Econ. J. of Hokkaido Univ.,
Vol. 33 (2004), pp. 205～219

Regulating System of Foreign Trade in Uzbekistan at the Transitional Period

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This paper aims to analyze non-tariff barriers of foreign trade policy of the country, i.e. foreign trade limitations, permission and prohibition of foreign trade; and indirect policy, i.e. tariff policy and taxation policy for exporting and importing enterprises as well as the relation between the foreign trade regulation and the state budget based on official legislation of Uzbekistan. After analyzing these factors, the general characteristic features of foreign trade policy of Uzbekistan will be presented.

JEL Classification Numbers: F13, F14, P33
Key Words: Uzbekistan, Custom, Tariff, Non-tariff Control, Import-Substitution Policy

1. Introduction

Foreign trade policy consists of two elements; one of them is indirect control of foreign trade by foreign currency exchange policy, custom system, tax system, import quotas and others. The other one is non-tariff barriers of foreign trade by limitation, permission and prohibition.

Foreign trade in Uzbekistan is regulated through the temporal changes in tax system, customs tariff rate, as well as through a list of commodities permitted for foreign trade. Over the last ten years, since Uzbekistan gained independence, its government has frequently used various non-tariff measures as well as indirect measures to regulate foreign trade, as will be shown in this article.

In order to investigate the practicability and applicability of the International Monetary Fund's (IMF) proposals for Uzbekistan, an analysis of the changes in the country's foreign trade policy over the last 10 years is indispensable. Therefore, the author will examine 1) import and export tariffs, 2) the tax system which is closely connected with foreign trade, 3) permissions and prohibitions of foreign trade by the government, and lastly 4) the relation between foreign trade regulation and the state budget.

We can find several articles, which investigate the Uzbek foreign trade system[1], but none of these articles provide any kind of substantial discussion on the tariff control system. These articles are devoted to the analysis of for-

eign currency policy, exchange rate, and inflows of capital, i.e. Foreign Direct Investment (FDI). Therefore, this study might contribute to a further understanding of the import substitution policy and the role of FDI in Uzbekistan by analyzing the system of foreign trade regulation through tariffs.

2. History of Tariff Regulation for Foreign Trade[2)]

2.1 The first stage

Since the independence of the Republic of Uzbekistan, history of its foreign trade policy can be divided into four stages. At every stage, depending on the goals of macroeconomic policy, various measures of the foreign trade policy had been applied.

At the first stage (1991-1994) the government took a number of decisions that helped to establish a basis for its customs policy and tariff regulations. The most important decision was the resolution of the Cabinet of Ministers.[3)] During this time the country's customs policy mainly aimed at keeping the rate of import tariffs at a low level (5-10%) and the rate of export tariffs at a high level (not exceeding 40%)[4)], while at the same time maintaining strict non-tariff control measures of foreign trade (i.e. limitations, prohibitions and permissions). The reasoning of this policy was the necessity to fill up the non-satisfied domestic demand with foreign goods and also the necessity to prohibit the outflow of national wealth by the export of domestic row materials at a low price level to the countries Commonwealth of Independent States (CIS).

The government had applied parallel control of foreign trade by import-export tariffs and non-tariff measures. Even though, it is natural, that in these conditions Uzbek foreign trade policy was dominated mainly by non-tariff regulation. However, it needs to be mentioned that it is very difficult to explain logically its foreign trade policy because the government suffered from lack of any kind of experience in foreign trade regulation and thus Uzbekistan's foreign trade policy can merely be seen as a copy of the Russian approach.

Islamov B. in his article[5)] also considering the problems of the first stage points out: "The first stage, 1991-1994, was mainly concerned with adjustments to the shock of the sudden disintegration from the Former Soviet Union and the sharp fall of mutual trade."

