

THE WORLD TRADE ORGANIZATION AND UZBEKISTAN

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ABSTRACT

The World Trade Organization(WTO) is the only international organization that regulates international trade. This makes it the only organization, which has the potential to give Uzbekistan access to bigger markets and opportunities, thus boosting its economy as a whole. However, although Uzbekistan applied for membership in the WTO almost 30 years ago, it has not been approved as of the end of 2022. As currently Uzbekistan's accession into the World Trade Organization is an ongoing and highly debated topic, this paper aims to go through the reasons why Uzbekistan has not been accepted yet as well as advantageous and negative aspects of accession and finally drawing a conclusion of the benefits of the membership will overcome the latent drawbacks.

Keywords: The WTO, Uzbekistan, developing countries, member, international, trade, Uzbek.

Short Background of the WTO

Following the globally disastrous World War II, in more than 30 countries such as the Soviet Union, China, Japan, and Germany large amounts of physical capital was destroyed through six years of ground battles and bombing. Even comparatively wealthy Western Europe was suffering from continuous hunger. The countries had to rebuild their economies, this time better and long-lasting ones. To boost economic recovery and regulate world trade by reducing or eliminating trade tariffs, quotas, and subsidies, the General Agreement on Tariffs and Trade (GATT) was established in 1948. Until 1994, it regulated international trade and contributed to the highest growth rates of world economy. However, the GATT was in favor of the industrial countries, and lost confidence among the developing countries. In order to replace it, The World Trade Organization (WTO) was signed in 1995 by 123 nations. Since then, it has been serving as the only international organization that has taken the responsibility of dealing with Trade rules between its signatory members.

Introduction

Uniting 164 economies respectively in itself, the World Trade Organization has been notably successful in its mission of liberalizing trade on an international scale. Originally, it was founded with the aim of replacing its predecessor GATT, which was in favor of the industrial countries and lost confidence among the developing countries. Well, hereby this raises the following question: Did the WTO actually succeed in its foundational mission of treating all countries, regardless of their economic and power status equally and fairly? There are vast majority of individuals still holding the claim that the organization has failed the interests of developing nations, which however severely opposes the phenomenon that two-thirds of the WTO consist of developing nations who have waited for their accession with decades of effort. Contrary to the negative notion about the attitude of the WTO to its members, according to the WTO annual report, as of 2022 more than 20 developing and least developed economies, among which are Turkmenistan, Iran and Ethiopia, are engaged in the accession process. The following essay will analyze several factors that caused this opinion along with the attractive aspects of accession for the country and latent unfavorable by-products of it and it will elaborate on reasons why Uzbekistan has not still been given membership.

Why the delay?

WTO accession of Uzbekistan is still proceeding as of the end of 2022 and it is the longest accession process as it has been almost 3 decades since Uzbekistan applied for membership the first time in 1994. The matter is not the reluctance of the organization to accept Uzbekistan. However, in reality, the underlying reason for the prolongation is that the government decided not to continue its efforts. Since the government had doubts regarding the promising benefits of membership, it was no longer inclined to proceed with accession. Nevertheless, with the election of the new president in 2016, substantial alterations were made in policies, which were in favor of economic and political transparency and liberalization. In light of these changes, the country's WTO accession was expected to progress. Yet, only four meetings were held with working partiesⁱ of the WTO and following the last one in 2005, the accession process halted for the second time. The government chose to stick to protectionism in trade policies after 1994/1995 liberalization reforms. It restricted "unnecessary" imports (such as consumer products) by keeping currency conversion almost unavailable and stimulated "desired" imports such as machinery by granting currency conversion at the time when the Uzbek so' m exchange rate was at unreasonably high levels. Later, this policy stayed in history as the "*Uzbek model of development*." The subsequent economic crisis in the Former Soviet Union (FSU) statesⁱⁱ (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan in Central Asia and Belarus,

Moldova, Russian, Ukraine in Eastern Europe and Estonia, Latvia, Lithuania from Baltic States and Armenia, Azerbaijan, Georgia from South Caucasus), also known as Post-Soviet states and Asia in 1998 caused the government to opt for protectionism. Due to the emerged circumstances, the Uzbek government did not consider the accession to the WTO a priority anymore. Nevertheless, the hope for trade liberalization reappeared in 2003 as the government started to take steps to liberalization, initially by taking out restrictions on currency exchange. Reforms resulted in significant growth in trade and the economy as a whole. Yet, coming to 2007-2008, the world economy faced a crisis and Uzbekistan was critically influenced. In order to deal with the situation, foreign exchange was restricted and only government-approved exchangers could be engaged in exchange of currency, thus returning to protectionist approach in trade. After election of the new president of Uzbekistan, new development strategies were set in which joining the WTO was one of primary ones.

What does WTO membership give Uzbekistan?

