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Bachelor Thesis

A study into the effects of globalization on international trade – a case study of Uzbekistan’s Foreign Trade since 1991 till the recent years

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Declaration

I declare that I have worked on my bachelor thesis title "Foreign trade in Uzbekistan and how it has been changed from 1991 till recent years" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 20th March 20204

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A study into the effects of globalization on international trade – a case study of Uzbekistan’s Foreign Trade

Abstract

The aim of the bachelor thesis is to investigate the role of globalization processes in international trade, fundamental theories and characteristics that lay in these terms, emphasizing on how trade globalization is meaningful for developing countries especially such as Republic of Uzbekistan.

Theoretical part of the paper consists of chapters which deep into definition and features of foreign trade, including trade theories and policies. Moreover, effect of globalization and economic integration on developed and developing countries is described in this study. The KOF index for evaluating globalization processes in economic, social and political dimensions is examined, as well as meaningfulness of GDP for analysis of foreign trade.

The paper considers the development of international trade of Uzbekistan in the period from 1991 to 2019, i.e. since the collapse of the Soviet Union and the country's transition to a market economy and recent trends. For all countries of the post-Soviet space, the last two decades have been a dynamic and difficult period and, to the best of their efforts, each country has reached its status at the international level. Since foreign trade activity is influenced by many external and internal factors, the work examined both

trade policy and the results of trade in political, economic and social context. Changes in the volume and structure of trade in goods and services over time are analyzed.

Furthermore, forces of globalization are nowadays greater than ever before. So research is addressed the implications of these forces to the various aspects of country development that is the main purpose of its practical part– to explore an impact of international trading on development of the country in the case of Uzbekistan.

Keywords: Globalization, International trade, Country development, Sustainability, Republic of Uzbekistan.

Table of content

1 Introduction	8
2 Objectives and Methodology	9
2.1 Objectives.....	9
2.2 Methodology.....	9
3 Literature Review	10
3.1 International trade.....	10
3.1.1 Definition and the role of international trade.....	10
3.1.2 International trade theories.....	10
3.1.2.1 Absolute Advantage: Adam Smith's model.....	11
3.1.2.2 Comparative Advantage: Ricardian model.....	11
3.1.3 Foreign trade policies.....	12
3.1.3.1 Free trade policy.....	13
3.1.3.2 Protectionism.....	13
3.1.3.3 Instruments for policymaking.....	14
3.1.3.4 Measures that affect movement of goods.....	15
3.1.3.5 Measures that affect movement of service and investments.....	16
3.2 Trade and Globalization.....	18
3.2.1 Global Economy, Trade Globalization and Economic Integration.....	18
3.2.2 Challenges and Opportunities in Trade.....	19
3.2.3 KOF Globalization Index.....	20
3.3 GDP.....	21
3.3.1 GDP per capita.....	21
3.4 Export.....	22
3.5 Import.....	22
3.6 Trade Balance.....	22
4 Practical Part	24
4.1 Overview of Uzbekistan's Economy.....	24
4.1.1 Uzbekistan's Economy 1991-2016.....	24
4.1.2 The Economic Modernization of Uzbekistan.....	27
4.2 Trade Data Analysis.....	28
4.2.1 Economy Development.....	28
4.2.2 Export/Import structure.....	30
4.2.3 Foreign Direct Investment.....	31
4.2.4 Key trade partners.....	32

4.3	Influence of globalization processes	33
4.3.1	Trade openness.....	33
4.3.2	KOF Globalization Index.....	33
4.3.3	Effect of globalization on country development.....	35
5	Results and Discussion	38
6	Conclusion.....	40
7	References	41

List of pictures

Figure 1	Overview of world KOF Globalization Index in different dimensions.....	21
Figure 2	Trade flows. Largest global exporters, \$trn.....	23
Figure 3	Uzbekistan Real GDP Index by Sector.....	26
Figure 4	Trade Performance* of Uzbekistan compared with World trade (1997 – 2018) ..	27
Figure 5	Growth Rate (annual %) of Central Asian countries (2008-2018).....	28
Figure 6	Sectoral Contribution to GDP Growth	29
Figure 7	GDP per capita, Poverty and Small Business Share in GDP	Error! Bookmark not defined.
Figure 8	Export and Import structure.....	31
Figure 9	Foreign Direct Investment Stock.....	32
Figure 10	Ratio of total exports and imports to GDP (2008 – 2018).....	33
Figure 11	KOF Globalization index of Uzbekistan 1991 – 2017	34
Figure 12	Transformation Index of Uzbekistan (2018)	35

List of tables

Table 1	Instruments for policymaking	14
Table 2	Output Paths of Countries, 1992-1997.....	25
Table 3	Economic Outlook of Uzbekistan.....	37

List of abbreviations

CIS	Commonwealth of Independent States
EU	European Union
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
G7	Group of Seven
IMF	International Monetary Fund
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
WTO	World Trade Organization

1 Introduction

At the time of globalization of the world economy degree of participation of each country in international economic processes is becoming a paramount factor, on which its place in the world system largely depends.

Foreign economic activity is one of the most important areas of government policy of developing countries. Therefore, it is necessary to develop a foreign economic strategy, forms and methods for the effective inclusion of these countries in the globalizing economy. This fully applies to the Republic of Uzbekistan, whose foreign economic relations have a significant impact on GDP growth and its role in regional integration associations.

For Uzbekistan, entering the world market is taking place against the backdrop of reforming and updating all political, economic and social life. The Republic has embarked on a path of market transformation without a ready-made model of socio-economic transformations. It was necessary not only to modernize the state economy, but also to create fundamentally new methods and mechanisms for its inclusion in foreign economic activity, taking into account the specific characteristics of the country.

Being one of the key countries of Central Asia, Uzbekistan is at the center of the complex interweaving of the interests of leading world and regional powers - Russia, the USA, China, Iran, Pakistan, Turkey, Japan, the EU, etc. This factor has a significant impact on the direction of international economic relations. Its analysis is important in developing and adjusting the foreign economic strategy of Uzbekistan with the partners of the Eurasian states.

2 Objectives and Methodology

2.1 Objectives

The main purpose of the paper is to study the foreign trade of the Republic of Uzbekistan during its radical transformation in the context of globalization.

In accordance with the purpose, the author sets the following tasks:

to reveal the influence of global economic processes on the formation of economic strategies of the countries;

to study the foreign economic strategy of the Republic of Uzbekistan and justify the main directions for improving the mechanisms for its implementation;

based on the analysis of integration processes, to evaluate a globalization impact on development of low-income countries.

2.2 Methodology

The theoretical part describes broadly main processes important for completing the future investigation. This part consists of information from books and internet, as well as author's own thoughts, opinion and conclusions.

In the practical part statistical data from official sources is used presented in the form of charts, tables and graphs.

3 Literature Review

3.1 International trade

3.1.1 Definition and the role of international trade

There is no self-sufficient country in the world which is able to produce all the goods that are required by its people. Every country is limited in resources. Such a need begets relationships of purchase and sale of various types of goods and services between countries. Foreign, or international, trade means exchange of capital, goods, and services between two (*bilateral trade*) or more (*multilateral trade*).

International trade is similar to domestic trade, but is more complex because of joint action of few systems (countries) with different government policies, currencies, laws, rules and regulations, market and even culture. Its study is important for understanding factors which lead to country development and world as a whole.

In recent centuries, participation of country in such international activities has become more important in determining its place in the world system. Especially, foreign economic activity is one of the most important areas of government policy of developing countries. Therefore, it is necessary to develop a foreign economic strategy, forms and methods for the effective inclusion of these countries in the globalizing economy.

International trading opens borders for surplus production and further market expansion besides satisfying lack of internal resources of the country-buyer.

Open market boosts development of technologies and innovations, growth of small and medium businesses, overcoming dozens of social issues and increase of economic integration and manufacturer processes.

It refers to the implementation of the liberalization of national economies, the reduction of trade barriers, the free movement of foreign investment around the world, the strengthening of the role of international companies in international production, mutual trade and exchange.

3.1.2 International trade theories

In this section different trade theories are described that have evolved over the past centuries and are the most relevant for today. The theory of international trade helps businesses and governments to define new approaches to strengthen their positions and build new strategies to flourish in future.

3.1.2.1 Absolute Advantage: Adam Smith's model

The concept of absolute advantages was the basis of the theory found by Adam Smith in the XVIII century. In his work 'The Wealth of Nations' Smith has proved that countries are interested in free international trading regardless type of exchange – export or import. Theory says that the country which can produce a unit of a good with less resources than another countries have absolute advantages. Thus, it means that country has possibilities to produce certain goods or services cheaper and in bigger amount than its competitors.

So this theory ruined prevailing theory of that period – mercantilism. Smith argued that countries should focus on producing end products for selling instead of reserving gold. Moreover, countries should practice free trade and specialise in accordance with their absolute advantage. (Smith, 2001)

Later, David Ricardo showed the main shortcomings of Smith's concept - his theory applies only to the exchange of products, the production of which one or another country has a kind of natural monopoly, or trade between countries at approximately the same level of economic development. At the same time, Smith ignored such factors of international trade as relations between states, which differ in many ways. Moreover, his concept did not always confirm that both parties would benefit from trading with absolute advantages. David Ricardo developed this theory to the concept of comparative advantage.

