

PROSPECTS FOR OPTIMIZING THE STRUCTURE OF IMPORTS OF GOODS IN THE
REPUBLIC OF UZBEKISTAN

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Article history:

Received: 04th January., 2022

Accepted: 04th January., 2022

Published: 05th January., 2022

Abstract: *The article reveals the formation and peculiarities of international trade and economic relations in the process of integration of the economy of the Republic of Uzbekistan into the world capital market. Conceptual approaches to expanding foreign economic cooperation of the Republic of Uzbekistan with the leading CIS and regional countries and the EEU, SCO organizations, as well as international financial institutions, leading foreign companies and banks are presented. The effectiveness of the implementation of the Action Strategy on the five priority areas of development of the Republic of Uzbekistan for 2017-2021 is highlighted.*

Keywords: *Foreign trade, international integration, foreign economic relations, developing state economy, CIS, international rankings.*

Introduction

The economy of the Republic of Uzbekistan, despite the crisis phenomena in a number of post-Soviet countries, is developing at a high pace relative to the starting positions, the average annual growth rate is about 5-7%, macroeconomic stability, energy and food, including grain self-sufficiency is ensured a sufficient margin of safety in the budgetary sphere, a balance of the internal and external sectors of the economy, low public and external debt, an even distribution of income, a moderately tight monetary policy is being pursued, inflation does not exceed the threshold values of 8%, the international reserves of the Republic of Uzbekistan are constantly increasing, including including gold and currency, there are progressive structural changes in the sectoral structure of the national economy, the modernized transport and transit system serves as a factor in the development of foreign economic relations and integration with other countries.

“On further increasing the responsibility of state and economic administration and local executive authorities for the introduction of a new system of localization of production and acceleration of cooperation in industry” In order to ensure the implementation of Resolution No. PD-4426, the association analyzed the types of construction materials imported into the country and paid special attention to the localization of the production of 12 types of construction materials imported in large quantities.

In this regard, a plan of practical measures has been developed to deepen localization in the organization of production of construction materials in 2019-2021, reduce imports and develop industrial cooperation.

According to this plan of practical measures, 20 million soums will be allocated in the country in 2019-2020 through the modernization of existing enterprises and the launch of new energy-saving projects. sq.m. ceramic tile (3 projects), 17.1 mln. tons of cement (11 projects), 46.2 mln. sq.m. construction window (4 projects), 6261 thousand sq.m. meters of linoleum (2 projects), 815.8 thousand units of santex ceramics (4 projects) will be created, and the domestic market demand is expected to be fully met.

At the same time, in 2021, 6660 thousand rolls of wallpaper (3 projects), 35 thousand tons of fire bricks (4), 1720 thousand cubic meters of aerated concrete (15 projects) and other construction materials. It is planned to create additional production facilities.

According to the analysis, this year the volume will reach 4.3 million. sq. meters of ceramic tiles were imported, and 16.5 mln. sq. meters of demand coverage and 4 mln. sq. meters of ceramic tiles are expected to be exported. In addition, the implementation of 3 projects on construction glass in 2020 will create an additional capacity of 50.2 million square meters, with an annual production capacity of 46.2 million. sq. meters.

Today, the Republic of Uzbekistan is going through a critical stage in its historical development. For the first time in the last 30 years, the political system is seriously changing, foreign policy priorities are clearly defined, foreign economic relations, new in their essence, are being built, based on pragmatism and the most flexible use of modern realities in the national interests of the Republic. The country has developed a certain strategy for ensuring economic security, taking into account its own national priorities, actively diversifying its foreign economic relations.

Over the past three to four years, Uzbekistan has undergone a large-scale transformation in all spheres of life. The resident population of the Republic of Uzbekistan is growing ahead of many countries of the world, which at the beginning of 2020 already amounted to more than 34 million people. from a model with a high level of administrative barriers and restrictions to a model of a modern economy based on an optimal combination of state and market methods of regulation.

This carefully worked out and balanced approach is a response to internal and external threats and challenges, a guarantee of the progressive and dynamic development of the country and firm confidence in the positive results of the planned and ongoing course of transformations.

