

Impact of Trade Policy Liberalization on Chemical Industry: Case Study of Uzbekistan

Dilshod Pulatov¹, Sergei Voronin², & Otajon Otabekov^{3*}

¹ Doctor of economic sciences, Professor, Institute for Fiscal Studies under Ministry of Finance of the Republic of Uzbekistan

² Doctor of economic sciences, Professor, Department of Finance and Credit, Tashkent branch of Plekhanov Russian University of Economics, 100164, Shahriobod str., Mirzo Ulughbek region, Tashkent, Uzbekistan

³ Graduate school, Westminster International University in Tashkent

*Corresponding author: Otabekov Otajon, Graduate school, Westminster International University in Tashkent.

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Abstract

This paper is mainly concentrated on Uzbekistan's accession process to the World Trade Organization and recent reforms in country's foreign trade policy. By employing the partial equilibrium model, it pays special attention to the chemical industry trade. Moreover, expected changes in imports of chemicals, budget revenues and consumer welfare also revealed in the paper. Specifically, two scenarios, namely abolition of country specific discrimination practices in imports or mere tariff reduction, are considered. Results show that in the former case, budget revenues will grow considerably, imports and consumer welfare will decrease, while in the latter case imports of chemical products and consumer welfare will slightly increase and budget revenues will decline. It is concluded that in the former case, the negative effect will be outweighed by creating a fairer and more competitive environment, since removing discrimination practices such as import-specific excise taxes and exemptions on import duties payments for state companies stabilizes balance of resource allocation within and among industries.

Keywords: Customer Relationships, Perspective, Tourism, ESG Factors.

Introduction

There have been massive changes in Uzbekistan since the new president, Shavkat Mirziyoev, took office in 2016. The country has embarked on a reform journey and the economy has experienced unprecedented changes. In particular, economic reforms are addressed on strengthening economic growth while keeping inflation in its possible lowest level. Like many other developing countries, primary focus of economic policies is on upgrading prosperity and achieving sustainable growth in all industries. Trade liberalization can be a good instrument to enhance the productivity capacity of industries especially in developing countries. Besides, Yameogo and Omojolaibi (2020) empha-

size that trade openness supports economic growth and reduces poverty especially in developing countries. Concerning this, Uzbekistan's trade policy has been subject to reforms regarding particularly customs fees and procedures in order to lower tariff barriers and simplify the customs formalities. As a matter of fact, in order to support export-led growth in the country, Uzbekistan has recently resumed its negotiations with the World Trade Organization (WTO). Despite the fact that Uzbekistan as a non-member country of the organization can freely and independently modify trade policies, ongoing negotiations may lead future changes to reflect WTO requirements [1-5].

¹ Claire Emilienne Wati Yameogo & Joseph Ayoola Omojolaibi (2021) Trade liberalisation, economic growth and poverty level in sub-Saharan Africa (SSA), *Economic Research-Ekonomiska Istraživanja*, 34:1, 754-774, DOI: 10.1080/1331677X.2020.1804428

² "Uzbekistan resumes WTO membership negotiations," *WTO*, last modified 7 July 2020, https://www.wto.org/english/news_e/news20_e/acc_uzb_07jul20_e.htm.

³ "SECO-WCO Global Trade Facilitation Programme," *World Customs Organization*, accessed 14 September 2020, http://www.wcoomd.org/en/topics/capacity-building/activities-and-programmes/cooperation-programmes/seco_wco-gtfp.aspx.

Besides, there are several programs that Uzbekistan has been taking place in order to increase its export capacity and liberalize its trade policies. For instance, Uzbekistan has been debating with the Eurasian Economic Union (EAEU) regarding strengthening their relationship and mutual collaboration. Uzbekistan also takes part in The Global Trade Facilitation Programme of the World Customs Organization (WCO), which assists member countries in terms of adopting to international standards of trade between the years 2018 and 2022. Uzbekistan became an observer of EAEU in December 2020, and according to the official statistics, its trade with members of the EAEU account for almost 29% of the country's trade turnover. Moreover, Uzbekistan is a member of the Commonwealth of Independent States Free Trade Area (CISFTA) comprising of Tajikistan, Kyrgyzstan, Kazakhstan, Ukraine, Russia, Belarus, Moldova, and Armenia. In particular, CISFTA enables member countries to trade without import tariffs with some exceptions. Uzbekistan has also concluded free trade agreements (FTA) with Azerbaijan, Turkmenistan and Georgia.

In July 2020 Uzbekistan resumed the negotiations on accession to the WTO. The WTO membership is currently an important issue and its benefits and challenges are being vividly discussed in the country since further liberalization steps will have to take place [6-10].

Uzbekistan had undertaken the first reforms before the WTO accession process has been resumed. In the past, the import regime of Uzbekistan was characterized by a high level of protectionism and at the same time, a large number of individual privileges regarding the payment of import fees were provided (hereinafter referred to as exemptions). Since 2017, important changes have taken place in this area aimed at liberalising the foreign trade regime. Many protectionist measures, however, persist.

The objective of this paper is to reveal the changes in Uzbekistan's foreign trade policy, its exports and imports, and to evaluate the impact of the possible WTO membership on trade in chemical products.

Literature Review

According to majority of the literature trade liberalization offers improved allocation of domestic resources, which in turn leads to an increase in welfare. On the other hand, any kind of import restricting policies lead to anti-export bias through raising relative price importable goods with respect to exportable goods. Trade liberalization can remove this bias and reallocate resources from production of import substitutes to export oriented goods and services. Following to this especially developing countries can benefit from their comparative advantage and accelerate short to medium term growth. Authors of empirical literature have come

to ambiguous conclusions concerning the positive effects of the WTO membership on trade flows. This raises questions whether the tariff reduction promoted by the WTO and its predecessor, the General Agreement on Tariff and Trade (GATT), has had desired results [11, 12].

Based on the standard gravity model of bilateral trade Rose (2004) state that the WTO does not seem to have had much impact on trade. He provides two explanations why WTO membership little effect on trade. First of all, WTO members often extend MFN status unilaterally to non-member countries, although they are not obliged to by WTO rules. Secondly, the GATT/WTO has not forced most countries to reduce trade barriers, which is typical mainly for developing countries that have received special treatment. He concludes that WTO membership has negligible effect on trade policy and therefore on trade flows as well. However, he does not claim that the existence of GATT and the WTO has been irrelevant. He admits the WTO membership encourages creating trade links that may not exist otherwise.