I will try to explain the reason of such a parallel control, i.e. the application of non-tariff barriers and indirect measures at the same time, of foreign trade as follows; firstly, in these circumstances the Uzbek government suffered from a lack of experience in foreign trade regulation; Secondly during this stage, the Uzbek government had to apply prices of raw material, which were determined by Moscow in "Ruble" in 1980's and were settled at a quite low

level; Thirdly there was very complicated diplomatic situation with Moscow, and the Uzbek government could not control perfectly the export of important raw materials by non-tariff measures, that's why government feared an outflow of national wealth due to low prices and had to introduce very high rate of export tariffs for some kinds of raw materials.

2.2 The second stage

The second stage (1994-1996), with the issuing of the "Decree of the President of Uzbekistan"[6], saw a further liberalization with regards to imports. According to this decree all import tariffs were abolished. The main aim of the Uzbek tariff policy at this stage was to fight hyperinflation (884.8% in 1993 and 1281.4% in 1994), as well as to provide a sufficient supply of consumer goods in the domestic market. These tariff measures of trade policy could be realized due to the introduction of a national currency the "Soum" (from July 1, 1994 replaced Russian "Ruble"), new passport system and severe regulation of people's trip abroad.

During this time there were no significant changes with regards to the tariff policy for exports. The reason for this was that the government could not increase export prices of natural resources (e.g. oil, cocoon and cotton), as this would have led to a rise of production costs for industrial producers in the domestic market. In order to prevent an outflow of national wealth due to low export prices, the government, therefore, had to maintain its high export tariff policy during this stage.

2.3 The third stage

At the third stage (1996-1997) import tariffs have been introduced again for many types of goods and services. At that time, rates of import tariffs varied from 5 % to 50% and export tariffs from 10% to 50% by the resolution of October 1, 1996.[7] The higher rates of import tariffs were mostly applied to those goods and services, which were already produced in locally by domestic producers. This measure was taken in order to protect domestic producers from foreign competition and to prevent the outflow of hard currency abroad.

The introduction of import tariffs was supported by two main arguments with regards to the country's macroeconomic policy: a) to protect domestic producers from foreign competition; b) to reduce the state budget deficit by introducing import tariffs for goods that had not been domestically produced.

As for the export tariff policy, this stage experienced little changes. Higher rates of export tariffs had been applied mainly for raw materials as it was at the second stage. The government regarded high export tariffs as an effective measure to prevent the outflow of national wealth through very low export

prices as we observed at the second stage.

Also during this stage, in October 24, 1996 by the Decree of the President of Uzbekistan UP-1601[8], new strict measures of foreign currency control, which limited the free access to foreign currency exchange, were introduced. The access to currency exchange was narrowed to several big enterprises with foreign investment (UzDaewoo Motors, UzDaewoo Electronics, Coca-Cola, UzBAT, Sam Koch Auto, Daewoo Textile, Lok-Color-Sintez, etc.) and some domestic companies, which were producing import substituted products for domestic market. These measures characterize the start of import substitution policy by the government of Uzbekistan.

The import substitution policy could be also clearly seen in the increase of machinery and equipment imports into the country during this stage. This means that the government decided to produce domestically more goods and to substitute imported goods. For example imports of machinery and equipment in 1996 were 1689.1 millions of US dollars, which has increased in 1997 to 2075.9 millions of US dollars.[9]

As an example of operating import substitution policy we can have a look on the case of DEWOO Motors Ltd. and DEWOO Electronics Ltd. Since 1996 the DEWOO Motors Ltd. company has started to produce cars in Uzbekistan and this has contributed for expelling of Russian made cars from local market. The same example we can see in case of DEWOO Electronics, Ltd which produced household electronics like television sets, video players, refrigerators, microwaves, washing machines, vacuum cleaners, telephone and fax machines. Insufficient export competitiveness of these goods inclined their distribution to the domestic market.

From above mentioned facts, we can conclude that the beginning of import substitution policy has been started in the third stage.