The Strategy of Action on five priority directions of development of the Republic of Uzbekistan in 2017-2021 has been developed and is being successfully implemented, which defines a long-term strategy for ensuring economic security, taking into account its own national priorities.

Research results

There is a great need in Uzbekistan for free and mutually beneficial interaction with the international community to overcome the accumulated economic and geopolitical problems for years. In the context of the new economic policy, Uzbekistan needs to expand cooperation with foreign states, international and regional organizations, and integration associations. At the same time, it is important to deeply study and gradually remove the existing obstacles standing in the way of the Republic's integration into the world economic community and free trade.

An active dialogue has begun on the country's accession to the World Trade Organization. The process of the Republic's accession to the WTO started again in July 2019, when the Uzbek side submitted to the WTO an updated memorandum on the foreign trade regime to consider an application for the country's accession to the organization.

Interaction with the Eurasian Economic Union and the Shanghai Cooperation Organization has intensified, negotiations on an Enhanced Partnership and Cooperation Agreement with the European Union (EPC) are at the final stage in order to create more favorable conditions for mutual trade and soften the foreign trade regime. At the same time, the prospects for other existing formats of international cooperation in the field of trade are being carefully studied, including agreements on a free trade zone, etc.

One of the priority strategic tasks is to expand the unhindered access of Uzbek goods and services to the markets of the CIS countries, as well as non-CIS countries, primarily Europe, South Asia and the Middle East. Unprecedented measures are being taken to improve the business climate and create favorable conditions for foreign investment, develop an export-oriented economy in order to increase the export potential of Uzbekistan. If in 2015 the volume of exports amounted to \$ 12.5 billion, then in 2019 this figure reached \$ 19 billion.

Uzbekistan attaches great importance to strengthening friendly ties and mutually beneficial cooperation with the CIS countries. At the Ashgabat CIS summit on October 11, 2019, the President of the Republic Sh.M. Mirziyoyev voiced the main priorities of Uzbekistan's chairmanship in the Commonwealth in 2020.

For Uzbekistan, in accordance with the concept of foreign policy, the main priority is to strengthen friendly ties and mutually beneficial cooperation with the CIS countries and, above all, with the closest neighbors in Central Asia.

Analysis of international and foreign trade relations of Uzbekistan, investment flows into its economy allows us to consider the integration and investment ties of the Republic with the main foreign economic partners and major economic associations.

Fig 1.

Dynamics of Uzbekistan's exports to CA countries (in million dollars)

	2016	2017	2018	2019	2020	January-April	
						2020	2021
Total	1209.6	12553.7	14257.9	17458.7	15127.7	4305.6	3482.0
Kazakstan	945.0	1057.6	1352.2	1393.0	903.0	233.5	338.3
Kyrgyzstan	121.5	178.3	269.7	669.6	756.6	179.3	195.7
Tajikistan	164.8	186.1	237.5	327.6	404.6	119.7	121.9
Turkmenistan	79.5	69.9	59.5	144.3	128.1	38.9	36.5
Total	1310.8	1491.9	1918.9	2534.5	2192.3	571.4	692.4
Share of CA countries in total exports (%)	10.8	11.9	13.5	14.5	14.5	13.3	19.9

Source: State Statistics data

Uzbekistan carries out trade relations with more than 193 countries of the world. Foreign trade operations of residents of the Republic are mainly carried out with the countries of Asia (52.3% of the total volume of trade), Europe (38.5%) and America (1.5%), which account for 92.3% of the total volume of trade.

In 2019, the largest volume of its foreign trade turnover among them was recorded with China (19.2%), the Russian Federation (15.2%), Kazakhstan (8.4%), The Republic of Korea (6.6%), Turkey (5.9%), Germany (2.4%) and Kyrgyzstan (2.0%). Other countries include Afghanistan, Japan,

Latvia, USA, Iran, France and Italy³. The largest partner countries of the Republic of Uzbekistan in economic interaction are presented in Table 1.

