

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Master's Thesis**

**Foreign Trade of Uzbekistan**

**Guzaloy Mirzaolimova**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## DIPLOMA THESIS ASSIGNMENT

Bc. Guzaloy Mirzaolimova

Economics and Management  
Economics and Management

Thesis title

**Foreign Trade of Uzbekistan**

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### Objectives of thesis

Objectives of thesis: The key goals of my thesis are to evaluate and analyze the foreign trade development of Uzbekistan. The study will consider the biggest trade partners, their role in foreign trade of Uzbekistan. It reviews current challenges and trends of the economic statement, and how it effects the inflation, GDP, unemployment. I will be mentioning also sabout the economic reforms which took place after the 2nd President Mirziyoyev, which a direct impact of foreign trade. The study will evaluate the Eurasian Economic Union (EEU) membership of Uzbekistan as well.

### Methodology

The information for my master thesis were obtained from the secondary data sources such as national books, academic articles, documents. Additionally, used internet databases, such as JSTOR, Science Direct, Google scholar. observation, analysis, synthesis, comparative and deduction.

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**The proposed extent of the thesis**

40-60 pages

**Keywords**

Foreign trade, Uzbekistan,

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**Recommended information sources**

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**Expected date of thesis defence**

2021/22 SS – FEM

**The Diploma Thesis Supervisor**

doc. Ing. Vladimír Krepl, CSc.

**Supervising department**

Department of Economics

Electronic approval: 7. 3. 2022

**prof. Ing. Miroslav Svatoš, CSc.**

Head of department

Electronic approval: 8. 3. 2022

**doc. Ing. Tomáš Šubrt, Ph.D.**

Dean

Prague on 30. 03. 2022

## **Declaration**

I declare that I have worked on my master's thesis titled "Foreign Trade of Uzbekistan" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the master's thesis, I declare that the thesis does not break any copyrights.

In Prague on 31.03.2022

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### **Acknowledgement**

I would like to show my appreciation to my supervisor, doc. Ing. Vladimír Krepl, CSc., for the huge support and guidance. It is this guidance and support that kept me on the right path to completing this thesis. My supervisor's knowledge and experienced helped me to share the following work so that it would contribute to scholarly and practical reasons both in my country Uzbekistan and other countries.

I also want to thank my parents for supporting me throughout my studies, without their help, I would not have achieved the things I accomplished to this day.

# Foreign Trade of Uzbekistan

## Abstract

Since gaining independence following the fall of the Soviet Union, Uzbekistan, a Central Asian country, has gone through a significant transformation from an agricultural country to a manufacturing country. Although natural resources such as gold, gas and uranium still accounts for majority of exports, the country has been developing its export structure in recent years. As the country faces number of obstacles on its path to improving its export potential, the question remains whether it should join the EAEU (Eurasian Economic Union), which could help regionally but could hinder its opportunities to join the WTO (World Trade Organizations). By joining both or either of them, the country could eliminate number of trade barriers including transportation and logistics costs, reduction or elimination of tariffs, entering new markets and so on. This study analysed the various scenarios how accession to organizations could help, and I suggest taking smaller steps, and research appropriately so that the government of Uzbekistan receives all the possible benefits without foregoing its interests. In addition, the findings also suggest that Uzbekistan can do number of things itself in order to expand business potential including skills development.

**Keywords:** Export, Import, Foreign Trade, WTO, EAEU, Central Asia, Covid-19, Russian Invasion of Ukraine 2022

# Zahraniční Obchod Uzbekistánů

## Abstrakt

Od získání nezávislosti po pádu Sovětského svazu prošel Uzbekistán, středoasijská země, významnou transformací ze zemědělské země na zemi zpracovatelskou. Přestože přírodní zdroje jako zlato, plyn a uran stále tvoří většinu exportu, země v posledních letech rozvíjí svou exportní strukturu. Vzhledem k tomu, že země na své cestě ke zlepšení svého exportního potenciálu čelí řadě překážek, zůstává otázkou, zda by měla vstoupit do EAEU (euroasijská hospodářská unie), která by mohla pomoci regionálně, ale mohla by bránit jejím možnostem vstoupit do WTO (World Trade Organizations). Spojením obou nebo jedné z nich by země mohla odstranit řadu obchodních překážek včetně nákladů na dopravu a logistiku, snížení nebo odstranění cel, vstup na nové trhy a tak dále. Tato studie analyzovala různé scénáře, jak by vstup do organizací mohl pomoci, a autor navrhuje podniknout menší kroky a provést vhodný výzkum, aby vláda Uzbekistánů získala všechny možné výhody, aniž by se vzdala svých zájmů. Kromě toho zjištění také naznačují, že Uzbekistán může udělat řadu věcí sám, aby rozšířil obchodní potenciál, včetně rozvoje dovedností.

**Klíčová slova:** Export, Import, Zahraniční obchod, WTO, EAEU, Střední Asie, Covid-19, Ruská invaze na Ukrajinu 2022

## Table of content

<b>1. Introduction</b> .....	9
<b>1.1 Research Purpose</b> .....	11
<b>1.2 Research Questions</b> .....	11
<b>2. Research Objectives and Methodology</b> .....	11
<b>2.1 Research Objectives</b> .....	11
<b>2.2 Research Methodology</b> .....	12
<b>3. Literature Review</b> .....	13
<b>3.1 Background</b> .....	13
<b>3.2 International trade volumes by target country</b> .....	22
<b>3.2.1 Import</b> .....	24
<b>3.3 Export volumes per region</b> .....	26
<b>3.4 Foreign Trade Turnover</b> .....	27
<b>3.4.1 Structural shifts in Foreign Trade</b> .....	28
<b>3.5 Uzbekistan and EAEU: False start for integration</b> .....	31
<b>3.6 Coronavirus Impact on Uzbek Economy</b> .....	32
<b>4. Practical Part</b> .....	35
<b>4.1 Econometric Modelling Export Performance</b> .....	38
<b>4.2 Calculating Income Index of Trading Partners</b> .....	40
<b>4.3 Export price index</b> .....	41
<b>4.4 Measuring of Real Effective Exchange Rates</b> .....	42
<b>4.5 Econometric Pre-requisites on Variables</b> .....	43
<b>4.6 Data Sources</b> .....	45
<b>4.7 Russian investment resources and technologies</b> .....	45
<b>4.8 Uzbekistan’s Path to WTO</b> .....	51
<b>5. Discussion and Analysis</b> .....	58
<b>5.1 The Impact of Russian Invasion upon Ukraine on the Economy of Uzbekistan</b> .....	58
<b>5.2 The Road to Growth</b> .....	62
<b>6. Conclusion</b> .....	67
<b>References</b> .....	69



## **1. Introduction**

Export and import take the biggest stake in GDP of countries throughout the world and this shows importance of international trade in today's interconnected world and it's also important to notice the fact that international trade has been the part of our history dating back to even early civilization. Developing countries should invest in gaining more broad knowledge in how export and import works. If these countries are committed to economic independence and growth, then it is crucial to be able to evaluate current trends and make clear forecast.

To build stable national economy in the developing country, trade regulations and standards has to be properly established according to foreign relation and globalization standards. Asian region is accepting Uzbekistan as another emerging key participant of international trade.

President declared new measures to promote and provide necessary help to increase export potential of the country in late December of 2018. (Abdurakhmanov, et al., 2016) According to the decree, economy modernization pace is still over pacing foreign trade and export growth and this statistics comes from effectiveness measures of changes.

It's actually systematic problems and drawbacks that hampers industries which has big potential to have high export volumes. There are big variety of raw materials and potential to manufacture value added raw materials with current strong labour resources, but none of them are used to full potential.

Developing countries' structural change for the most part depends on growth of export volumes (Chow, 1990). Country's potential for export has been studied thoroughly and there are already quite large research papers concerning the topic. Relative export prices, exchange rate policy, and incentives in export were the main research areas of researchers of the region and the country at macro level. (Choudhury, 2001) Net export's quantity is evaluated according to how exchange rate of domestic currency works, and this theory is classical economic one. Export performance of a country also depend on export structure according to Russian economists (Gaponenko, 2013). Firms has to take marketing, labour forces, production unit, financial labour as important factors which has direct impact to export potential. Focusing only on firms exporting their goods, researchers limited their studies on micro level and not committing to how as wide as region is succeeding in export (Sapir et al, 2016). Projected market shares captured exporting region's potential to distribute existing products and this is according to export potential methodology suggested by International Trade Centre. Hausmann and Hidalgo's product space concept suggests to rely on assessment of new products being listed in the export products at the same time and this is how new products are diversified (African Union Commission, 2008)

Export performance assessment methodology, potential, and many other aspects of export performance were focus areas of previously held research on export performance evaluation and performance itself. Cross-sectional data were used as main determinants of Uzbekistan's export performance. Empirical results are new addition to such research as this has never done before in context of Uzbekistan's export performance. At the same time, Uzbekistan's export performance should be studied thoroughly as no concrete picture is developed about how export performance should be in the region.

### **1.1 Research Purpose**

This paper focuses on international trade of Uzbekistan. Specifically, exchange rate, domestic demand for exported goods which are often referred as internal determinants of international trade and external determinants such as world prices for exported goods, income levels in trading partner.

### **1.2 Research Questions**

According to what aspects do Uzbekistan's export and import performance is evaluated?

## **2. Research Objectives and Methodology**

### **2.1 Research Objectives**

1. To evaluate the extent of export or import will be impacted according to external and internal determinants.
2. To establish export's econometric framework and the same framework to export determinants.
3. To find economic factors such as internal and external which has direct effect on country's export and import potential.

4. To discuss export services of Uzbekistan, changes in exports, and key products export.

Export economy is facing global financial crisis and above listed objectives stress out the effects of this crisis. At the end of the paper, proper Uzbek model for export performance is suggested. Furthermore, interpretations on key exported products and services and how they change over time and economic estimations for export potential will be also cited in this research.

## **2.2 Research Methodology**

Throughout this research project, the combination of qualitative and quantitative methods were used by me. The quantitative research method mainly used the core aspect of empirical hypothesis test. While the following research's nature is mainly developed through collecting and analysing numerical data, qualitative methods also were used to enrich the overall analysis. I collected the data for this research from The data for the analysis is obtained from official statistical bases of the Republic of Uzbekistan (Statistics Committee of the Republic of Uzbekistan, Ministry of Economy and Poverty Reduction, Ministry of Finance, Ministry of Foreign Trade) as well as those of International Financial Institutions (e.g. World Bank, International Monetary Fund,). In order to ensure the data's reliability, I mirror compared the data from various independent sources. To make sure that the results are precise, I used various empirical, econometric and statistical analysis. In addition, it was controlled the sampling period so that findings' robustness was checked.

### **3. Literature Review**

#### **3.1 Background**

Economic development process requires trade flow to be at the centre stage. Special emphasis in trade flow should be dedicated to export. With economic growth intensification, foreign exchange, competitiveness and modernization, exports play an important role in economy of developing countries. Transmission channels encourage long term economic growth while many believed export ensures only increased short term economic performance. New investment opportunities for the region and increased production levels are guaranteed if once export is supported according to Goldstein and Khan (1982). Bigger export size means marginal propensity to save according to Maizels (1968). Depending on export capacity, investment attractiveness of the country varies according to Villanueva (1993). The difference between low-income country and high-income country is how engaged they are to export practices. Along with advanced technologies, export aspect of the economy is the main determinant of how committed the countries are for modernization according to Khang (1968), Bardhan and Lewis (1970).

Global economy link of the country is what export usually referred to as such channel to international trade is very few. Through this channel, the country feels the impact of trends in global economy in country's economy. Financial channels were the initial aspects that impacted the country when World Financial Crisis in 2009 hit the global trade. Many countries encountered impact of the crisis through trade channels either at the beginning or later in the process depending on how connected the countries are to the global finance while countries with mostly isolated financial system didn't feel much of impact in the first phase of the crisis. Bigger challenge hit countries such as Kazakhstan, Russia, and etc. which didn't diversify its export potential at the time. (Egamberdiyev & Daniyarova, 2017)

Uzbek businesses and the economy overall impacted by downturn in export commodity and the negative effect is linked with profit decrease. Taking national economic features into account, the Anti-Crisis Program for 2009-2012 was designed to ease the negative impact of the global economy. (Blaug, 1986) Program's main focus areas were organizing incentives for export practices, support exporters in solving their problems with their practices, opening new opportunities to enhance competitiveness of exporters in international trade. Various literatures indicated effectiveness of the program, but the effect could not be extended to Uzbekistan's position in export in global scale and the crisis still effected negatively to export practices of the country. Uzbekistan boasted with stable dynamic performance in its financial system even during global crisis, but what the country's economy didn't favour was trade channels being only option for transmission. Negative trends were not seen, but export growth rate decreased at fast pace (State Statistics Office of Uzbekistan, 2012).