On the other hand, Arwind Subramanian and Shang-Jin Wei disagree with Rose. According to their studies the WTO has a strong positive impact on trade liberalization. They argue that mainly industrialized countries mostly benefit from the WTO. However, they admit that not only industrialized countries but also developing countries experience advantages of the WTO, which can be detected in increased exports. Furthermore, Todd L. Allee and Jamie E. Scalera emphasize countries that highly demand accession to an international organization and actively promote substantial policy modifications to become a member benefit more from joining the WTO. Wacziarg and Welch (2008) indicate that economic integration can stimulate economic growth through its positive effect on investment inflows.

Richard Pomfret has elaborated a study where he identifies the barriers to completing Uzbekistan's WTO accession negotiations, and the benefits and costs of WTO membership. He claims that the government's commitment to economic reform is key to the eventual membership. A sector-specific study examining the economic implications of WTO membership on Uzbekistan's highly protected automobile industry has been done by Alisher Umirdinov and Valijon Turakulov [13-15]. The authors suggest that the sector will have to deal with extreme pressures from internal and external players that will have immense consequences. In order to mitigate them, they suggest that a more extended phase out period will be required, and the state should decrease its support gradually.

Structure and Methods

In this paper, we first concentrate on analysing changes in the national legislation in recent years, especially the exchange rate

⁴ "Uzbekistan gets observer status in Eurasian Economic Union," *The Tashkent Times*, last modified 11 December 2020, <https://tashkenttimes.uz/national/6054-uzbekistan-gets-observer-status-in-eurasian-economic-union>, accessed 12 January 2021.

⁵ "Foreign economic activity – Merchandise trade," *State Committee of the Republic of Uzbekistan on Statistics*, accessed 23 June 2020, <https://stat.uz/en/181-ofyt-syalnaia-statistika-en/6377-merchandise-trade>.

⁶ "Free trade agreements: CIS member states," *Ministry of Economic Development of the Russian Federation*, accessed 23 February 2021, https://www.economy.gov.ru/material/departments/d11/soglasheniya_o_svobodnoy_torgovle/gosudarstva_uchastniki_sng/.

⁷ "List of countries granted the MFN regime and the free trade regime partner," *National legislation database of the Republic of Uzbekistan*, last modified 20 June 2020, <https://lex.uz/docs/4911947>.

⁸ WTO, "Uzbekistan resumes WTO membership negotiations."

⁹ Andrew K. Rose, "Do we really know that the WTO increases trade?," *American Economic Review* 94, no. 1 (2004): 98-114, <http://www.jstor.com/stable/3592771>.

¹⁰ Rose, "Do we really know that the WTO increases trade?," 98-114.

policy liberalization, changes in import tariffs and import excise taxes that influence the eventual costs of import. In our analysis, we employed data provided by the International Trade Centre (ITC) and the State Committee of the Republic of Uzbekistan on Statistics.

In the following part, special attention is paid to Uzbekistan's chemical industry and the impact of the possible WTO membership on the industry. Specifically, effect of trade liberalization on chemical products imports, consumer welfare and budget revenues will be analysed in detail. We utilize the partial equilibrium model employing the SMART partial equilibrium modelling tool, which uses indicators of elasticity of demand for imports, elasticity of export supply and elasticity of substitution on the basis of the World International Trade Solutions and estimates by Hertel et al.

Over the analyses two scenarios will be developed. In particular, scenario 1 considers only changes in tariff rates, while scenario 2 considers wider modifications. In scenario 1 we assume that the import tariff rates in Uzbekistan will be reduced to the level of the neighbouring countries' rates. However, scenario 2 assumes that Uzbekistan will abolish all discriminative practices in import along with the import tariff reduction. In the following paragraphs the two scenarios are explained in detail. We observe changes for four groups of countries: (1) MFN countries according to Uzbekistan's agreements mentioned in the Introduction (47 countries), (2) CISFTA countries (10 countries), (3) non-MFN, non-CISFTA but WTO member countries, and (4) non-MFN, non-CISFTA and non-WTO countries. We calculate the change in imports of each group, changes in budget revenues and consumer welfare [16-18].

Results

Trade Policy Liberalization

Past four years brought fundamental changes in the national legislation. The key legal document with respect to the movement of goods across the customs borders of the country, customs control, customs clearance, collection and payment of customs payments and customs legislation violations procedures is the Customs Code. Currently the new redaction of the Customs Code is under way and was open for public discussion online

from August 17th to September 1st 2019. A measure of particular importance was the introduction of the current account convertibility in 2017. In the same year, the government adopted a decision to significantly reduce customs duties for a long list of items. The presidential resolution "On measures to further streamline foreign economic activity and improve the system of customs and tariff regulation of the Republic of Uzbekistan" from June 2018 further and substantially reduced not only the custom tariffs on imported goods but also the excise tax on imports. Also, the customs tariff rates have been unified for items similar in type, properties and utilisation. In December 2018, some of the rates were increased again, e.g. for clothes, shoes, furniture, certain foods etc. High rates (40 - 70 %) remain for vehicles.

Tariffs are not the only cost of imports. Import excise taxes, value added tax (VAT) and customs clearance fees have to be considered as well. Import excise tax rates and the list of imported excisable products were subject to fundamental changes too. Their importance has decreased but they are still an important tool for regulating imports and a source of budgetary revenues. Many goods are excisable only when they are imported in Uzbekistan, they are not subject to excise taxes if produced domestically.

Import and export customs procedures have been simplified significantly which received a positive response from the World Bank and exporters have been provided with state support concerning the customs clearance formalities. To better understand the changes in ease of trading across borders as a result of simplification of the customs procedures, World Bank's "Ease of Doing Business" score and ranking can provide us with useful information. It "records the time and cost associated with the logistical process of exporting and importing goods and it measures the time and cost (excluding tariffs) associated with three sets of procedures – documentary compliance, border compliance and domestic transport". Despite recent improvements, Uzbekistan's performance is still not satisfactory – way under the regional average. The country ranks 152 out of 190, while Kazakhstan ranks 105 and Russia 99. However, better performance is evident since Uzbekistan ranked 165 a year before [19-22].