Table 1.

Dynamics of large partner countries in the foreign trade turnover of the Republic of Uzbekistan (million dollars)

<i>Countries</i>	<i>2016 y.</i>	<i>2017 y.</i>	<i>2018 y.</i>	<i>2019 y.</i>	<i>2020 y.</i>
China	4520,4	4730,4	4253,6	4754,2	6426,9
Russia	5858,5	4455,8	4192,7	4728,7	5729,8
Kazakhstan	3496,4	2697,1	1898,9	2055,7	3022,2
Turkey	1505,7	1202,7	1171,7	1552,5	2166,4
South Korea	2035,7	1739,6	1070,4	1387,6	2138,6
Germany	692,8	526,7	529,1	620,0	771,7
Japan	190,4	255,7	264,1	166,2	700,4
Afghanistan	601,8	445,1	519,7	617,8	601,8
Kyrgyzstan	225,9	136,0	167,4	253,7	481,0
Ukraine	608,8	334,8	253,8	290,0	430,3
Latvia	250,1	179,9	299,6	295,0	429,5
Belarus	177,8	109,1	112,6	182,4	420,0
USA	292,7	270,6	463,1	215,0	408,5
Tajikistan	160,2	167,3	197,0	237,9	389,1
Iran	375,4	378,0	408,6	325,3	306,5
France	292,0	304,6	269,6	257,2	306,4
Italy	189,1	167,7	195,2	175,8	303,2
Turkmenistan	413,1	319,9	209,1	177,9	302,1
Lithuania	95,4	270,1	282,7	265,7	289,7
India	316,7	319,3	366,5	325,0	284,6

At the end of 2019, the volume of foreign trade of the Republic of Uzbekistan amounted to \$ 42.2 billion, which became a record in the history of the country. Of this amount, 17.9 billion were exported, 24.3 billion were imports. At the same time, China remains the main trading partner - \$ 7.6 billion. China's share in the total volume of foreign trade rose to 18.1%. Only in 2018-2019 China has invested in 1,376 Uzbek companies and intends to increase the volume of bilateral trade in 2020 to \$ 10 billion.

Chinese companies are major suppliers of technology and equipment to Uzbekistan. Here the free economic zone "Jizzakh" is open for the Chinese with preferential conditions for the production of microelectronics, communications and a number of others. In turn, Uzbekistan exports to China gas, uranium, copper, cotton fiber, mineral fertilizers, plastic products, food products.

Russia is in second place - it accounts for 15.7%, or \$ 6.6 billion - 2.4 billion in exports and 4.1 billion in imports. In the third place, Kazakhstan - \$ 3.3 billion (\$ 1.4 billion in exports, \$ 1.9 billion in imports). Foreign economic relations with other EAEU countries - Kyrgyzstan, Tajikistan and Armenia - have also increased.

For 2016–2019 Due to the bilateral agreements reached, the total trade turnover of Uzbekistan with the EAEU countries increased by almost 60% - up to \$ 10 billion, which amounted to about 30% of the country's foreign trade turnover. In 2019 alone, the foreign trade turnover of Uzbekistan and the EAEU member states increased by 18.7% compared to 2018 to \$ 11.16 billion. Uzbekistan's exports to the EAEU countries grew by 22.9% to \$ 4.65 billion, imports - by 15.8% to \$ 6.51 billion. More than half of Uzbekistan's foreign trade with the EAEU states falls on Russia, whose share in 2019 amounted to 59.4% against 60.2% in 2018.

This circumstance largely explains attention, which is focused on the prospects for expanding the interaction of the Republic of Uzbekistan with the Eurasian Economic Union. Now the pros and cons of the country's accession to the EAEU are being deeply studied, both from the point of view of expanding opportunities and the emergence of new challenges and risks. By July 1, 2020, a strategy for the country's foreign trade and integration cooperation should be prepared, taking into account the partnership with the Eurasian Economic Union.

