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Alisher Umirdinov & Valijon Turakulov,  
*The Last Bastion of Protectionism in Central  
Asia: Uzbekistan's Auto Industry in Post-WTO  
Accession*

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### THE LAST BASTION OF PROTECTIONISM IN CENTRAL ASIA: UZBEKISTAN'S AUTO INDUSTRY IN POST-WTO ACCESSION

**ALISHER UMIRDINOV\* & VALIJON TURAKULOV\*\***

*This paper examines the auto industry of Uzbekistan and the legal and economic implications of Uzbekistan's World Trade Organisation (WTO) membership. Uzbekistan's historically ultra-protected auto industry will eventually face immense pressures from economic actors within and outside its market. Consequently, the State's only car manufacturer, Uzavtosanoat, may go bankrupt. Therefore, Uzbekistan's auto industry is in a very precarious position in the prospect of WTO accession. While the WTO accession may give rise to static effects in the short run, it may also result in dynamic effects in the long run. It is vital that the Uzbek government steps into the WTO cautiously in order to avoid any unintended and undesirable economic, social, and/or legal consequences of a WTO membership. This paper argues that smart negotiations require a longer phase-out period for the Uzbek auto industry to remain competitive, at least regionally.*

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## I. INTRODUCTION

The World Trade Organization (WTO) is an international organization that deals with international trade rules among 164 members, encompassing more than 98% of world trade.<sup>1</sup> Meanwhile, 23 negotiating States await admission to this platform. Uzbekistan has finally realized that it is hard to be an active participant in the global economy while remaining outside the WTO. The country has held an observer status at the WTO since 1994. It seems that the negotiations at the Working Party became intractable due to the developmental policies adopted by the previous government of Uzbekistan. Explaining why the country has followed a long and tortuous negotiation path, Pomfret argues that this is because Uzbekistan was “*less willing to compromise the non-market and discretionary elements*” of its economic system.<sup>2</sup> In addition to that, the authors of this paper suppose that the vested interest in State-owned Enterprises (SOEs) also played a critical role in slowing down the progress of the WTO negotiations. Reasons for the same include the hostility towards low average tariff obligations by government officials

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<sup>1</sup> *The WTO in Brief*, WORLD TRADE ORGANIZATION, [https://www.wto.org/english/thewto\\_e/whatis\\_e/inbrief\\_e/inbr02\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr02_e.htm).

<sup>2</sup>Richard Pomfret, *Lessons from Kyrgyzstan's WTO Experience for Kazakhstan, Tajikistan and Uzbekistan*, 3(2) ASIA PAC. TRADE & INV. REV. 27, 41(2007). Furthermore, as of 2008 Spechler noted that “Uzbekistan still engages in substantial State-trading and sets prices for its cotton, metals and energy exports. Subsidies and off-budget credits have been reduced, but some transactions are not transparent. These are major economic obstacles to successful negotiations with WTO partners”, MARTIN C. SPECHLER, THE POLITICAL ECONOMY OF REFORM IN CENTRAL ASIA: UZBEKISTAN UNDER AUTHORITARIANISM 131(2008).

and interest groups profiting from government support, which seems very accurate in the case of Uzbekistan, comparatively (See Figure 1).<sup>3</sup>

As a result, trade reforms lagged. Various quarters persisted in persuading the Karimov government to accede to the WTO due to its perceived benefits to Uzbekistan, but to no avail. The government refused to change the direction of its development policies, and Uzbekistan remained in isolation for another decade.<sup>4</sup> Hence, the designated Working Party took a break for many years after its last meeting in October 2005.

**Figure 1: The Average Level of Import Tariff in Central Asian Countries**

Average import tariff (%)	2002	2018
Kazakhstan	7.9	6.9
Kyrgyz Republic ( <i>lowest</i> )	5.2	6.8
Tajikistan	8.3	7.6
Turkmenistan	0.5	*
Uzbekistan ( <i>highest</i> )	19.0	14.8

Source: IMF data reported in World Bank (2002) and WTO (2018)

<sup>3</sup>Richard Pomfret, *Trade Policies in Central Asia After EU Enlargement and Before Russian WTO Accession: Regionalism and Integration into the World Economy*, 29(1) ECON. SYS. 37(2005); See also Jashid Normatov, *Uzbekistan's Long Way to the World Trade Organization* 385, L'EUROPE EN FORMATION 104,111 (2018), <https://www.cairn.info/revue-l-europe-en-formation-2018-1-page-104.htm>. (However, economic reforms are likely to face resistance from interest groups profiting from government support and protectionism. Taking the different possible trends into account, this article argues that the accession to the WTO is an essential step for the Uzbek government to be able to proceed with reforms and to build a robust market economy).

<sup>4</sup>See THE WORLD BANK, FROM DISINTEGRATION TO REINTEGRATION: EASTERN EUROPE AND THE FORMER SOVIET UNION IN INTERNATIONAL TRADE 28 (Harry G. Broadman ed., 2004) (arguing that the protection and State control of the cotton sector in Uzbekistan have been adverse to the welfare of the poorest elements of society); Valentina Baturina, et al., *Uzbekistan on its Way to the WTO: Risks and Benefits for the Textile and Apparel Industries*, Uzb. Econ. 88, (Apr. 2004), <http://www.uzbearingpoint.com/files/3/a11.pdf> (Concluding that import tariffs increase the cost of production, and a reduction of import tariffs would not result in considerable losses in output or employment for the textile and apparel industries after Uzbekistan's WTO accession).

After the demise of President Karimov, his successor Mirziyoyev and his administration decided to opt for a very different path. During a State visit to South Korea in November 2017, Mirziyoyev publicly announced Uzbekistan's intention to become a member of the WTO.<sup>5</sup> Behind such a U-turn lies Uzbekistan's Five-Area National Development Strategy for 2017-2021, which aims at "*improving the competitiveness of the national economy through deepening of structural reforms, modernization, and diversification of its leading industries*"[sic].<sup>6</sup> Soon after the announcement of the Five Year Plan, the Mirziyoyev government started to liberalise the high level of tariffs on various goods, and softened the hitherto tightly-regulated and severely limited convertibility of the national currency.<sup>7</sup> The incentives of a WTO membership were mainly related to expanding trade by enjoying WTO legal protection and the necessary competitive response with respect to neighbouring States.

The following chain of events also confirms Uzbekistan's commitment to the resumption of the accession process. On September 28, 2018, the Minister for Foreign Trade, Jamshid Khodjaev, met with the Director-General of the WTO, Roberto Azevêdo, within the framework of the High-Level Forum in Astana.<sup>8</sup> On December 17, 2018, Badriddin Abidov was appointed as the Deputy Minister of Foreign Trade and Chief Negotiator for Uzbekistan's WTO accession.<sup>9</sup> The WTO Secretariat discussed with Abidov the further steps to be taken for the resumption of Uzbekistan's accession process, including the submission of its Memorandum on the Foreign Trade Regime (MFTR) and other accession documentation. Finally, the Deputy Director-General of the WTO, Allan Wolf, paid a visit to Uzbekistan

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<sup>5</sup>KATERYNA SCHROEDER ET AL, WORLD BANK GROUP, UZBEKISTAN: AGRICULTURAL TRADE POLICY REPORT 17(2018), <http://documents.worldbank.org/curated/en/745361544159774580/pdf/132758-AgTradePolicyUzbekistan-August-16-2018.pdf>.

<sup>6</sup>*Uzbekistan's Development Strategy for 2017- 2021 Has Been Adopted Following Public Consultation*, THE TASHKENT TIMES (Feb. 8, 2017), <http://tashkenttimes.uz/national/541-uzbekistan-s-development-strategy-for-2017-2021-has-been-adopted-following->.