Developing countries saw new opportunities created due to global financial crisis while many other countries felt only negative impact. Public spending directed to job creation at communities increased drastically both in developing and developed countries. Positive outcomes of such policy in short term indicated effectiveness only in short term, while consequences in long term were not considered by the governmental bodies before applying the policy. In words of Soros (2009), long term consequences do not always follow short term results. Modernization process escalated as equipment and machineries had to be sold for much less of a price. Short term objectives were not favoured by the Uzbek government as many other countries. Instead, competitiveness of the economy was increased through modernization and enhancement practices.

Both developing and developed countries were involved in empirical estimation of export determinants and finding such determinants in big number of studies carried out. It is important to note that both macro and micro levels were covered in all research.

Two the most important factors such as technological intensity and regional integration were chosen by Barrell and Pomerantz (2008) to do the modelling exports and estimating it and quarterly panel data for 1978Q1-2004Q4 was source. Export variations in countries is not best explained taking competitive factors such as export variety, but instead technological adaptation impacts and trade liberalization impact could present more meaning to the topic. To actually feel the globalization, above mentioned two impacts encourage countries to join global trade agreements and several other regional ones as well.

According to empirical literature, variations in export mostly depend on income factors and price factors. Volume of total foreign trade activities, relative income, exchange rates, and export prices were the factors that Hooper et al (2000) analysed G-7 countries' short term and long-term elasticities and the model used for quantification was error-correction model. Not considering the USA, all other countries reached more than unity in terms of long-run income elasticities during 1950 and 1998. (Chan-Olsmsted, et al., 2008) G-7 countries' economic significance and statistical significance showed export tendency of these countries, and this is how income is referred in a region G-7 countries do trade. Whether it be short run or long one, in both cases Germany and France were not listed among the other five countries where international price for exported goods and export growth has considerable relationship. Looking at foreign income and price level in Japan, export levels seems unwilling to vary if comparison of previous data to this day. (Hooper et al, 2000). The theory doesn't follow the findings of Barrell and Pomerantz (2008). Neither world prices nor income levels' change

define export situation of Japan (Hooper, 2000). Such findings do not follow what Barrell and Pomerantz (2008) has to follow.

Additionally, a study carried out by Montenegro and Senhadji (1999), used the export model constructed for over 70 developed and developing economies between the period of 1960 and 1993. When these countries are evaluated, elasticities of exports relative to income of partners and price equalled average of 1.5 and -1 respectively. The exports' unity price responsiveness matched the outcomes taken from the study of Pomerantz and Barrell (2008), as well as Pain and Barrell (1997). The study also indicated that African economies' exports had income elasticities that are lower compared to countries in Asia with higher elasticities due to the differences in trading partners' income levels. While the model's parameters are established by Montenegro and Senhadji (1999) possess statistical properties with satisfying nature, the conclusions could be biased because the above-mentioned scholars utilized time series data that is non-stationary.

Another study that focused on a developing country, where Rafayet (2010) investigated if exchange rate changes somehow influenced the export tendencies' change in the country of Bangladesh. Rafayet utilized exchange rate that is real effective and real exchange rate itself for considering the countries' price movements and summarized that the country's exports and exchange rates had no co-integration among them. It is also calculated the real exchange rate using the price levels in the US and Bangladesh. The reason behind this strategy is the fact that currency of Bangladesh is pegged to United States dollar. Meanwhile, Rafayet calculated the real effective exchange rate based upon Bangladesh's trading partners' price levels, instead of just the US.

On the other hand, Argentinean export changes were assessed by Streb (2005) in terms of exchange rate changes, income of partners and prices of exports with the utilization of quarterly



data in the period of 1990 and 2003. (Fan, et al., 2015) The results showed that the countries' income levels reflect upon the response changes of exports (in the case of Argentina, prices change less than imports), while no statistically significant expected properties are provided by the exchange rates. The results of the study also confirms the Argentina exports' income elasticities and price being at 1.28 and -0.24, which is similar to the previous study by Montenegro and Senhadji. One clear explanation would be the financial integration of the economy of Argentina being limited when it comes to world financial markets, which means that country's economic growth significantly depends on exports' contribution. Hence, an economic slowdown around the world like the one the world economy faced when the COVID-19 pandemic occurred, has a large-scale negative effect on the country's potential economic trends.

On the other part of the world, a study was carried out to assess the economic-political factors' effects on Iran's non-oil exports, relying on data between 1995 and 2005. (Rastegari et. al, 2008). It is no secret that Iranian economy highly depends on the exports of oil, which means that it is very much exposed to various risks which may be linked to world oil prices' decrease. This research concluded that various factors play a major role in the non-oil exports of Iran including population increase, country's trading partners' price levels and income per capita. At the same time, social-political instability and exchange rates also significantly hindered the export tendencies of Iran in the long-term. With Iran being a price taker and small nation of the world economy, the above-mentioned factors are external exogenous variable of the export model.

In a level that is industrious, the strategy of export promotion, also known as competitiveness, was examined as the factor influencing Malaysian furniture industry's export performance, and the study found no direct and statistical correlation. (Sidin and Abdul-Adis, 2008). The

conclusions from the study was industry-specific, and were similar to the ones came to of Akehurst and Akyol (2003), Julian (2003) and Pomerantz and Barrell (2008). However, these findings were opposite of the ones by Swinyard et. al (1999) and Dau and Thirkell (1998), who highlighted the export strategy's strong positive relationship with export performance of manufacturers in Singapore.

Another important factor is demand function, which has been studied by Koc and Dellal (2003) in terms of Turkish apricot industry between 1973 and 2001, the period when the country's apricot production and export numbers were the highest around the globe. In this case, there was a -0.71 price elasticity estimation, and population's real income increased, with exports stimulated due to Turkey's trading partners increasing in numbers. One major feature that distinguishes the study from other projects is that included apricot and crop production on top of the apricot's domestic consumption as crucial attributes that determine the export volumes. In addition, the apricot production increase was economically and statistically significant factor in improving the Turkey's apricot exports. (Sakal, 2017) Since the prices remained relatively unchanged during the period, if the domestic consumption increased by one percent, the apricot exports decreased by 0.54%. Similarly, when India's rates of export growth were studied by Sharma (2000), the domestic demand factor's negative influence was confirmed.

When Southeaster and Eastern Asian nations such as Taipei, Thailand, Singapore, South Korea, Philipppines, Malaysia, Indonesia, Hong Kong and China were evaluated in terms of export determinants' identification and evaluation at a macro level, the period of 1990 and 2006 were studied. In this study, main product compositions of exports were investigated, with that, there is a conclusion that exports' increasing diversification, which deeper vertical integration reflects, led to the association among exports and exchange rates becoming weaker within the time period taken.

It was mentioned earlier that Kohet et. al (1999), Montenegro and Senhadji (1999) and Streb (2005) focused primarily upon external factors that stressed out and confirmed the statistical relationship to be strong among export performance and them. On the other hand, Jongwanich (2007) concluded that supply side or internal factors are found to be more crucial to determine trends of export when countries in Asia were studied. To support the conclusions of Jogwanich, the findings of Fugazza (2004), who evaluated Middle Eastern and African countries and Chan Olmstedet et. al (2008), who investigated US industries, can be given as examples.

With the help of globalization, the competition among the international export markets have only continued to get fiercer. More and more nations are focused on capturing larger market shares through their export operations. One clear example was analysed by Robertson and Hanson (2007) that focused on the Chinese exports and economy's explosive growth and how it affected 10 developing countries' exports in a major way including Thailand, Sri Lanka, Romania, Poland, the Philippines, Pakistan, Mexico, Malaysia and Hungary. With many of them having at least 75% of their products manufactured by Chinese companies, utilized the trade's gravity model between the years of 1996 and 2003. (IMF, 2011) The employed the gravity model that relied on countries trading between them depending on the geographical distance that kept them apart. The study found that in case if there was a constant Chinese export growth, those ten developing economies' exports would not be higher than 1.4% during that period. The summary of the study indicates that an external shock in the form of Chinese exports have somewhat insignificant role in developing countries' exports.

Further examples can be seen in the study of Croatia that analysed the developing country's exports, which utilized the information available for the period of 1990 and 1993. (Mervar, 2009). In this study, it is used the model of imperfect-substitutes that assumed that products from abroad could not be perfect export substitutes. The exports from Croatia were calculated

against OECD income, exported products' prices and exports prices in terms of imports and importing countries. The study claimed that there would be 0.41% or 1.73% increase of exports from Croatia in the case where national currency depreciates or income levels increase, respectively, which is taken on average (IMF, 2011). Mervar highlighted the irrelevancy of price factors when it comes to explaining the country's export performance, cannot be supported by other literature discussed in earlier sections such as Sharma (2000).

Moreover, when the export equations were estimated in Fiji, Singh and Rao (2005) asserted that the role of relative price levels is significant and important when it comes to export growth rates, whereby the study utilized the Johansen's and Philip-Hansen's co-integration techniques. This showed criticism towards the findings of Chan-Olmstedet and Montenegro and Senhadji as they did not include exchange rates when relative price's effects were not estimated on state and exports, as the following move could lead to overestimation of income's effects on exports. Singh and Rao's findings are similar to Rafayet and Jongwanich's that focused upon developing countries, and asserts that more statistical and significantly higher impact of income upon export can be seen compared to price factors when it comes to Fiji's economy.

One could hardly find anyone who is not aware of the global financial crisis of 2009, where developing and developed countries' exports shrank. Number of studies including the ones of Thomas (2009), as well as Stephenson and Hugbauer (2009) calculated and investigated the 2008 financial crisis's effects on emerging countries' trade performance. The latter study's summary indicates that global financial crisis's effects can be witnessed on developing countries' exports through income levels dropping enormously because of export prices and trading partners' financial situations. The above-mentioned two demand-sided and external factors' downturn caused India and China's exports to decrease by 33% on average. The results

are similar to those found by the African Unions Commission that reported on 24 countries in Asia both as a whole and as individually.

A study calculated the relationship that is concurrent among domestic crisis among banks, net private capital inflows and exports as factors that demonstrate the impact of financial crisis upon developing economies' trade. The conclusions of the study assert that local banking crisis that is apprehensive would lead to exports decrease along with the influence of zero net capital inflow, by 5% or less. (Hidirov, 2020) And this number is not enough as per the suggestions of global financial crisis's current anecdotal evidence.

As per the suggestions of Gosh et. al (2005), lagged exports' estimated coefficient (0.89 and 0.85), as were al net capital private inflow (1.27 and 1.48) were important for non-oil commodities and manufacturers, respectively. In the meantime, Sharma (2000) estimated capital inflows as exports' determinants when it comes to the economy of India, which could not provide a statistically significant return, but yielded expected results – a positive sign. Nevertheless, various suggested theories highlight the exporting firms' performance being improved with foreign direct investments (FDI), while exporting countries' competitiveness increases and exports are diversified. Additionally, the study by Fugazza (2004) already highlighted the FDI's credible and positive impact on the entire export performance when 84 countries were analysed.

Much like Sharma (2000 that focused on India's export growth rates, a Pakistani study by Mohammad (2010) discussed the theoretical expectations upon macro-monetary factors' adverse impacts including but not limited to national currencies' appreciation and price levels upon export performance of two respective countries. In addition, another study focused on 24 countries in Asia, where their currencies' depreciation was found to be promoting their exports' competitiveness while boosting the growth rates of their exports.

It was mentioned in earlier sections that the following thesis is focused upon foreign trade of Uzbekistan, in which exports play a crucial role, and analyses the export of Uzbekistan, considering products such as services, energy and cotton. This means that it will move on to discussing more relevant literature to exports in Uzbekistan as target subject. In order to keep it on track on discussing the most relevant information, it is decided to use the example of study conducted by Somwaru et. al (2008) where they analysed the agricultural products' exports in the US. Somwaru et al. employed accessible and simple calculation of weighted income for generation of income index of trading partners. Therefore, one would calculate the income index as trading partner's weighted real GDP total, meaning that if this index increases by 1% annually, agricultural products' exports also increase by 0.75%. Their study summarized that dollar's depreciation and its empirically significant impact upon exports of agricultural products (exchange rate that is really effective): Depreciation by 1% would lead to 0.5% increase in exports. In the meantime, Canavan et. al (2002) reported that when it comes to US made IT products, there was a lower impact upon exports (0.012%) even though the exchange rate changed similarly. Thus, one can conclude from the findings above that products' exports, especially the ones that are raw products, highly substitutable and have low diversity, are likely be very sensitive towards exports determinants.