The list of other major partners of Uzbekistan includes the Republic of Korea (6.5%), Turkey (6%), Germany (2.3%). In recent years, Turkey has been expanding its trade and economic partnership with Uzbekistan. Since 2018, the Uzbek-Turkish Council for Strategic Cooperation at the highest level has been successfully functioning.

In 2017-2019 in Uzbekistan, 750 enterprises created with the participation of Turkish partners were registered, and their total number exceeded 1200. If in 2017 the volume of mutual trade amounted to \$ 1.5 billion, in 2018 this figure increased to \$ 2.2 billion, then in 2019 the trade turnover between the two countries reached 2.5 billion dollars. In 2020, following the visit of President Sh.M. Mirziyoyev, new agreements were reached on billion banking sector.

In 2019, more than 7.5 thousand enterprises created with the participation of foreign capital operated in Uzbekistan, including 4 thousand joint ventures and 3.5 foreign ones from 90 countries of the world. In the last three years alone, the growth of operating enterprises with foreign capital participation increased from 5,008 in 2016 to 7,560 as of 01.01.2019.

Most of them belong to the constituent entities of the Russian Federation (1427 enterprises), China (1121), Turkey (874), Korea and the Republic of Kazakhstan. Residents of Afghanistan, India, the Federal Republic of Germany, Ukraine, Azerbaijan, etc. have shown interest in joint activities.

The main part of enterprises with foreign capital is located in Tashkent city, Tashkent and Samarkand regions. The smallest share of them falls on the Khorezm, Kashkadarya regions and the Republic of Karakalpakstan. This, in turn, indicates the need to strengthen joint work with foreign partners, develop and attract foreign investment in these regions.

The structure of foreign trade turnover is also changing significantly. According to the State Statistics Committee of the Republic of Uzbekistan, in 2018, agriculture accounted for 32.4% of the GDP structure, industry - 26.3%, the service sector - 35.6%, construction - 5.7%.

At the same time, in the structure of the industry, the share of the mining and energy components accounts for about 50% of the production of gross value added. Analysis of the structure of export-import can show a primary picture of the needs of the Uzbek economy (Table 2)

Analysis of the information presented in the table shows that, in general, there are no problems with food (food security), which is generally not surprising, given the predominantly

agrarian bias of the economy. There is practically no need for energy resources. However, there is a structural imbalance in terms of imports of industrial products.

That is, it is quite obvious that in the long term, the country needs to develop its own industrial base. However, this raises a fundamental question in terms of economic security, what needs to be protected and what threats to the economy should be prevented. Supporting the domestic processing or high-tech industry through protective economic mechanisms is clearly inappropriate, since such an industry is still poorly represented, as can be seen from statistics.

At the same time, the logic of subsequent development requires the gradual development of domestic processing, which in turn necessitates the availability of significant financial resources (either internal or attracted).

In addition, the second important circumstance is the negative balance of payments (imports in value terms exceed exports), which requires the constant attraction of additional financial resources of a credit or investment nature.

Table 2.

Structure of foreign trade of the Republic of Uzbekistan in 2018 (%)

Foreign trade turnover		100	
export		41,9	
import		58,1	
Export structure	100	Import structure	100
cotton fiber		foodstuffs	
food	1,6		8,1
goods	6,5	chemical products	13
chemical products	19,1	and products from it	4,5
and products from it	8,4	energy carriers	9,1
energy carriers	1,5	and petroleum products	43
and petroleum products	21,9	black and colored	10,9
black and colored	33,2	metals	11,2

If earlier Uzbekistan was in the last places in the CIS in almost all indicators per capita, then over the past three years, the Gross Domestic Product (GDP) in purchasing power parity (PPP) per capita has been growing rapidly. Now it has exceeded 7 thousand dollars, whereas until recently it was kept at the level of 4-5 thousand dollars.

The growth rates are ahead of almost all CIS countries. In 2019 alone, the volume of foreign direct investment increased 3.7 times and amounted to \$ 4.2 billion, the share of investment in GDP reached 37%. Economic growth rates amounted to 5.6%, industrial production increased by 6.6%, exports - by 28%, gold and foreign exchange reserves - by \$ 2.2 billion, amounting to \$ 28.6 billion.