<sup>7</sup> Taking them as a positive signal in the new direction of both foreign and domestic economic policy, Pomfret notes that those two areas were outstanding flaws in the economic policy of previous governments. See RICHARD POMFRET, THE CENTRAL ASIAN ECONOMIES IN THE TWENTY-FIRST CENTURY: PAVING A NEW SILK ROAD 117(2019) [hereinafter Pomfret].

<sup>8</sup> *Uzbekistan Discusses Issues of Accession to the WTO*, KUN.UZ (Sep. 28, 2018), <https://kun.uz/en/news/2018/09/28/uzbekistan-discusses-issues-of-accession-to-the-wto>.

<sup>9</sup> *WTO Accessions Newsletter*, WORLD TRADE ORGANIZATION at 3 (Dec. 2018), [https://www.wto.org/english/thewto\\_e/acc\\_e/nl\\_e/2018\\_12\\_acc\\_newsletter\\_e.pdf](https://www.wto.org/english/thewto_e/acc_e/nl_e/2018_12_acc_newsletter_e.pdf).

in February 2019 to discuss the necessary procedures in WTO accession talks.<sup>10</sup> All of this reveals that Uzbekistan is actively going ahead with its accession to the WTO and intends to complete it within a couple of years.<sup>11</sup> However, this period may vary according to the Uzbekistan-WTO accession process rate because of its vulnerable industries such as its agriculture and auto industries.

To Uzbekistan, though, joining the WTO means liberalising many economic sectors, including its auto industry. If that is the case, its historically ultra-protected auto industry will eventually come face immense pressure from economic agents within and outside the market. Consequently, the State's only car producer, namely Uzavtosanoat, may go bankrupt. Therefore, Uzbekistan's auto industry is in a very precarious position in prospect of the State's WTO accession.<sup>12</sup>

Until now, it was hoped that the auto industry would become a shining example of the country's industrial policy, and the engine of the country's sustainable economic growth. After more than 20 years of enjoying monopoly position in the market and extensive government support, it is not yet clear whether the Uzbek auto industry has accomplished this task.<sup>13</sup> What is clear at this time is that Uzbekistan aims to become a member of the WTO in a few years. However, after Uzbekistan's entry into the WTO, the auto industry, which has hitherto enjoyed the most favourable position domestically, will undoubtedly face many challenges and external pressure, following policy adjustments. After policy adjustments, Uzbek automakers may collapse, thousands of workers may lose their jobs, and auto-related sectors may also face a very critical economic situation. The possible

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<sup>10</sup>DDG Wolff: *Global Trade Rules Can Help Central Asia Address Connectivity Challenges*, WORLD TRADE ORGANIZATION (Feb. 19, 2019), [https://www.wto.org/english/news\\_e/news19\\_e/ddgra\\_19feb19\\_e.htm](https://www.wto.org/english/news_e/news19_e/ddgra_19feb19_e.htm).

<sup>11</sup>The chairman of the Chamber of Commerce and Industry of Uzbekistan, Adham Ikramov, noted that Uzbekistan intends to join the WTO in 4 to 5 years, see Kamila Aliyeva, *EU to Allocate 5 Million Euros to Uzbekistan in Assistance for WTO Membership*, AZERNEWS (June 20, 2018), <https://www.azernews.az/region/133658.html>. In the case of the *fast scenario*, Uzbekistan may join the organization within 2 years. This was Stated by the Deputy Directors-General of the organization, see Alan Wolff, *WTO Deputy Directors-General: Uzbekistan Will Need About Two Years to Join the WTO*, KUN.UZ (Feb. 22, 2019), <https://kun.uz/en/02171422>.

<sup>12</sup>*Uzbekistan Car Industry Will be Heading Away from Monopoly - Uzavtosanoat Chief*, THE TASHKENT TIMES (21 May, 2018), <https://tashkenttimes.uz/economy/2428-uzbekistan-car-industry-wil-be-heading-away-from-monopoly-uzavtosanoat-chief>.

<sup>13</sup>However, Popov and Chowdhury argue that, in Uzbekistan "a competitive export-oriented auto industry was created from the ground up". See Vladimir Popov & Anis Chowdhury, *What Can Uzbekistan Tell Us About Industrial Policy That We Did Not Already Know*, U.N. Dep't of Econ. & Soc. Aff., (February 2016), [https://www.un.org/esa/desa/papers/2016/wp147\\_2016.pdf](https://www.un.org/esa/desa/papers/2016/wp147_2016.pdf).

policy adjustments arising because of WTO negotiations will be discussed later. Therefore, it is imperative that a correct development path for Uzbekistan's auto industry be selected, keeping in mind the country's WTO accession. Before this, one has to assess and clarify what scenarios are likely to arise in the WTO accession process and then address their potential implications for the Uzbek auto industry.

This paper has three primary purposes. First, this paper aims at determining the extent to which major Uzbek automobile producers are subsidised and supported by the Uzbek government. Second, it will analyse whether and how such government support or incentivisation is compatible with WTO rules. Third, this paper will analyse the economic effects of Uzbekistan's accession to WTO on its auto industry.

Accordingly, the paper proceeds as follows. In *the second part*, the authors seek to provide the reader with a brief overview of the Uzbek auto industry. *The third part* provides a comparative analysis of the experiences of China, Russia, and Kazakhstan in order to allow for comparisons with the Uzbek scenario. Subsequently, the likely requirements for Uzbekistan during WTO negotiations are discussed in *the fourth part*. *Part five* discusses the likely economic effects of WTO accession on the Uzbek auto industry. Lastly, several implications are addressed by providing certain suggestions in the *concluding part*.

## II. UZBEKISTAN'S AUTO INDUSTRY

This part provides an overview of the Uzbek auto industry, particularly the structure of Uzbek automakers, their development history, and the current market structure.

### A. Structure of Uzbek Auto Industry

Uzavtosanoat is a wholly SOE in Uzbekistan, consisting of more than 70 companies within the country.<sup>14</sup> Similar to other SOEs in the country, it is a former economic sector-specific government body, which has been converted into a State corporation.

It is highly relevant to the national economy, and is a leading player in the development of the State's industrial and structural policy concerning auto-

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<sup>14</sup>See, *Company Structure*, UZAUTO, <http://UzAvtoSanoat.uz/en/company-structure.html>.



production.<sup>15</sup> Similar to thousands of other SOEs, Uzavtosanoat owns many joint stock companies (JSCs) (Figure 2).<sup>16</sup> The company provides over 26,000 jobs.<sup>17</sup>

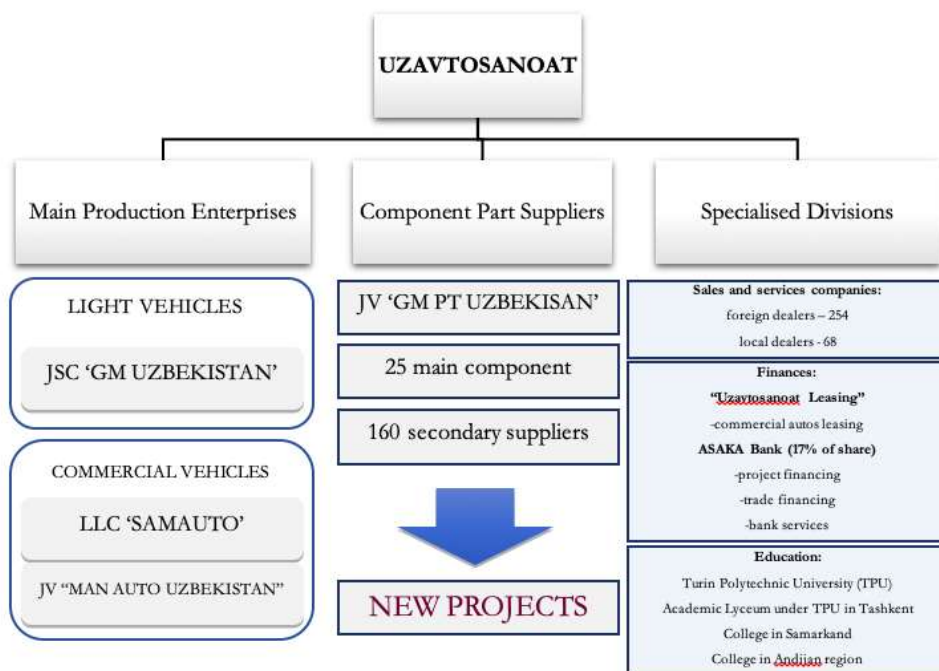


Figure 2: The Structure of Uzavtosanoat (Source: UzAvtoSanoat official website)

### B. Main Automakers

Uzavtosanoat’s structure includes three joint ventures with overseas carmakers.<sup>18</sup> These are GM Uzbekistan,<sup>19</sup> SamAvto, and MAN Auto-Uzbekistan, that produce light vehicles, buses and commercial trucks, respectively. GM Powertrain

<sup>15</sup>Muzaffar Razakov, *Corporate Governance of State-Owned Enterprises in Uzbekistan*, 63 (Oct. 22, 2014) (Ph.D. dissertation, University of St. Gallen) (Difo-DruckGmbH & Bamberg eds., 2015).