3.1.2.2 Comparative Advantage: Ricardian model

Comparative advantage theory says if countries specialize in producing the goods they can produce at relatively lower costs than other countries, then trade will be mutually beneficial for both countries, regardless of whether the country has completely more efficient production than the other.

Some assumptions were also used to construct this theory: the presence of only two countries and two goods; production costs are expressed in a form that is equal for all wages and salaries; lack of consideration of different levels of wages in countries (free movement of labor within each country, but not between countries), lack of transport costs, availability of free trade; absence of technological changes; labor theory of value (the price of the goods depends solely on the amount of labor required to produce it).

The conclusions of D. Ricardo were the following provisions.

First, a country with lower production costs has higher hourly wages and higher prices for similar goods.

Second, the distribution of currency between countries balances their exports and imports, and sets countries at relatively similar prices to encourage the production of comparatively advantageous goods.

Third, the relative price levels in countries are determined by the different costs of acquiring gold. If countries that do not have gold deposits are more efficient in the export industries and the cost of transporting gold is decreasing, then these countries have lower costs of acquiring gold, as well as prices compared to countries exporting gold ingots.

Fourth, a country's lagging behind in labor productivity does not necessarily impede its participation in international trade, as it is always possible to find an exchange rate that will allow such a country to export the goods with the least lag behind it and to import products where it is lagging behind the most.

3.1.3 Foreign trade policies

Trade policymaking is a challenging task for any country, and especially - for developing countries. It represents a whole range of operations aimed at developing of both external relations and the achievement of internal trade-offs.

Every state should provide their own policy taking into account national interests, specifics of doing business, manufacturing, market demands and advantages, and lots more. Correctly builded trade strategy may lead to progress and prosperous transformation of economics of the country.

The development of international trade is controversial and characterized by two interrelated trends: 1) the desire for trade liberalization, lowering trade barriers and 2) increased protectionism, attempts to limit the access of goods of "strangers" to their markets. The foreign trade policy of states is also based on these trends. This is a system of nationwide measures aimed at ensuring favorable conditions for foreign trade for entrepreneurs and the country's population, increasing the competitiveness of national goods in the world market. There are two types of it: *liberal (or free trade policy)* and *protectionism*.

3.1.3.1 Free trade policy

Free trade means the free movement of goods in the world market. It provides an opportunity to take advantage of the international division of labor. The benefits of free trade are that it stimulates competition and limits monopoly. Competition of foreign firms forces local firms to switch to low-cost technologies and high-quality products. And it gives consumers the opportunity to choose from a wide range of products. However, these advantages are manifested when countries are close in terms of economic development. If the gap is large, then representatives of more developed countries can force out national producers from the markets.

3.1.3.2 Protectionism

The second type of international trade policy is *protectionism*. This is a system of state measures aimed at protecting the domestic economy from foreign competition and at conquering foreign markets. The state policy of protectionism is based on the use of tariff and non-tariff regulatory methods. Tariff methods primarily include a fee. This is an excise tax on imported goods, is introduced in order to obtain revenue by the state and protect the domestic market. Fiscal duties are levied on goods that are not produced in the country into which they are imported. Protectionist duties are designed to protect national producers from foreign competition. By increasing the price of the goods, the duty puts the foreign producer at a disadvantage in comparison with the domestic one.

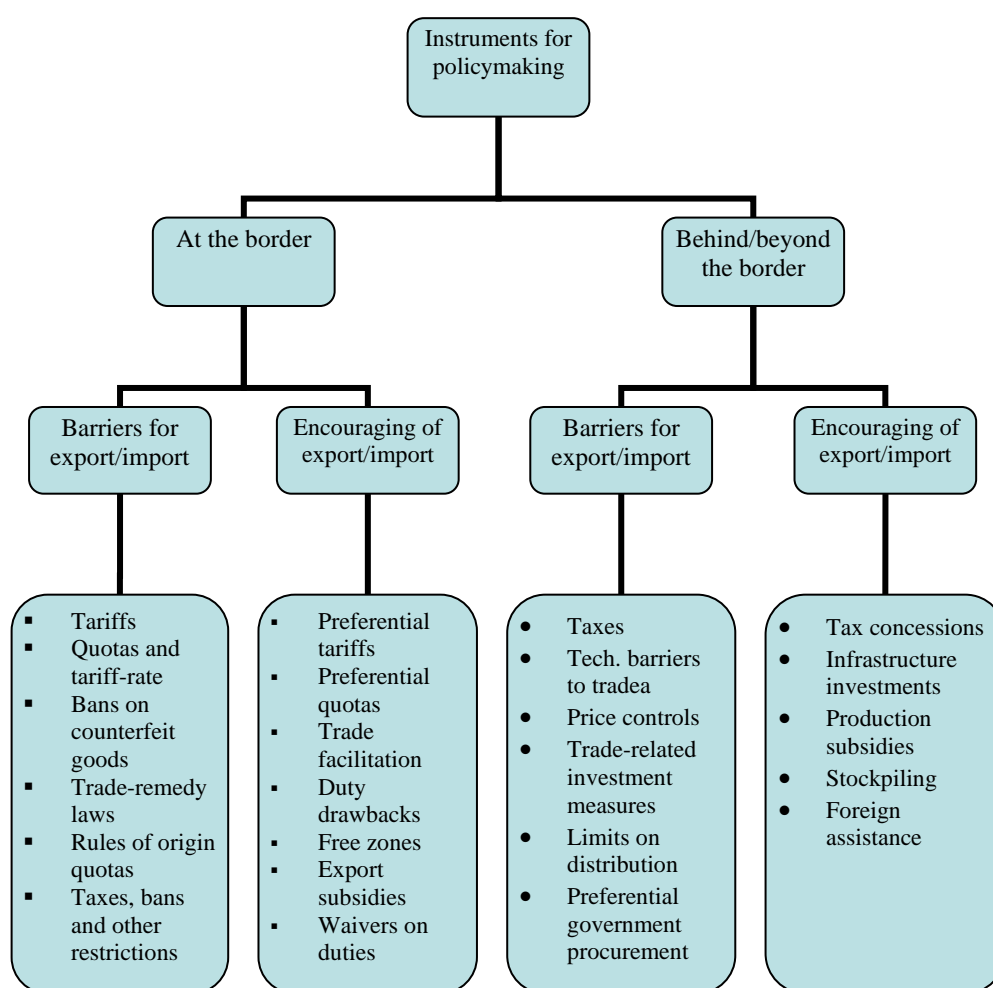
The application of one or another type of trade policy depends on the specific conditions of the country. When there is a shortage of goods on the state market, it is more advisable to use a free trade policy, or free trading. With an excess of supply on the national market, which leads to a decrease in business activity of entrepreneurs, the state can use protectionism methods for importers. However, it must be remembered that such a policy can lead to stagnation in the economy, so the incentives for technological progress are weakened, and this negatively affects the competitiveness of domestic goods. Moreover, under protectionism, the smuggling of goods is intensified. In addition, partners can apply appropriate sanctions against the country, uses protectionism.

3.1.3.3 Instruments for policymaking

If a century ago, trade meant only the exchange of products and countries focused on establishing barriers such as duties, quotas and other instruments that directly controlled the flow of exports, then over time and the development of the market, the institutions of trade switched to regulating laws and policies governing services, trade-remedy, investment and intellectual property rights.

The main instruments that are used to build national trade police are described below.

Table 1 Instruments for policymaking



Source: UNCTAD

The Table 1 above shows a range of measures that a country or its trading partners can take to achieve their economic goals. They should be taken after appropriate thorough analysis based on the country's current goals and needs. A well-designed trade policy helps

to compensate for the lack of certain resources in a controlled flow and break into the international competition market.

Information further is described according to manual by UNCTAD (2018).

3.1.3.4 Measures that affect movement of goods

Tariff setting is the most common and one of the oldest instruments in trade of goods. Depending on the country's advancement (development), governments introduce certain measures to control imports and exports. In some cases, countries may not have one or another tax, but these are extremely rare and risky measures, especially for countries with poorly developed economies. Comparing access to the markets of developing and developed countries, we can conclude that tariff barriers in the markets of developed partners are low or do not even exist for many products. Such conditions enable developing countries to supply their products under preferential or duty-free programs.

Also important, but controversial point in the conduct of trade policy is the provision of support in the form of *subsidies* to the private sector. On the one hand, the government must support national production, but sometimes excessive trusteeship can lead to corruption and the inability to rationally determine who will be viable in the foreign market and who will lose. Undoubtedly, the state should promote competitiveness, exports and attract investment, as well as to assist locals in establishment of industries and manufactures outside of a country, but at the same time not interfere with the natural, market selection of exchange goods.

Trade-remedy laws offer another means of regulating trade at the border. These mechanisms of non-tariff regulation of imports imply the introduction of special duties, the purpose of which is to protect a number of national goods from artificially lowering their value and capturing the market. For example, thanks to *antidumping laws*, the host country (recipient) can impose additional duties on goods that can be sold at a price that is significantly lower than prices on the domestic (national) market. Fees apply only to a specific group of products or to a specific product. An investigation is required. There are many different opinions regarding anti-dumping measures, but it is undoubted that measures to prevent dumping are necessary.