The ongoing reforms have received a worthy assessment of the international community. One of the most authoritative magazines in the world is the British "The Economist" recognized Uzbekistan as the "country of the year", the state where reforms have been carried out at the fastest

pace since 2017 with the expansion of the participation of foreign actors to modernize the Uzbek economy.

For the first time in February 2019, Uzbekistan received a high international credit rating and successfully placed bonds for \$ 1 billion in the global financial market. In recent years, Uzbekistan's position in the credit risk rating of the Organization for Economic Cooperation and Development has improved.

In the rating of the World Bank and Doing Business International Corporation, the Republic has risen by 7 positions, taking 8th place among 190 countries in terms of business registration and joining the list of the best reformer countries, which will stimulate foreign investors to invest in new development projects in Uzbekistan.

At the same time, it should be especially noted that in the conditions of the presence in the country of significant fiscal reserves and ensuring macroeconomic stability, obtaining a sovereign credit rating of the Republic of Uzbekistan and the successful placement of the first sovereign international bonds on world financial markets is not due to the need for additional funds or the need to cover the budget deficit, but achievement of strategic goals.

The establishment of annual interest rates on 5 and 10 year international bonds of the Republic of Uzbekistan at 4.75% and 5.375%, respectively, indicates that international investors assess the risks associated with the Republic of Uzbekistan as moderate. Before the issuance of sovereign international bonds, many foreign investors estimated the payment for the 10-year sovereign risk of Uzbekistan at more than 6-8%.

The successful placement of sovereign international bonds made it possible to form a market “benchmark”, which creates the necessary preconditions in the world financial markets for the issuance of their own bonds by large state-owned companies and banks, and their independent financing of investment projects.

Note that more and more issuers (countries, corporations, banks) resort to issuing international bonds, including developed (Finland, Sweden, South Korea) and developing countries (Saudi Arabia, Turkey, Russia, Kazakhstan).

At the same time, interest rates in the markets of international bonds, due to competition between investors, they are more attractive and are formed directly under the influence of market mechanisms and clearly reflect the real cost of borrowing for a given country. At the same time, there is no risk of excessive dependence on a particular lender or investor. As far as borrowing in domestic financial markets is concerned, their depth is very limited, which necessitates borrowing in international capital markets.

Conclusion

As a result of assignment by international rating agencies "S&P Global Ratings" and "Fitch Ratings" of the sovereign credit rating of the Republic of Uzbekistan at the level of "BB-" (Outlook Stable), in turn, led to a revision towards improvement of the credit rating of Uzbekistan in the system OECD risk classification (from Group 6 to Group 5).

Moreover, before the issuance of sovereign international bonds, many foreign investors estimated the payment for the 10-year sovereign risk of Uzbekistan at more than 6-8% versus 5.375% for 10-year Eurobonds of the Republic of Uzbekistan, which is evident reflects the decline in the cost of borrowing for the republic.

The successful placement of international bonds is widely recognized not only within the CIS, but also by authoritative experts and world-class publications. In particular, on May 22, 2019 in London, the authoritative publication “Global Capital” with 32 years of successful experience in the

field of analysis of international financial markets awarded Uzbekistan an honorable second place among the CIS countries within the framework of the “Bond Awards 2019”.

At the same time, the republic's sovereign international bonds also demonstrate positive dynamics in the secondary financial markets. May 10 and June 14, 2019 international rating agencies

S & P Global Ratings and Fitch Ratings have affirmed the sovereign credit rating of the Republic of Uzbekistan at BB- (Outlook Stable). Such a quotation of sovereign international bonds on world financial markets serves as a barometer for pursuing a stable economic policy.

Strengthening the fundamental foundations of economic growth, increasing productivity of factors of production, diversifying economic sectors, relying on a forward-looking policy strategy (forward-looking approach) are, in modern conditions of international integration, the key to the continuation of successful systemic structural reforms and effective foreign trade policy in order to ensure sustainable economic development based on national interests of the Republic of Uzbekistan.

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