<sup>16</sup> See, the list of JSCs on Uzavtosanoat’s website, *Company Structure*, UZAUTO, <http://uzavtosanoat.uz/en/Company%20structure.html>.

<sup>17</sup> See, *About Company*, UZAUTO, <http://uzavtosanoat.uz/en/about-company.html>.

<sup>18</sup> Although private property and ownership of auto production is allowed in Uzbekistan, there is no single domestic private carmaker operating in the country.

<sup>19</sup> During the publishing period, GM Uzbekistan changed its name to UZAUTO MOTORS from 1 July 2019. *GM Uzbekistan renamed to UZAUTO MOTORS*, UZ.DAILY, (July 5, 2019), <https://www.uzdaily.uz/en/post/50641>.

Uzbekistan is also the main engine-producing enterprise of Uzavtosanoat, but it is a joint stock company, and not a joint venture (We will discuss its history and production capacity briefly below).

*i. GM Uzbekistan Joint Venture*

The foundations for the construction of the Automotive Plant in Uzbekistan were laid down during the visit of late President Islam Karimov in June 1992 to South Korea in a meeting with the representatives of Daewoo Motors Corporation. The parties signed a document establishing a joint venture in the automotive sphere shortly after the visit. They established the Uzbek-South Korean joint venture UzDaewooAuto in March 1993, and held the opening ceremony of the Asaka Automotive Plant three years later on July 19, 1996. At first, the plant imported nearly all assembling parts. Gradually, glass shields, seats, adhesives, paints, batteries, pipes, headlights, and many other car parts were localised in order to reduce the production costs.

**Figure 3: Comparison of production in the month of January over the past 3 years**

	2017, <i>January</i>	2018, <i>January</i>	2019, <i>January</i>
<b>Light Vehicles</b> ( <i>items</i> )	<b>7581</b>	<b>12585</b>	<b>17466</b>
changes, %	*	60.6%	38.8% ↑
<b>Trucks</b> ( <i>items</i> )	<b>277</b>	<b>177</b>	<b>367</b>
changes, %	*	-26.1%	107% ↑
<b>Buses</b> ( <i>items</i> )	<b>40</b>	<b>39</b>	<b>74</b>
changes, %	*	-2.5%	89% ↑
<b>Car Engines</b> ( <i>items</i> )	<b>5831</b>	<b>9223</b>	<b>16428</b>
changes, %	*	58.2%	78% ↑

After Daewoo Motor's bankruptcy in 2005, Uzavtosanoat took full control of the company. In 2008, Uzbekistan and the US-based General Motors Corporation established GM Uzbekistan, a joint enterprise owned by Uzavtosanoat (with a 75% stake) and General Motors (with a 25% stake). From early 2018, the Uzbek State-owned vehicle-maker sought to buy GM's 25% stake in the joint venture, and

completed the purchase by the end of that year.<sup>20</sup> At the same time, the State had started negotiations for the purchase of the GM Powertrain Uzbekistan automobile engine plant, wherein US investors owned over 70% of the shares. However, according to some sources, the purchase has not yet been completed.<sup>21</sup> It should be noted that the repurchase of shares does not necessarily mean that GM is leaving Uzbekistan completely.<sup>22</sup> The company remains in the country for the purpose of technical assistance.<sup>23</sup> It seems that tensions between the US and Russia lessened the popularity of General Motors, an American brand, amongst Russian customers, and therefore the rebranding (from Chevrolet to Ravon) took place.

**Figure 4: GM Uzbekistan Light Vehicle Production, 2010-2018**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Light Vehicles</b> (thousand items)	217.7	221.4	235.5	246.6	245.7	185.4	88.2	135.5	220.6
Changes, %	+6.2%	+2.1%	+6.4%	+4.7%	-0.4%	-24.5%	-52.5%	+53.6%	+62.8%

Source: "Industry of Uzbekistan", Uzbekistan Statistics Committee, Tashkent 2015

<sup>20</sup> See, "UzAvtoSanoat" Purchased All Shares of GM Uzbekistan, KUN.UZ (Dec. 21, 2018), <https://kun.uz/en/news/2018/12/21/uzavtosanoat-purchased-all-shares-of-gm-uzbekistan> [hereinafter UzAvtoSanoat-GM].

<sup>21</sup> Vladislav Vorotnikov, *Uzbek Government to Buy GM's Stake in Joint Venture*, AUTOMOTIVE LOGISTICS (June 11, 2018), <https://www.automotivelogistics.media/uzbek-government-to-buy-gms-stake-in-joint-venture/20958> [hereinafter Vorotnikov].

<sup>22</sup> One explanation for GM's decision may be that the US automaker wanted to avoid US sanctions to Russia and Iran. Rebranding "Chevrolet" to "Ravon", especially in Russian markets, was originally aimed at avoiding tension between Russia and the US. See also *GM Uzbekistan Can Organize the Assembly of Cars in Russia*, PODROBNO.UZ (Feb. 8, 2017), [https://podrobno.uz/cat/economic/gm-uzbekistan-mozhet-organizovat-proizvodstvo-v-rf/?sphrase\\_id=273749](https://podrobno.uz/cat/economic/gm-uzbekistan-mozhet-organizovat-proizvodstvo-v-rf/?sphrase_id=273749).

<sup>23</sup> *UzAvtoSanoat-GM*, *supra* note 20.

Currently, the plant in Asaka employs more than 8,000 employees, and has a production capacity of 250,000 cars per year (see Figure 4). In 2017, GM Uzbekistan produced 135,000 cars under two brand names: *Chevrolet* and *Ravon*.<sup>24</sup>

ii. *SamAuto Joint Venture*

Even though GM Uzbekistan has been supplying the domestic and foreign markets with light vehicles, there was a strong demand for trucks, buses and agricultural machinery. In relation to this need, SamKochAvto was founded as a Turkish-Uzbek venture, with significant investment by the Turkish company, KocHolding.<sup>25</sup>

Currently, this factory supplies Uzbekistan and the Commonwealth of Independent States (CIS) market with medium-capacity buses, and small and medium-duty trucks. In 2006, Uzavtosanoat purchased the shares of Turkish partners, and thus, SamKochAvto became SamAuto, a company wholly-owned by the Uzbek State.<sup>26</sup> After a year, in 2007, the Japanese company Isuzu Motors launched the commercial production of products based on the N series chassis: two types of minibusses and three types of trucks.<sup>27</sup> At present, in addition to buses and trucks, SamAuto manufactures vans, ambulances, garbage-trucks, fire-fighting trucks, water-carriers, and other vehicles and machinery relating to sanitation, including the combined vacuum sweeper-watering machine. In 2015, the factory presented the first bus to run on compressed natural gas.<sup>28</sup> However, SamAuto could not meet the aforementioned demand, which led Uzavtosanoat to Germany to contract with world-standard truck producer, MAN Truck & Bus AG.

iii. *MAN Auto-Uzbekistan Joint Venture*

As the first heavy truck manufacturer in Central Asia, Uzbekistan jointly established the *MAN Auto – Uzbekistan* joint venture with German MAN

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<sup>24</sup>State Development of Industrial Production in the Republic of Uzbekistan for January-December 2017, THE STATE COMMITTEE OF THE REPUBLIC OF UZBEKISTAN ON STATISTICS, <https://stat.uz/en/press-center/news-committee/3227-development-of-industrial-production-in-the-republic-of-uzbekistan-for-january-december-2017>.