2.4 The forth stage

Finally, the forth stage had begun quite bitterly from November 1997 and continues until present time. The reason for this bitter start was continuous fall in international market price for cotton and gold since 1996. Uzbekistan, as the second largest raw-cotton exporter after the U.S. and the fifth biggest gold producer in the world[10], has suffered much more than its neighbors from the simultaneous sharp fall of prices of its two major export products. Furthermore, a substantial decline of energy (natural gas, oil) price has also affected Uzbekistan, since it became a self-sufficient country in energy and a net exporter of natural gas and refined oil products in recent years. As a result, the value share of energy in total exports decreased from 14.3% in 1997 to 8.7% in 1998.[11] By 1998 the Uzbek government was already in a position to control the

exchange rate and the domestic prices of these important export goods that were suffering from a lack of international price-competitiveness.

Therefore, from November 1, 1997 export tariffs for all types of goods and services were abolished.[12] This policy change was consistent with the government's aim of further liberalization of foreign economic activity. However, it should be noted that this had no influence of any kind on domestic producers in the non-exporting sector, but only producers of natural resources benefited from this policy change. So we must consider that even in the fourth stage, Uzbek government maintains the import-substitution policy in its foreign trade policy.

Moreover, since July 1, 2000 exports of domestic products for hard currency are able to enjoy significant benefits from the changes in income tax system. These changes imply that enterprises exporting products to hard currency areas are exempted from any kind of income tax on their profits, regardless of which form of ownership they have. Further, if the value of the enterprise's share in production of export goods for hard currency is between 25 and 50%, then the property tax rate (for land and buildings) is reduced by 50%. If this share of export exceeds 50%, then this company is completely exempted from the property tax.[13]

Concerning to the import tariff by the Resolution of the Cabinet of Ministers No. 80 dated February 24, 1998 new rates were introduced (see Table 1, from enclosure of the resolution No. 80). From February 1998 import tariffs are collected from 68 commodity groups at rates ranging from 3 % to 30% (except for cars). These import tariffs applied to goods originated in countries to which the Republic of Uzbekistan applies Most Favored Nation status (MFN). For other countries, which don't have the MFN status the import tariff rates are doubled.

Uzbekistan applies MFN treatment to 38 countries (see Table 2) described in list-registered No. 426 at the Ministry of Justice dated April 8, 1998.[14]

From 1998 to 2001 as it is shown in the first line of Table 1, DEWOO (Korea) and SKODA (Czech), both are FDI enterprises, can import engine, transmission parts and other parts for automobile production from their mother country at 3% import tariff, as well as "SONY" also can import television parts at 3%. If the conditions of Table 3 are achieved, then import tariff must be exempted. On the other hand, if the whole television set is imported from Japan, then 30% of import tariff is levied. Similarly, for the importation of a passenger car with a 3000cc. engine a 60% import tariff would apply (see Table 1). This clearly shows that the Uzbek government opted for an import substitution policy, which also explains why hardly any foreign-made cars (Toyota, Nissan, Ford, BMW, Mercedes, etc) can be found on the road, or foreign TV sets,