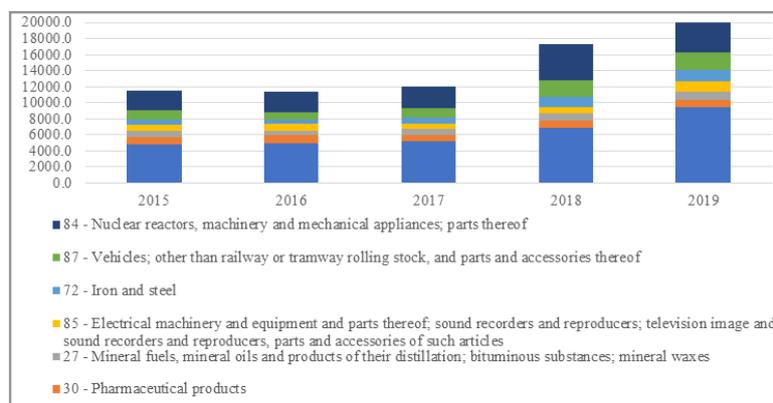


Figure 1: Commodity Structure of Uzbekistan's Imports 2015 - 2019, Harmonized System (HS) Classification; mil. USD

Source: State Committee of the Republic of Uzbekistan on Statistics, "Foreign economic activity – Merchandise trade."

¹¹ Andrew K. Rose, "The Effect of Membership in the GATT/WTO on Trade: Where Do We Stand?," in *Is the World Trade Organization Attractive Enough for Emerging Economies? : Critical Essays on the Multilateral Trading System*, ed. Zdenek Drabek (London: Palgrave Macmillan, 2010), 195-216.

¹² Arvind Subramanian, and Shang-Jin Wei, "The WTO promotes trade, strongly but unevenly," *Journal of International Economics* 72, no. 1 (2007): 151-75, <https://doi.org/10.1016/j.jinteco.2006.07.007>.

Figures 1 and 2 show that the liberalization efforts had evident outcomes demonstrated by increased trade flows, especially imports. Reducing the customs tariffs and excise tax has resulted in larger imports values in 2018 and 2019. Uzbekistan experiences a trade deficit which has deepened in recent years.

The export value grew (Figure 2) partly because of gold exports. Uzbekistan is one of the top exporters of precious metals. In 2019 they account for almost a third of the country's exports (29.8%). Other main export items remain more or less unchanged: fuels, cotton, copper, food products, plastics, clothing and chemical products [23-26].

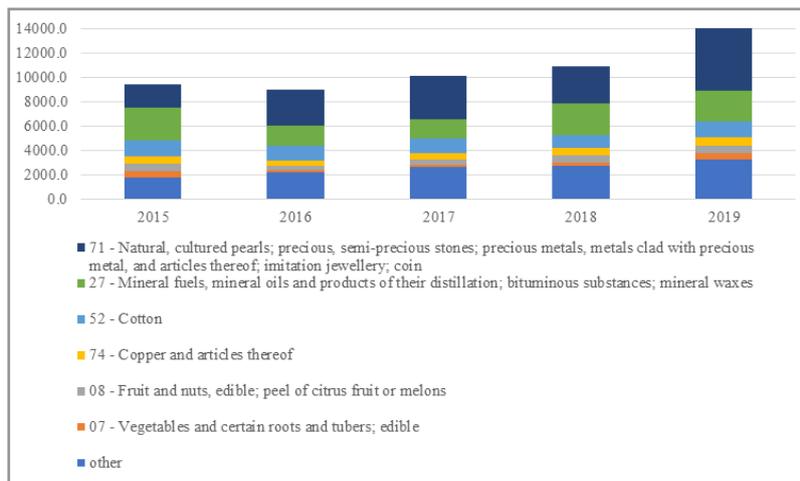


Figure 2: Commodity Structure of Exports 2015 - 2019, HS Classification; mil. USD

Source: State Committee of the Republic of Uzbekistan on Statistics, "Foreign economic activity – Merchandise trade."

Impact of WTO Accession on Chemical Industry Trade

Uzbekistan's production of nitrogen, phosphorus and potassium is ranked 8th in the world. In terms of volume and sorts of nitrogen and phosphorus fertilizers produced, the country occupies a leading position in the Central Asian region. Chemical products are exported to more than 30 countries around the world. The main export markets are traditionally the neighbouring countries, such as Kazakhstan, Tajikistan, Kyrgyzstan and Afghanistan but new ones are being explored, such as South Korea, Japan and others.

Uzbekistan's chemical industry has a significant potential in production thanks to the locally available raw materials, technical base and labour force, and represents one of the top industrial sectors of the economy [27-31]. Raw materials that are important for the industry are natural gas, ammonia, nitric acid, industrial salt, limestone and industrial sulphur, all of them available in Uzbekistan. The availability of natural resources is a key advantage in an industry where raw materials and utilities account for

between 40% and 90% of production costs. With such unique advantages, Uzbekistan could become a net exporter of chemical products.

However, high level of physical and moral depreciation of Uzbekistan's production facilities has reduced productivity and increased energy and material consumption of production over the past years, which is the main factor holding back the development of the chemical industry [32-35]. The measures taken in recent years were insufficient to improve the technical condition of the production facilities and increase their competitiveness in the global market.

Today, imports of chemical products are 5 times higher than exports. The main volume of production is focused on meeting the needs of the domestic market. Real growth rates of production have significant fluctuations and the share of chemical industry in the industrial sector has been decreasing; see Table 1.

¹³ Todd L. Allee, and Jamie E. Scalera, "The divergent effects of joining international organizations: Trade gains and the rigors of WTO accession," *International Organization* 66, no. 2 (2012): 243-76, <https://doi.org/10.1017/S0020818312000082>.

¹⁴ Wacziarg, R. and Welch, K.H., 2008. *Trade liberalization and growth: New evidence*. *The World Bank Economic Review*, 22(2), pp.187-231.

¹⁵ Richard Pomfret, "Uzbekistan and the World Trade Organization", *Silk Road: A Journal of Eurasian Development* 2, no. 1 (2020): 54–61, <https://doi.org/10.16997/srjed.35>.

¹⁶ Alisher Umirdinov, and Valijon Turakulov, "The Last Bastion of Protectionism in Central Asia: Uzbekistan's Auto Industry in post-WTO Accession," *Trade, Law & Development* 11, no. 2 (2019): 301-33.

¹⁷ "SMART Simulation Tool," *World Integrated Trade Solution*, accessed 12 September 2020, <https://wits.worldbank.org/simulationtool.html>.

¹⁸ Thomas Hertel, David Hummels, Maros Ivanic, and Roman Keeney, "How confident can we be of CGE-based assessments of Free Trade Agreements?," *Economic Modelling* 24 (2007): 611-35, <https://doi.org/10.1016/j.econmod.2006.12.002>.

¹⁹ "The Customs Code of the Republic of Uzbekistan," *National legislation database of the Republic of Uzbekistan*, last modified 20 January 2016, <https://lex.uz/docs/2876352>.