<sup>25</sup>See also *About Company*, SAMAUTO, <http://www.samauto.uz/en/about/history/>.

<sup>26</sup>*Id.*

<sup>27</sup>*Id.*

<sup>28</sup>*Id.*

Nutzfahrzeuge AG in August 2009.<sup>29</sup> UzAvtoSanoat holds 51% stake in the venture, and MAN Nutzfahrzeuge, 49%.<sup>30</sup> Currently, the annual production capacity of the factory is in excess of 3,000 units with a wide model range of trucks, including, truck tractors, tippers, and special-purpose vehicles - more than 50 truck options.<sup>31</sup> Exports are mainly to Afghanistan, Azerbaijan, Kazakhstan, Kenya, Turkmenistan, and Kyrgyzstan.<sup>32</sup>

**Figure 5: Uzbekistan Trucks and Buses Production, 2010-2018**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Trucks</b> (items)	832	839	2605	3568	3882	4306	3516	3778	4200
changes, %	+15.2%	+0.8%	+7.4%	+37%	+8.8%	+10.9	-18.4%	+7.4%	+11.1%
<b>Buses</b> (items)	1268	964	1100	1136	1217	754	908	1057	949
changes, %	-3.7%	-24%	+14.4%	+3.2%	+7.1%	-38%	+20.4%	+16.4%	-10.3%

Source: "Industry of Uzbekistan," Uzbekistan Statistics Committee.

To conclude, as discussed above, Uzbekistan has managed to create three lines of auto production that supply to its domestic and foreign markets with light vehicles (GM Uzbekistan), buses (SamAuto), and heavy trucks (MAN Auto-Uzbekistan). The State exports light vehicles while imposing high tariffs on importing ones, citing the infancy of its industry (See the export-import difference in Figures 6 and 7).<sup>33</sup>

However, in 2018, a dramatic fall in exports occurred while there was a rise in imports. Uzavtosanoat also lags behind in meeting domestic demand for commercial trucks and buses. This can be seen in the huge difference between the amount of exported and imported trucks and buses, as per the statistics provided. The amount of imports has always been greater than that of exports in trucks and buses so far. In this backdrop, in order to expand its international network of cooperation, in the last two years, Uzavtosanoat has also agreed to produce various light commercial vehicles and other automobiles with Hyundai, Peugeot Citroën Automotive, and Volkswagen.

<sup>29</sup>See also *Man Haqida*, JV MAN AUTO UZBEKISTAN, <http://man.uz/uz/company/about/> [hereinafter *Man Haqida*].

<sup>30</sup>*MAN Auto-Uzbekistan to Increase Truck Production in Uzbekistan*, UZ DAILY (May 4,2010), <http://www.uzdaily.com/articles-id-9928.htm>.

<sup>31</sup>*Man Haqida*, *supra* note 29.

<sup>32</sup>THE STATE COMMITTEE OF THE REPUBLIC OF UZBEKISTAN ON STATISTICS, [www.stats.uz](http://www.stats.uz) [hereinafter *Uzbekistan Statistics Committee*]. (The data has been received from the Committee by an official request).

<sup>33</sup>*Change in Uzbekistan's Government Industrial Policy: Auto-industry*, RUS.OR.KR (Aug. 26, 2013), [http://www.rus.or.kr/\\_common/boardSkin/bbs\\_down.asp?BID=cisfocus&BoardSeqNo=2044&FilesSeqNo=2056](http://www.rus.or.kr/_common/boardSkin/bbs_down.asp?BID=cisfocus&BoardSeqNo=2044&FilesSeqNo=2056).

The Uzbek government protects its strategically export-oriented auto industry in various ways, including high import tariffs, tax privileges, and subsidies. All forms of protectionism will most definitely be scrutinised and hotly debated upon WTO accession. Hence, the State needs to draw lessons from the past experiences of other WTO Members. To that end, the following part reviews the commitments of China, Russia and Kazakhstan in relation to their auto industries.

**Figure 6: Uzbekistan’s Vehicle Exports, 2010-2018**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Light vehicles</b> <i>(thousand items)</i>	81	10.8	10.8	90.8	55	7.1	7.6	26.8	4.8
<b>Trucks</b> <i>(items)</i>	93	119	93	68	132	57	125	150	148
<b>Buses / Mini-buses</b> <i>(items)</i>	86	120	129	84	213	9	35	97	142

**Figure 7: Uzbekistan’s Vehicle Imports, 2010-2018**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Light vehicles</b> <i>(thousand items)</i>	6.8	4.8	8.1	13.6	11.2	5.7	18.2	8.9	16.6
<b>Trucks</b> <i>(thousand items)</i>	1.4	1.3	2.8	7.1	12.5	3.8	1.8	1.7	3.2
<b>Buses / Mini-buses</b> <i>(items)</i>	169	216	775	1005	404	307	219	173	426

Source: “Industry of Uzbekistan”, Uzbekistan Statistics Committee

### III. COMPARATIVE ANALYSIS: CHINA, RUSSIA, AND KAZAKHSTAN

This part introduces the negotiations and commitments made by China, Russia, and Kazakhstan in relation to their respective auto industries. The authors consider these three WTO members, since the former two are among the largest car consumer markets with their own car producers, while the latter is the latest Central Asian country to join the WTO. Such an overview could assist with forecasting what may lie ahead for Uzbekistan in the accession process to the WTO.

### A. China

Auto industry development was a hot issue in China in the wake of its accession to the WTO.<sup>34</sup> China's politicians successfully overcame domestic pressure, and initiated the process for WTO membership. China's WTO membership was accompanied by burdensome commitments in relation to its auto sector. Upon accession to the WTO, China committed to reducing its tariffs on imported cars from 80-100% to 25%, and on auto parts from 40-50% to 10% by 2006, as well as phasing out import quotas on automobiles by January 1, 2005.<sup>35</sup> Furthermore, discriminatory value-added taxes were to be prohibited. Moreover, against specific concerns of Working Party members regarding automobiles and parts, China committed to establishing a transparent system and to unifying its laws, regulations and standards applicable to domestic and imported automobiles and parts.<sup>36</sup> Further, regarding the compatibility of China's industrial policy on its automobile sector with the WTO Agreement on Trade-Related Investment Measures (TRIMS Agreement), the representative of China confirmed that upon accession, China would comply fully with the TRIMS Agreement, without recourse to Article 5 thereof, as set forth in the Draft Protocol,<sup>37</sup> and would eliminate foreign-exchange balancing and trade balancing requirements,<sup>38</sup> along with local content requirements and export performance requirements. The Working Party also took note of China's commitment towards ensuring compatibility of the Industrial Policy for the automotive sector with the WTO rules.<sup>39</sup> Going further than any other WTO accession State, China was also required to eliminate quotas and licenses, and phase in the opening up of various service sectors including banking, insurance, and auto financing, as well as wholesale and retail trade.<sup>40</sup>

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<sup>34</sup>For relevant past research on this topic, see Eric Harwit, *The Impact of WTO Membership on the Automobile Industry in China*, 167 THE CHINA QUART. 655,670 (2001); Ann E. Christoff, *The Chinese Automobile Industry and the World Trade Organization: China's Non-Compliance with WTO Regulations Through Its Subsidizing of Automobile Manufacturers*, 19(1) IND. INT'L & COMP. L. REV.137 (2009).