Table 1 . Rates of import tariffs

Commodity group number	Examples	Import tariff rate (%)
	On all types of import of goods (works, service), except for:	3
75, 76, 78, 81	Nickel; Aluminum; Lead; Other non-precious metals;	5
09, 16	Tea; Meat, fish;	10
65	Head-dresses and their parts;	10
88	Aircrafts, their parts;	10
43	Natural and artificial fur and fur goods;	15
02, 19, 20	Poultry meat and by-products; Corn, cereal, flour, starch and milk products; Macaroni, bread, pastry, biscuit; Orange and lemon fruit juice;	20
32, 48, 54, 55, 58	Paints and lacquers; Paper, cardboard; Synthetic fabric; Special fabric, laces, arras;	20
68, 69, 70	Stone, cement ; Ceramic products; Glass and glassware;	30
72, 74, 79	Iron and steel flatly rolled; Copper and copper products; Zinc and zinc products;	20
06, 07, 08, 17, 20, 21, 22, 23, 24, 25	Flower bulbs, root bulbs. Other live plants, fresh, dried; Vegetables; Eatable fruitages and nuts; Sugar confectionary, not containing cacao; Processing products of vegetables, fruits, nuts; Fruit juices; Other foodstuff; Water; Beer; Wine; Strong alcoholic drinks; Dogs and cats feed packed for retail sale; Cigars; White salt as foodstuff;	30
27	Diesel oil, petrol, gas-oils;	30
33, 37, 39, 49	Perfumery; photographic plates and films; Plastic accessories;	30
42, 52, 53, 56, 57, 60, 61, 62, 64, 66, 67.	Genuine and artificial leather products; Cotton yarn and fabric; Len; Cotton wool and felt; Carpets; Knitted fabric; Knitted clothes (except for children clothes); Textile clothes; Footwear; Umbrellas; Artificial flowers;	30
71	Precious jewelry, pearls; Non-precious jewelry clad with precious metals; diamonds, precious stones, silver, gold, platinum;	30
82, 83	Kitchen instruments, knifes, spoons and forks made of non-precious metals; Other products made of non-precious metals not listed under other items;	30
84, 85, 90, 91, 92, 94, 95, 96	Copy machines; Telephone and facsimile; Audio devices; Tape recorders (sound recorder); Videotape; Magnetic tapes and disks; Radio equipment; Television set; Electric bulbs; Cameras; Watches; Musical instruments; Furniture; Lighting equipment; Electric games; Thermoses;	30
87	Wheeled tractors; Bus and Micro bus; Trucks; Motorcycles;	30
97	Works of art, paintings;	30
87	New passenger cars with engine capacity up to 1000cc	40
	New passenger cars with engine capacity from 1000cc to 1500cc	45
	New passenger cars with engine capacity from 1500cc to 1800cc	50
	New passenger cars with engine capacity from 1800cc to 3000cc	60
	New passenger cars with engine capacity more than 3000cc	60
	Used cars;	100

Source; The Resolution of the Cabinet of Ministers No. 80 dated February 24, 1998 (valid until 02. 02. 2001).

Table 2 . The list of countries which enjoy Most Favored Treatment

1. Austria	9. Finland	17. Italy	25. Netherlands	33. Sweden
2. Bangladesh	10. France	18. Japan	26. Pakistan	34. Switzerland
3. Belgium	11. Germany	19. Jordan	27. Poland	35. Turkey
4. Bulgaria	12. Greece	20. Korea	28. Portugal	36. United States
5. China	13. Hungary	21. Latvia	29. Romania	37. United Kingdom
6. Czech Republic	14. India	22. Litvania	30. Saudi Arabia	38. Viet Nam
7. Denmark	15. Ireland	23. Luxembourg	31. Slovak Republic	
8. Estonia	16. Israel	24. Malaysia	32. Spain	

Source; The list registered at the Ministry of Justice dated April 8, 1998, No. 426.

Note; Author can not find the reason why in the table not included countries like Norway, Canada and Taiwan.

Table 3 . Goods and services not subject to import tariffs*

1 . Imported from the countries which belong to Free Trade Area Agreements; (15).
2 . Imported raw materials and imported component by subcontract factory, which exports its finished products to its parent enterprise; (16).
3 . Imported by foreign enterprise carrying out FDI in the Republic of Uzbekistan for the part, which exceeds 50 million USD of imported goods, which are produced by their company abroad; (18).
4 . Technical equipment imported in connection with a project to create a new technical process, under the condition that an authorized bank by the state participates and invests this project; (21).
5 . Technical equipment imported with the purpose of leasing, under the condition that an authorized bank by the state participates and invests this project; (21).
6 . Technical equipment imported by small and medium-sized businesses for manufacturing; (19).
7 . Goods, transferable through customs border by physical persons and not intended for commercial activity; (18).
8 . International transport services; (18).
9 . Goods imported under transit custom regimes and destined for a third country; (18).
10. Supplied under intergovernmental agreements; (18).
11. Imported at the expense of funds assigned from the state budget; (18).
12. Import for personal needs of foreign employees of FDI enterprises; (17).
13. Uzbekistan currency and foreign currency; (18).
14. Assets brought into the country for usage by a foreign government or by a diplomat; (18).
15. Goods imported into Uzbekistan as humanitarian assistance; (18).
16. Imported raw material for the production of goods, which will be exported to foreign countries; (18)
17. Textbooks; (18).