²⁰ "The Customs Code of the Republic of Uzbekistan (new edition)," *Website for discussion of draft laws*, accessed 15 July 2020, <https://regulation.gov.uz/ru/document/6485>.

²¹ "Decree of the President of the Republic of Uzbekistan „On Priority Measures for the Liberalization of Foreign exchange Policy“,“ *National legislation database of the Republic of Uzbekistan*, last modified 2 September 2017, <https://lex.uz/docs/3326423>.

Table 1: Key Indicators of the Chemical Industry in Uzbekistan

	2015	2016	2017	2018	2019
Production (mil. USD)	1944.6	2488.4	1934.7	1868.5	2147.3
Import* (mil. USD)	558.4	579.6	630.7	777.5	1081.8
Export* (mil. USD)	234.6	188.0	245.7	217.2	208.5
Production growth (in % to the previous year)	110.4	138.3	101.7	99.1	102.3
Share in the industrial sector (%)	6.5	8.2	8.4	8.0	5.9
Number of employees in the industry	41797	42499	45986	46721	47085

Source: “Industry,” State Committee of the Republic of Uzbekistan on Statistics, accessed 12 September 2020, <https://stat.uz/en/official-statistics/industry>.

Due to the developed agricultural sector in Uzbekistan, the dominant position in the structure of the chemical industry is the production of fertilizers for agriculture. Agricultural chemistry practically meets the needs of the republic's cotton and grain cultivation.

The share of imports in the total market of chemical products in Uzbekistan is 30.3%, and the share of local production is 69.7%. As mentioned above, local production is mainly concentrated in the production of fertilizers; this is the only product group where Uzbekistan is a net exporter. For other groups of goods, Uzbekistan is a net importer. Products such as pesticides and

herbicides for agriculture and chemicals for rapidly developing industries such as textiles, leather and food production are mainly imported. We can expect further growth in imports due to the fast growth of the textile, leather and food industries, as domestic production is not well developed [36, 37].

The main import items are other chemicals (HS2 code 38), organic chemicals (HS2 code 29), tanning or dyeing extracts; tannins and their derivatives, dyes, pigments and other colouring matter, paints and varnishes (HS2 code 32) and cosmetics or toilet preparations (HS2 code 33).

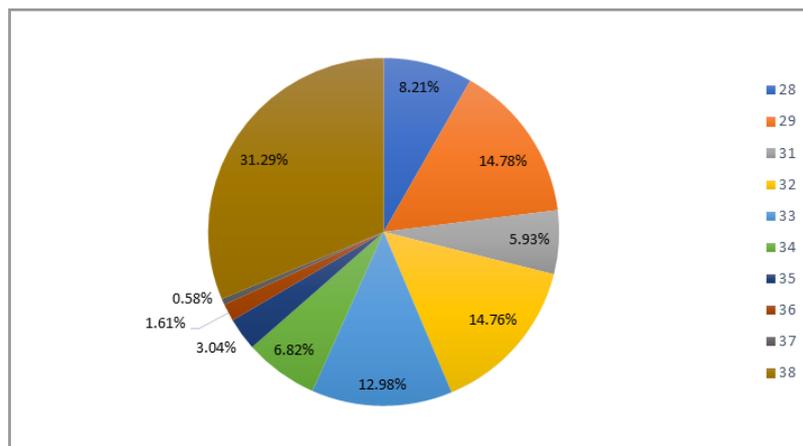


Figure 3: Commodity Structure of Chemical Imports, 2019 (HS2), %

Source: International Trade Centre, “ITC Trade Map.”

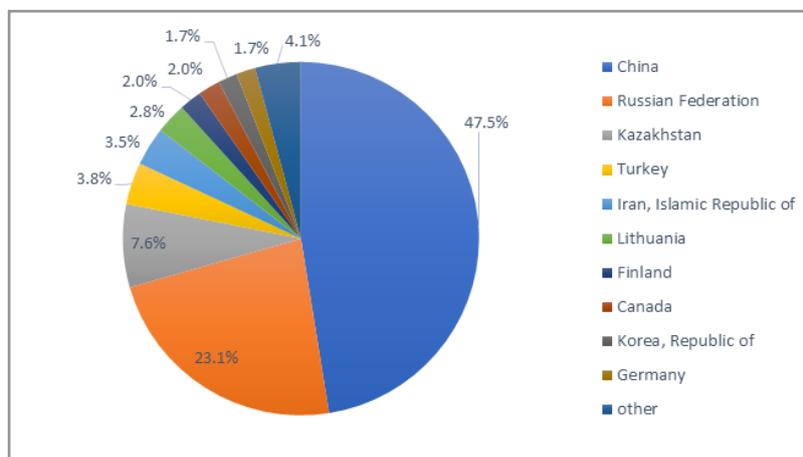


Figure 4: Geographic Structure of Chemical Imports, 2019, %

Source: International Trade Centre, “ITC Trade Map.”

Uzbekistan's exports are mainly concentrated in fertilizers (HS code 31), which account for almost 67% of the industry's exports. As mentioned above, this is the only commodity group

where Uzbekistan is a net exporter with a trade balance of 73.7 million USD.

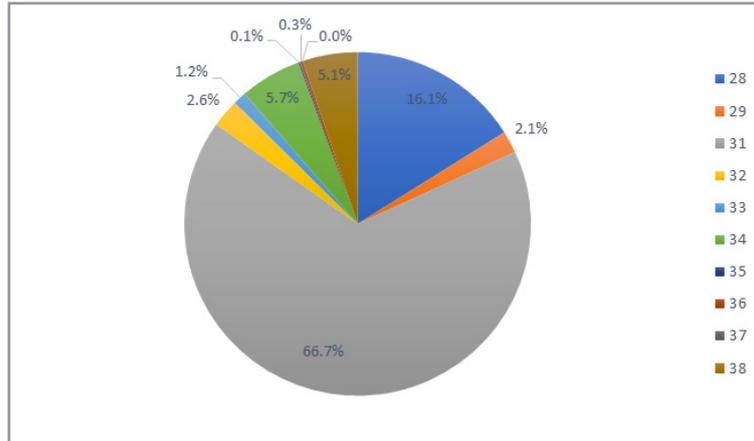


Figure 5: Commodity Structure of Chemical Exports, 2019 (HS2)

Source: International Trade Centre, "ITC Trade Map."