<sup>35</sup>See *China's Automobile Industry and WTO Accession*, EVERYCRSREPORT.COM (July 7, 2000), [https://www.everycrsreport.com/files/20000707\\_RS20624\\_688011e92ea43e598c46f4399d1de7ac478c4871.pdf](https://www.everycrsreport.com/files/20000707_RS20624_688011e92ea43e598c46f4399d1de7ac478c4871.pdf).

<sup>36</sup>Report of the Working Party on the Accession of China, WTO Doc. WT/MIN(01)/3 (adopted Nov. 10, 2001) ¶196(c) [hereinafter Working Party Report].

<sup>37</sup>China pledged to eliminate WTO-inconsistent measures by 2000.

<sup>38</sup>Until that time, China gave priority to automakers in obtaining loans and foreign currency based on export performance. Automobile and motorcycle components manufacturing enterprises whose exports account for 10 per cent of their total annual sales obtained subsidies from the State Planning Commission. Ultimately, China committed itself to eliminating this measure by 2000.

<sup>39</sup>Working Party Report, *supra* note 36, ¶203.

<sup>40</sup>See Gregory Noble et al., *Executioner or Disciplinarian: WTO Accession and the Chinese Auto Industry*, BUS. & POL. 10, (Aug. 2005).

Being a member of WTO was not the end but the start of a new era for China. After its accession to the WTO, China has, on several occasions, been a complainant as well as a respondent in WTO dispute settlement proceedings due to its measures relating to the auto sector.<sup>41</sup>

Comparison of China's accession to the WTO is important because the pre-entry Chinese auto industry very closely resembles the current Uzbek auto industry. High tariffs, local content and export performance requirements and non-transparent regulations of SOEs are not exclusive features of the 1990s' Chinese vehicle market. These all commonalities do nothing but herald that the WTO Member States will very likely demand the liberalisation of domestic auto production, with significant tariff reduction from Uzbek Government.

### B. Russia

While agreeing to lower, albeit gradually, its high tariffs on automobile vehicle imports from 30% to 12%,<sup>42</sup> Russia has been skilful in negotiating the WTO accession terms of its auto industry. Unlike Kazakhstan and China, from whom burdensome accession commitments were extracted, Russia could escape from assuming too many obligations.<sup>43</sup> Russia's accession protocol highlights how elaborate a response the State submitted to the Member States during the course of negotiations. During negotiations, some WTO Members expressed concerns regarding subsidies granted by the State (under Government Resolution of December 2009) to private persons purchasing automobiles, and in particular, the restriction of this program solely on automobiles produced in Russia. When these Members sought further commitments, Russia confirmed that upon accession, it

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<sup>41</sup>Appellate Body Report, *China - Measures Affecting Imports of Automobile Parts*, WTO Doc. WT/DS339/AB/R, WT/DS340/AB/R and WT/DS342/AB/R (adopted Dec. 15, 2008); Panel Report, *China - Anti-Dumping and Countervailing Duties on Certain Automobiles from the United States*, WTO Doc. WT/DS440/R (adopted May 23, 2014) ; Acceptance by China of the Request to Join Consultations, *China - Certain Measures Affecting the Automobile and Automobile-Parts Industries*, WTO Doc. WT/DS450/3 (adopted Nov. 2, 2012).

<sup>42</sup> *Working Party Seals the Deal on Russia's Membership Negotiations*, WORLD TRADE ORGANIZATION (Nov. 10, 2011), [https://www.wto.org/english/news\\_e/news11\\_e/acc\\_rus\\_10nov11\\_e.htm](https://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm). See also Vladimir Konstantinov, *Russia's Accession to WTO Impact on Automotive Industry*, PWC (May 21, 2013), <https://www.pwc.ru/ru/events/2013/automotive-industry/3-wto-konstantinov-eng.pdf>.

<sup>43</sup> *Report of the Working Party on the Accession of The Russian Federation*, WTO Doc. WT/ACC/RUS/70 WT/MIN(11)/2 (adopted Nov. 17, 2011) [hereinafter Working Party Report].



would eliminate all subsidies falling within the scope of Article 3 of the Subsidies and Countervailing Measures Agreement (SCM Agreement) or modify these programs so that any subsidy provided would not be contingent upon exportation or the use of domestic over imported goods, and would thus comply with the SCM Agreement and the WTO rules.<sup>44</sup>

Another critical issue was the domestic motor vehicle and components industry. Since 2005, Russia had established a system for attraction of investments for the development of domestic carmakers. Even after the establishment of the Eurasian Customs Union (EACU) in 2015, Russia, and member States to the EACU, provided for preferential tariffs or tariff exemptions for imports of parts and components used in the so-called 'industrial assembly' programs for motor vehicles and parts and components. As a result, Russia committed to the following in relation to its auto localisation programs first, from the date of WTO accession, Russia would ensure that all its laws, regulations, and other measures, would be consistent with the provisions of the WTO Agreements, including the TRIMS Agreement, except for measures applied under its Auto Investment Programs and investment agreements concluded under such programs.<sup>45</sup> Second, the Russian representative confirmed that Russia would engage in consultations with interested WTO Members, no later than July 1, 2016, regarding WTO-consistent measures that could be applied in connection to its Auto Investment Programs, and would notify them of the measures planned to replace any WTO-inconsistent measures applied under these programs at least six months prior to the adoption of any such new measures.<sup>46</sup> Lastly, Russia promised that all WTO-inconsistent measures, including preferential tariffs or tariff exemptions applied under its Auto Investment Programs, and agreements concluded under these programs, would be eliminated by July 1, 2018.<sup>47</sup> Russia's representative also confirmed that Russia would not conclude any new agreements with investors in any sector that contained provisions contrary to the TRIMS Agreement.<sup>48</sup> In the post-WTO

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<sup>44</sup>*Id.*, at ¶¶691, 698.

<sup>45</sup>*Id.*, at ¶1090.

<sup>46</sup>*Id.*

<sup>47</sup> Honoring its commitment, Russia informed WTO members that it will terminate its WTO-inconsistent auto investment programs as of July 1, 2018, a deadline stipulated by its WTO accession protocols, see *Russia to End its WTO-Incompatible Auto Investment Programmes on 1 July 2018*, WORLD TRADE ORGANIZATION (June 1, 2018), [https://www.wto.org/english/news\\_e/news18\\_e/trim\\_06jun18\\_e.htm](https://www.wto.org/english/news_e/news18_e/trim_06jun18_e.htm).

<sup>48</sup> See Working Party Report, *supra* note 43, ¶1090.

accession landscape, Russia is also facing two challenges within the WTO's dispute settlement processes due to its so-called utilisation fees for auto-market.<sup>49</sup>

### C. Kazakhstan

Kazakhstan became the 162<sup>nd</sup> WTO member on November 30, 2015. The economy of Kazakhstan is the largest economy in Central Asia and the second largest economy among former Soviet transition economies, after Russia. From January 1, 2015, Kazakhstan also became a founding member of the Eurasian Economic Union. During WTO accession talks, several of its policies came under strong scrutiny by WTO Members, which led Kazakhstan to assume substantial commitments. In the first instance, Kazakhstan agreed to reduce import tariffs for cars from 30% to 15% right after WTO accession.<sup>50</sup>

Member States questioned Kazakhstan's plans to introduce a transport tax based on engine size. Kazakhstan confirmed that from the date of accession, it would apply its domestic taxes and exemptions thereof, including VAT, excise taxes, and other taxes, in a non-discriminatory manner in compliance with Articles I and III of the General Agreement on Tariffs and Trade (GATT) 1994. The Working Party took note of this commitment.<sup>51</sup>

Somehow similar to Russia, WTO Members failed to ignore the trade-related investment measures in the automotive sector of Kazakhstan. WTO Members sought commitment on the part of Kazakhstan that, from the date of its WTO accession, it would not maintain measures which are in conflict with the TRIMS

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<sup>49</sup>Acceptance by the Russian Federation of the Requests to Join Consultations, *Russian Federation — Recycling Fee on Motor Vehicles*, WTO Doc. WT/DS463/7 (adopted Aug. 8, 2013); Request for the Establishment of a Panel by the European Union, *Russian Federation — Recycling Fee on Motor Vehicles*, WTO Doc. WT/DS462/8 (adopted Oct. 11, 2013) [hereinafter DS462]. See also Appellate Body Report, *Russia — Anti-Dumping Duties on Light Commercial Vehicles from Germany and Italy*, WTO Doc. WT/DS479/AB/R (adopted Mar. 22, 2018) [hereinafter DS463].