3.1.3.5 Measures that affect movement of service and investments

Also, many countries are implementing other measures to regulate trade exchanges: these are many actions regarding the regulation of investment flows, trade in services, and any other law, regulation, or policy. All of them can limit or vice versa strengthen the country's competitive capabilities in the global market. The measures taken vary greatly in each individual country, since their application depends on the overall picture of the country's economic activity: in which sectors it takes part, who are its main trading partners, where do the main investment flows come from and how is the internal legal and regulatory regime regulated.

Trade in services affects a wide range of sales sectors and modes of trade. Services are especially important for national development. Planning a national strategy for the services sector contributes to the development of capacity of producers, the creation of infrastructure services through public funding, building partnerships between the state and business, and the development of regional cooperation.

While the analysis of data on tariffs and trade in goods is relatively simple, the assessment of measures taken for services and investments and their consequences for their country and partner countries is much more complicated. The task becomes even more difficult due to the lack of a generally accepted nomenclature of services, and statistics on trade in services in the most developed countries are incomplete at best. Therefore, measures affecting the development of services and investment flows will be studied in a qualitative way.

The *financial sector* can be called the most important for business. Access to new investments, a credit system, and individual transactions are important criteria for the quality of financial services.

The economies of countries are also significantly affected by the *transport and tourism services* sectors. Transport directly affects the competitiveness of the country's goods, and tourism stimulates the development of a wide range of goods and services. Some countries, due to their geographical and other advantages, derive tremendous benefits from the provision of services, thereby covering the country's deficit in trade in goods.

Foreign investment policy aims to create an appropriate climate in the country for attracting foreign capital. But along with objective factors, government policy has a great influence on creating an attractive climate for foreign investment. It can apply both direct

administrative measures and levers of economic incentives. Direct administrative measures govern the rules for attracting foreign capital and its forms of financing, a system of guarantees for foreign capital, industry priorities of foreign investment and the like. Levers of economic incentives include fiscal measures (tax, investment and other benefits).

Tourism infrastructure is attractive for investment, but not sufficient. In order for a country to rely on the flow of foreign currency, it must take care of the quality of the details that make up this area. These factors include elements such as the diversity of attractions - from historical and cultural heritage to modern places of entertainment, a good airport and other logistical interchanges, as well as a reputation for maintaining the safety of tourists and protecting them from crime and political unrest. In the analysis, these indicators show how effectively a country could manage potential foreign investments. *Services centered around telecommunications, transport, tourism and finances are a driving force in the economy* (UNCTAD, 2018, p.34). Their efficient organization will reduce unit costs, and since corporations invest abroad in search of lower the high cost of production and the emergence of new markets, the right policy will ensure the flow of foreign currency.

The prospects for developing countries largely depend on their own political reforms and the improvement of the services provided, as well as the foreign investments that they manage to attract. But the situation is completely different with the *movement of natural persons*. According to the WTO, this is one of four modes of providing international services when an individual moves to another country in order to provide services. This concept is different from a migrant who has gone abroad in search of work on a permanent basis, who wants to change his citizenship and place of residence. Most often, this form of movement occurs in cases of intra-company transfers of important employees in managerial positions or technical personnel for commercial purposes in the territory of the host country, as well as business visitors for commercial purposes, but not necessarily on an ongoing basis. This is an area where developing countries are particularly interested in providing export services, but the host country often has restrictions on the movement of human resources and is not ready to weaken them. If developed countries did not put such barriers, developing countries would expand the range of opportunities for the provision of such services - from construction to scientific cooperation, but immigration laws and regulatory schemes in developed countries significantly inhibit this movement.

3.2 Trade and Globalization

The concept of globalization can be viewed from the most diverse sides of world processes, but most often this term implies the increasing integration of economies and societies under the influence of scientific and technological progress, the development of the latest means of communication, the freedom of movement of international flows of goods, people, and services. (IMF, 2002)

According to the definition of UNCTAD, the essence of the globalization process is “an increase in the volume of international trade, financial and investment flows with their growing interconnection”.

The IMF characterizes globalization as “*the growing economic interdependence of the states of the globe by increasing the volume and variety of international transactions in the field of goods services, the movement of capital around the world, the more rapid dissemination of technologies, ideas, cultures, the media, modern ideologies ...*”

In fact, globalization is the latest stage of internationalization, where states are intertwined into a single world economic organism, united not only by the international division of labor, but also by large-scale transnational production and supply structures, the global financial system and the planetary information network.

3.2.1 Global Economy, Trade Globalization and Economic Integration

Developed countries play a major role in the process of economic globalization. The main financial institutions and international trade are controlled by the successful countries of G7 and some others, which allows them to determine the rules of international economic relations themselves. On the one hand, they are the countries that bring the greatest benefit in the development of globalization, on the other hand, they also receive the most privileges and benefits from international trade. About 80% of the world's capital is flowing among the USA, Western European and East Asian countries, while developing countries often suffer even greater gap with the developed world in the process of developing globalization. For example, from 1960 until today, the difference in income per capita between developed countries and the poor has grown from a gap of 30 times to 70, and the value of foreign trade in these countries has fallen from 1.4% of the total world to insignificant 0.4. (World Bank Data)

At the same time, there are a number of developing countries that, under pressure and control of the First World countries, joined the WTO and entered the world market. The rise of third world countries is a winning strategy for all participants in the process: developed countries can increase exports to this country and use the comparative advantages of these countries (for example, lower wages, production capabilities, and so on), and developing countries can accelerate their development by several times by speeding up the reform of its economic system, drawing on the best practices from developed countries, and expanding opportunities for the sale of goods.

Globalization and the increasing pressure of international trade are one of the main engines of the scientific and technological progress of this millennium. The development of science allows us to reduce the cost of transportation, production, communication and break other barriers for making globalization possible. Science and technology also led to the restructuring of industry, which is why many developed countries in the West began to transfer labor-intensive industries to developing countries and enter the era of knowledge economy.

Technological progress has led to the full economic integration of not only the sphere of goods and service, but also to cross-border movement of finances - capital and investment, ideas and intellectual property, and even human resources as managerial and service representatives, investors and businessmen.

3.2.2 Challenges and Opportunities in Trade

Despite the fact that in recent decades globalization has become possible for all countries of the world, the gap between developed and developing countries is decreasing at a slow pace and only in exceptional cases (examples of East Asia, such as Singapore, China, the Republic of Korea) lead to significant boost of economic growth.

The main question is how exactly this or that country will integrate its economy and at what pace. Countries must decide whether they will retain an inward-oriented economy or completely switch to a market-oriented strategy, what form of trade agreements they will choose for negotiations and on what conditions, how much are they willing (and whether they are ready) to reduce restrictions on investment in international trade and the movement of goods, as well as what internal reforms will be undertaken to achieve this.

Challenges to the trading system exist both in areas where there are multilateral trade rules, and in places where fair international competition is constrained by the

persistence of high barriers and government support, as well as in areas where trade rules do not keep pace with changes in the global economy.

Trade has become inseparable from other areas of government activity. Trade policy is now not limited to aspects of foreign and fiscal policy, but is a consequence of all the issues raised on the national agenda. Key issues relate to investment, trade in services, intellectual property and labor rights, and environmental issues are increasingly being raised. In the end, all these issues strongly influence the determination of the country's further development strategy.

3.2.3 KOF Globalization Index

Often, for analysis of international trade, investigators rely on percentage of GDP and some other separate indicators covering trade openness and capital flows. This could be sufficient literally before globalization intensified from the end of the 20th century in connection with many changes in the world order of things. However, now economic analysis requires a more multifaceted approach to the study and consideration of various aspects of globalization.

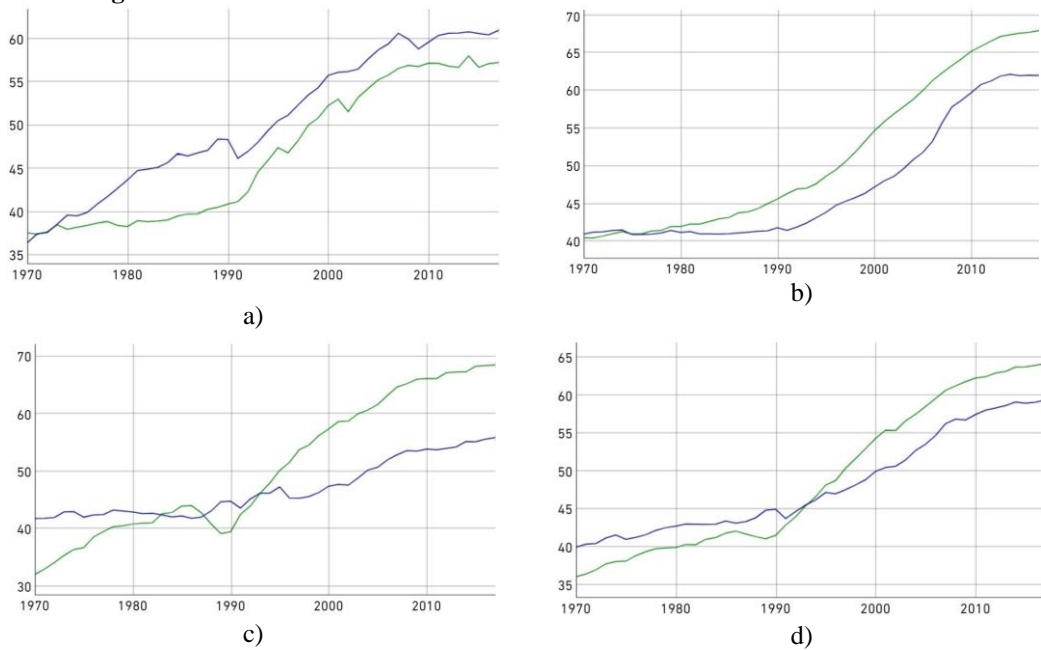
Compound indicators, such as the KOF globalization index, is a good tool for evaluating processes with a large number of factors. It combines the analysis of many aspects of globalization processes into one. The index was originally introduced by Dreher (2006) and with its help the influence of globalization in the economic, social and political aspects was measured for almost all countries of the world since 1970.