### **3.2 International trade volumes by target country**

The data available in public resources indicate that Uzbekistan's foreign trade turnover information should be evaluated in terms of the last five years' import and export numbers, hence, the analysed the data for the period of 2015-2020, with table 1 representing Uzbekistan's export information for the period. The table demonstrates that each year, the export volumes continued to increase. For instance, Uzbekistan exported goods in the amount of around \$9.5

billion, while by 2019, the amount increased to \$14 billion, which one can deduce that 50% increase compared to the period's start. (Khalmurzaev, 2000)

The table also illustrates that Russia remains as the biggest trade partner of Uzbekistan, with Uzbekistan exporting 15% of its goods to Russia in 2019, with that number being 12% between January and April 2020. In addition, China was the second biggest trade partner of Uzbekistan, with 13% of exports going to the country in 2019, and 9% in the first four months of 2020. China is followed by Kazakhstan, the third biggest trade partner of Uzbekistan, with Uzbekistan exporting goods to the country at \$1.24 million in 2019 alone. (Khalmurzaev, 2000)

**Table 1. Trade partner of Uzbekistan between 2015 and 2020.**

<b>Countries</b>	<b>2015 year</b>	<b>2016 year</b>	<b>2017 year</b>	<b>2018 year</b>	<b>2019 year</b>	<b>Jan-Apr 2020 year</b>
Afghanistan	371 670,8	416 079,5	507 912,2	467 087,1	455 608,1	168 056,1
Bangladesh	130 986,4	86 105,6	50 542,0	37 828,4	1 628,8	10 008,6
China	1 922 871,3	1 401 800,1	1 590 493,5	2 165 190,7	1 825 682,2	318 309,2
Georgia	77 218,4	61 799,9	61 916,0	8 748,4	17 354,8	5 099,2
Iran	309 282,5	341 794,1	258 298,1	164 374,4	208 514,9	45 108,1
Kazakhstan	1 791 561,8	876 602,2	991 308,9	1 242 846,4	1 256 533,6	181 421,6
South Korea	69 596,7	90 230,9	45 857,2	33 619,9	43 473,5	8 439,8
Kyrgyzstan	89 771,2	114 141,5	169 096,1	252 771,6	645 869,5	174 779,2
Russia	1 236 175,4	1 237 401,8	1 527 346,6	1 636 827,7	2 071 685,6	435 284,7
Singapore	64 653,1	57 463,0	56 273,1	54 708,0	26 981,0	11 651,5
Tajikistan	6 380,1	43 395,2	75 347,6	141 466,9	204 719,7	92 133,9
Turkey	758 798,6	654 258,3	833 514,5	865 828,3	1 157 666,6	310 860,7

Turkmenistan	66 798,1	55 829,0	53 177,3	35 336,8	52 853,9	17 350,2
Ukraine	60 877,1	46 874,3	99 770,8	92 705,1	113 671,8	29 543,4
UAE	26 281,8	44 705,5	27 016,5	31 052,4	119 686,1	29 339,3
The United Kingdom	12 231,7	15 840,4	21 714,0	134 265,2	55 702,5	1 164,4
USA	3 484,7	28 144,6	7 954,3	4 816,3	6 806,1	2 188,2
	2 447	3 401	4 014	3 551	5 759	1 826
Others	702,8	538,6	034,7	226,1	400,7	833,6
	9 446	8 974	10 391	10 920	14 023	3 667
Total	342,5	004,5	573,4	699,7	839,4	571,7

Source: Statistics Committee of Republic of Uzbekistan (2021)

### 3.2.1 Import

The second important attribute in international trade is import, and the illustration of the information on Uzbekistan's import numbers for the same period are given in the table 2 below.

It should be noted that the import of goods continued to increase as well during the said period.

In 2015, goods were imported into Uzbekistan for \$11.46 billion, with that number increasing almost twice by 2019, \$21.8 billion. In the first four months of 2020, Uzbekistan imported goods in the amount of \$5.8 billion, which is \$633,000 less than compared to 2019, which can be attributed to Covid-19 pandemic that crippled the economy. (Khotamov & Ismoilov, 2020)

If one were to take a look at the import numbers, main trade partners remain almost the same between 2015-2020. Uzbekistan mainly imports metals, food, chemical products, equipment and machinery. The main trade partners of Uzbekistan in terms of import is Kazakhstan, Germany, China, South Korea and Russian Federation. For instance, in 2015, quarter of Uzbekistan's imports was from China, and that number remained the same in the first four months of 2020, with a slight decrease to 23% of the total imports. (N., 2017) In terms of import operations, by 2020, Russia was stable in its second place, while it was the biggest trade partner in 2015. Uzbekistan imported around \$2.49 billion worth of goods from Russia in 2015, but that number decreased to \$1.25 billion by January-April of 2020. (Abdurakhmanov, et al.,



2016) South Korea was the third biggest trade partner of Uzbekistan in terms of import, and the country imported goods from South Korea to Uzbekistan a little of \$724,000, which equals to 12% of the import goods of the country in these five years. (Akhmedov & Smolik, 2019)

**Table 2. Trade Partners of Uzbekistan (Import) between 2015 and 2020.**

Countries	2015 year	2016 year	2017 year	2018 year	2019 year	Jan-Apr 2020 year
Austria	66 859,4	92 767,8	53 005,9	100 266,5	119 564,0	26 451,5
Belarus	87 251,8	91 837,8	152 126,1	373 361,6	279 600,0	62 990,6
Brazilia	314 843,2	355 012,8	320 922,2	50 725,1	115 503,8	39 414,5
China	2 227 037,5	2 234 226,2	2 700 637,7	3 539 507,1	5 052 445,2	1 280 533,0
France	148 550,9	143 954,6	102 669,5	110 454,3	133 559,5	39 181,8
Germany	474 555,9	480 876,7	574 076,3	699 813,6	884 337,9	172 899,5

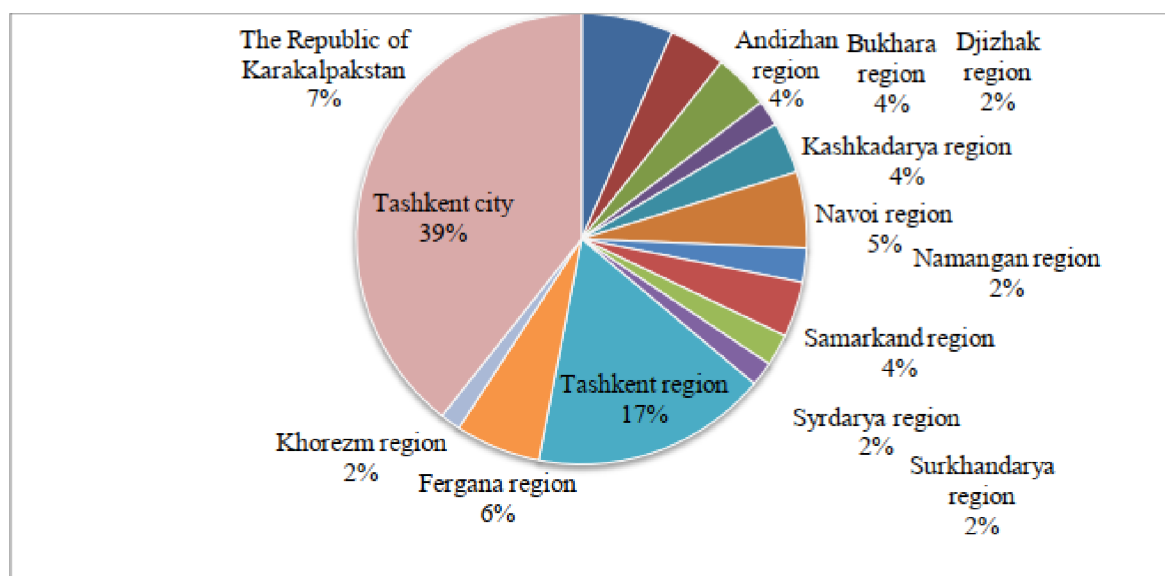
India	251 107,0	308 506,7	282 033,5	252 030,3	319 153,7	86 545,1
Italy	149 627,6	160 507,6	147 849,6	267 408,4	364 386,3	104 313,5
Japan	241 710,1	238 794,9	140 856,2	683 604,6	381 285,0	49 849,7
Kazakhstan	831 387,8	935 533,4	975 266,8	1 543 659,5	1 909 160,6	657 647,6
South Korea	1 406 069,7	807 131,4	1 156 709,6	1 936 163,8	2 524 586,3	724 862,0
Lithuania	263 454,3	277 223,6	257 748,7	276 608,9	441 930,9	127 768,4
Russia	2 487 494,0	2 274 517,3	2 564 168,2	3 382 849,3	3 974 424,4	1 247 201,8
Turkey	401 187,6	475 406,3	594 485,3	1 096 822,9	1 296 532,5	274 130,9
Turkmenistan	211 970,7	127 209,8	105 423,2	239 274,4	404 647,9	119 804,4
Ukraine	266 957,7	202 345,7	182 951,6	326 246,1	263 899,3	87 081,1
USA	194 704,1	388 790,1	148 711,7	314 243,9	498 072,6	75 350,8
Others	1 437 770,7	1 733 764,4	1 575 567,0	2 119 218,6	2 903 364,8	5 884 708 531,6
<b>Total</b>	<b>11 462 540,0</b>	<b>11 328 407,0</b>	<b>12 035 209,3</b>	<b>17 312 259,0</b>	<b>21 866 454,7</b>	<b>5 884 558,1</b>

Source: Statistics Committee of Republic of Uzbekistan (2021)

### 3.3 Export volumes per region

One can also take a look at the contribution of local regions into the country's overall economy, with analysis of region-by export volumes being carried out. Of the total export of the country, around 40% is attributed to Tashkent, the capital city of Uzbekistan, while nearby surrounding Tashkent region also equalling 15% of the total. (Boymurodov, 2017) When it comes to regions such as Navoi, Ferghana and The Republic of Kazakhstan, they had 5%, 6% and 7% of the total exports. In the meantime, Samarkand, Kashkadarya and Andijan each had the share of 4% of the total export volumes, meaning that the remaining regions did not contribute as much in terms of exports. (Egamberdiyev & Daniyarova, 2017)

**Figure 1. Share of regions in total export of Uzbekistan in 2020.**

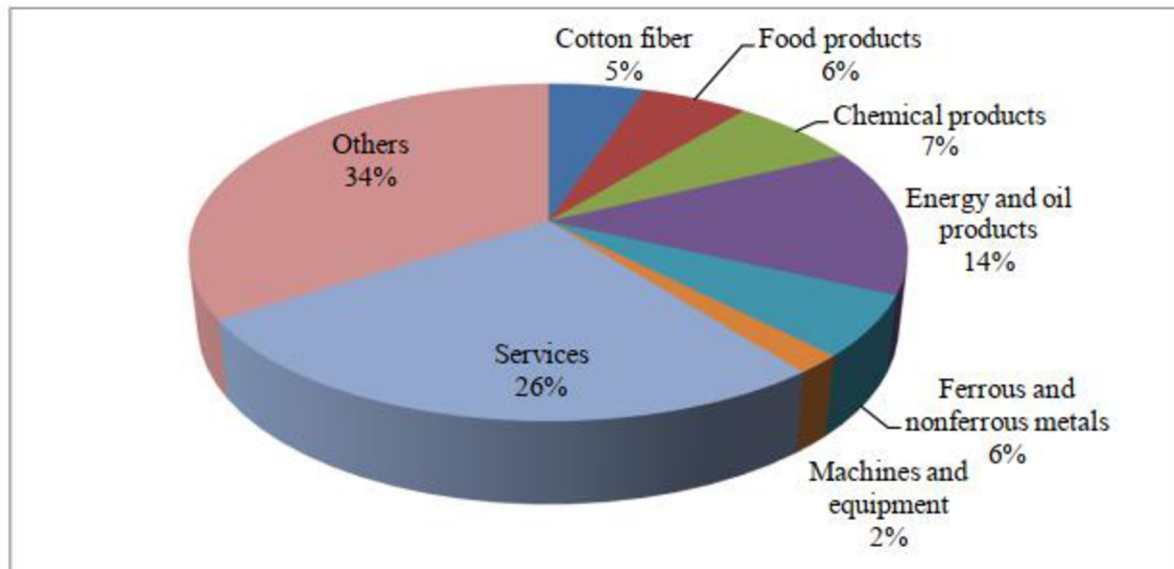


Source: Statistics Committee of the Republic of Uzbekistan (2021).

When it comes to Figure 2, Uzbekistan's energy production and service make up largest portion of exports. Uzbekistan exported chemical products, food products and metal products and cotton fiber products, which make up the shares of the total export in the range between 5-7%.