<sup>50</sup>*Import Duties on New Foreign Cars After Kazakhstan Joins the WTO Will Decrease to 15%*, ZAKON.KZ (Nov. 17, 2013), <https://www.zakon.kz/4586948-vvozyne-poshliny-na-novyye-inomarki.html>.

<sup>51</sup>See *Working Party Report — Accession of Kazakhstan*, WTO Doc. WT/ACC/KAZ/93 (adopted June 23, 2015) ¶¶382, 383. In addition to that, Kazakhstan added that only motor vehicles with engine capacity over 3,000 cm<sup>3</sup> were subject to excise taxes. This was aimed primarily at addressing environmental concerns and had no discriminatory effect on imports. As of 2009, excise taxes were levied on all eligible goods, both domestically produced and imported, in the national currency (Tenge). It also confirmed that excise taxes were applicable to domestic and imported goods regardless of the country of origin and were thus non-discriminatory.

Agreement, or enforce contractual provisions that contained such measures.<sup>52</sup> In response, Kazakhstan notified that all industrial assembly agreements would expire by July 1, 2018.<sup>53</sup>

The representative of Kazakhstan also confirmed that from January 1, 2015, Kazakhstan would not include in its undertakings, any provisions that are inconsistent with the WTO Agreements, including the TRIMS Agreement. This includes new investment contracts or industrial assembly agreements concluded with investors in any sector, as well as the renewal of any such existing contracts.<sup>54</sup>

Lastly, Kazakhstan promised to notify WTO Members of any forthcoming measures.<sup>55</sup> Kazakhstan has so far neither been challenged by, nor has challenged another WTO Member, in relation to any auto-related measures within the WTO's dispute settlement procedures.

#### IV. EXPECTED REQUIREMENTS FROM WTO MEMBERS

WTO membership will require Uzbekistan to bring its auto industry policy and regulation in line with WTO norms across a wide range of areas. Along with tariff negotiations, the lessons drawn from the three WTO accession experiences discussed in the previous part show that existing WTO Members mainly focus on discriminatory taxation, on bringing auto industry measures of new WTO members into compatibility with the SCM Agreement and the TRIMS Agreement, and on the transparent regulation of the auto sector. Observing common patterns in commitments, as discussed in the previous part, similar commitments are likely to be demanded of Uzbekistan during WTO negotiations in relation to its auto industry.

##### A. Tariff Cuts

Tariff cuts are the most likely subjects of WTO focus and negotiation as they are commonly used to protect domestic markets. Uzavtosanoat has been kept strong under the State's 'customs umbrella' for more than two decades. For example, average customs-related costs for importing new cars may be up to 120% and from 120% to 150% for used ones.<sup>56</sup> Overall, such costs include:

- Customs duty (30%);

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<sup>52</sup>*Id.*, at ¶894.

<sup>53</sup>*Id.*, at ¶893.

<sup>54</sup>*Id.*, at ¶896.

<sup>55</sup>*Id.*, at ¶897.

<sup>56</sup>*Customs Clearance for Cars in Uzbekistan: Duties and Excise Taxes on Imports of Foreign Cars*, AUTOSTRADA.UZ (May 9, 2018), <https://www.autostrada.uz/rastamozhka-uzbekistan/>.

- Value-added tax (20%);
- The Republican Road Fund (3% for new cars, 6-11% for used ones);
- Customs clearance fee (0.2%); and
- Excise tax (up to many factors such as the production year, the origin of country, the transaction country, the type, the volume of the engine).<sup>57</sup>

It is important to note that Uzbekistan recently abolished customs duties for imported electric vehicles and cars made within the last two years that cost more than USD 40,000.<sup>58</sup>

Given the experience of the above three countries' regarding tariff negotiations at the WTO, it is evident that maintaining the status quo of auto tariffs for foreign cars in Uzbekistan seems arduous. Hence, it is highly likely that Uzbekistan would go through a sharp decrease scenario as China has (see III.A). However, this concession can be realised with gradual tariff cuts as we discussed Russia's phase-out as the best scenario, while the Kazakhstan one might shake Uzbek auto-industry.

### B. Abolishing Discriminatory Taxation

Uzbekistan needs to abolish discriminatory taxation against foreign cars. From the outset of the development of the auto industry, the Uzbek government has been extending very generous tax breaks to UzDaewooAuto and its successor, GM Uzbekistan. For instance, UzDaewooAuto enjoyed various forms of State support in Uzbekistan; preferential disposal of government-vested properties, preferential allocation of foreign exchange, preferential treatment in obtaining loans, taxation and financing, etc.<sup>59</sup> According to the Special Cabinet Decree on this project, the 50:50 joint venture got bank credits under governmental guarantee and exemption from taxes.<sup>60</sup> The Uzbek government even established a particular bank for the joint venture to support car sales and its exports.<sup>61</sup> The same scenario has not changed much after GM replaced Daewoo. According to the 2008 Cabinet Decree,

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<sup>57</sup> *How Much is Import Car Customs Clearance*, NORMA, (May 27, 2018), [https://www.norma.uz/nashi\\_obzori/skolko\\_stoit\\_rastamojka\\_importnogo\\_avtomobilya](https://www.norma.uz/nashi_obzori/skolko_stoit_rastamojka_importnogo_avtomobilya).

<sup>58</sup> *Expensive and Electric Cars Exempted from Import Duty*, THE TASHKENT TIMES (July 5, 2018), <http://tashkenttimes.uz/economy/2579-expensive-and-electric-cars-exempted-from-import-duty>.

<sup>59</sup> SEUNG-IL JEONG, *CRISIS AND RESTRUCTURING IN EAST ASIA: THE CASE OF THE KOREAN CHAEBOL AND THE AUTOMOTIVE INDUSTRY* 151-52 (2004).

<sup>60</sup> *Id.*

<sup>61</sup> *Id.*

the Uzbek-American joint venture was also exempted from various taxes.<sup>62</sup> Along with GM Uzbekistan, GM Power train, which produces vehicle engines, also received a tax break from all kinds of tax for ten years.<sup>63</sup> The situation is also similar in case of MAN Auto-Uzbekistan.<sup>64</sup> However, by the end of 2018, the Uzbek government decided not to extend the above tax privileges to its main automaker, the majority State-owned GM Uzbekistan.<sup>65</sup> GM Uzbekistan and other part assemblers are exempted only from value-added taxes.<sup>66</sup> One explanation for tax privilege cuts is that it would make the national auto industry more competitive under harsher economic conditions, gradually preparing GM Uzbekistan for the realities following the State's WTO accession.

WTO Members questioned the taxation policies of Russia and Kazakhstan, in relation to car engines. The Russian policy on imposing the so-called 'utilisation fee' to its car industry is illustrative of such a policy.<sup>67</sup> The utilisation fee increases with age and recycling cost ranges between \$550 (for new cars) and \$55,000 (for old trucks). While imported cars have been subject to the fee, the domestic manufacturers have been exempted as long as they commit to install numerous recycling drop-off points for automobiles.<sup>68</sup> The EU claims that these measures

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<sup>62</sup>Resolution of the President of the Republic of Uzbekistan on the Creation of the Company with Foreign Investments "General Motors Uzbekistan", No. PP-800 (Feb. 21, 2008), <http://cis-legislation.com/document.fwx?rgn=21448>.