Following the latest additions to the KOF index (Gygli et al., 2019, p.544), *the globalization index in question shares the economic, social and political aspects with their intended purpose by de facto and de jure. While de facto globalization measures actual flows and activities, de jure globalization measures policies, resources, conditions and institutions that, in principle, enable or facilitate actual flows and activities.* The significance of this difference can be seen in practice, when politics is strict only on paper (de jure), but has weak levers for implementation (de facto).

The globalization index KOF is considered in the context of three dimensions - economic, political and social globalization, as well as one total index (Figure 1). According to study about KOF index (Gygli et al., 2019, p.546), *economic globalization characterizes long distance flows of goods, capital and services as well as information and perceptions that accompany market exchanges. Social globalization expresses the spread*

of ideas, information, images and people. Political globalization characterizes the diffusion of government policies.

Figure 1 Overview of world KOF Globalization Index in different dimensions



where — means de-jure, — means de-facto

a) economic globalization; b) social globalization; c) political globalization; d) total index of globalization.

Source: KOF Swiss Economic Institute

3.3 GDP

Gross domestic product is a macroeconomic index that shows the movement in the currency of goods and services in the form of export and import. (Maitah, 2009)

Foreign trade to a large extent affects the growth of the country's GDP as the main source of income generation for subjects of financial relations. Export-import activities of the state have a positive impact on the growth of GDP of the country, especially in conditions of high both productivity and competitiveness of domestic products.

3.3.1 GDP per capita

GDP per capita is a measure of standard of living that counts as GDP of the country divided on its total population. (Maitah, 2009)

The level of GDP per capita in the country makes it possible to compare with other countries and to identify in which category they belong - to developed or developing ones.

3.4 Export

Export is one of the components of international trade that is volumes of goods or services (raw materials, ready-to—use products, works, results of intellectual activity and the like) that was produced domestically and exported from the country abroad to to foreign partners.

3.5 Import

Contraversily, import shows the share of goods and service that was produced abroad and bought by another country (its citizens, businesses and the government).

3.6 Trade Balance

Combined, import and export characterizes a country's trade balance (a.k.a. net exports). The volume of international trade counts as the ratio of the value of goods exported by a country or a group of countries to the value of goods imported by them for a certain period of time:

$$NX = Ex - Im, \quad (1)$$

Where NX – is a trade balance (NX means net exports),

Ex – means exports, Im – means imports.

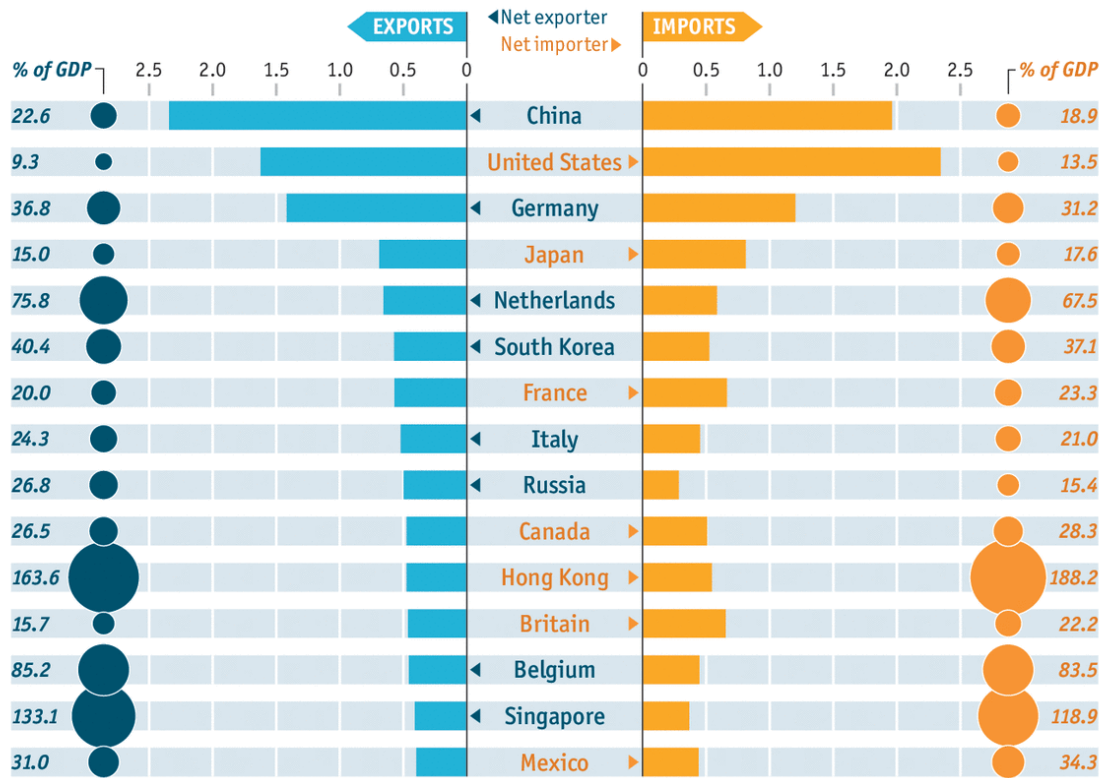
When the country exports more than it imports, it has a trade surplus (2a). When it imports more than it exports, it has a trade deficit (2b).

$$Ex > Im; Nx > 0 - \text{trade surplus}; \quad (2a)$$

$$Ex < Im; Nx < 0 - \text{trade deficit}. \quad (2b)$$

Share of export and import affects directly country economic development. As an example, there are top-15 countries in the global market by Economist presented on the Figure 2. The share of export and import is shown as well as their influence on national economy named percentage of GDP is evaluated.

Figure 2 Trade flows. Largest global exporters, \$trn



Source: IMF

4 Practical Part

4.1 Overview of Uzbekistan's Economy

Uzbekistan is one of the wired countries of Central Asia. On the one hand, this region has good advantages: rich natural resources, an educated workforce, cultural diversity and strategic location, in particular, proximity to China - these factors are a good basis for the development of the economies of the region. On the other hand, Uzbekistan and other Central Asian (CA) countries do not have direct access to seaports, are at a great distance from many global economic centers, have relatively small populations and the capacity of the domestic market, and the infrastructure in these countries is underdeveloped; political instability in some of these countries poses risks to human development in Central Asia. After the dissolution of the Soviet Union in 1991, Uzbekistan's gone through a long process of transformation and it is still in process of development.

In the first decade of the 21st century, the volume of foreign trade of Uzbekistan has increased significantly. Exports almost tripled, while imports doubled. The country began the decade with a zero trade balance and, thanks to faster export growth in 2010, managed to achieve a significant positive trade balance of 5% of GDP. As a result, the openness of the economy increased from 12% of GDP in 2002 to 20% or more in 2007-2010.

Uzbekistan is actively reforming state structures and public services in order to comply with living standards and make the conditions for doing business easier.

Due to its location and natural advantages, Uzbekistan has every chance of achieving leader's position in Central Asia region. Further, initial state is examined till the reforms of 2016 year. Then economic reform strategy of President Mirziyoyev and further economic modernization are outlined.

4.1.1 Uzbekistan's Economy 1991-2016

During the so-called 'transformational recession' (Kornai, 1994) from 1991 to 1997, the recession of Uzbekistan was one of the lowest among the countries of the post-Soviet space and the Baltic states and even comparable to countries with economies in transition in Central Europe (table 2). Moreover, the liberalization index, that measures the level of economic liberalization, was average, but higher than many CA countries.

Table 2 Output Paths of Countries, 1992-1997

Country	Output Index (1991 = 100)*						Liberalization Index**
	1992	1993	1994	1995	1996	1997	
Armenia	47	41	43	46	49	50	0.60
Azerbaijan	78	60	49	44	44	46	0.40
Belarus	90	83	73	65	67	74	0.50
Estonia	78	72	71	74	77	81	0.90
Georgia	55	41	37	37	41	45	0.40
Kazakhstan	95	85	74	68	68	70	0.60
Kyrgyz Republic	86	73	58	55	58	62	0.80
Latvia	65	54	56	56	57	61	0.80
Lithuania	80	67	59	61	64	68	0.90
Moldova	71	72	49	49	45	46	0.70
Russia	86	78	68	66	64	64	0.70
Tajikistan	71	63	50	44	31	32	0.40
Turkmenistan	95	85	69	64	62	47	0.20
Ukraine	90	77	60	52	47	46	0.50
Uzbekistan	89	87	83	83	84	86	0.50

Sources: IMF; de Melo and Gelb (1997)

* in percentage of 1991 output (sum of differences between 1991 level in 1992 through 1997).