* The numbers in the end of paragraph indicated the reference number, which contains its relevant legislations.

Table 4 . The list of countries of the Free Trade Area Agreement

1. Armenia	4. Georgia	7. Moldova	10. Turkmenistan
2. Azerbaijan	5. Kazakhstan	8. Russian Federation	12. Ukraine
3. Belarus	6. Kyrgyzstan	9. Tajikistan	

Source; The list registered at the Ministry of Justice dated April 8, 1998, No. 429.

refrigerators and other electronic goods in Uzbekistan's homes.

Not all goods imported are subject to Uzbekistan's high tariff rates, as goods originated from member countries of the CIS Free Trade Area Agreement, signed on April 15, 1994, are exempted from import tariffs (see point 1 of Table 3). The list of these states by the Ministry of Justice in April 8, 1998, No. 429 was registered (see Table 4).

However, in practice this special treatment for the 12 CIS countries is in contradiction with the MFN agreements the Uzbek government has with 38 other countries. In 1994 Uzbekistan applied for accession to the World Trade Organization (WTO), which so far has not been granted. If Uzbekistan becomes a member of the WTO, Uzbekistan will have to abandon this special tariff treatment for the 12 CIS countries.

3. Taxation of Imported Goods and Non-Taxation of Imported Goods

Since 1997 imported as well as domestic goods are subject to a value added tax (VAT) of 20%, as laid down in article 73 of the Tax Code of Uzbekistan. However, in 1999 four groups of basic domestic goods (meat, milk, wheat and bread) were granted a reduced value added tax (VAT) rate of 15%.[15)]

We must pay attention to "the list of goods, equipment, raw materials that are exempted from value added tax" approved by the Resolution of Cabinet of Ministers No. 1124 dated April 15, 2002. The point 1 of this list stipulates that the industrial machinery and agriculture equipment imported into the territory of the Republic of Uzbekistan are exempted from VAT. This implies that imports of assembly lines for automobile production are exempted from the 20% VAT. Therefore, this resolution provides great benefits for FDI companies. In1996 exercise taxes for imported goods were introduced, in order to regulate imports into domestic market and increase the revenues for the state budget.[16)]

According to a decision taken by the Uzbek government on the January 13, 1999, a 15% excise tax would be levied for domestically produced TV sets, and a 13% rate for domestically produced automobiles by FDI enterprise of DAEWOO (Korea).[17)] However, it was decided that for imported automobiles with an engine of 1800cc the excise tax would be 4500 euros. This means that an excise tax of 100% would apply to imports of 5 years old cars with 1800cc engine (if the price after tariff control is 4500 euro), and for a new car the rate would be 30%. Therefore the import tariff and excise consumer tax practically play a very important role in Uzbekistan's import substitution policy. The list of excise tax rates for imported goods in 2003 is presented in the Table 5. Here we can observe the fact that another policy intention of the government is presented. The excise tax rate for imported tobacco (50%) and alcohols (70%) in

Table 5 is very high, also high rate is applied to domestically produced tobacco and alcohols[18], which comes out of the second purpose of the excise tax in collecting revenues for the state budget.

It should also be noted that in Uzbekistan for one and the same commodity, both VAT and excise tax, apply at the same time. For example in the case of watches the rate of VAT is 20% and the rate of excise tax is 5 % (see Table 5).

Table 5. Excise tax rates on goods imported to the territory of the Republic of Uzbekistan by legal entities