Very little portion of the export can be attributed to exporting equipment and machines at around 2%. (Akbarov, 2016)

**Figure 2. The Structure of Export of Uzbekistan in 2020 (in percentages)**



Source: Statistics Committee of the Republic of Uzbekistan (2021).

### 3.4 Foreign Trade Turnover

As per the numbers of Ministry of Foreign Trade of the Republic of Uzbekistan, I compiled the export, import and foreign trade turnover indicators in the diagram given below for the period of 2014-2019. (Sirazhiddinov, 2004) It is evident from Figure 3 that in the entire period, foreign trade turnover has been on a growing trend. For the year of 2014, the foreign trade indicator reached around \$28 billion, while by 2019, that number increased to \$41 billion. One can also notice that between 2014 and 2016, the import and export numbers were similar, but the difference between them started to grow as Uzbekistan started importing more than exporting by 2017. (Sayfullaev, 2016) The experts would consider as a negative deficit.

**Figure 3. Foreign Trade Turnover of Uzbekistan**



Source: Ministry of International Trade of the Republic of Uzbekistan. (2020)

### 3.4.1 Structural shifts in Foreign Trade

If before 2000, the raw materials export made up the largest portion of Uzbekistan’s economy, the years after that saw a transformation, whereby Uzbekistan started exporting products of high value-added. These include but not limited to vegetable, fruit, chemicals, machine-building and textile products which saw a significant increase. At the same time, cotton fiber, which has been the biggest good to be exported from Uzbekistan started to decrease in the amount.

**Table 3. Dynamics of the export structure of the Republic of Uzbekistan (mln. dollars)**

<b>Structure</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2019</b>
Cotton fiber	897,1	1 033,3	1 572,7	736,1	222,1
Foodstuffs	176,4	206,1	1 260,5	1 316,4	1097,7
Chemical products and products from it	93,4	285,0	661,3	613,0	904,6
Energy and petroleum products	335,2	623,0	2 973,8	2 685,2	2666,2
Ferrous and non-ferrous metals	216,7	499,9	894,4	824,2	1167,1
cars and equipment	111,8	452,8	715,4	159,3	214,1
Services	449,1	659,3	1 335,5	3 061,3	3029,9
Gold	554,2	1 164,7	2 618,1	1 920,6	2909,5
Textile Products	235,6	203,5	637,2	883,7	1603,1
Other	195,2	281,2	354,5	307,8	439,6

Source: Ministry of International Trade of the Republic of Uzbekistan. (2020)

Ministry of Economy of the Republic of Uzbekistan released a statement where export of Uzbekistan highly relies on low-added value resource products making up large chunk of exports including gold at 30%, and overall 62% of the total. (Ziyadullaev & Ziyadullaev, 2020) In addition, 6.2 tons of gold was sold by the Central Bank of Uzbekistan, which made the country's one of the top sellers in the world gold market. There has also been a growing trend of previous metal export, as well as energy carriers such as oil and natural gas products, trucks and cars, minibuses and equipment. Similar to the information provided by the Ministry of Foreign Trade, Ministry of Economy highlighted the sharp decrease of cotton exports in Uzbekistan, but between 1991 and 2019, the cotton fiber's domestic processing increased from 7% to 60% respectively. (Ziyadullaev & Ziyadullaev, 2017)

Since the change of the leadership of the country (Mirziyoyev replacing Karimov), the government has been pushing for the processing of crops inside the country, and exporting high value-added products such as textiles. The numbers indicate that textile product export reached around 2 billion USD in 2020, with that number expected to grow by 6 billion US by 2025.

(Azam, 2018) As aforementioned, Russia remains the biggest trade partner of Uzbekistan, with around 36.85% of textile exports going to Russia, 26.9% of textiles exports going to China and around 11.8% going to Turkey.

One should also note that with the help of the government, local companies have started to expand their potential, as they develop new markets for exporting vegetables and fruits such as dried fruits and vegetables, legumes, melons, grapes and so on. For example, Uzbekistan exported over 180 kinds of agricultural products to 80 countries all around the globe, which makes up around 20% of the total exports in the country. (Egamberdiyev & Daniyarova, 2017)

Nevertheless, one can notice that industry products' imports has a structural distortion. It is clear that machinery and equipment make up around 42.5% of the imports total, while chemical products and goods made from chemical products account for 13.1%, non-ferrous and ferrous metals make up around 9.1% of the total along with wood and cement. (Ibragimov, 2009) Hence, one can deduce that Uzbekistan must continue developing its local industrial base. Subsequent development logic would point to the need of domestic processing being gradually developed. Consequently, the country would be needing substantial financial resources both from outside and internal sources. Additionally, one can also see that balance of payments have been negative lately, with the evidence being exports being far less in terms of value compared to imports, meaning that additional resources would have to be constantly attracted through investments and credit.

When the country's present counterparties and export flows are properly analysed, Uzbekistan exports mainly to its neighbours (Central Asian countries) and Russian Federation 46% and 40% respectively of the total, making post-Soviet space the biggest contributor to the economy of the country. Uzbekistan should keep trade preferences inside the FTA multilateral framework within the Commonwealth of Independent States (CIS), creating number of

opportunities to strengthen the post-Soviet Eurasian space's cohesion. (Nazarova & Kurbaniyazov, 2014) The following strategy would increase the economic cooperation's efficiency significantly, as well as CIS multilevel integration processes' integration, paving the way for Eurasian Economic Union.

One should mention that in the near future, Eurasian integration development will be conducted within a world economy that is turbulent. Experts believe that EU and the United States is expected to continue exerting pressure on China and Russia, with the former continuing its advances on the Central Asian economy. Consequently, the Russian Federation must continue expanding political and economic cooperation with countries in EAEU and CIS. (Saidova, 2020)

When it comes to EAEU countries, Uzbekistan's total trade turnover for the period of 2016 and 2019 increased by around 60% because of bilateral agreements, amounting to 11.2 billion USD, which makes up foreign trade's 30%. In addition, the exports of Uzbekistan to countries in the EAEU equalled 4.65 billion USD, a growth of 22.9%, and imported goods for 6.51 billion USD, a growth of 15.8%. (Vakulchuk & Irnazarov, 2014) Here, it should be mentioned that Russia takes up over half of foreign trade of Uzbekistan with 59.4% in 2019. These numbers illustrates the importance of the expansion potential of the Republic of Uzbekistan with countries in the EAEU.

### **3.5 Uzbekistan and EAEU: False start for integration**

While different economic experts have varying opinions in terms of accession of Uzbekistan into the EAEU, the Uzbek government has highlighted but has not practically considered the accession even after the leadership change in 2019. To this day, the country's integration strategy and foreign trade with these countries have been mostly discussed in theory, but not publicly pursued the potential.

It is true that the country's accession with the population reaching 35 million has been considered a necessary geostrategic position in terms of Eurasian map, with modernization plans being large-scale and Uzbekistan becoming a significant player in the EAEU market that unites over 200 million people. (Abdurakhmanov, et al., 2016) Meanwhile, the organization may face various serious challenges if Uzbekistan joins the EAEU as it will be the first case of major economy within the region entering the organization. The association's both sides would have to face serious transformations and efforts, making it a big test for Uzbekistan and the EAEU, but the country's accession should be a positive influence over Eurasian integration being in the stagnant process recently.

Balash, who is known to be one of the key promoters of economic integration theory has expressed his opinion that if an integration process takes place, number of stages should go successfully, and all participants of the integration would face multiplier effect. If one were to understand the problem more thoroughly, any cooperation and interaction among the EAEU and Uzbekistan should be constructed upon pragmatic basis, being neutral to political conditions, and based entirely on national interests and economic feasibility. Hence, the current leader of the country, Shavkat Mirziyoyev (President of Uzbekistan) has highlighted the accession situation in the Parliamentary session in 2020, saying:

*“In the matter of accession to the EAEU, Uzbekistan proceeds mainly through the interests of the people and would consider their opinions.”*

### **3.6 Coronavirus Impact on Uzbek Economy**

It is no secret that almost all countries around the globe have been affected by the coronavirus pandemic, and Uzbekistan is no exception. As coronavirus disease spread at an increasing rate, along with crisis phenomena related, the impact was on the tighter integration. In the case of Uzbekistan, the 2020 economic growth slowed down 1.5-2.5% when it comes to gross



domestic product of the country. (Hidirov, 2020) However, the Central Bank of the country forecasted a 5.5-6% economic growth for the year of 2020. The slowdown of the growth could be significantly felt in the industries such as exclusive services, sports, trade, international transportation, hotel business and tourism. Moreover, in the first four months of 2020, the country's foreign trade volume witnessed a 924.1 million USD decrease, and when compared to previous year's numbers it was a 10% decrease. To elaborate further, foreign trade activity decrease can be attributed to turnover with PCR at around 17.5%, Kazakhstan at around 13.7%, and South Korea at around 22.1%. moreover, there was a 3.4 billion USD exports decrease (10.9%), as country sold less natural gas (29.6%), ferrous and non-ferrous metals (20.8% and 19%, respectively) and cotton fiber (46.9%). (Tursunov, 2018)

Furthermore, world markets saw the commodity prices dropping, with external demand also decreasing, which negatively influenced the export operations. When export numbers are estimated, there was a decline of 11-12% when compared to the same period in 2019. Namely, Uzbekistan saw the export revenue to decrease by 400 million USD. (Vahabov, 2016) Meanwhile, exchange commodities cost increased when it came to goods Uzbekistan exported, including vegetables, fruits and most importantly, gold. This illustrated a compensating impact on the business entities and state budget's revenues, and in a certain level, tax revenues reduced accordingly, helping with the maintenance of total foreign trade balance while the deficit is reduced. Additionally, consumer demand and domestic investment had a declining dynamics, with global supply chains breaking down for short-term, reducing the demand for service and goods imports to 10%.

Moreover, during the pandemic period, Uzbekistan imported less services and products, ferrous metals, building materials, equipment and machinery, which influenced the revenues of the budget. Starting from February 2020, there was a significant decrease in Uzbekistan's cross-

border transfer volume. For instance, in March 2020, the volume decreased to 296 million USD, which is 23% less than the previous month. (Khalmurzaev, 2000) In addition, the experts predicted that there could be around 50% decrease in the income that labour migrants are sending to Uzbekistan. In addition, due to some of them being out of jobs, they had to return home, which increased the unemployment rates drastically.

Furthermore, Uzbek and Russian regional businesses of medium and small size had established economic and trade ties between them, and they also suffered significantly. The effects were to some level long-term, as not all of the companies were able to recover. It was not a short-term shock, because the demand for vegetables, fruits, cars, textiles and cotton decreased, and business and recreational tourism also suffered, even though it just started gaining momentum in the economy. Moreover, for the year ended 2020, general fiscal balance deficit increased and reached around 3.5-4.5 percent of gross domestic product. (Khotamov & Ismoilov, 2020) Additionally, the numbers indicate that balance of payments' current account deficit increased to 9.5% from 7.2% of the GDP in 2021 and 2019 respectively.

Nevertheless, as Uzbekistan's foreign exchange reserves and volume of gold continued to increase, on top of the recent years' foreign loans, and international rating agencies giving high ratings to Uzbekistan, and the socio-economic reforms being carried out by the current government in line with country's Action Strategy that includes the country's development's five priority areas, it can be concluded that fundamental macroeconomic indicators did not decrease, By April of 2020, the President of Uzbekistan established the Anti-Crisis fund to slow down the COVID-19 spread, helping employment and businesses, increasing social security and creating new job opportunities equalling 1.1 billion USD. (Ziyadullaev & Ziyadullaev, 2020) The government also received additional financing from MFOs as grants and loans, and also accumulated the funds through special budgets in supporting medium and

small sized businesses, as well as people with low income so that pandemic's negative effects were smoothed out to a certain degree, while mitigating the effects on the economy of the country.

One should note that just because of the global COVID-19 pandemic, the government of Uzbekistan should not forego its new way of geo-economic and geopolitical strategy, as it would not help with country's national economy enter the economic system of the world and increase the country's participation in the world economy.

#### **4. Practical Part**

It should be mentioned that time lag among the integrated economy formation and the integration institutions being established can take quite a time. Presently however, it would be more effective if the government of Uzbekistan more actively interacted with Eurasian Economic Union to benefit from the organization's advantages. The government should understand that when the country joins the EAEU, it would have the opportunity to increase its foreign trade and expand its reach, whereby the country would gain access for a single market where services and labour can be obtained. (Akimov & Dollery, 2006) In addition, the country would be able to raise more capital, as well as using the benefits of investment potential, transit-transport opportunities and technological developments. Specifically, this could lead to simplification of procedures in terms of mutual trade via customs posts removal as well as non-tariff barriers being reduced. In addition, there would be an increase of foreign trade turnover for Uzbekistan, with a decrease in the cost of goods transportation, with the appearance of new transit flows expected.