** defined between 0 (no liberalization/structural reform) and 1 (full liberalization).

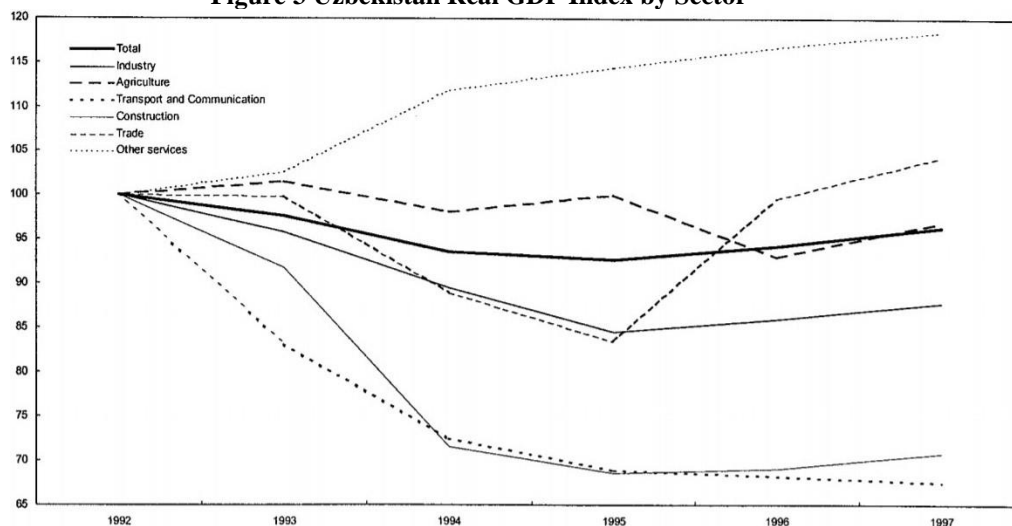
At the same time, the government was not hasten to switch to a market-oriented economy, which from one side helped to avoid a large transitional recession, but from the opposite side it led to an output decline in 1996 (Keller and Borensztein, 1998). State-oriented and import substitution strategies and overregulation caused barriers in domestic and external liberalization, in particular – placing various restrictions on business. Enterprise restructuring and privatization were inhibited because of government's regulations of the large parts of economy – agricultural sector and industry. Foreign investment flows decreased that may be related to the government's restrictive foreign exchange and trade policies.

Despite the favorable location of the republic for air, rail and road transport, underdeveloped infrastructure has become a serious barrier to trade development in the country along with excessive control that also affected transit trade. Uzbekistan fell into economic isolation due to a combination of several factors: strict internal transit rules, long delays at the border, customs regulations and charges aimed to protect import-competing industries, as well as poor relations with neighbors.

The economic situation has worsen in 1995-1996 (Figure 3). Performance in sectors of industry, construction, transportation and communications has fallen significantly, which has affected GDP. Despite government support and promote for domestic products,

many sectors' outputs continued to fall. Market crash was abandoned by (i) service sector expansion that has been similar to other transition countries, (ii) trade liberalization and boosted foreign exchange earnings, some of which were conducted in the context of IMF-supported adjustment programs (Keller and Borensztein, 1998).

Figure 3 Uzbekistan Real GDP Index by Sector

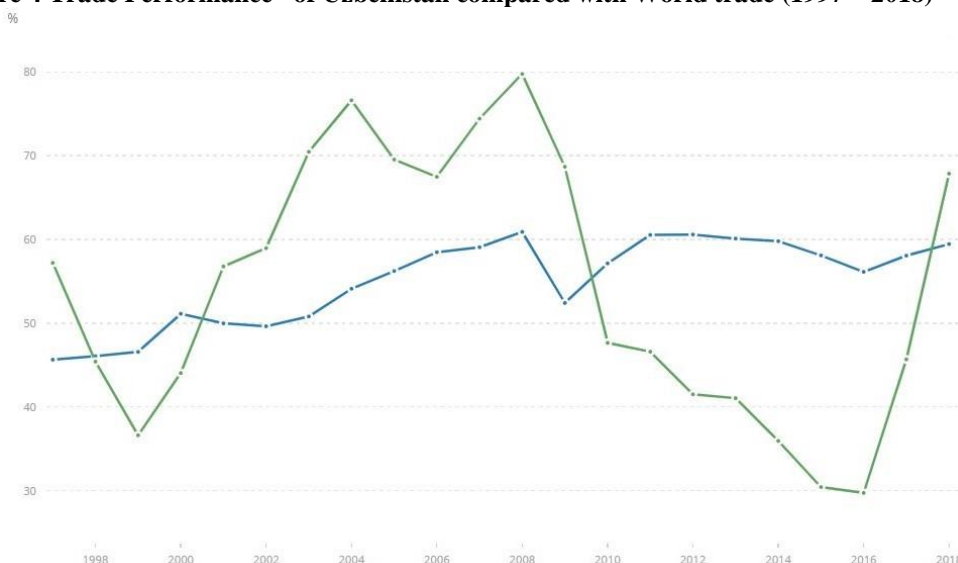


where 1992 defines as 100
 Source: Keller and Borensztein, 1998

Changes in the macroeconomic and structural policies of Uzbekistan have taken place against the backdrop of deep institutional changes and the intensified transition to a market economy. The increasing openness of the economy to neighboring countries of Central Asia has led to the rapid growth of intraregional trade. Also the expansion of domestic demand and currency liberalization led to the growth of both export and import. All this significantly influenced foreign trade in 2000–2010.

The economic growth of the first years of the XXI century was clearly due to the raw material boom. Due to the fact that in the period from 2000 to 2010 the importance of agricultural raw materials decreased, rapid growth occurred in the services, construction and mining sectors, but did not follow in production. Fluctuations in world prices for energy products and metals have had a great impact on the economy of Uzbekistan. As prices gradually rose in 1999-2008, economy enjoyed steady growth. But then, the financial crisis of 2007–08 greatly affected the volume of trade in Uzbekistan, from which it recovered long period of time till the end of 2016 (Figure 4).

Figure 4 Trade Performance* of Uzbekistan compared with World trade (1997 – 2018)



where — is Uzbekistan, — is World data.

*trade performance accounts in % of GDP

Source: World Bank Open Data

4.1.2 The Economic Modernization of Uzbekistan

With the first change of power in 25 years in 2016, government introduced immediate action plan adopted named “2017-2021 National Development Strategy” (hereafter, “The Strategy”), where five priority areas were identified: reform of public administration, judicial system, social area, security and foreign policy and economic development.

In terms of economic development and liberalization, the Strategy is focused on relieving overcontrol and the state's presence in economic processes (transition from state-led economy into a market-driven system), increasing the competitiveness of national goods in the international market, the intensive development of agriculture and infrastructures, expansion of international cooperation.

The new president introduced several economic reforms: currency liberalization, tariff reduction, tax reform, reduced import barriers to agricultural products and removed trade and investment barriers. These policies begun to bring positive results in the form of growing exports, increased foreign direct investments, and an increasing number trade partners. Liberalization of financial markets created favorable conditions for domestic and foreign shareholders and has led foreign investment to double. According to summary in foreign trade policy by Embassy of Uzbekistan (Tsereteli, 2018, p.26), *trade turnover with*

foreign countries increased by over 11% in 2017, with exports growing by 15.4 % and imports by 7.2 %. Republic started to renew relations with many countries which had been weak before (The Diplomat Journal). New Reform Strategy brought positive shift in economic growth of the Republic.

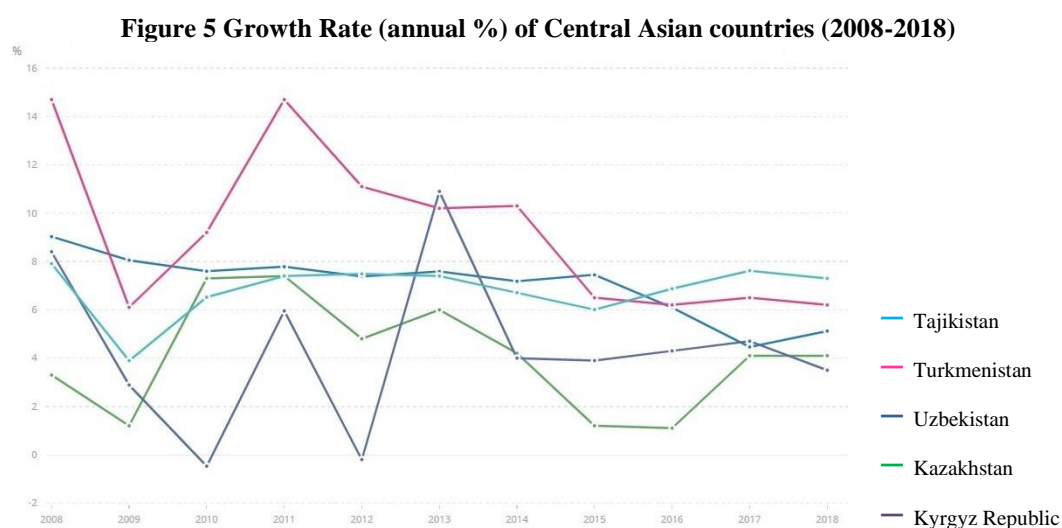
4.2 Trade Data Analysis

Despite the active reorientation of the country's economy, Uzbekistan continues to grow at a slowdown caused by global trade tensions and weakening growth in key trading partners that affects the reduction of exports and the influx of remittances (IMF, 2019). After the crisis of 2016, the country's economy is gradually recovering, but inflation remains subdued.