Commodity groups number	Examples	Tax rate in (%)
87, 91	New cars and delivered from Russia; All types of watches;	5
94, 09, 04, 16, 38, 39, 40, 51, 52, 85, 87	Black and green tea; Furniture, Chandelier; Lighting; Honey; Milk products; Meat, Fish, Sea foots; Braking fluid; plastics and articles hereof; Rubber and article thereof; Wool; Cotton-fiber, cotton yarn; wire; Car parts and accessories;	10
15, 33	Perfumery, cosmetics; Animals; Vegetable oils;	15
19, 09, 17, 27, 69, 42, 82, 34, 36, 50, 56, 58, 60, 63, 68, 84	Corn, cereal, starch, flour, flour confectionery products; Coffee; Sugar; Ceramic items; Soap, organic surface-active agents; pyrotechnic products; Silk; Wadding, special yarns, twine, cordage, ropes and article thereof; Special women fabrics; Tufted textile fabrics; Knitted or crocheted fabrics; Other made up textile articles; sets; worn; Kitchenware: knifes, forks and other base metals goods, including wreathed by precious metals. Genuine leather clothes and accessories; Articles of stone, cement, asbestos; Oil, petroleum;	20
43,	Natural fur outer clothing and head-dresses;	25
16, 17, 18, 20, 70, 22, 27	Caviar; Chocolates ; Fruits, nuts; Confectionery; Glass items; Beer; Mineral fuels and products their distillation;	30
10	Rice;	33
20, 22,	Juices; Soft drinks, Mineral waters;	35
22,	Ethyl alcohol;	40
85,	Video-audio equipment;	45
71, 24	Tobacco goods; Imitation jewelry;	50
22	All kinds of alcoholic products (except for beer);	70
	Cognac; Vodka;	82, 85
71, 57	Carpets and carpet items; Jewelry from pearls and precious stones;	90
87	New and used passenger cars:	
	With engine capacity up to 1000cc	2.4US $ /1cc
	With gasoline engine capacity 1000cc to 1500cc	2.5US $ /1cc
	With gasoline engine capacity 1500cc to 1800cc	2.6US $ /1cc
	With gasoline engine capacity 1800cc to 3000cc	2.9US $ /1cc
	With gasoline engine capacity more than 3000cc	3.1US $ /1cc

Sources; Introduced by resolution of the Cabinet Ministry No. 455 dated December 30, 2002.

4. Quantitative Restriction of Foreign Trade

4.1 Import and export prohibitions

In Uzbekistan import prohibition is limited only to the materials (magazine, books, pictures, movies, video and audio products), which are propagating anti-humanism aims: terrorism, religious hatred, racism or its varieties (anti-Semitism, fascism), and pornographic materials. Annex 5 to the Presidential Decree UP-1871 dated October 10, 1997 specifies the list of goods completely prohibited for import to Uzbekistan.

With regards to export prohibitions, Annex 4 of the Presidential Decree UP-1871 specifies which goods are illegal to export. This list includes : (1) all types of grain; (2) baked products; (3) flour and cereals; (4) cattle and poultry;[19] (5) meat and meat products; (6) powder milk; (7) tea; (8) sugar; (9) antiques; (10) vegetable oil; (11) leather; and (12) ethyl spirit. Some IMF papers criticize that in Central Asia many export bans are introduced.[20] However, with the exception of antiques, the list of products banned from export only covers basic foodstuffs, that in practice are not exported anyway. But, there does exist one export ban that can be seen to be exceptional.

According to the Presidential Decree UP-2553 from the February 28, 2000, the export of silk cocoon, raw silk (non twisted) and silk wastes is prohibited from March 1, 2000, in order to guarantee a maximum supply of raw silk to the silk sector enterprises. This is a typical example of protectionist policy for domestic industry.

4.2 Special permissions for export and import of some specific goods

At present, according to Annex 2 of Resolution No. 137 of the Cabinet of Ministers Republic of Uzbekistan, export and import of some specific goods (and services) can be carried out under permissions issued by authorized organizations (see Table 6). Point 1 of Table 6 stipulates that people of Uzbekistan need a special permission for any kind of labor outside of Uzbekistan. Similarly foreigners in Uzbekistan also need a permission of the Ministry of Labor to work.

No permission is required to send money to Uzbekistan, however until November 2003 a special permission by the Central Bank is needed to send money for investment abroad from Uzbekistan (see point 4 of Table 6).