If one takes a look at numbers, when it comes to foreign trade of Belarus, EAEU makes up around 52.6%, with this number being at around 42.8% for Kyrgyzstan, 23% for Kazakhstan

and 29% for Armenia, and one can understand how these countries are the ones most interested in such a single market as EAEU. Between 2015 and 2019, the members of EAEU have benefited from mutual trade, with their foreign trade increasing significantly due to non-tariff barriers being reduced and customs posts being removed. The volume of the trade within EAEU increased by 32% overall, with member states increasing their mutual trade volumes by 9.7% in 2019 alone. (N., 2017) In the case of joining the EAEU, capital markets would open mutually, and the banking services export in Uzbekistan would increase by 54% in volume (1.5 million USD), while Eurasian exports would be returned by 74% (5.3 million USD). For Uzbekistan, gross effect through joining the financial market of EAEU would equal around 2.3 million USD.

Upon accession into the EAEU, it would represent itself full-fledged in the EEC (Eurasian Economic Commission), new methods of carrying out new projects and ideas would appear so that regional trade can be intensified. Nevertheless, this cannot be done easily as hard work has to be put into adapting the country's customs practices and legislations in line with the EAEU standards. This would mean that the government would have to review the internally adopted rules and norms that might cause temporary issues within the republic's business environment.

Moreover, there is also the matter of negotiations between Uzbekistan and the existing members of the EAEU in terms of the country's share in distribution of quotas, exemptions list, trade terms and customs duties within the EAEU. (Sirazhiddinov, 2004) However, there is an upside to the accession, as the country would be able to harmonize its legislation and laws as per the EAEU regulations and rules through already established and tested practices and solutions when certain sectors are reformed, the ones associated with accession, including customs regulation, standardization and certification among others. Once the government of Uzbekistan reviews the above-mentioned proven and advanced practices and legislations

systematically, one can expect positive and significant changes in Uzbekistan's investment environment.

It is important to mention that the market of the above-mentioned association equals to around 75 percent of the whole Uzbek agricultural products' exports that are considered competitive when it comes to quality and cost characteristics. (Vahabov, 2016) When Uzbekistan joins the organization, general laws and tariffs are already there in terms of Uzbekistan's cooperation with the EAEU members, so the process is expected to go relatively smooth. If Uzbekistan was to join the EAEU, number of Uzbek products would have less barriers to penetrate the member countries' markets, and exporters' associated costs would also be reduced. When economic feasibility is considered, Uzbek business would certainly benefit from participating in the EAEU, and local consumers would also receive access to higher quality and cheaper products, the ones that are not produced locally including baby formula, cinnamon and etc.

At the same time, EAEU members have been working on strengthening the protection policy in an attempt of protecting individual markets. Consequently, the country could face certain issues in terms of non-tariff and tariff barriers with the EAEU trading partners. Certain experts in Uzbekistan believe that the aforementioned non-tariff barriers could lead to Uzbek exported goods' cost increasing by 30% on average. (Ziyadullaev & Ziyadullaev, 2017)

Therefore, the downside mentioned above could be a potential scare for Uzbekistan's exporters and entrepreneurs who could face the risk of losing their potential profits of hundreds of millions if not billions, dollars. Moreover, in the case of the country's accession, the business may not be able to adapt to union's requirements on a timely manner or simply compete with rival companies, which can lead to bankruptcy and closure. Clear examples could be various regulations such as veterinary and Phyto-sanitary that exist with the EAEU framework, which

may be totally different to Uzbek goods' standards when it exports to various trading partners outside of EAEU or even within.

#### **4.1 Econometric Modelling Export Performance**

As given in the Literature Review section, it is relied heavily on the methods already tested by previous studies including the ones by Mervar (2009), as well as Montenegro and Senhadji (1999) in terms of modelling framework to quantify the effects of internal and external factors on Uzbekistan's foreign trade, exports in particular. Hence, the below-given general model is used to determine the exports:

$$EX=F(GDP^{PART}, PRICE^{WORLD}, EXR, VECTOR, ARMA)$$

(Boymurodov, 2017)

As a proper justification into selecting this model, it should be mentioned that this exact model helps with predicting Uzbekistan's export compositions and exports through determining:

VECTOR: Exported products' consumption and domestic production vectors

EXR: exchange rates

Price (world): exports' world price levels (considering the small economy of developing Uzbekistan, its assumes it to be a price-taker country like Turkey, Singapore and Argentina)

GDP (Part): Trading partners' income index

ARMA: combination of or one of moving average process or autoregressive process, which is within the model for capturing dependent variables' lagged values' effects in regressions.

Majority of the information that are reviewed in empirical literatures focused on consistency and significance of elasticity and price coefficients that uses methods of OLS estimation.

Nevertheless, there could be biased estimation results because of problems of endogeneity nature that resulted through simultaneous export and import quantities along with prices of theirs demonstrated in 1950s. (Harberger, 1953). The issue of endogeneity received another attention when Khan and Goldstein (1978) conducted a research on it couple of decades later. In their study, they proposed to utilize equation models simultaneously so that endogeneity biases are avoided. In addition, in later studies, the above-mentioned and other experts also proposed the utilization of distributive and autoregressive lag models to make up for autocorrelations, as well as average features movement within the time series that the study is considering, which could bias the estimations of OLS. (Shane, et al., 2008)

In the following study, the model's empirical specification generally is dependent on Goldstein and Khan's summarized imperfect substitute model, because the following method sums up every major determinant of countries' export flows, such as country's exports are export prices' function, Uzbekistan's trading partners' income levels and exchange rates. Thus, a key assumption is incorporated within the model, whereby there is no complete homogeneousness of traded products among exporter country and importer country. This means that when it comes to consumption, a perfect substitutability is not rendered among these two. One can note the realistic nature of the following assumption, which can be supported by number of extensive and empirical studies. For example, a study conducted by Reinhart and Ostry (1992), where is the estimated the substitution's intra-temporal elasticity among non-traded and trade goods in many developing countries around the world.

The results showed that within all of the study's subjects (regions), gross substitutability was implied by 1.0-1.5 estimated parameter. In later years, the authors also worked with Ogaki in their 1994 study, where they discovered empirical confirmation of imperfect substitutability. (Thomas, 2009) One should also note that model's estimation demands included determinants'

proper measurement including export prices, real effective exchange rates, foreign income levels and so on. Moreover, in order to make conclusions and make model estimations, one should also consider pre-requisite conditions.

## **4.2 Calculating Income Index of Trading Partners**

Experts utilize various approaches when measuring the impact of levels of foreign income upon exports, which can also be used in the case of Uzbekistan. One of the methods that can be used is the utilization of separate variables for every country. The following approach would include different variables, while also reducing the estimation's efficiency, but the research findings' validity could be threatened. (Vakulchuk & Irnazarov, 2014) In addition, there is a chance of generation of the multicollinearity problem due to many time series being included in the model, which itself can cause issues in the processes of econometric hypothesis testing.

As mentioned earlier, throughout this research, I would be using the methods developed and/or used by scholars in past studies, including Mervar and Shane et. al.'s methodologies. Founded the appropriate method to measure foreign demand based on Uzbekistan's trading partners' income levels. Hence, in this formula, calculating Uzbekistan's trading partner's income index's external factor through weighting the trading partners' income's average growth rates:

$$GDP\_PART = \sum_{i=1}^{23} GDP_i * w_i$$

(Abdurakhmanov, et al., 2016)

In terms of Uzbekistan, it has 23 trading partners, and I chose the country's main export shares for the years between 1998 and 2004, that made up country's total foreign trade's 75%. GDP (i) represents partner country's GDP growth (real annual), while w (i) is country's



corresponding weight within Uzbekistan's total trade activity. (Akbarov, 2016) I calculated weights as exports' ratio to country, Uzbekistan's total exports for that period.

Nevertheless, it should be noted that number of trading partners of Uzbekistan did not post quarterly data until couple of years ago, which is known to be common among numerous developing countries like Kazakhstan and Russia. But, the EIU data set offers all countries' annual data for the following thesis. It is employed the Chow-Lin method within the annual series. Here, one checks the interpolated series looking for statistical consistency so that reliability issues are properly prevented. The follow method was found to be reliable as among Uzbekistan's 25 actual trading partners, only 7 of them publish annual data series. (Akhmedov & Smolik, 2019)

Even though the method of Chow-Lin provides no guarantee in terms of coincidence of data among adjusted interpolated and actual series, it continues to remain a frequently used and important statistical tool, as it enables the data interpolation estimator's optimization out of one frequency to another (lower to higher respectively). (Fanals, 1997). It is important to note that the option of measuring Uzbekistan's trading partners' foreign income levels is a good strategy as well as accurate, because it enables greater level of freedom for the econometric estimations. Trading partner's GDP growth (weighted real) could be taken as a sign of foreign income's impact and whether or not Uzbekistan's exports are demanded highly abroad.

### **4.3 Export price index**

It is always important to estimate the developed model's impact on Uzbekistan's exports' export prices and control them. Nevertheless, one should also not forget the straightforwardness of world prices of individual products of export, the ambiguity of aggregate export price. (Azam, 2018) The country's economy is small and open, with world

prices on each export product being taken exogenously. The following would form a proxy that is reasonable and is consistent with theories of economy.

In addition, Uzbekistan's export products are comprised of significantly big amount of goods, which would make the calculation process of price index that is a single aggregate very complex. Thus, total exports' price index levels would be measured through adding four composition groups that are exported the most, and their weighted annual price changes. (metal and similar products, energy, food and cotton). Because the above-mentioned 4 export compositions had different measurement units, world prices and their annual changes were utilized for generating Uzbekistan's total exports' prices' annualized changes.

Used the following formula:

$$PW\_EX = \sum w_i * pw\_comp_i$$

(Akbarov, 2016)

In this case, PW\_EX represents total export price levels, while i represents total exports and export composition's weight is represented by w (i), and lastly, pw comp (i) represents corresponding export composition's price (metal, energy, food an cotton)

#### **4.4 Measuring of Real Effective Exchange Rates**

The model specifications also have a specific characteristic, as Uzbekistan's export changes with trading partners relies upon relative prices. EXXR, abbreviated from real effective exchange rates, proxies a set of relative prices on the path of capturing both impacts associated with currencies price and goods price that are being traded. When exchange rates are included as export determinant, a very thorough and challenging analysis should be carried out. As the it was discussed in the literature reviewed, in some cases, exchange rate do not play an

important role to explain developing countries' export trends, which also concerns Uzbekistan, which has various factors of non-monetary policy controlling the exports, especially before 2016, where differences between non-official and official exchange rates were significant. (Bendini, 2013) Hence, it is used the examples of case studies by Jongwanich and Yeok and Abeyasinghe (1998), when making the estimations and calculating real effective exchange rates:

$$EXRR = EXR * \frac{CPI^{UZ}}{CPI^{PART}}$$

(Akbarov, 2016)

As aforementioned real effective exchange rate is given as EXRR, nominal exchange rate is posted as EXR, CPIPART demonstrates the consumer price indices representing the country's trading partners, while CPIUZ indicating Uzbekistan's price level changes.

#### **4.5 Econometric Pre-requisites on Variables**

In the last few decades, the studies emphasized upon incorporating and testing inherent feature of non-stationarity nature within the model of time series. Reinhart (1995) and Rose (1991) demonstrated that relative price of exports and exports themselves are considered to be processes that are unit root. At the same time, unit roots being present could lead to OLS estimator bias, as well as biased results and spurious relationships. Consequently, it became crucially important that time series data's features are identified. Hence, the recommendation from empirical literature would be the utilization of estimators like FMLS (fully modified least squares) or Dynamic OLS. In the case of multivariate, co-integration approach by Johansen (1997) is utilized.

Throughout the literature review section, the it was explored various countries' export tendencies and groups of countries while investigating the variables and unit roots presence

within them, coming to the decision of utilization of co-integration framework method. The method of the research also considers Uzbekistan's case, whereby trade flow variables have non-stationary features.

The project had time series data utilized and it was important that they are stationary so that the accuracy and precision of export performance models' economic estimations are assured, specifically for the Uzbekistan case. Similar to previous adoption of past experiences, it si undertook Augmented Dickey Fuller tests similar to the study of Streb (2005) and works of Montenegro and Senhadji (1999) for existing variables through the estimation process of regression form such as:

$$\Delta Var_t = \alpha_1 + \alpha_2 t + \alpha_3 Var_{t-1} + \sum_{i=1}^m \beta_i \Delta Var_{t-i} + e_t$$

(Akbarov, 2016)

In this case, variable is represented by Var (t), trend is represented by (t), variables' lags length is represented by (m), with regression's error term as (ei), which is serially uncorrelated. I selected the lags length with the help of Schwarz Info Criterion.