It has long been observed and proven from the accession processes of various states that the beginning of accession to the organization alone leads to significant alteration in the economy and standard of life of a country. In other words, the importance of accession into WTO can be seen in the fact that in order to join the organization merely, the governments carry out major changes and advancements at an unprecedented level none of which would most probably never be imaginable in a given country if it were not for the requirements of the WTO accession. Professor Shang-Jin Wei, working with Arvind Subramanian of the Peterson Institute for International Economics and Johns Hopkins University suggests, “Countries that joined the GATT (General Agreement on Tariffs and Trade) after 1990 or joined the WTO had to implement more reforms, and these nations have seen faster growth in their international trading volume.” In other words, when some countries were required to carry out more reforms in order for them to join the organization, exceptional rates of growth were recorded in the scale of their international trade. This also means that the reforms which were done for the sake of accession actually helped the country itself to a certain extent, which is an undeniable evidence of one of multiple beneficial aspects of joining the organization. As a case in point, Wei mentions the instance of China, ‘China is a new WTO member that has seen explosive growth in the last 35 years and especially in the last decade, an effect he attributes in part to the reforms China instituted in its years of seeking WTO membership. Some older member countries that didn’t have to undergo reforms haven’t derived many more benefits than

nonmembers and probably fewer than newer members,” which, might be a case with Uzbekistan once joined. Although the WTO doesn't have uniform standard requirements for all the countries who want to become a member, accession terms are driven by the domestic export interests of existing members, meaning that countries have to make changes to all related fields including, but not limited to infrastructure, international relations, business sector, education and governmental policies in terms of economic affairs and add relative adjustments to their trade regimes. Specifically, in Uzbekistan in order to join the WTO, the assigned working parties are making a number of changes to the national legislation, to conduct a number of scientific research works for the development of economics along with others such as electrical engineering, chemical industry, textiles, and agriculture, which are considered the primary fields in our country. In short, although to no official or researcher is it known whether the accession itself will necessarily help the Uzbek economy or the reverse, just as the intention of the government to become a member of the WTO, literally all sectors of the industry and society are going through outstanding level of boost and enhancements none of which were expected to happen any time soon until the decision to join the organization. And again, it is just the beginning of efforts to join the WTO. Other well-known and advantageous aspects of membership include:

- Abandoning protectionism, following the directions of global trade.
- Decrease in the price of imported raw materials, domestically produced goods.
- The dominant position of monopoly companies in the country in the domestic market will be put an end to and a free environment will be created
- Creation of new jobs.

Latent drawbacks

In spite of undeniably positive promising future of accession, there will be challenges in some sectors like Law and Politics, Agriculture and Exports. Predominantly, at the first stages of accession, which is already in process, applicant countries must make changes into their policies and (some) part(s) of ruling systems in order to be in alignment with those of the WTO members, and this situation leads to loss of policy autonomy to some extent as well as causing extra financial burden to the country which is already under-developed. However true this is, it is not the case with Uzbekistan and even the reverse might be true as these practices are actually resulting in re-assessment of certain policies related to tariffs and trade barriers and regulations regarding handling state-owned enterprises, industrial subsidies and Foreign Direct Investment (FDI), making them more effective and plausible than ever. Besides that,

membership might undermine national economy by tariff cuts and removal of trade barriers, which increase imports greatly. As a study on the welfare impacts of China's accession to the WTO found, "almost 90 percent of urban households gain from WTO accession, while over three-quarters of rural households lose out" (Chen, Sh., and Ravallion, M., 2004). Furthermore, quality products flood into the country at cheaper prices due to availability of cheap labor market and other advantages in countries like India and China, local and rural farmers find it difficult to sell their products, thus leading to regional inequalities between industrialists and smaller agriculture-based businesses. Since labor is quite inexpensive in Uzbekistan, it will be able to deal with it though. In addition, Economic liberalization will attract private investment and boost privatization. Besides, The WTO's General Agreement on Trade in Services (GATS) had issued 160 types of services that are supposed to be liberalized. Thus, increased amount of private investment on such as health care, education, food, water, etc. flow into the country, especially into rather urbanized areas as profits will be higher due to the demand available among urban population. Consequently, low-income households cannot afford to use these services, resulting in widened inequality. Still, middle income and poorer groups can be protected from this situation by well-structured and funded government social welfare systems, which are already provided in Uzbekistan.

Although these drawbacks of WTO have been faced by developing nations, in the long run, the positive achievements out of membership seems to outweigh the expected challenges Uzbekistan has to face. Besides, although they cannot be totally eliminated or avoided, it is the negotiations and responsibilities that the government will take during bargains with other members of the WTO that should be set accordingly with the economic, social and environmental capacities of Uzbekistan.

Conclusion

The Uzbek authorities are already nearer than half-way towards accession and this long-awaited acceptance is very soon and inevitable because of the constant and massive efforts of Uzbek government accompanied by active technical and other kinds of support from a number of nations, Russia, the USA, Tajikistan and Singapore, just to name a few. Besides, the possible negative impacts of the membership in the WTO do not seem sufficiently justifiable to change the government's focus on the beneficial aspects of the accession. Based on the aforementioned analysis on beneficial and risky aspects of accession, it is evident that advantages of membership outweighs the possible, disadvantages. It is highly possible based on the promises of the WTO regulations that the membership will act as a bridge for Uzbekistan to advance from its current "developing" state to a "developed" one in the long term.

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Appendixes

i **Working Party** - Group of WTO members negotiating multilaterally with a country applying to join the WTO. (WTO Glossary)

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