<sup>63</sup>Resolution of the President of the Republic of Uzbekistan on the Establishment of an Enterprise With Foreign Investment in the Production of Power Units "General Motors Power train – Uzbekistan", PP-1020 (Dec. 16, 2008), [https://nrm.uz/content?doc=170058\\_postanovlenie\\_prezidenta\\_respubliki\\_uzbekistan\\_ot\\_16\\_12\\_2008\\_g\\_n\\_pp1020\\_o\\_sozdani\\_i\\_predpriyatiya\\_s\\_inostrannymi\\_investitsiyami\\_po\\_proizvodstvu\\_silovyh\\_agregatov\\_djeneral\\_motors\\_pauertreyn\\_-\\_uzbekistan#пнл](https://nrm.uz/content?doc=170058_postanovlenie_prezidenta_respubliki_uzbekistan_ot_16_12_2008_g_n_pp1020_o_sozdani_i_predpriyatiya_s_inostrannymi_investitsiyami_po_proizvodstvu_silovyh_agregatov_djeneral_motors_pauertreyn_-_uzbekistan#пнл).

<sup>64</sup>Decree of Cabinet of Ministers of The Republic of Uzbekistan About Creation of an Enterprise with Foreign Investments LLC JV Man Auto, No. 224 (Aug. 7, 2009), <http://lex.uz/docs/1508469> [hereinafter Decree of Cabinet of Ministers].

<sup>65</sup>*GM Uzbekistan Has Deprived Almost All Tax Benefits*, PODROBNO.UZ (Dec. 28, 2018), [https://podrobno.uz/cat/economic/gm-uzbekistan-lishili-praktiches/?sphrase\\_id=273753](https://podrobno.uz/cat/economic/gm-uzbekistan-lishili-praktiches/?sphrase_id=273753).

<sup>66</sup>Decree of the President State on the Forecast of the Main Macroeconomic Indicators and Parameters of the State Budget of the Republic of Uzbekistan for 2019 and Budget Guidelines for 2020-2021, No. PP-4086 (Dec. 26, 2019), [https://nrm.uz/content?doc=578159\\_postanovlenie\\_prezidenta\\_respubliki\\_uzbekistan\\_ot\\_26\\_12\\_2018\\_g\\_n\\_pp-4086\\_o\\_prognoze\\_osnovnyh\\_makroekonomicheskikh\\_pokazateley\\_i\\_parametrah\\_gosudars\\_tvennogo\\_byudjeta\\_respubliki\\_uzbekistan\\_na\\_2019\\_god\\_i\\_byudjetnyh\\_orientirov\\_na\\_2020-2021\\_gody](https://nrm.uz/content?doc=578159_postanovlenie_prezidenta_respubliki_uzbekistan_ot_26_12_2018_g_n_pp-4086_o_prognoze_osnovnyh_makroekonomicheskikh_pokazateley_i_parametrah_gosudars_tvennogo_byudjeta_respubliki_uzbekistan_na_2019_god_i_byudjetnyh_orientirov_na_2020-2021_gody).

<sup>67</sup>*DS462*, *supra* note 49; *DS463*, *supra* note 49.

<sup>68</sup>See Alex Kerrigan, *Recycling Fees and Russia's World Trade Woes*, 1 CORNELL INT'L L.J. ONLINE 54 (2013).

appear to be inconsistent with Articles I:1, II:1(a), II:1(b), III:2 and III:4 of the GATT 1994; and Articles 2.1 and 2.2 of the TRIMS Agreement.

Similarly, Uzbekistan should also be prepared for such intensive questioning on the part of existing WTO Members. Although Uzbekistan protects its auto industry primarily through high import tariffs, it also does so through low internal/domestic taxes and fees, which are likely to attract scrutiny during WTO negotiations.

### C. Eliminating Export Subsidies

The issue of export subsidies is also one of the most hotly debated issues during negotiations leading to accession, given its chameleon character that may appear in a variety of forms including direct or indirect financing. Preferential treatment in obtaining loans for GM Uzbekistan is a clear example of this. The 2017 Presidential Decree on the Development of the Auto Industry recommended that the local Asaka Bank provide support to organisations related to Uzavtosanoat by financing investment projects provided for by the Program, replenishing working capital, providing loans in national currency with an interest rate not higher than the refinancing rate of the Central Bank, as well as providing loans in foreign currency with bank margins not more than 2%.<sup>69</sup>

The exemption from customs payments can also be a tool for subsidising. Based on special government resolutions, companies participating in upgradation or renovation projects are entitled to tax and customs concessions.<sup>70</sup> Foreign joint-venture auto-makers are significant beneficiaries of this system. GM Uzbekistan,<sup>71</sup> SamAuto and MAN Auto-Uzbekistan,<sup>72</sup> as well as many subsidiaries of Uzavtosanoat, have enjoyed wide-ranging customs exemptions until now.<sup>73</sup>

The above facts demonstrate the extent to which the Uzbek government has subsidised, and still, to some extent, continues to subsidise, its leading automaker.

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<sup>69</sup> Decree of the President of the Republic of Uzbekistan on Measures to Further Improve Management and Accelerated Development of the Automotive Industry for 2017 – 2021, No. PP-3028 (June 1, 2017), <http://lex.uz/docs/3226618> [hereinafter Decree of the President].

<sup>70</sup> For details of customs exemptions, see *Doing Business in Uzbekistan*, DELOITTE, [https://www2.deloitte.com/content/dam/Deloitte/uz/Documents/tax/Doing%20business%20in%20UZ\\_2016.pdf](https://www2.deloitte.com/content/dam/Deloitte/uz/Documents/tax/Doing%20business%20in%20UZ_2016.pdf).

<sup>71</sup> Decree of the President of the Republic of Uzbekistan on the Establishment of an Enterprise with Foreign Investments “General Motors Uzbekistan”, No. PP-800 (Feb. 21, 2008), <http://lex.uz/docs/1318292>.

<sup>72</sup> Decree of Cabinet of Ministers, *supra* note 64.

<sup>73</sup> Decree of the President, *supra* note 69.

Therefore, it is not surprising that concessional loans, tax breaks, and preferential disposal of government-vested properties have already made GM Uzbekistan susceptible to anti-subsidy investigations by countries that import cars. In early October 2018, the Interdepartmental Commission of Ukraine on International Trade launched an anti-subsidy investigation into booming passenger car imports into Uzbekistan based on a complaint by the Ukrainian Automobile Manufacturers Association. The Ukrainian side noted that Uzbek manufacturers could receive subsidies from the government of Uzbekistan, which would create unequal conditions for Ukrainian automakers.<sup>74</sup> Although Ukraine dropped its case after counter-measures were taken on its sugar and pharmaceutical products by the Uzbek government,<sup>75</sup> it can show the scale of auto-making subsidies, i.e., support on the part of the Uzbek government. Leading local scholars also vociferously demanded the abolition of State support for GM Uzbekistan. For instance, according to the Director of the Centre for Economic Development based in Tashkent, Yuliy Yusupov, Uzbekistan has suffered multi-billion losses (in Uzbek Som) in order to protect its monopolistic carmaker, Uzavtosanoat.<sup>76</sup> He also adds that “for several years the export of cars was carried out at a price lower than the prime cost and no action was taken actually to reduce the latter”.<sup>77</sup>

Crucially, the Uzbek government is also sufficiently aware of the accumulated problems of the auto industry. Speaking during a press conference on May 21, 2018, President Mirziyoyev claimed the GM Uzbekistan plant was operating only “for the sake of appearance” and that there was “no use from it”.<sup>78</sup> Mirziyoyev claimed that despite receiving various incentives, including tax breaks, the plant had still not achieved the proper localisation level, over the past 27 years. Furthermore, for several years, the export of cars was carried out at a price below the cost of production, and no action was taken to reduce costs.<sup>79</sup> To the Head of State, GM Uzbekistan had not created new jobs, and it was no longer generating

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<sup>74</sup> *Ukraine is Investigating the Import of Cars From Uzbekistan*, NEWS PORTAL (Oct. 3, 2018), [https://zi.dn.ua/en/news/ukraine-is-investigating-the-import-of-cars-from-uzbekistan\\_59370/](https://zi.dn.ua/en/news/ukraine-is-investigating-the-import-of-cars-from-uzbekistan_59370/).