Republic of Uzbekistan concentrates on improving competitiveness, using their natural advantages more effectively and starting to diversify their economies. The republic has already started to reap the gains from trade and integrate into global value chains.

4.2.1 Economy Development

Uzbekistan is one of the leading countries in Central Asia in an effort to break out of low-income countries, second only to Tajikistan and Turkmenistan according to data on annual growth rate (Figure 5).

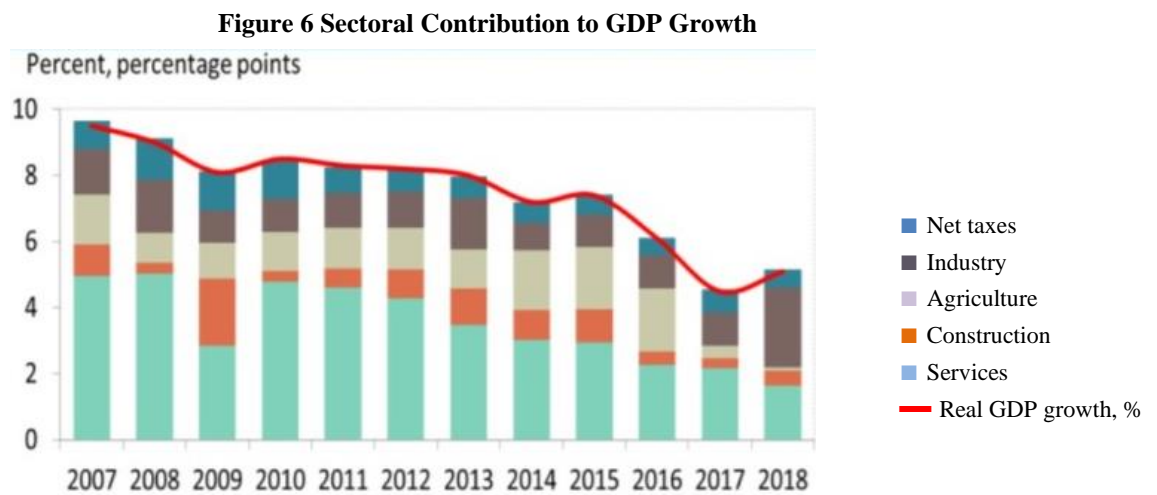


Source: World Bank Open Data

Due to improved cooperation with neighbors, CIS countries and the European Union, market relations have expanded, and the flow of investment has increased. GDP

growth has mainly changed its trend to positive since 2016 thanks to unprecedented successful reform of the country's economic strategy and reorientation according to the needs of the foreign trade community.

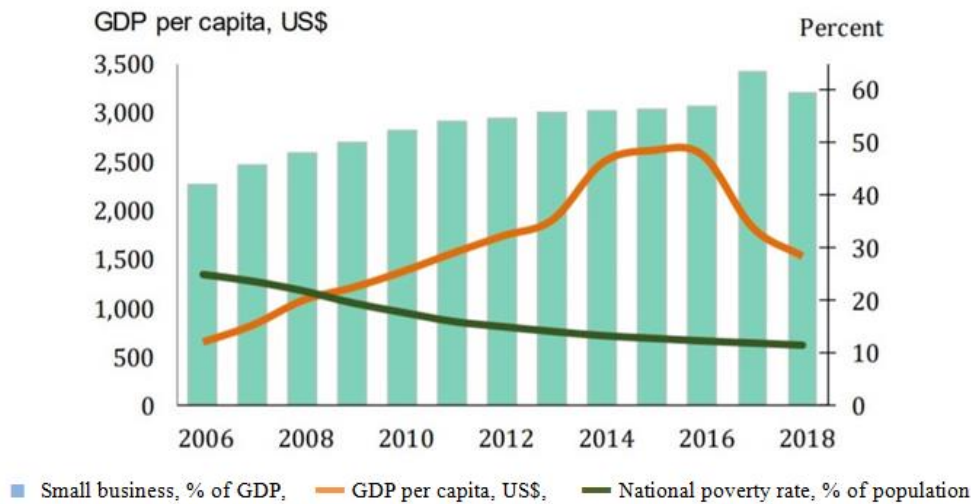
On the supply side, economic activity grew in industrial production and the construction sector by 6.8% and 5.9%, respectively, but in agriculture, activity growth fell to 2.5%, as the demand for the main export offers of cotton and wheat decreased (Trushin, 2019, p.4). In 2019, the growth in industrial production was due to an increase in production by 7.6 percent, mining by 4.8 percent and other industries by 5.5 percent (Ibid, 2019, p.4). This followed an increase of 5.1 percent in 2018 and 4.5 percent in 2017. (Figure 6)



Source: World Bank Open Data

While the contribution of net exports slowed GDP growth by about 7.1% in 2018, domestic demand increased by 12.2% (Trushin, 2019, p.5). This can be explained by the fact that the state actively took measures on internal investment and small business enterprise boosting. (Figure 7)

Figure 7 GDP per capita, Poverty and Small Business Share in GDP



Source: Ministry of Economy, World Bank Open Data

Real GDP growth rose to 5.3% year-on-year in the first quarter of 2019 from 5.1% in the first quarter of 2018 (Trushin, 2019, p.15), and projected at 5.5% in 2020. (IMF)

4.2.2 Export/Import structure

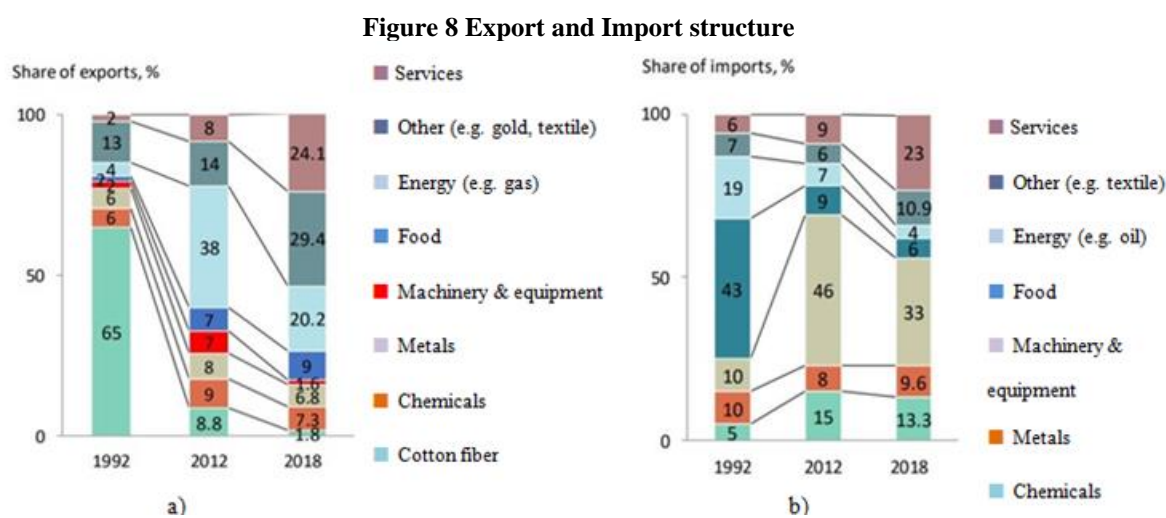
Export structure.

Over the past 30 years, market demand has changed significantly and shifted to focus on non-commodity exports. In turn, this led to structural changes in the economic activity of Uzbekistan to manufacture goods: the share of cotton fiber in exports, which was the basis of the country's economy till the mid-90s, fell from 65% to 1.8% in 2018, now selling finished textiles instead of raw material. Industrial growth came from growth in manufacturing by 7.6% selling cars, home appliances and other equipment instead of mining natural resources only Trade in service increased mainly due to growing tourist interest, which led to trade growth in transport and communications sectors. (Figure 8a)

Import Structure.

Comparing to 1992, import structure has changed from the consuming behavior, buying mostly food and energy to the role of capital goods that improves the productive capacity of the country. By 2018, import was transformed to raw materials (machinery,

equipment, and chemicals) and other capital goods related to public investment projects. Also as textile production was expanded domestically, its import declined respectively. (Figure 8b)



a) export structure; b) import structure
Source: Uzbekistan authorities; World Bank Open Data

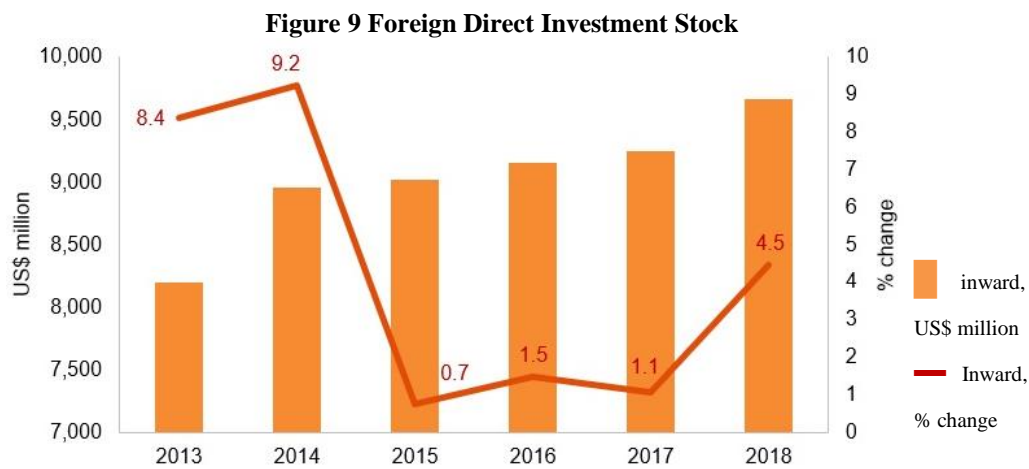
4.2.3 Foreign Direct Investment

Progress has been made by opening borders for foreign investment. Thus, cooperation was established with many international financial institutions, as well as investors, for example: Russian Federation started investing focusing on oil and gas, while China, India, the Republic of Korea and Turkey are interested in agribusiness, alternative and renewable energy. (UNCTAD, 2019)

A favorable investment climate creates a solid reputation and inflows of foreign and domestic investors. Economic reforms, such as currency liberalization, tariff reduction, and tax reform, have led foreign investment to double. At the same time, it is difficult to say that this financial support greatly affected the growth of the economy of Uzbekistan.