5. Foreign Trade Regulation and State Budget

In the first years of independence when considerable differences between domestic and world prices were observed, these differences we can assume as flows into the state budget as export tariffs or import tariffs. At present, however, contrary to prevalent situation, impact of tariff regulation on the state

Table 6. List of specific goods (works, services) that is carried out on permission issued by authorized bodies of the Republic of Uzbekistan

No.	Title	Institutions
1	Professional activity of Uzbekistan citizens abroad and foreigners in Uzbekistan	Ministry of Labor
2	Import of film, audio and video production	State Committee on Science And Technology
3	Export of research and development results, know -how, inventions	Ministry of Culture
4	Investments abroad	Central Bank
5	Export of work of art	Ministry of Culture
6	Export of animals and plants entered to The Red Book	National Committee of Protection of Nature of Republic of Uzbekistan

Sources; Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On additional measures on liberalization of foreign trade in the Republic of Uzbekistan", dated March 31, 1998, No. 137.

budget's revenue is insignificant.

In fact share of tariff revenue in the state budget is not more than 1-2%. The reason of these phenomena is the fact that many imported products are officially exempted from tariff (see Table 3; especially point 1, 2, 3, 4 and 6). It is mainly large enterprises with foreign direct investments that gain from these exemptions.

On the other hand the role of VAT and excise tax for imported goods became very important for revenue of the state budget. We must pay attention to the fact, that to TV set produced by FDI in Uzbekistan 20% VAT and 15% excise tax are levied; that is all together 35% of "consumption tax" is levied. In case of automobiles, to DAEWOO 33% (20% VAT and 13% excise tax) of "consumption tax" is levied. In this meaning FDI greatly contributes to the state budget, and therefore "tariff policy" is very important for the state budget.

Moreover, the state budget of Uzbekistan is strongly dependent on the situation of the world economy. Despite the fact that many companies in the field of oil and natural gas production, as well as gold and cotton production were established as joint capital enterprises with government and foreign capital, profits in these sectors take up a great part of the revenues for the state budget. FDI in these fields directly increases the revenue to the state budget. The role of the "tariff policy" in a broad sense (including VAT and excise tax), which aims at promotion of FDI, became very significant for the state budget.

6. Conclusion

The foregone analysis leads to the conclusion that foreign trade policy in Uzbekistan plays a major role for further economic reforms which aim to pro-

tect the domestic industries through an import substitution policy. Tariff and tax policies play an important role with regards to protectionism in Uzbekistan. For example, in the case of textile goods an excise tax of 20% as well as 20% for VAT are added on top of the 30% import tariff. This implies that altogether the importer needs to pay 70% of the import price. This clearly demonstrates that the current foreign trade policy in Uzbekistan plays a protectionist role.

Furthermore, as it was shown in section 3.1 and 3.2, non-tariff barriers of foreign trade by means of permissions and prohibitions also plays a major role in protecting the domestic industries in Uzbekistan from foreign competition. During the first three stages (1991-1997) the Uzbek government kept the rate of export tariffs at a high level and maintained strict export controls. The reason for this policy was to prevent an outflow of national wealth due to low domestic prices. Therefore very strict border control became necessary. In the first stage the basic regulations for border control were laid down and realized completely in the second stage.

Another characteristic feature of foreign trade policy of Uzbekistan is import substitution policy with FDI promotion policy. In case of production of TV sets, FDI enterprises that assemble imported parts, benefit from reductions not only in import tariffs, but also income and land tax rates, as well as in excise tax rates. The rate of this tax for imported TV is 45% (see Table 5) but for FDI enterprise's product only 15% is applied.[21] Moreover, a 30% import tax rate is levied for imported TV sets, while FDI enterprises are completely exempted from such tariffs for any TV set parts they import for their production. This example clearly shows how the import substitution policy works in Uzbekistan.

Although the Uzbek government is following a protectionist approach with regards to its foreign trade policy, it is still vital that it also maintains good relations with its neighboring countries. This has led to the adoption of certain foreign trade measures that can be seen to be discriminatory. The Government classified all countries in the world into the three groups. The first group, which enjoys most favorable conditions, consists of 12 CIS countries in shown in Table 4. The second group consists of 38 countries with which Uzbekistan has signed "most favored nation" status (MFN) agreement. Contradictions between the first group and the second group are explained in this article. The third group consists of all other countries.