The chemical sector is predominantly regional due to high transport costs. This fact is confirmed by the predominantly regional nature of imports and exports in countries around the world; Uzbekistan is not an exception. The main share of chemical products is exported to such countries of the region as Kazakhstan, Kyrgyzstan and Tajikistan. The geographic structure of Uzbekistan's export of chemicals is shown in Figure 6. The bulk of exports are directed to countries with which Uzbekistan has an agreement on preferential trade. Recent improvements in rela-

tions with the closest neighbours have resulted in a significant increase in overall regional trade [38, 39].

While in 2017 the growth in imports of chemicals amounted to 8.8%, in 2018 the growth in imports amounted to 23.2%, sharply reacting to a decrease in average import duties from 6.0% to 1.3%. A particularly sharp increase in imports in 2018 was observed in the group of fertilizer products (156%), where import duties were substantially reduced.

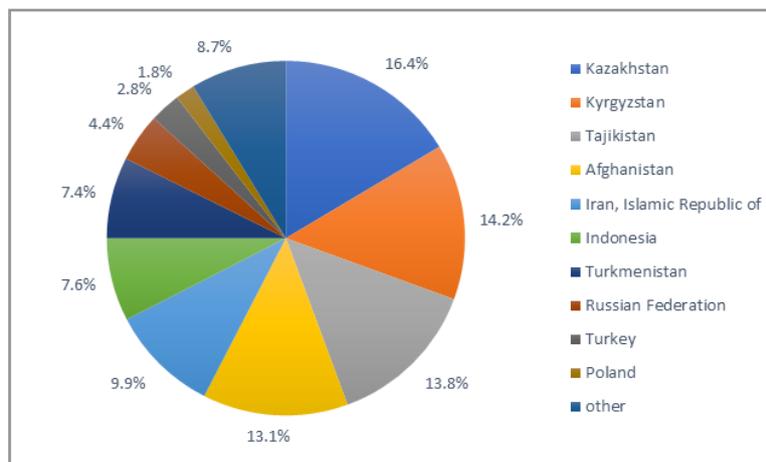


Figure 6: Geographic Structure of Chemical Exports, 2019

Source: International Trade Centre, "ITC Trade Map."

In order to forecast the level of import tariffs in Uzbekistan upon accession to the WTO, the existing import tariffs of WTO countries – Uzbekistan's major trading partners – were compared (MFN tariffs, Figure 7). Uzbekistan's import MFN tariffs for product groups 33, 34 and 36 turn out to be much higher than

tariffs of the above-mentioned countries. However, tariffs for other groups of goods (28, 29, 37 and 38) are lower or almost equal zero. In bilateral negotiation processes, countries like the EU and Turkey may put pressure on Uzbekistan to lower tariffs on commodity groups where the level is higher.

²² "Resolution of the President of the Republic of Uzbekistan "On measures to further streamline foreign economic activity and improve the system of customs and tariff regulation of the Republic of Uzbekistan", National legislation database of the Republic of Uzbekistan, last modified 29 June 2018, <https://lex.uz/docs/3802366>.

²³ "Nearly 45% of import fees to be reduced," Norma, last modified 13 April 2018, https://www.norma.uz/nashi_obzori/pochti_45_procentov_stavok_importnyh_poshlin_predlagaetsya_snizit.

²⁴ "Comparative table of tariff rates according to PP-3818 dated Jun 29, 2018, changed under PP-4086 dated Dec 26, 2018," Norma, last modified 5 January 2019, https://www.norma.uz/raznoe/sravnitelnaya_tablica_stavok_importnyh_tamojennyh_poshlin_izmenivshihsia_soglasno_pp-4086_ot_26_12_2018_goda.

²⁵ Norma, "Nearly 45% of import fees to be reduced."

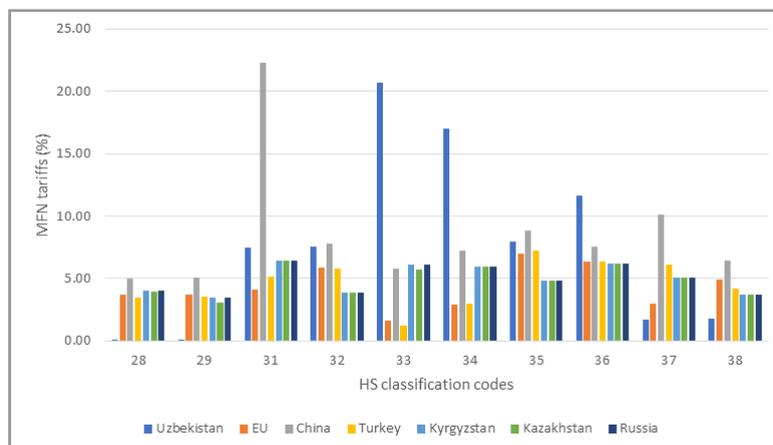


Figure 7: MFN Tariffs Applied by Uzbekistan and its Major Trading Partners on Chemical Products; in %

Source: International Trade Centre, “ITC Aggregated Market Access Indicators.”

According to Uzbekistan’s legislation, MFN tariffs are reduced rates which apply in the case of an agreement on trade preferences with another country. For the rest of the world excluding the CISFTA, Azerbaijan, Georgia and Turkmenistan, a double rate applies. The MFN tariff may be further decreased based on bilateral agreements which is the case of Uzbekistan’s major trading partners.

Because of the predominantly regional nature of foreign trade in chemical products, most of the above-mentioned countries will be the main competitors for Uzbekistan. With regard to this fact, the average level of import duties in these countries is a more acceptable and likely option for Uzbekistan.

Another issue which may complicate the WTO accession process is that the customs system of Uzbekistan is characterized by the presence of exemptions for certain industries and enterprises where import duties payments are waived for them; this creates uneven conditions for producers in the market. Such conditions do not comply with the principles of the WTO. In accordance with the Agreement on Subsidies and Countervailing Measures of the WTO, benefits to individual enterprises and industries are classified as subsidies. They are either prohibited or subject to challenge if they cause negative effects to the interests of a WTO member country. The possible abolition of these benefits upon accession to the WTO will have a fundamental impact on the budget [40].

Another example of discrimination is the excise tax application. For example, the group of goods “Lubricants” (HS code 3403) is subject to an excise tax of 5% on imports, but not on domestic production. This approach is considered to be discrimination against imports under WTO rules and is not allowed. Uzbekistan will have to abolish or reduce to zero the excise tax imposed

exclusively on imports upon joining the organization.