According to Agathe Demarais, global forecasting director at the Economist Intelligence Unit (CNBS, 2019), ‘a recent \$1 billion bond offering was relatively well received by investors, but not many of the plans outlined in the government’s development strategies have been fully implemented’. It is stated that *the transition to a market economy and satisfying investor expectations is constrained by retaining strong control over all economic processes and maintains controlling shares of key industries, including energy, telecommunications, airlines, and mining* (Bekmurodova, 2020). She also explained that

Uzbekistan’s society is far from being a free-market one, given that the legacy of the Soviet era is still “*very much palpable, and it will take decades to move away from the current mindset*”. While government is reluctant to open up the economy, FDI will stay low (according to World Bank collection of development indicator, it is 1,24 % of net inflows in 2018, see more on Figure 9). So the government should also give consideration to promoting further trade liberalization in the economy since its boost at the end of 2003 had a strong positive impact on economic growth.



Source: UNCTAD

4.2.4 Key trade partners

Uzbekistan’s diplomatic and economic relationships with its neighbors have improved. *The government has opened the previously-closed borders with Uzbekistan's neighbors and has initiated regional transport links to foster new trade and investment opportunities in Central Asia* (Trushin, 2019, p.2).

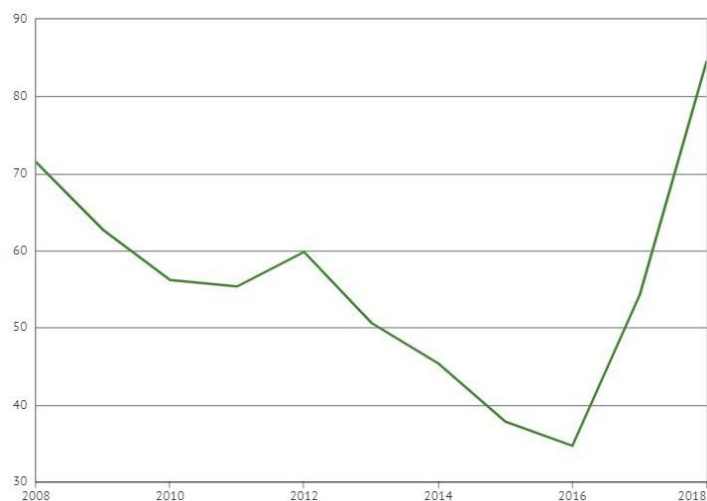
Since 1992, Uzbekistan changed trade partnership vectors from dominating by Russian Federation (55% of trade in 1992 to 29% in 2018, and 17% in 2018) to diversifying it to China (19% in 2018), CIS countries (15% in 2018), the EU (7%) Turkey (6%) and Korea (6%).

4.3 Influence of globalization processes

4.3.1 Trade openness

The ratio of trade to GDP – an indicator of trade ‘openness’ – has increased for Uzbekistan since it became a true part of global membership and started a process of trade liberalization. (Figure 10)

Figure 10 Ratio of total exports and imports to GDP (2008 – 2018)



Source: TheGlobalEconomy.com

By 2017, Uzbekistan became more self-sufficient and the share of import to GDP is almost equal to share of export (29.5% and 28.5% respectively). But still, according to GlobalEconomy ranking by country, Uzbekistan takes the 147th place of 171 by trade openness index, giving way for most of its neighbors.

4.3.2 KOF Globalization Index

As was mentioned in the theoretical part, KOF index helps to monitor changes in the levels of globalization of the country both factual (de facto) and legal (de jure) status. The score evaluates on a scale from 1 to 100. The figures for the constituent variables are expressed as percentiles. The KOF Globalization index analysis of Uzbekistan is represented below.

In economic dimension, it is seen how worsen economic situation in 1996 when performance in sectors of industry, construction, transportation and communications has fallen affected de facto economic globalization of the Republic. Fast reaction of the government in the next year (1997) in the sphere of legal regulations is represented on the graph as the most significant peak till nowadays. These reforms of trade reorientation had a

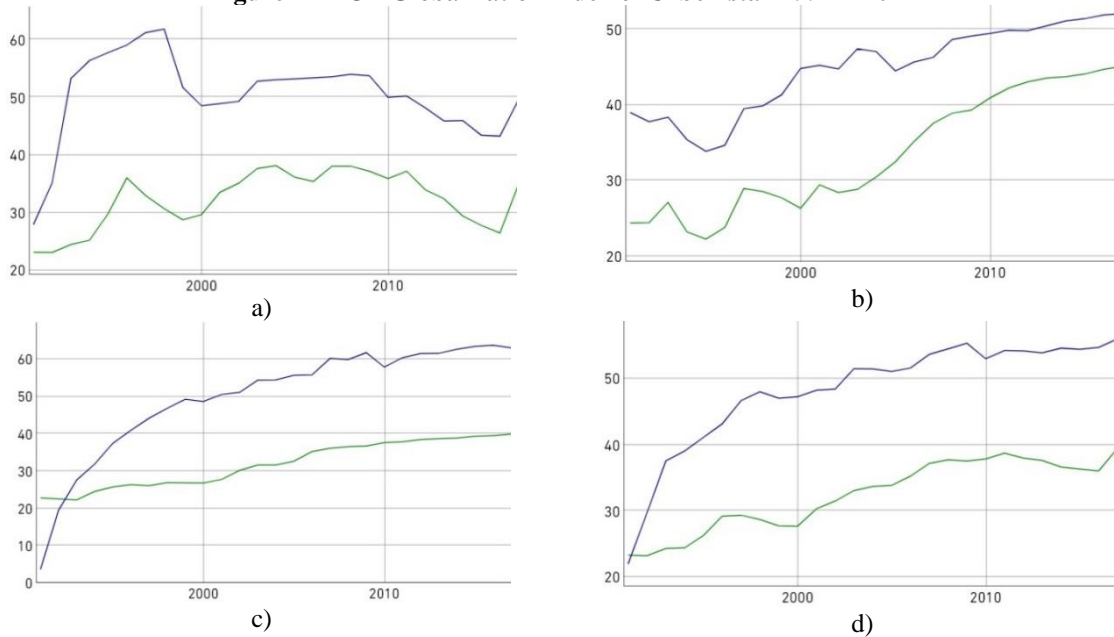
long path of transformations. Then the line chart is continuously falling by 20 points de jure and 10 points de facto representing the economic stagnation of that years. (Figure 11a)

Social globalization shows a rapid global integration growth of Uzbekistan’s society. New visa regime, release of press prisoners, education reforms, tourism promotion and the like affected both interest of global community to Uzbekistan and desire of locals to open to the world. Only 1995 marked as noticeable drop in the index due to big migration flows of young people, strict freedom expression policy and out-of-date education system standards. (Figure 11b)

De facto political globalization seems almost stable. It can be explain as during first 25 years from independence the power was in the hand of one party, that caused a resistance to any changes, so political liberalization was quite slow. In contrast, de jure status shows efforts in this dimension. But they were made rather in formal way to achieve certain status on global level, than to make true political restructuring. (Figure 11c)

In sum, globalization tends to be not so effective to the process of liberalization and global integration. It can be affected by social conservatism and mild political management. At the same time, global community and financial institutions push Uzbekistan to the shifts and help to overcome challenges it face during the globalization path. (Figure 11d)

