promotion strategy for Uzbekistan, one that would put particular emphasis on the following:

1. Develop a gradual import regime liberalization program which prepares industries to compete with imports, leading to a liberal trade regime and competition;
2. Make necessary adjustments in foreign exchange policy in order to compensate short-term effects of trade liberalization while maintaining a competitive real exchange rate;
3. Develop and implement a full-fledged industrialization policy specifically targeting industries which manufacture goods with high export potential;
4. Work with other Central Asian governments to simplify and harmonize the movement of goods in the region;
5. In order to enhance the involvement of the private sector in export operations, create an Export-Import Bank for Uzbekistan as a catalyst to banking services which could provide export crediting, insurance of export loans and/or provision of banking guarantees through a system of government insurances;
6. Encourage all those engaged in foreign economic activities (such as MFERIT, Chamber of Trade and Industry, and business associations) to promote Uzbek products in foreign markets. Facilitate the free flow and dissemination of relevant information through such incentives as unifying information from authorized executive bodies, local authorities, and foreign trade and diplomatic missions.

[1] Japan and South Korea received substantial foreign aid after the Second World War and Korean War

[2] Export promotion should be thought of as a policy closer to free trade. The term 'promotion' actually refers to cases in which there are some subsidies to exports, which might harm growth as much as protection would. In practice, though, the export subsidies given out during the export promotion periods are much smaller percentage of price than the import barriers imposed during the import-substitution industrialisation periods (see. P. Lindert. *International economics*. Eighth edition, IRWIN, USA, 1994)

[3] The Soviet "clearing system" was one of the main instruments of Soviet Planning Economy, e.i. command-administrative system.

[4] Export growth in 2003 and 2004 amounted for 26,9 and 34,1% respectively

[5] The impact of the real depreciation of the foreign exchange rate is eroding over time, as an example one can observe slowing down the rate of export growth in Uzbekistan in 2005 and first quarter 2006 (in 2005 exports grew by 11,5%, and in the first quarter 2006 -4,4%).

[6] The draft report in both English and Russian is available at the following URLs:
http://www.cer.uz/files/report/Export_Promotion_Eng.pdf (English version)
http://www.cer.uz/files/report/export_rus_for%20discussion.pdf (Russian version)

[7] see Goldman Sachs Commodity Index , http://www.mrci.com

[8] The term 'price distortion' here refers to significant differences from world prices

[9] Separate *Policy Briefs* are currently being drafted by UNDP on the development of selected sectors in Uzbekistan, such as textile and tourism.

[10] e.i. take more active part in Global Value Chains and Global Production Networks

[11] As a rule, 1-2 months are required at minimum for a full delivery of cargo to an importer and the sale of goods in a foreign market. Assuming the interest rate is 12 per cent, then pure import losses for 2 months can amount to at least 2 per cent of the value of the import. This means that the price competitiveness of Uzbek exports is reduced by 2 per cent.

[12] The importance of solving this and other problems were articulated by the President of Republic of Uzbekistan in his annuel speech to the Cabinet Ministries of Uzbekistan dedicated on results of social-economic development in 2005 and main priorities of deepening economic reforms in Uzbekistan in 2006 (*speech was held 14th of February 2006*).

[13] Application for certificate of country of origin, registration for conducting foreign economic activity, etc.

[14] *Revision of the International Convention for the Simplification and Coordination of Customs Procedures*, Brussels, June 26, 1999.

[15] 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

[16] Currently, the average duration of completion of all export procedures is about 21-22 days

[17] See. Central Asia Human Development Report. UNDP 2005, ISBN: 92-95042-33-6

[18] 20 ton truckload

19 "TIR system"—that is, the international transit system based on the Customs Convention on the International Transport of Goods under Cover of TIR Carnets (often referred to as the "TIR Convention")

[20] Ojala L., Touboul B., *Tajikistan Trade Diagnostic Study*, Summer, 2004 – the World Bank document

[21] One area which has high potential and may be least vulnerable to such backlashes is in the growing market for Uzbek exports within CIS countries, some of which have seen significant economic growth due to their natural resources and oil and gas reserves. Hence, the bilateral agreements on free trade zone within the CIS framework and the creation of a multilateral Regional Trade Agreement (RTA) under the Eurasian Economic Community (EEC) represent potential opportunities. Regional trade can be conducive to export development in Uzbekistan due to advantages such as geographic proximity, cultural similarity and harmonization of business regulations and practices in the countries of the region.

Annex 1. Export procedures(case of typical export)

№	*Export procedure*	*Documentation*	*Average duration (days)*
	Uzstandard UA		
1.	Information request and filling in an application	Application form	3 - 5
2.	Request to provide information and services	Receipt	
3.	Request for analysis and certification	Application form	
4.	Issuing certificate of compliance	Certificate	
5.	Payment for certificate of compliance	Receipt	
	MFERIT		
6.	Request for information and filling out an application for registration of entity of foreign economic activities	Application form	2
7.	Application to receive the certificate of the country of origin with respective documents and requirements	Application form	3
8.	Request for testing	Application form	
9.	Laboratory testing		
10.	Report of the results	Protocol	
11.	Issuance of certificate of products' country of origin	Certificate	
12.	Payment for certificate of product's country of origin	Receipt	
13.	Request of MFERIT certificate HS codes	Application form	2
14.	Issuance of Protocols	Protocol	
15.	Payment for certificate by HS codes	Receipt	
	Sectoral Ministries and Cabinet of Ministries		
16.	Application to receive an export license for export of certain categories of goods	Application form and relevant documents	10
17.	Receipt of export license	Application form and relevant documents	
	Quarantine (for export of some types of plants)		
18.	Application to get an export permit	Application form	5 - 10
19.	Request for testing and certification		
20.	Testing and laboratory analysis	Protocol	
21.	Permit for export of certain categories of goods	Certificate	
22.	Payment for services provided	Receipt	
	Certificate of State Biocontrol		
23.	Application for export permit	Application form	
24.	Request for analysis and certification		
25.	Testing and laboratory analysis	Protocol	
26.	Payment for services provided	Certificate	
27.	Permit for exports of certain categories of goods	Receipt	
	Customs committee		
28.	Application for export authorization by required documentation: type of goods, reasons for exports, contract, quality and certificate, complaint, certificate of origin, export license	Special letter	3
29.	Export authorization	Letter	
30.	Registration of export contract at customs bodies	Customs return	
	Commercial bank		
31.	Registration of the contract in authorized bank	Application	2
32.	Terms of mandatory prepayment or opening letter of credit	Confirmation of payments receipt or open an account	
33.	Payment for services provided	Receipt	
	Customs broker		
34.	Filing customs return		
	Customs		
35.	Approval of payment	Seal	5 – 10
36.	Inspection of good	Protocol	
37.	Sealing	Mentioned in the declaration	
38.	Escort to the border by request	Registration	
39.	Payment for escort	Receipt	

Note:

	- redundant phases
	- essential (required) phases
	- non-essential (often useless) procedures