In order to predict the effects of Uzbekistan's accession to the WTO, we used the partial equilibrium model. To see the changes in the shares of different group of countries we divided them into four groups:

1. MFN countries according to Uzbekistan’s agreements on trade preferences (47 countries); MFN rates are applied to goods originating in these countries;
2. CISFTA countries (ten countries) where zero import tariff rates are applied; Azerbaijan, Georgia and Turkmenistan also fall into this group thanks to the FTA with Uzbekistan but they are not included in the following tables due to their negligible share in chemical imports;
3. non-MFN, non-CISFTA but WTO member countries for whom a double tariff rate is applied;
4. non-MFN, non-CISFTA and non-WTO countries for whom a double tariff rate is applied.

Most trade of the country occurs with the MFN and CISFTA countries which made up 97% of total trade in 2019. We considered two scenarios:

Scenario 1

We assume that the level of tariffs in Uzbekistan is more likely to decrease to about the level of neighbouring countries. Therefore, it is assumed that the tariff rate will change from current rates to the average rate of the region, no other changes regarding import payments are considered (VAT, excise tax, import duty payment exemptions and valuation methods stay the same). The assumed tariff rate remains unchanged if it is lower than the average rate in the region. Table 2 contains the input data for the partial equilibrium model.

²⁶ “Law of the Republic of Uzbekistan on the State Budget of the Republic of Uzbekistan for 2020. Appendix 8. Rates of excise tax on excisable goods (services) produced (rendered) in the Republic of Uzbekistan,” National legislation database of the Republic of Uzbekistan, last modified 9 December 2019, <https://lex.uz/docs/4635018#4637054>; “Excise tax rates on excisable goods imported into the territory of the Republic of Uzbekistan,” Complete legislation of Uzbekistan, last modified 29 June 2018, [https://nrm.uz/content?doc=548595_stavki_akciznogo_naloga_na_podakciznyye_tovary_zavozimye_na_territoriyu_respubliki_uzbekistana_\(prilojenie_n_2_k_postanovleniyu_prezidenta_ruz_ot_29_06_2018_g_n_pp-3818\)&products=1_vse_zakonodatelstvo_uzbekistana](https://nrm.uz/content?doc=548595_stavki_akciznogo_naloga_na_podakciznyye_tovary_zavozimye_na_territoriyu_respubliki_uzbekistana_(prilojenie_n_2_k_postanovleniyu_prezidenta_ruz_ot_29_06_2018_g_n_pp-3818)&products=1_vse_zakonodatelstvo_uzbekistana)

²⁷ “Doing Business 2020: Uzbekistan,” World Bank Group, accessed 14 February 2020, <https://www.doingbusiness.org/en/data/exploreconomies/uzbekistan>.

²⁸ Customs Reforms. Interview with Murotzhon Azimov. (2020). *Ekonomicheskoe obozrenie*, 5, 49-55. <https://review.uz/journals/05-245-2020>

²⁹ World Bank Group, “Doing Business 2020: Uzbekistan.”

³⁰ State Committee of the Republic of Uzbekistan on Statistics, “Foreign economic activity – Merchandise trade.”

³¹ “Uzbekistan exports over \$1 billion worth of gold in Q1,” *The Tashkent Times*, last modified 23 April 2020, <https://tashkenttimes.uz/economy/5205-uzbekistan-exports-over-1-billion-worth-of-gold-in-q1>, accessed 12 January 2021.

Table 2: Scenario 1: Input Data for the Partial Equilibrium Model

HS2 code	share in imports	Current tariff rate for MFN countries (% of import value)	Expected tariff rate for MFN countries (% of import value)	change in tariff rate	import demand elasticity	export supply elasticity	elasticity of substitution*
28	8.21	0.11	0.11	0.0	1.05	99	6.6
29	14.78	0.04	0.04	0.0	1.59	99	6.6
31	5.93	7.47	7.47	0.0	4.03	99	6.6
32	14.76	7.55	5.40	-2.15	1.05	99	6.6
33	12.98	20.74	4.81	-15.9	0.94	99	6.6
34	6.82	17.05	5.35	-11.7	1.23	99	6.6
35	3.04	7.93	7.93	0.0	0.81	99	6.6
36	1.61	11.62	6.49	-5.3	3.38	99	6.6
37	0.58	1.71	1.71	0.0	1.58	99	6.6
38	31.29	1.81	1.81	0.0	1.18	99	6.6

Source: World Integrated Trade Solution, "SMART Simulation Tool.;" *Hertel, Hummels, Ivanic, and Keeney, "How confident can we be of CGE-based assessments of Free Trade Agreements?," 611-35.; authors' calculations based on International Trade Centre, "ITC Aggregated Market Access Indicators."

Table 3 shows that the overall import of Uzbekistan would increase by 21.2 million USD mainly because of decreasing import tariffs. But it would not affect different group of countries equally. Imports from CISFTA countries would drop, as expected, since the tariff reduction for other WTO countries would dilute their relative import advantage. The share of the CISFTA countries would decrease from 27.4% to 21.6% while the share

of the MFN countries would rise. The WTO member states who were neither the MFN nor CISFTA countries would feel stronger relief in import tariffs, their imports to Uzbekistan would increase by 72%. Imports from the non-CISFTA, non-MFN and non-WTO countries could improve slightly, since tariffs for them would generally decrease even if double tariff rate was imposed on their imports.

Table 3: Scenario 1: Import Changes for Groups of Countries

	Imports before accession		Imports after accession		Growth	Import change
	Million USD	Share (%)	Million USD	Share (%)	%	Million
MFN countries for Uzbekistan (47 countries)	USD	69.8%	824.7	74.8%	9.3%	70.0
CISFTA countries (10 countries)	296.8	27.4%	238.3	21.6%	-19.7%	-58.5
Non-MFN, non-CISFTA but member of WTO	10.8	1.0%	18.6	1.7%	72.4%	7.8
Non-MFN non-CISFTA non-WTO	19.5	1.8%	21.5	1.9%	10.2%	2.0
Total	1081.8	100.0%	1103.1	100.0%	2.0%	21.2

Source: Author's calculations

Table 4 shows the expected changes in tariff revenues, imports and consumer welfare for each product group. Our results show that budget tariff revenues would fall sharply, by 43%, reflecting

the overwhelming effect of a decrease in tariffs over a small increase in imports, by only 2%. Insignificant increase in imports would have a small, but positive effect in consumer welfare.

³² Zhurabek Mirzamakhmudov, "Chemical Industry Reform Trajectory," interview by Viktor Abaturov and Ziëda Rizaeva, *Ekonomicheskoe obozrenie*, 16 March 2020, <https://review.uz/post/traektoriya-reform-ximproma>.

³³ Mirzamakhmudov, interview.