For the purpose of verification of relationships (long-term) among determinants of exports and export itself, the following study employed the tests of Augmented Engle Granger Co-integration, with the basis for the selection being the study by Hooper et. al (2000). Lastly, in terms of estimations, to make sure that export performance model's coefficients are not biased, it was utilized the LM test of Breusch-Godfrey to find out the existence of serial correlation within the regression's error terms.

## **4.6 Data Sources**

The following research project utilized the data available on Uzbekistan's international trade between the period of 2010 and 2021. (Boymurodov, 2017) I collected the data through reliable and official online sources and did not use any primary data. Additionally, I got the monthly nominal exchange rates through Uzbekistan's Central Bank and the amount was converted in terms of 3 months. As aforementioned, I used data from local authorities as well as international institutions in providing information on macroeconomic indicators, price levels and foreign trade of Uzbekistan.

## **4.7 Russian investment resources and technologies.**

In the case when Uzbekistan joins the EAEU, the country enjoys the benefits of a single customs unit, whereby the EAEU's common customs tariff would be enforced. This would ensure that goods' delivery logistics would drastically improve, with agricultural products would be delivered timely as unnecessary barriers and requirements would be eliminated by the borders. The following would also simplify the export goods' transit and reduce transport costs across Russian Federation and Kazakhstan, which in turn would lead to the growth of vegetables and fruits export, as well as processed agricultural products made in the country, expanding the exported goods' range to overall Eurasian market. (Akhmedov & Smolik, 2019)

If the government decides against entering the union, the issues within the customs and border checkpoints with neighbour countries would remain and may even multiply through the years. For instance, Kyrgyzstan and Uzbekistan share 21 checkpoints within their borders and 7 of them are closed. Even the functioning checkpoints hold restrictions on goods passage that pose

serious issues for people's and goods' free movement. Additionally, since establishing individual checkpoints are impossible, "transport leverage" increases, meaning that transportation costs and time increases, and it would certainly impact Uzbek goods' costs. On top of that, some countries neighbouring Uzbekistan are buying Uzbek products, using their EAEU membership and re-exporting products from Uzbekistan actively, marketing them as locally produced to countries of the union. (Vakulchuk & Irnazarov, 2014) Consequently, the potential profit loss of Uzbekistan is significant. Hence, it is clear that Uzbek government faces the urgent task of improving the Uzbek products' access condition to the market of EAEU and unifying the norms and standards.

Another advantage of joining the EAEU is that Uzbekistan would be a part of a free trade zone network that would include economic blocs and number of countries. EAEU already has an FTA agreement with Vietnam, which is another benefit, along with free trade zone interim agreement with Iran being established, as well as economic cooperation and trade non-preferential agreement with China. (Akbarov, 2016) In addition, EAEU have been working closely with ASEAN countries with memorandum of understanding being signed, on top of that, EAEU has signed a memorandum on deepening cooperation. Moreover, number of agreements are on the way in terms of forming free trade zones with countries such as Israel, Egypt, India and Thailand, as well as Singapore. All of the above-mentioned agreements have started to bare fruit as between 2017 and 2018, trade turnover of EAEU with the countries mentioned above grew by over 25% during the period.

Furthermore, if Uzbekistan joins the EAEU, the country could overcome geographical isolation, which would be achieved through increase of continental connectivity, as well as establishment of the Union's common transport market. Countries within the EAEU have access that is simplified to continental hubs of transport that come with access to the EU,

Middle East, China, and Russian sea routes as well as markets. (Boymurodov, 2017) If we take a look at the example of Kazakhstan, once the country joined the union, it was able to join the Western China-Western Europe highway as well as high-speed railway Eurasia corridor that passes by the Berlin-Moscow-Astana-Beijing route. One should also note that Kazakhstan and Russia are key players for Uzbek export goods, as through their territory do these products pass to reach world markets. Hence, the local government in Uzbekistan has expressed interest in interregional corridor projects such as India-Oman-Iran-Turkmenistan-Uzbekistan-Kazakhstan-Russia. Accession to the Union would also simplify number of projects such as Pewavar-Kabul-Mazar-e-Sharif route and China-Kyrgyzstan-Uzbekistan railway.

The EAEU accession could also pave the way for expansion of trade zones, development of industrial zones and inter-regional ties, cooperation deepening among economies' various sectors' enterprises, industrial cooperation, territorial clusters as well as big investment projects. The EAEU has already started the operations of "The Eurasian Network of Industrial Cooperation, Subcontracting and Technology Transfer", a digital platform that provides chances for businesses to look for consumers, suppliers and partners through the member states of the Union. (Egamberdiyev & Daniyarova, 2017) They also get the opportunity of stimulation between them in terms of potential chains of production, production capacities' optimal load and use digital ecosystems for product promotion.

The EAEU countries have also established mutual preferences including recognizing educational documents, regulations in terms of real estate rental and acquisition, medical care rights, migrant workers having equally favourable working conditions and are legalized within the Union's member states. Additionally, all member states have an agreement for citizen employment and regime of national social security, the member states' labour migrants have a single tax system, which allows people to move from one state to another with ease with their

pensions being afforded to them without any hassle. Hence, joining the Union would allow the government to strengthen and grow Uzbekistan's economy, while reducing unemployment and intensification of cooperation with the EAEU member states would happen.

As many people are aware, education is one of the pillars of country's development, and accession to the EAEU would create opportunities in terms of training for highly skilled professionals via cooperation in sectors such as science and education, with Uzbek teachers getting the chance to learn new teaching methods and practices. (Hidirov, 2020) Once the membership in the Union is gained, the cooperation would increase in sectors such as innovation, technology and science, which would then improve the national economy's digitalization, with Uzbekistan gaining access to innovative technologies of Russian Federation. Here, I would like to highlight that member states have number of government and businesses operating 25 initiatives at the moment in the digital project office.

Uzbekistan's participation in the EAEU would also provide the country with greater security of national economy, with the clear example being the CSTO's (Collective Security Treaty Organization) capabilities. It should be mentioned that the country has left the CSTO as a member in June, 2012. (Nazarova & Kurbaniyazov, 2014) Nevertheless, non-participation or participation of Uzbekistan, and other conventions, in different formats such as EAEU or CSTO, should not be used as a contributing factor when allies are determined, with members of the two organizations should not push Uzbekistan into returning to CSTO or joining the EAEU if the country does not want to. At the same time, Viktor Matvienko, who serves as Russian Federation Council's chairman, has acknowledged the possibility of Uzbekistan's accession to aforementioned organization during his visit to Tashkent, Uzbekistan.

Another potential benefit of CSTO and EAEU membership for Uzbekistan is that it would be better protecting country's interests when dealing with China, in addition to including programs



of multilateral cooperation within the regional agenda. The country would also be representing the interests of the country in the SCO's strengthened positions, as it has become clear that China has been focused on increasing its influence and power within Central Asia. At the same time, one should not forget that certain unresolved issues and serious obstacles remain in terms of multilateral and bilateral agreements. (Sirazhiddinov, 2004) Moreover, there could be cooperation factors that could come as the result of Uzbekistan's involvement at various levels with its partner countries in different structures of multilateral nature. One clear example of a risk for Uzbekistan's interests is how inconsistent the regimes of foreign economic regulations are and are subject to change at any time when EAEU members decide so.

Experts note that countries that declared independence when Soviet Union collapsed all have gone through shock therapy periods since the 1990s, with Uzbekistan facing less of an obstacle in the path. In those times, the organization of commodity flows were designed in a method where population that belonged to disadvantaged segment had the opportunity to use necessary products and services before other segments. (Fugazza, 2004) Hence, if there is an access for a common trading space, Uzbekistan could decrease monopoly within the country, especially in terms of companies such as UzAuto and Artel, which have firm foot on the car and electronics market in Uzbekistan. At the same time, there are risks of economy's certain sectors losing jobs, production pace decreasing, investment activity slowing down, but industries would be modernized and certain goods' competitiveness in the market would increase. Additional risk would be trade balance deterioration and country's balance of payments.

As aforementioned, there could be a decline in economy's certain sectors, with an example of Kyrgyzstan's cement production and poultry coming to mind, as these industries could not compete with countries of EAEU and companies that had far superior operations. Furthermore, the accession to the EAEU would also offer labour migrants certain advantages, which could

also lead to working population of Uzbekistan to depart for better employment and salary opportunities. (Bendini, 2013) Therefore, there are certain disadvantages of the space of EAEU as well, with member states such as Belarus, Kyrgyzstan and Kazakhstan facing their individual issues in the past, with some experts undermining the confidence for association integration. The situation of Russia invading Ukraine is also going to hurt the Union significantly as various international sanctions have caused Ruble to inflate at a rocket speed.

As it has been discussed in earlier sections, there are experts who would like Uzbekistan to join the Union, and also some that oppose this move. The ones that oppose the move assert that the country should put priority on WTO accession first so that it would have equal opportunities in international trade, with EAEU accession following next. In this matter, Secretary of Commerce of the US, Wilbur Ross, have commented that the country's chance of becoming the Central Asian market leader in terms of exporting to the US is very high, and the chances of joining the WTO would be hindered if the country joins the EAEU. (Saidova, 2020)

No one can argue that WTO remains a highly efficient way of globalization, while EAEU would only guarantee regionalization. Therefore, WTO, which is under high influence of the US government would prefer if Uzbekistan forewent joining the EAEU and joins the WTO, because it has no control over the former and high control of the latter. This can be attributed to two separate values of Uzbekistan that is in the EAEU and the one that is not in the EAEU. In addition, Michael Pompeo, then the Secretary of State of the US, when visiting Central Asian countries in February 2020, asserted that the United States government is focused on having Kazakhstan and Uzbekistan as strategic partners, where direct investment and trade is increased, while also alternative structures of national security are established. (Saidova, 2020) Along with the United States, the European Union also oppose Eurasian integration, with both

Tajikistan and Uzbekistan being told numerous times that the EAEU integration would hinder their trade relations with Western countries, along with economic ties.

Considering all of the above, the problem's ambitiousness and complexity, it is clear that if Uzbekistan wants a positive outcomes out of joining the EAEU, the government should carefully consider all aspects of the accession before making any mistakes that could hurt the country. Therefore, one should take Uzbekistan's phased interaction with EAEU into consideration, scenarios of extended accession that could ensure that comprehensive calculation of the integration's economic parameters are possible. (Ziyadullaev & Ziyadullaev, 2020) The first steps would be to strengthen bilateral ties, with customs barriers and other issues being removed. The government of Uzbekistan can do so through beta test implementation via existing formats, with one example being the establishment of free trade zones. The country could also use transitional periods, which can be anywhere from 3 to 10 years, and see if it receives economic benefits out of the Union in various sectors of the economy.

#### **4.8 Uzbekistan's Path to WTO**

Leading open economy among other CIS countries, the Republic of Uzbekistan has been actively applying reforms in socio-economic fields quite often. National interests and modern realities used in flexible terms have been successfully set as priority in newly established foreign economic relations and such positive mind-set and pragmatism in business relations are practiced for the first time ever since Independence of the country. The USA, Russia, the EU, and China are strong allies with whom the country build socio-economic relation over long period and this relationship has gone through various change in direction and kept its importance for long. (Abdurakhmanov, et al., 2016) Relying on its competitive advantages and

national priorities, the Uzbek government built strong economic security based on clear analysis and now able to turn its international economic relations into diversified relations.

Considering internal demand from nationwide market, local businesses with such business obtained support while Uzbekistan didn't involve itself into international organizations in economy and defence. Whether it be Russia or the US, economic cooperation with only these two countries and other inconsistencies with establishing economic relation with only China or Turkey is posing threat to economic prosperity of the country. Integration association in many forms or failing to negotiate with neighbouring countries when conflicts arise was reality for Uzbekistan in recent history. Being considered as sufficient for Uzbekistan, in 2021 the country was listed among free trade zone CIS countries for the first time. (Akimov & Dollery, 2006)

Various changes with trading partners, global conditions in trade, political challenges didn't bother international economic practices of the country as chosen path allowed the country to be isolated to an extent that major challenges don't show negative result directly. Growth constraints suffered from such loose economic policy leading. Although gaining noticeable capacity, further economic growth features had natural limits to ensure growth. Desired economic growth can be reached if export support and opportunity to enter new markets are established in place. Favoured conditions to export goods in mostly Central Asian region and Russia was first priority of new changes to foreign economic strategy issued by the new president and the same change should apply to export opportunities to countries further than Central Asia and Russia. (Akimov & Dollery, 2006)

Capacious demand market, natural resource availability, population increase, mineral availability was signs of economic power of Uzbekistan. Agro-industrial sector has what it takes to be successful in the country. Export products variety would increase due to this agro-

industrial sector. It's not only CIS region, but also worldwide that fruits and grapes, cotton fibre, wool, silk cocoons, vegetables and astrakhans are what makes the country famous for.