Figure 11 KOF Globalization index of Uzbekistan 1991 – 2017

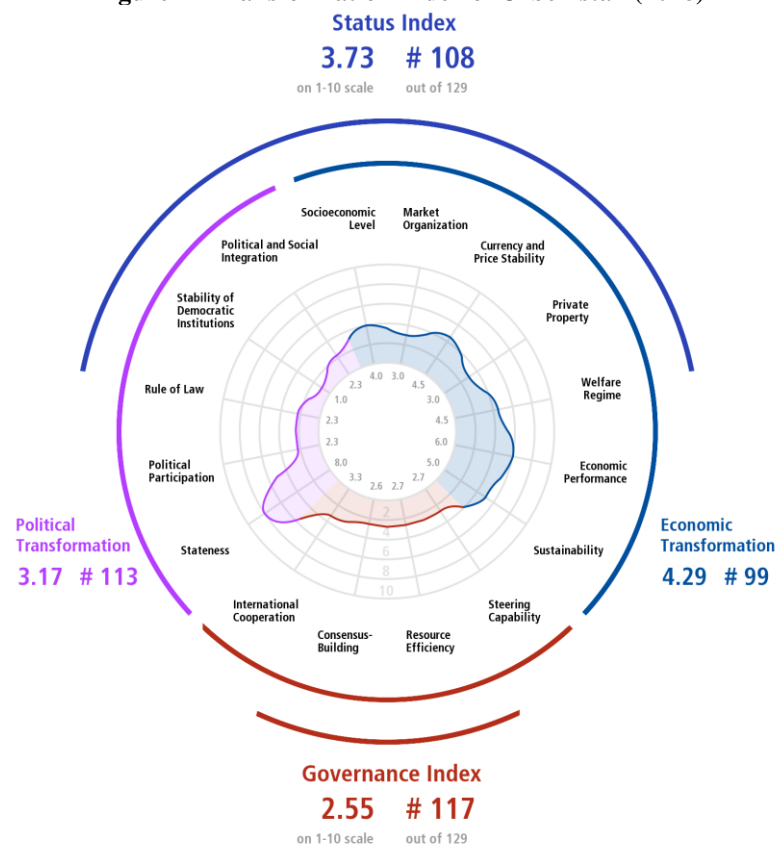


where — de facto, — de jure:
a) economic dimension, b) social dimension, c) political dimension, d) global dimension
Source: KOF Swiss Economic Institute

4.3.3 Effect of globalization on country development

Today, democracy and a market economy are probably the most difficult challenges for developing countries in socioeconomic and political terms. Figure 12 below shows the index characterizing the transformation processes for 2016-2018 in Uzbekistan in these two dimensions. The index is evaluated in many ways from 1 that is the worst scale to 10 that is the best. The analysis conducted on the basis of the Bertelsmann Stiftung's country's report (2018).

Figure 12 Transformation Index of Uzbekistan (2018)



Source: The Bertelsmann Stiftung

Globalization also defines in the fact that the country's internal processes become “public” for the entire world community. To be part of the global community, the country needs to make its policies public, transparent. *In the case of Uzbekistan, the political leadership maintains interaction with international institutions and independent observers, such as UNDP, the OSCE and the World Bank and others (BTI, 2018), which provide experience that may help to increase economic or other resources and suppress illegal, unfair actions at any level of state activities. Therefore, any events within the country become sensitive to criticism from the outside and are transformed under their onslaught.*

At the same time, the government accepts international assistance very selectively, embracing cooperation with some international agencies and rejecting cooperation with others (BTI, 2018).

However, 25-years-long in regime of autocracy, *which caused serious criticism on many occasions abroad and inside the country (Ibid, 2018)*, has been replaced by softer, quasi-democratic rule by Mirziyoyev. Meanwhile, the monopoly of power remains to this day, albeit in a different person. According to the research team of the Bertelsmann Stiftung, oligarchic interest groups are still managing public interest (led and held together by the supreme oligarch – the president). Such functioning of the administrative apparatus creates an environment for corruption and nepotism, which weakens the ability to manage the state in a quality and qualified manner.

The political situation of the state is reflected in the socio-economic state of the country's potential. Due to the tough state policy of the country and other constraints, the country's capable population migrates to countries with great potential for self-realization. External calls for democracy and freedom of expression cannot reach the government, but they are heard by people. Autocracy in the past and quasi-democracy today has led to the emergence of such migrations as: 1) labor; 2) permanent residence; 3) “brain drain” and 4) human trafficking (BTI, 2018).

Entrepreneurship and competition are possible only in small segments, which is why great progress in international trade is not observed. Although antimonopoly policy is on the side of protecting such sensitive parts of society, the government continues to control the basic market mechanisms, thereby weakening competitive ability, influencing the investment climate, and much more.

According to study on economic outlook and risks by Trushin (2019, p.15), *despite a slowdown of political and social changes, economic performance remains positive, with real GDP growth represented at 5.3 percent in 2019, 5.5 percent in 2020, and 6 percent in 2021 (Table 3).*

Table 3 Economic Outlook of Uzbekistan

Indicators (in %)	2018	2019	2020*	2021*
GDP:	5.1	5.3	5.5	6.0
Agriculture	0.3	2.9	3.2	3.4
Industry and construction	10.4	6.4	6.3	6.7
Services	4.7	5.9	6.3	6.7
Gross Fixed Capital Investment:	18.1	15.2	10.2	10.1
Exports, Goods and Services	10.7	8.2	2.2	2.5
Imports, Goods and Services	25.8	18.4	7.1	6.8
Inflation	17.5	14.8	14.1	11.0
Current-Account Balance (% of GDP)	-7.1	-6.6	-5.6	-4.7
Overall Fiscal Balance (% of GDP)	-2.1	-1.6	-1.8	-1.8
Debt (% of GDP)	20.6	23.2	24.7	24.6

*forecast

Source: World Bank Open Data and IMF calculations.

5 Results and Discussion

The favorable geopolitical position in Central Asia, as well as the natural endowments of Uzbekistan, allows the country to conduct successful economic activity, both with the western part of the Eurasian continent, and to establish partnerships with East Asia.

The first years of independence for the republic were, like for other countries of the former Union, a transitional state of the economy, but without strong shocks. For a long time, the country's growth indicators were stably positive. The economy of the country continues to be under excessive control of the government, so the improvements observed in macro-economic policies and stable growth depend on further structural reforms. Likely, after such changes the productivity will increase. Moreover, despite some progress in recent years and developed partnerships with number of leading states and financial institutions, the Republic cannot benefit from increased integration with high-income countries. There is no democracy while the government acts autocratically.

While the world community is pulling the country up, government forces, resisting, do not allow reforms to show the proper effect. As a result, the 25-year-long post-Soviet transformation of Uzbekistan revealed a large gap between de jure democracy and de facto autocracy.

Important state and financial sectors are lagging and underdeveloped, there is no economic and political transparency, and therefore it is impossible to conduct qualitative either quantitative analysis based on official data. In this regard, the transition to the level of countries with incomes above average is significantly slowing down.

Author of this study believes that in order to overcome these difficulties, the government needs to revise its economic development strategy and chart a new developed course. The country must accelerate reform efforts if they are to raise living standards to those enjoyed elsewhere in the world. Moreover, amid slow global growth and policy uncertainty, weaker growth outlooks key trading partners are already being felt through lower trade volumes and remittances.

In author's opinion, for Uzbekistan making economies more resilient to global economic stagnation means reducing the presence of tight state control and moving to more market-based approaches, including by improving the business environment and promoting good governance.

Anyway, under pressure from the international community, the liberalization process will continue at any level, and over time the government will have to give in and change the form of government to a more flexible - truly democratic. And the public of Uzbekistan will actively support the government in this. Today in Uzbekistan, there are already about 8,000 NGOs operating in various social spheres - well-being, environment and so on. Their efficiency is limited to the local level, but in the process of liberalization their potential and freedom to expand to a more executive level - opposition parties, political movements will begin to form, the level of civic activity will rise, and so on. Expectations of such liberalization are growing among ordinary people, NGOs, intelligentsia and youth.

At the same time, international organizations, primarily the U.N., the OSCE and the EU, as well as leading democratic states should be more determined and persistent in promoting democratic and market economy reforms. They should actively encourage a progressive pace of reform, especially when it comes to the development of civil society.

Lastly, globalization plays a crucial role for developed countries, as well as for developing countries means the presence of developing countries in the international economy. While low-income countries increase their competencies in the political, economic and social spheres by participating in international processes, high-income countries gain resources and new markets for trade. Based on this knowledge, authorities of developing countries should give credit to processes of globalization as an opportunity to accelerate country's potential with worldwide cooperation.

6 Conclusion

The investigation has shown the importance of processes of globalization for economies of developing countries in the framework of improvement of foreign trade. A country that truly seeks to raise living standards should focus on expanding trade internationally. Although foreign trade is important, governance has to take into account internal restraining and reinforcing factors, as political environment from the inside may hamper as well as improve efficiency of implemented reforms.

Uzbekistan is considered one of 129 developing countries of the world with good potential to take a leadership position both among the countries of Central Asia. Uzbekistan has the foundation needed to become an regional economic powerhouse: a dynamic, literate, and entrepreneurial population, the largest in Central Asia, relatively good infrastructure; and the largest potential consumer market in the region. Rich natural resources such as gold, natural gas, and cotton offer attractive opportunities for investors.

This paper has pointed out how international trade affects country development and standards of living, and how political environment may inhibit economic growth through continued containment of processes of liberalization and global integration.

Developing countries account for a significant share of global growth thanks to increased trade with emerging markets. Notwithstanding their rising global importance, emerging economies remain developing countries that continue to face major development challenges. The case of Uzbekistan is no different, and progress in economic and living standards will require not only a good understanding of how Uzbekistan is likely to be affected by a changing global environment, but also policy and institutional reforms to foster the required structural economic transformation.

In fact, the economy of Uzbekistan is largely separated from the world market geographically and politically. The regime pursues a protectionist foreign trade policy formally aimed at protecting and developing local producers by protecting them from import competition. And while the government continues to pursue such a policy, economic growth will be mild and international support in the form of cooperation and investment flow will be negligible.

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