³⁴ "Creating markets in Uzbekistan: from stabilization to competitiveness," *International Finance Corporation*, accessed 15 October 2018, http://invest-in-uzbekistan.org/wp-content/uploads/4_6004767272294416554.pdf.³⁵ Dzhasur Mukhamedov, and Ol'ga Shipkova, "Chemical industry of the Republic of Uzbekistan: major obstacles of the industry development," *Advances in chemistry and chemical technology* 31, no. 14 (2017): 25-27, <https://muctr.ru/upload/iblock/9c3/9c3bb1cf-5c074173b13b8a6e9ca49b2f.pdf>.

³⁶ State Committee of the Republic of Uzbekistan on Statistics, "Foreign economic activity – Merchandise trade."

³⁷ *International Finance Corporation*, "Creating markets in Uzbekistan: from stabilization to competitiveness."

³⁸ "ITC Trade Map," *International Trade Centre*, accessed 15 November 2020, <https://www.trademap.org/>; *State Committee of the Republic of Uzbekistan on Statistics*, "Foreign economic activity – Merchandise trade."

³⁹ *International Trade Centre*, "ITC Trade Map."

⁴⁰ *International Trade Centre*, "ITC Trade Map."

⁴¹ *International Trade Centre*, "ITC Trade Map."

Table 4: Scenario 1: Expected Changes in Tariff Revenues, Imports and Consumer Welfare

HS2 code	change in budget tariff revenue		expected import change		change in consumer welfare (million USD)
	million USD	%	million USD	%	
28	0.00	-3.1%	0.0	0.0%	0.0
29	0.00	-2.4%	0.0	0.0%	0.0
31	0.00	-0.5%	0.0	0.1%	0.0
32	-2.62	-25.6%	2.9	1.8%	0.2
33	-13.19	-64.2%	12.3	8.7%	1.2
34	-4.68	-56.3%	6.0	8.1%	0.5
35	0.00	-0.1%	0.0	0.0%	0.0
36	0.00	-15.2%	0.0	0.2%	0.0
37	-0.01	-5.9%	0.0	0.2%	0.0
38	-0.03	-0.6%	0.0	0.0%	0.0
Total	-20.5	-43.0%	21.2	2.0%	1.8

Source: Author's calculations

Overall, the negative effects of lowering the tariffs rates upon joining the WTO, resulting in a sharp fall in budget revenues may seem outweighing the positive effects in consumer welfare. On the other hand, Scenario 1 does not take into account wider policy changes associated with the actual WTO accession. Therefore, in Scenario 2 we consider further necessary liberalization in Uzbekistan's trade policy.

Scenario 2: Along with import tariff rates reduction we assume that the country will abolish all import duty payment practices not complying with the WTO rules. The main distorting factor, as discussed above, is the exemptions given to certain national companies or industries concerning import tariff, VAT and excise tax payments. Another one is the valuation method. In Uzbekistan, the basis for applying tariffs are prices quoted in the Import Price Bulletin of the State Customs Committee which are usually higher than declared import prices. The gap between the prices can vary from 10 to 30% making the import payments

much higher than expected. Due to these distortions, the nominal protection rate does not reflect the actual situation. Therefore, we calculated the actual rate of protection as the ratio of collected import tariff, VAT and excise tax payments to import value (based on the Import Price Bulletin) from the database of the State Customs Committee, considering the existing exemptions. The main input data are provided in Table 5. It is evident that the nominal protection rate differs from the actual protection rate significantly. We therefore used the actual protection rate as the current rate in order to see the actual changes in revenues from import duties after they are adjusted to the regional level. The expected protection rate is calculated as the sum of regional average import tariff rate plus VAT, with a 0% excise tax due to its nature of a discriminative practice. Import excise taxes are currently applied to product groups 32, 33, 34. We also assume the abolition of exemptions provided to certain companies. We used the same elasticities as in Scenario 1.

Table 5: Scenario 2: Input Data for the Partial Equilibrium Model

HS2 code	share in imports	Nominal protection rate (%)	Actual protection rate (%)	Expected protection rate (%)	change in protection rate (actual – expected)
28	8.21	15.1	15.2	15.1	-0.1
29	14.78	15.0	10.6	15.0	4.4
31	5.93	22.5	0.5	22.5	21.9
32	14.76	22.6	15.8	20.4	4.7
33	12.98	35.9	25.7	19.8	-5.9
34	6.82	32.2	24.0	20.3	-3.6
35	3.04	22.9	20.3	22.9	2.6
36	1.61	26.6	34.2	21.5	-12.8
37	0.58	16.7	13.4	16.7	3.3
38	31.29	16.8	8.2	16.8	8.6

Source: World Integrated Trade Solution, "SMART Simulation Tool.;" authors' calculations based on International Trade Centre, "ITC Aggregated Market Access Indicators.;" "Customs duty rates and import volumes," State Customs Committee of the Republic of Uzbekistan. Data set, 2019.

⁴² International Trade Centre, "ITC Trade Map."

⁴³ "On amendments and additions to the Resolution of the President of the Republic of Uzbekistan dated June 29, 2018 No. PP-3818 "On measures to further streamline foreign economic activity and improve the system of customs and tariff regulation of the Republic of Uzbekistan", " Norma, last modified 3 October 2019, https://static.norma.uz/official_texts/2019/%D0%9F%D0%9F-4470.pdf.

The results of Scenario 2 for individual groups of countries are shown in Table 6. The overall effect of an expected trade policy change on imports is negative which can be explained by greater negative effect of abolition of exemptions over comparatively smaller total effects of tariffs reduction, elimination of discriminating excise taxes for some product groups and using actual declared import prices instead of Import Price Bulletin prices. The CISFTA countries and the non-MFN, non-CISFTA non-WTO countries would experience the most negative effects, the

least negative impact would be on MFN countries; their imports would decrease by 10.7%, 12.4% and 6.1% respectively, although without any major changes in their import shares. WTO member countries (non-MFN, non-CISFTA) would benefit from the changes and their imports would rise. For these countries the positive effect of a decrease from double tariff rates to lowered tariff rates seem to be outweighing the negative effect of the exemptions abolition [41].