Finally it has to be noted that the Uzbek government places great importance on the issue of WTO accession. However, if it were to become a member of the WTO, the country would have to abolish its protectionist policies and other discriminatory aspects of its foreign trade policy. Until this happens

though, Uzbek companies will have to be well grown, in order to survive in an unprotected free market environment. To achieve this aim will be a difficult task for the government of Uzbekistan, and it becomes clear the difficulties it faces with regards to its foreign trade policy are just as big as those concerning its national economic policy.

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Acknowledgments

I want to express my thanks to Professor Etsuo Yoshino and an anonymous referee for the valuable guidance and assistance he provided to me while working on this paper.

Notes

(1) See, for example, Deepak Lal and Sarath Rajapatiarana "Foreign Trade Regimes and Economic Growth in Developing Countries" *The World Bank Research Observer* 1997, No. 2, pp. 189-217 ; Trushin Eshref "Problems and Prospects of Economic Growth" Report presented on the conference "*Unlocking Central Asia*" Jon Hopkins University, Washington, D.C. Mai 28-29, 1998; Pomfred Richard "The Uzbek model of Economic Development", *Economics of Transition*, 8(3), 2000; Emine Gurden, HarrySnoek "Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan", IMF *Occasional Paper,* 183, August 31, 1999; Pastor, Gonzalo, Damjanovic, Tatiana "The Russian Financial Crisis and its Consequences for Central Asia", IMF *Working Paper,* 01／169, October 2001; Taube Gunther; Zettelmeyer Jeromin "Output Decline and Recovery in Uzbekistan, Past Performance and Future Prospects", IMF *Working Paper,* 98／132, September 1, 1998.

(2) This article does not investigate regulations of export and import of gold and oil, because legal acts on these problems don't published in official papers.

(3) Resolution of the Cabinet of Ministers dated April 30, 1992 (reference No. 1).

(4) In the first stage, the rate of 40% was applied, for examples ; for raw cotton, and cocoon.

(5) Bakhtior A. Islamov, 2001, pp. 165 (reference No. 8).

(6) Decree of the President of the Republic of Uzbekistan dated January 21, 1994 (reference No. 2).

(7) Introduced by Resolution of the Cabinet of Ministers dated July 25, 1995, later changed by resolutions of the Cabinet of Ministers dated October 1, 1996 (reference No. 3).

(8) Decree of the President of the Republic of Uzbekistan dated October 24, 1996 (reference No. 24).

(9) Economic Trends Quarterly Issue prepared by the TACIS project, March 2001, pp. 125. (reference No. 25).

(10) Janet Matthews Information Services, May 8, 2002, pp. 28 (reference No. 22).

(11) Bakhtior A. Islamov, 2001, pp. 183 (reference No. 8).

(12) Decree of the President of the Republic of Uzbekistan dated October 10, 1997 (reference No. 4).

(13) Decree of the President of the Republic of Uzbekistan dated June 05, 2000 (reference No. 5).

(14) After resolution of the Cabinet of Ministers dated February 02, 2001 (reference No. 10) and resolution of the Cabinet of Ministers dated May 31, 2002 (reference No. 11). had introduced small revisions.

(15) Letter of the State Tax Committee (STC) of Uzbekistan dated January 13, 1999. (reference No. 20).

(16) Excise taxes first time were introduced by the Tax Code, Article 82 (approved by the Law No. 396-1 dated April 24, 1997), (reference No. 12).

(17) Letter of the STC of Uzbekistan dated January 13, 1999. (reference No. 20).

(18) Letter of the STC of Uzbekistan dated January 13, 1999. (reference No. 20).

(19) It mast be regarded that export of sheep is not prohibited.

(20) *IMF Working Paper No*. 01/169 (reference No. 21).

(21) Letter of the STC of Uzbekistan dated January 13, 1999. (reference No. 20).

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