It should be mentioned that within Central Asia, the position of Uzbekistan is advantageous geostrategic, which creates opportunities to set up positive international economic relations. In addition, its potential of transit is great for setting up beneficial economic ties and transport ties with neighbouring countries. It is known from history that Great Silk Road, which used to connect West with the East, goes through the country's territory, and this path leads Asia-Pacific region to the Middle East and Europe. (Azam, 2018) Moreover, Uzbekistan is home to globally important historical and architectural heritage, along with ecosystems so attractive that modern tourism industry can benefit from them on the path to development. The following factors should be efficiently turned into economic growth that is sustainable via manufacturing of different kinds of industrial products, diversifying the product ranges, expanding export and developing industries that are import-substitutable, with foreign trade ties receiving much focus. Therefore, the current leadership has established a new strategy for the country, whereby Uzbekistan's economy is developed through modernization where transformation phases start with import substitution to economy that is export oriented.

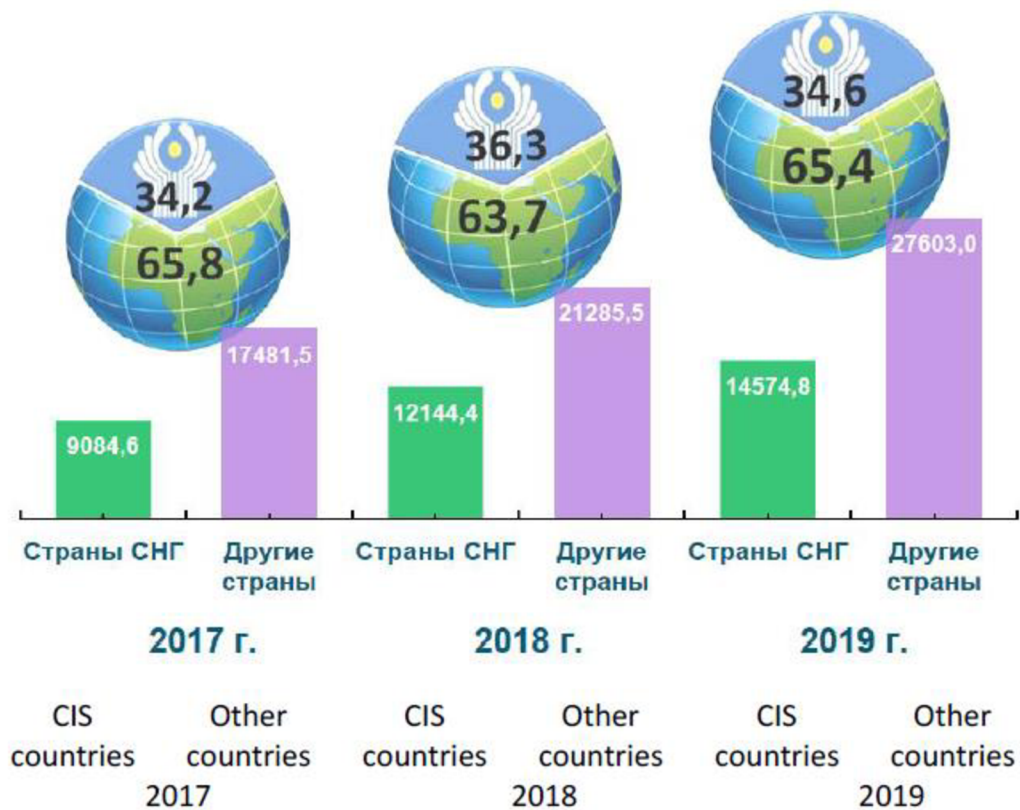
In order to develop the new strategy, the government agencies carefully studied different international cooperation formats in national economy's various sectors, which includes the trade sector. As mentioned earlier, the government has started active dialogues in terms of Uzbekistan's accession to WTO. (Boymurodov, 2017) Even though the country first submitted an application to join the WTO back in 1994, with the creation of a working group in 1998, due to Andijan 2005 unrest, the meetings were suspended with international experts. When the new government took over, the process was restarted in 2019, with Uzbek government

submitting updated memorandum to the WTO in terms of regime of foreign trade so that the accession of the country into the organization would be considered.

Even in the case where the accession of Uzbekistan into the WTO happens in couple of years, with trade agreements coordinated with various economic partners, Uzbek economy might not receive significant opportunities in increasing its trade globally. Hence, the Uzbek government should investigate the effectiveness of such accession and understand the potential consequences for private and small businesses, service, industry and agriculture sectors. (Egamberdiyev & Daniyarova, 2017) However, if the country was to join the WTO, there is a chance of increasing Uzbekistan's investment attractiveness, with the potential of lowering tariffs and increasing investment projects, which could lead to new jobs creation. Moreover, different conflicts could be avoided when goods are being exported.

Another possible benefit can be seen in the figure below, where one can see that Uzbekistan's trade with other countries as well as with the ones in CIS.

**Figure 4. Uzbekistan’s foreign trade turnover volume dynamics with CIS states and other countries (in million USD)**



Source: Statistics Committee of the Republic of Uzbekistan, 2020.

As it can be seen from the figure where Uzbekistan’s foreign trade relations are analysed, along with investment flows into local economy, the country has high investment and integration connectivity with countries in CIS, with large share of that going to Russian Federation. Around 75% of the foreign trade turnover of Uzbekistan belongs to countries in CIS, with recent years seeing insignificant fluctuations. Meanwhile, the government continues to improve its foreign economic ties with countries outside of CIS, as well as international

financial organizations. One should note that economic and trade relations of Uzbekistan exist with over 195 countries, with table below illustrating its biggest trade partners.



**Table 4: Uzbekistan's largest trade partners (in million USD).**

<b>Countries</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>PRC</b>	<b>4 754,2</b>	<b>6 433,5</b>	<b>7 620,9</b>
Export	2 025,5	2 875,4	2 519,0
Import	2 728,7	3 558,1	5 101,9
Balance	-703,2	-682,7	-2 582,9
<b>The Russian Federation</b>	<b>4 728,7</b>	<b>5 655,9</b>	<b>6 626,9</b>
Export	2 019,2	2 117,3	2 492,5
Import	2 709,5	3 538,6	4 134,4
Balance	-690,3	-1 421,3	-1 641,9
<b>Kazakhstan</b>	<b>2 055,8</b>	<b>2 919,6</b>	<b>3 367,7</b>
Export	1 057,6	1 352,2	1 429,7
Import	998,2	1 567,4	1 938,0
Balance	59,4	-215,2	-508,3
<b>The Republic of Korea</b>	<b>1 387,6</b>	<b>2 159,2</b>	<b>2 755,4</b>
Export	143,3	108,7	93,6
Import	1 244,3	2 050,5	2 661,8
Balance	-1 100,9	-1 941,8	-2 568,2
<b>Turkey</b>	<b>1 552,5</b>	<b>2 057,6</b>	<b>2 525,2</b>
Export	877,8	944,8	1 203,6
Import	674,7	1 112,8	1 321,6
Balance	203,1	-168,0	-118,0
<b>Germany</b>	<b>620,0</b>	<b>778,7</b>	<b>980,1</b>
Export	32,5	53,7	53,9
Import	587,5	725,0	926,2
Balance	-555,0	-671,3	-872,3
<b>Kyrgyzstan</b>	<b>253,7</b>	<b>402,8</b>	<b>829,0</b>
Export	178,3	269,7	679,0
Import	75,4	133,1	150,0
Balance	102,9	136,6	529,0
<b>Afghanistan</b>	<b>617,8</b>	<b>604,6</b>	<b>618,0</b>
Export	615,6	602,5	615,1
Import	2,2	2,1	2,9
Balance	613,4	600,4	612,2
<b>USA</b>	<b>215,0</b>	<b>415,0</b>	<b>596,2</b>
Export	32,1	36,8	29,1
Import	182,9	378,2	567,1
Balance	-150,8	-341,4	-538,0
<b>Turkmenistan</b>	<b>177,9</b>	<b>302,8</b>	<b>541,9</b>
Export	69,9	59,5	145,1
Import	108,0	243,3	396,8
Balance	-38,1	-183,8	-251,7
<b>Tajikistan</b>	<b>237,9</b>	<b>390,5</b>	<b>497,0</b>
Export	186,1	237,5	344,2
Import	51,8	153,0	152,8
Balance	134,3	84,5	191,4

Source: Ministry of Foreign Trade of the Republic of Uzbekistan (2020)

## 5. Discussion and Analysis

### 5.1 The Impact of Russian Invasion upon Ukraine on the Economy of Uzbekistan

#### 5.1.1 Russia

Russia has regained the status of Uzbekistan's largest trading partner in 2021. The country imports large quantities of food, petroleum products, timber and other goods. Ukraine is Uzbekistan's ninth largest trading partner, exporting pharmaceuticals, semi-finished metal products and more. I examine Uzbekistan's trade and economic relations with the two countries, as well as the risks posed by the military conflict and sanctions.

Russia's military operations in Ukraine have been going on for two weeks. During this time, hundreds of global companies have left the Russian market. The country has become the world leader in the number of sanctions imposed on more than 5,500 entities. Fitch downgraded Russia's sovereign credit rating from "B" to "C", meaning "default is inevitable." The ruble will hit a record high against the dollar and the euro. Ukraine's economy has also been hit hard by the war. In an interview with Bloomberg, Deputy Chairman of the National Bank Sergei Nikolaychuk said that the country's GDP is currently halving.

**Table 5. Trade with Russia**

Trade with Russia	2019	2020	2021
Export	2 531.9	1 485.8	2 058.9
Import	4 137.7	4 173.8	5 458.1
Total in million USD	6 669.6	5 659.5	7 517.0

Source: Ministry of Foreign Trade of the Republic of Uzbekistan (2022)

Russia became Uzbekistan's main trading partner in 2021, and for the first time since 2014, it removed that status from China. Last year, the trade turnover between the two countries amounted to \$ 7.51 billion, which is 47.4% of the total trade volume between Uzbekistan and the CIS countries. Uzbekistan's exports rose 38.5 percent to \$ 2.05 billion and imports rose 30.7 percent to \$ 5.45 billion. (Saidova, 2020)

The main export markets for Uzbek fruits and vegetables are Russia (30.5% of all supplies), Kazakhstan (20.5%), Kyrgyzstan (12.2%) and China (11.7%). According to official data, Russia accounts for almost a third of fruit and vegetable exports but given that Uzbek products can be re-exported through Kazakhstan and Kyrgyzstan. the indicator may be higher.

Russian companies are also major buyers of Uzbek textiles. In 2021, Uzbekistan will increase textile exports by 38.9% to \$ 910.7 million (31.1% of total deliveries). (Saidova, 2020) But here, too, it is necessary to take into account the fact that re-exports are likely to take place through neighbouring countries.

Uzbekistan has also resumed gas exports: if in 2020 it supplied 2,402 cubic meters of gas worth \$ 300, in 2021 it delivered 627.9 million cubic meters of gas worth \$ 76.6 million. In physical terms, the supply of polymers decreased from 77.9 thousand tons to 63.3 thousand tons, but they increased in value from \$ 58.8 million to \$ 85.1 million. (Saidova, 2020) The same situation was observed in knitted fabrics - instead of 13.2 thousand tons worth \$ 50.1 million, 11.9 thousand tons worth \$ 60.2 million were delivered. Exports of unprocessed zinc increased almost 2.5 times to 15.2 thousand tons (\$ 45.2 million). Uzbek companies have also significantly increased the supply of fruit and vegetable juices - from 6,595 tons to 10,700 tons (\$ 13.2 million).