Table 6: Scenario 2: Import Changes for Individual Group of Countries

	Imports before accession		Imports after accession		Growth	Import change
	Million USD	Share (%)	Million USD	Share (%)	%	Million
USD						
MFN countries for Uzbekistan (47 countries)	754.7	69.8%	708.9	70.7%	-6.1%	-45.8
CISFTA countries (10 countries)	296.8	27.4%	265.1	26.4%	-10.7%	-31.7
Non-MFN non-CISFTA but member of WTO	10.8	1.0%	11.5	1.2%	7.1%	0.8
Non-MFN non-CISFTA non-WTO	19.5	1.8%	17.1	1.7%	-12.4%	-2.4
Total	1081.8	100.0%	1002.6	100.0%	-7.3%	-79.2

Source: Authors' calculations

Table 7 shows impacts on budget revenues, imports and consumer welfare for each product group. Budget revenues from import tariffs, VAT and 0% excise taxes increases by 20.8% for chemicals in general, but not evenly across product groups, in some cases the results are negative. Budget revenues as a whole increase because the effect of abolished exemptions outweighs

the reduced imports. In other words, the budget will receive import fees that were waived before. Significant decrease in imports is a consequence of abolishing the exemptions (imports became more expensive for importers) and pulls the consumer welfare to negative 7.58 million USD.

Table 7: Scenario 2: Expected Changes in Tariff Revenues, Imports and Consumer Welfare

HS2 code	change in budget revenues from tariff, VAT and excise tax		expected import change		change in consumer welfare (million USD)
	million USD	%	million USD	%	
28	-0.07	-0.5%	0.08	0.1%	0.01
29	5.52	32.6%	-10.12	-6.3%	-1.30
31	3.20	996.9%	-40.68	-63.4%	-3.15
32	5.79	24.0%	-6.49	-4.1%	-1.12
33	-6.88	-20.4%	6.09	4.3%	1.29
34	-1.20	-7.8%	1.75	2.4%	0.35
35	0.45	6.9%	-0.45	-1.4%	-0.09
36	-0.33	-10.2%	1.69	9.7%	0.28
37	0.16	18.6%	-0.28	-4.5%	-0.04
38	23.01	82.9%	-30.80	-9.1%	-3.80
Total	29.7	20.8%	-79.21	-7.3%	-7.58

Source: Authors' calculations

⁴⁴ National legislation database of the Republic of Uzbekistan, "The Customs Code of the Republic of Uzbekistan."⁴⁵ "ITC Aggregated Market Access Indicators," International Trade Centre, accessed 20 December 2020 <https://www.macmap.org/en/query/compare-market>.

⁴⁶ "Uruguay Round of Multilateral Trade Negotiations (1986-1994) - Annex 1 - Agreement on Subsidies and Countervailing Measures," WTO-GATT, accessed 11 March 2020, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A21994A1223%2814%29>.

⁴⁷ National legislation database of the Republic of Uzbekistan, "Law of the Republic of Uzbekistan on the State Budget of the Republic of Uzbekistan for 2020. Appendix 8. Rates of excise tax on excisable goods (services) produced (rendered) in the Republic of Uzbekistan.," Complete legislation of Uzbekistan, "Excise tax rates on excisable goods imported into the territory of the Republic of Uzbekistan."

⁴⁸ "Import Price Bulletin," Open Data Portal of the Republic of Uzbekistan, accessed 14 February 2021, [https://data.gov.uz/en/datasets/7.](https://data.gov.uz/en/datasets/7.;); State Customs Committee of the Republic of Uzbekistan, 2019

⁴⁹ Complete legislation of Uzbekistan, "Excise tax rates on excisable goods imported into the territory of the Republic of Uzbekistan."

The decrease in imports should normally result in lower budget revenues, but in our case the effect of exemptions abolishment is so great that it causes positive net change in budget revenues. With respect to the trade deficit, lower imports are considered favourable, although it reduces competition in the country's chemical industry. Scenario 2 demonstrates that import tariff reduction along with substantial trade policy changes can result in a net positive effect on the economy. Allee and Scalera or Dutt linked significant policy changes during the accession process to considerable benefits concerning trade flows. In our case, benefits of WTO accession in the short term would rather involve the elimination of trade distortions caused by discriminative measures. Scenario 2 is obviously the more realistic one because the WTO will expect Uzbekistan to abolish many practices used to help particular sectors and producers, as pointed out by Pomfret. Such process will be helpful in creating a fairer, market-oriented environment. Authors of the study on predicted consequences of the WTO accession for the ultra-protected automobile industry in Uzbekistan also conclude that removing state interventions (in this case a monopoly position of a major domestic car producer) will be beneficial and improve the competitive environment in the country.

Conclusions

Uzbekistan has set on a challenging journey of liberalizing its economy including the foreign trade. The impact of the first reforms on trade flows is already evident, reflected particularly in increased imports. The WTO accession process will require intense negotiations regarding not only tariff rates but also eliminating practices that do not comply with the WTO rules. The expected changes include reducing import-specific excise taxes to zero and abolishing exemptions for companies concerning import duties payments. In our paper we focused on the chemical industry trade and illustrated two situations. The first scenario involved only the reduction of tariff rates, the second one included also eliminating all discriminative practices in import creating unequal conditions. The two scenarios gave dissimilar results. While in the first case the outcome was negative in terms of budget revenues and slightly positive thanks to an insignificant increase in imports and consumer welfare, the second case had a different result. The budget revenues increased, mainly due to the abolition of exemptions, and imports dropped by 7.3%. Considering that Uzbekistan has been facing a negative trade balance in recent years, the reduction of the trade deficit is desirable. On the other hand, increased foreign competition would serve as a beneficial motivation for improving the obsolete production facilities. Increasing the technological competitiveness and productivity of Uzbekistan's chemical industry is crucial since the energy and material consumption of local production is high. The negatives, on the other hand, will be outweighed by creating a fairer, more competitive environment.

If Uzbekistan stays outside the WTO, discriminative practices and protectionist measures will remain and continue to distort

the economy. Removing these barriers will create fair, equal conditions for all market players. Considering these benefits, the WTO membership will undoubtedly contribute to Uzbekistan's liberalization efforts and help the country to become a full-blooded member of the global economic community.

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⁵⁰ Explanatory notes: Nominal protection rate includes: current tariff rates, VAT, import-specific excise taxes, no import duty payment exemptions, valuation method: invoice prices (declared prices); actual protection rate includes: current tariff rates, VAT, import-specific excise taxes, import duty payment exemptions, valuation method: Import Price Bulletin prices; expected protection rate includes: tariff rates – lowered to regional level, VAT, 0% import-specific excise tax, no import duty payment exemptions, valuation method: invoice prices (declared prices).

⁵¹ Allee, and Scalera, "The divergent effects of joining international organizations: Trade gains and the rigors of WTO accession," 243-76.

⁵² Dutt, "The WTO is not passé."

⁵³ Pomfret, "Uzbekistan and the World Trade Organization", 54–61.

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