Russia is the second largest supplier of food products to Uzbekistan after Kazakhstan - \$ 799.2 million (27.3%). More than half of the imports of vegetable oil - \$ 207.6 million (66.2%) and margarine - \$ 86.6 million (80.8%), as well as a third of milk and dairy products - 17, \$ 9 million (32.2%) is accounted for by Russian producers. Uzbekistan also received large quantities of chocolate and other products containing cocoa - 36.7 thousand tons (\$ 83.2 million), bread and confectionery - 16.3 thousand tons (\$ 31.5 million), laundry. cars - 76.5 thousand units (\$ 20 million), cars - 4539 (\$ 68.7 million), pads, bumpers, pads - 7378.4 tons (\$ 27.1 million). (Saidova, 2020)

In addition, Russia supplies Uzbekistan with oil and oil products - 643.3 thousand tons and 59.2 thousand liters (\$ 443.2 million), wood - 2.16 million cubic meters (\$ 328.3 million), DSP - 458.5 thousand cubic meters (\$ 115.5 million), fiberboard - 46.4 million square meters (\$ 121.1 million), pipes and tubes made of ferrous materials - 175.5 thousand tons (\$ 233 million), ores and copper concentrates - 18.9 thousand tons (\$ 137.4 million), semi-finished metal products and flat iron or steel products - 531.9 thousand tons (\$ 499.8 million), medicines - 5739 tons ( \$ 107.1 million) and other manufactured products. (Saidova, 2020)

Due to the devaluation of the ruble, the export of Uzbek products in the Russian market will become more expensive and less competitive. The Uzbek government has advised exporters to enter into foreign exchange contracts to reduce the risk of losses. As for imports, it is likely that goods imported from Russia will enter the Uzbek market cheaper. At the same time, Russia may restrict the export of certain goods to supply its domestic market.

### **5.1.2 Ukraine**

Ukraine is Uzbekistan's ninth largest trading partner. Over the past two years, trade turnover increased 1.8 times to \$ 704 million. (Saidova, 2020) Last year, exports amounted to \$ 231.6 million and imports to \$ 472.4 million. In 2021, Uzbek enterprises will export to Ukraine

mainly fruits and vegetables - 31.2 thousand tons (\$ 15.2 million), textiles - \$ 51.6 million, nitrogen fertilizers - 70 million kilograms (49, \$ 2 million), potassium fertilizers - 41.8 million kilograms (\$ 11.6 million), ethylene polymers - 18.5 thousand tons (\$ 18.4 million), unprocessed zinc - 9597 tons (27, \$ 7 million), cars - 929 units (\$ 7.4 million) were exported.

**Table 6. Trade with Ukraine**

Trade with Ukraine	2019	2020	2021
Export	119.4	123.9	231.6
Import	264.4	315.6	472.4
Total in million USD	383.8	439.4	704.0

Source: Ministry of Foreign Trade of the Republic of Uzbekistan (2022)

In turn, Ukrainian enterprises sold 4,124 tons of medicines for \$ 81.3 million, 5,525 tons of meat for \$ 11.6 million, vegetable oil for \$ 8 million and 5,561.7 tons of confectionery for \$ 8.5 million. products, \$ 7.3 million worth of chocolate and cocoa food, 150,000 tons of iron, \$ 124.8 million worth of semi-finished products and flat products and other industrial goods and equipment. (Saidova, 2020)

Sugar supplies to Uzbekistan decreased from 12.6 thousand tons to 3378 tons (\$ 1.8 million). In the first half of 2021, Farmak Pharmaceutical Company (Kiev) ranked fifth in the Uzbek pharmaceutical market with a share of 2.3%. According to the company, Uzbekistan is a major exporter of the company.

Another pharmaceutical company, Lekhim, planned to launch production in Uzbekistan in 2023 and invest up to \$ 40 million in the first phase of the project. (Saidova, 2020) In view of

the war in Ukraine, the supply of medicines and projects to Uzbekistan may be suspended, and the goal of increasing the turnover to \$ 1 billion may be delayed for a long time.

## **5.2 The Road to Growth**

The analysis performed above made it clear that Uzbekistan's foreign trade faces numerous challenges related to improving the exports' structure, which can be achieved if non-commodity goods' share is increased. (Ziyadullaev & Ziyadullaev, 2020) Moreover it is important to update the penalties for cation of commodity and geographic diversification, along with export sector's institutional reforms that would lead to strengthening of the republic's anti-crisis potential and increasing of country's economy's resistance to risks of external forces. To address these issues, I investigated various cases of world experience, and recommends the below given measures in improving foreign trade situation, with a particular emphasis upon country's export, as export is more important than import.

Firstly, when I reviewed the newly industrialized economies' experience, some people have highlighted exchange rate's overestimated influence over export growth, but the findings indicated that exchange rate's undervalued value was the main drive behind developing industries' growth in general. Hence, it can be said from the findings through empirical studies that if exchange rate is undervalued, it can be an efficient instrument in industrial policies for economic acceleration. (Ziyadullaev & Ziyadullaev, 2020) The following is the consequence of real exchange rate being undervalued, and acting as subsidy in terms of tradable sector, while reducing the failures market associated costs. Particularly, if one observes The Quarterly Review of Economics and Finance report, its recent published study demonstrated that if the exchange rate is undervalued, the result can be industry of goods manufacturing could increase its share in gross exports. Meanwhile, in terms of manufactured goods, exports diversification

cannot be achieved with overvalued exchange rate. Moreover, experts have highlighted the negative impact of overvalued exchange rate on economic growth's sustainable pace.

In the case of Uzbekistan, exporting of goods faced a major barrier of official exchange rate being overpriced until recent years, which also touched the services produced, and this reduced these product and services' competitive ability in global markets, increasing the goods' raw share in exports. (Nazarova & Kurbaniyazov, 2014) Meanwhile, the government has also been doing its part in reducing the produced goods' costs within the country's territory so that export volumes are increased as the competitive ability of the export increases, but the outcomes have not been as effective until the foreign exchange market was liberalized.

It has to be admitted that foreign exchange market liberalization is the most naturalistic method to reduce imports and increase exports. Regarding this, the experts have long pushed for currency market liberalization as they hoped to increase volumes of export in Uzbekistan. However, the liberalization alone was not enough to encourage higher export volumes, as diversification was the next method of achieving that. Therefore, the government has shifted its focus on diversifying export through emphasizing upon non-primary goods, and contributed through reducing import customs duties significantly by 2017. (Akhmedov & Smolik, 2019)

Thus, it is important for the country to ensure that existing reserves are mobilized so that export's commodity structure is further diversified at the expense of economy's processing sectors. The following strategy is recommended based on analysis of developing countries that successfully developed their exports, with optimal ratio being achieved in the employment and productivity context within economics. The numbers given by the Ministry of Foreign Trade of the Republic of Uzbekistan show that when it comes to country's major trading partners, exported goods' manufacturing industry share are Kazakhstan 9.9%, Russia, 16.6% and China 94%, with worldwide average being 66.8%. Uzbekistan's share equals around 29%, which

means that it is half of the world's average. (Tursunov, 2018) The conclusion is that its manufacturing industry has untapped potential to develop further with accelerated pace.

In addition, various studies have confirmed that export of non-manufactured goods would need to be stimulated constantly through simplifying trade procedures. If the logistics, infrastructure, trade, industrial and institutional improvements are continued, the non-commodity exports would be promoted within positive conditions. Shepherd and Dennis (2020) studied over 110 developing countries, and based their calculations on econometric logical methods. Their findings showed that if export documentation costs, shipping costs, land transportation and customs clearance are reduced by 10%, export diversification would increase by at least 4%.

In order to diversify export and industrial production of Uzbekistan, it is important to understand that these are closely linked with foreign investments and new technologies. (Vahabov, 2016) This means that companies that manufacture and provide the new technologies should be top priority for the government to partner with, so that Uzbekistan's position in the world market would be improved. Through these strategies, the country can improve its international rating indicators, improving the country's attractiveness for foreign investors.

One way to accomplish this is linking various incentives including financial ones to the efficiency of the work of various senior officials such as local mayors, ministers, agency directors and so on, with the guarantee of reward if the country's international ranking improves. Similar method can be implemented to stimulate managerial activities in all 12 regions of Uzbekistan, and reward if these managers and officials manage to bring in foreign investment into the industry of manufacturing. Their contribution can be in the form of creating needed conditions of infrastructure, increasing export volumes, improving employment rates, providing support to enterprises that have foreign investment among others.



It is no secret that industrial exports would take time to properly promote efficiently, especially if the manufacturing and processing levels are expected to be high. This means that proper training systems should be organized where people would need to teach properly to serve the economy better. Unless personnel are properly trained, they would not be able to help with attracting foreign direct investment into the country's economy. (Vakulchuk & Imazarov, 2014) Therefore, one recommendation would be to increase scholarship and admission quotas for students applying to local universities, specifically in areas such as logistics, transport, technical and engineering.

No one can argue that development of industrial export dictates the country's human capital level that also reflects the education quality. Certain studies have noted that when governments make large investments into developing manufacturing and processing industries, if the labour force has a shortage of proper qualifications, the outcome would not be as expected, which means that resources are being used inefficiently.

It was mentioned earlier that geographical position of Uzbekistan has its advantages, but the demand for transport route diversification continues to be a major issue. Therefore, transit and transport agreements should be made with countries that possess access and potential to new markets. Furthermore, infrastructure, logistics and transport sectors need radical reforms must be made to utilize the trade potential that is unrealized between the country and neighbouring states that have large market. (Sirazhiddinov, 2004) Hence, the government should research these countries' import needs, and satisfy those demands through goods produced locally. In order to expand export volumes, bilateral agreements should be made that include favourable conditions for Uzbekistan.

The above-given proposal is supported by empirical research results, where it is clear to understand that developing countries' geographical diversification of exports would heavily

rely upon reducing export costs, tariffs, transportation costs, as per the report of World Bank “Maintaining Business”, 2021.

Generally, through implementing the above-given, effective measures, the Uzbek government would be able to create new production facilities and industries that could compete globally in various markets. If the processing is at high level, industrial goods export and national economy diversification can be achieved. These moves would ensure the industry development acceleration, along with any related sectors, and will contribute to the sustainable economic growth rate, as well as anti-crisis potential of the country.

## **6. Conclusion**

To summarize the findings of this thesis, it can be said that the country of Uzbekistan faces number of barriers in its foreign trade operations. First matter that was discussed throughout this report was whether Uzbekistan should join the Eurasian Economic Union, which has members such as Russia, Belarus, Kazakhstan, Kyrgyzstan, and so on. It was discussed that before deciding to join the Union, the government should research properly, and find the most appropriate solutions to issues of Uzbekistan in terms of export and import. Currently, the EAEU highly favours the interests of Russia and Belarus, which means that those terms and conditions should be revised to serve the best interests of Uzbekistan. Moreover, it was suggested that Uzbekistan first focuses on joining the World Trade Organization, as its benefits are far superior to the EAEU.

In addition, export structure of Uzbekistan has demonstrated to be weaker than neighbouring countries, which means that the causes of this situation had to be studied. The results show that Uzbekistan's manufacturing export lags behind of its main trading partners of Russia and China. Therefore, it was recommended that Uzbekistan focus on improving these industries through the help of training personnel, so that they make the right decisions. In addition, local infrastructure should be improved so that logistics issues are fixed. Moreover, the country could beta test the accession to the EAEU through signing bilateral agreements with main trading partners to see if Uzbekistan can get benefits.

Accession to the EAEU and the WTO would also pave the way for the country to get rid of any existing monopoly, including UzAuto and Artel, which poses high difficulties for local consumers to purchase high quality and adequately priced products. In addition, it would push local consumers to be more competitive, improve their services and products, establishing a healthy competitive market.

Moreover, it was recommended that government agencies and institutions should play a higher role in attracting FDI and increasing export volumes in regions, which can be achieved through proper incentives. If the local government officials contribute to the above-mentioned attributes, they should be properly rewarded. Additionally, the country should continue improving its legal and regulatory framework in terms of foreign investment activities. This should positively influence the foreign investment flow into the local economy.

The government can also help with expansion and acceleration of production infrastructure development in the whole country. These can be afforded through offering tax breaks, improving roads, eliminating border patrol, providing adequate electricity, natural gas and water. Financial market and the banking system of the country should also go through reforms in order to accelerate capital inflows. Creating favourable investment and business environment in the country should also promote entrepreneurship.

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## **List of Tables**

Table 1. Trade partner of Uzbekistan between 2015 and 2020.

Table 2. Trade Partners of Uzbekistan (Import) between 2015 and 2020.

Table 3. Dynamics of the export structure of the Republic of Uzbekistan.

Table 4: Uzbekistan's largest trade partners

Table 5. Trade with Russia

Table 6. Trade with Ukraine

## **List of Figures**

Figure 1. Share of regions in total export of Uzbekistan in 2020.

Figure 2. The Structure of Export of Uzbekistan in 2020.

Figure 3. Foreign Trade Turnover of Uzbekistan

Fig. 4. Uzbekistan's foreign trade turnover volume dynamics with CIS states and other countries

## **List of Abbreviations**

CIS – Commonwealth of Independent States

EAEU – Eurasian Economic Union

FDI – Foreign Direct Investment

FMLS - Fully modified least squares

GDP – Gross Domestic Product

OECD - Organisation for Economic Co-operation and Development