<sup>75</sup> *Uzbekistan, Ukraine Exchange Import-Ban Threats Amid Trade Row*, EURASIANET (Nov. 4, 2018), <https://eurasianet.org/uzbekistan-ukraine-exchange-import-ban-threats-amid-trade-row>.

<sup>76</sup> *Huge Uzbek Budget Losses - Due to Ailing Auto Industry?*, AZARNEWS (July 9, 2018), <https://www.azernews.az/region/134486.html>.

<sup>77</sup> *Id.*

<sup>78</sup> *Vorotnikov, supra* note 21.

<sup>79</sup> *Prospects for Development of Automobile Industry*, EMBASSY OF UZBEKISTAN IN NEW DELHI (June 26, 2018), <http://www.uzbekembassy.in/prospects-for-development-of-automotive-industry/>.

any profit, so the government had decided to direct State support to the other industries.<sup>80</sup>

#### D. Eliminating Local Content Requirements

Since Uzbekistan is the most populous country in Central Asia, job creation through localisation is highly emphasised.<sup>81</sup> Desperate to reduce unemployment, Uzbekistan is known for strongly urging its foreign partners to localise production in the country and to increase use of locally produced material in production.<sup>82</sup> Companies that fall within the localisation programme in Uzbekistan receive several tax and customs privileges that have allowed them to increase the competitiveness of their products, consequent to a significant reduction in production costs.<sup>83</sup> In order to receive such privileges, foreign entities need to conclude an investment agreement with the Uzbek government. Until now, GM, Itochu, Isuzu Motors, MAN Truck & Bus Concern, and MAN Group have concluded such agreements with Uzavtosanoat.<sup>84</sup> According to public sources, the Uzbek government is aiming to achieve 50% localisation of auto products in the

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<sup>80</sup> *"This Factory is Just for Window-dressing, No One Benefits from It". The President Talked About the Automobile Plant in Andijan*, KUN.UZ (May 20, 2018), <https://kun.uz/news/2018/05/20/bu-zavod-nomigagina-ec-kimga-fojdasi-juk-prezident-andizondagi-masina-zavodi-akida>.

<sup>81</sup> Resolution of the President of Republic of Uzbekistan About the Program of Localization of Production of Finished Products, Completing Products And Materials for 2014-2016, No. PP-2120 (Apr. 2, 2014), <https://nrm.uz/contentf?doc=432067>; *President Decree 2298 on the Program on Localization of Ready-made Component Parts and Materials Production on 2015-2019 and 2016-2019*, UZAUTO, <http://UzAvtoSanoat.uz/en/Development-programs.html>.

<sup>82</sup> *Uzavtosanoat Plans to Reduce Imports*, UZBEKISTAN NATIONAL NEWS AGENCY (June 12, 2018), <http://uza.uz/en/business/uzavtosanoat-plans-to-reduce-imports-12-06-2018>. In February 2015, the "Program of localization of production of finished products, components and materials for 2015 – 2019" was approved by the Karimov government. This programme incorporates 600 projects, providing for the production of competitive, import-substituting and export-oriented products. The projects ensure deep processing of local mineral raw materials, and the production of 1,225 most popular products. Furthermore, continuing previous government policy, the 2017 auto industry development program under the Mirziyoyev government aimed at reducing the share of imports and production costs by deepening the localization of the production of components, expanding inter-sectoral cooperation in the development and increase in the production of basic raw materials and materials necessary for the development of the automotive industry, and optimising production and operating costs.

<sup>83</sup> *Companies of Localization*, UZAUTO, <http://UzAvtoSanoat.uz/en/COMPANIES%20OF%20LOCALIZATION.html>.

<sup>84</sup> *International Agreements*, UZAUTO, <http://UzAvtoSanoat.uz/en/International-agreements.html>.



case of the first two projects. Moreover, thousands of parts remain to be localised.<sup>85</sup> Interestingly, newly established joint ventures are also likely to have enjoyed various tax and non-tax privileges by the government.<sup>86</sup> One must examine their compatibility with the competition law of the country, as well as to subsequent WTO negotiations.

Uzbekistan would obviously be required to bring its conservative auto localisation program into compliance with WTO rules. The implementation of the TRIMS Agreement will undoubtedly cause shockwaves across Uzbekistan's current auto industry because of the structure of the latter. Since the agreement requires WTO members to refrain from setting localisation requirements and/or from compelling foreign parties to transfer technologies, Uzbekistan's current policy of establishing an entire auto industry by localisation is untenable.<sup>87</sup> Therefore, Uzbek policymakers should be very conscious and aware of the consequences of maintaining WTO-inconsistent policies. In *Indonesia — Autos*, the leading case on the auto industry that was subject to WTO dispute resolution proceedings, the Panel considered Indonesia's 1993 Program, which provided import duty reductions or exemptions on imports of automotive parts based on local content requirements, as violative of Article 2.1 of TRIMS Agreement. The measure in question amounted to a trade-related investment measure, and also related to a local content requirement falling within para 1 of the Illustrative List of TRIMS in the Annex to the TRIMS Agreement, which lists examples of trade-related investment measures inconsistent with the National Treatment obligation under GATT Article III:4.<sup>88</sup> In *India — Autos*, another auto industry-related case, somewhat similarly, the Panel concluded that India had acted inconsistently with its obligations under: Article III:4 of the GATT 1994 by imposing on automotive manufacturers an obligation to use a certain proportion of local parts and components in the manufacture of cars and automotive vehicles (the so-called 'indigenisation' condition); Article XI of the GATT 1994 by imposing on automotive manufacturers an obligation to balance any importation of certain kits and components with exports of equivalent value ('trade balancing' condition); and Article III:4 of the GATT 1994 by imposing, in the context of the trade-balancing condition, an obligation to offset the amount of any purchases of previously

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<sup>85</sup>*List of Spare Parts Yet to be Localized*, UZAUTO, <http://UzAvtoSanoat.uz/en/List-of-spare-parts-yet-to-be-localized.html>.

<sup>86</sup>*Peugeot Citroën Plant Received Unprecedented Benefits in Uzbekistan*, RAMBLER (June 14, 2017), <https://finance.rambler.ru/economics/37139916-zavod-peugeot-citroen-poluchil-bespretsedentnye-igoty-v-uzbekistane/?updated>.

<sup>87</sup>See The Illustrative List of TRIMS, Agreement on Trade-Related Investment Measures, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1868 U.N.T.S. 186.

<sup>88</sup>Panel Report, *Indonesia — Certain Measures Affecting the Automotive Industry*, WTO Doc. WT/DS54/R, WT/DS55/R, WT/DS59/R (adopted July 2, 1998).

imported restricted kits and components on the Indian market, by exports of equivalent value.<sup>89</sup> Further, in *Canada — Autos*, the Panel concluded that the import duty exemption was limited to imports from a small number of countries in which exporters were affiliated with eligible Canadian manufacturers/importers, violating Canada's Most-Favoured-Nation treatment obligation under Article I:1.<sup>90</sup> Contemporary Uzbek auto industrial policy fits the circumstances of all three cases discussed herein. A careful examination of WTO norms and jurisprudence relevant to the auto industry could only be beneficial for Uzbekistan.

On that point, it is equally important for Uzbekistan to secure the necessary phase-out periods. Here, the achievements of Russia and Kazakhstan are worth mentioning. Russia gained some phase-outs for its localisation programs. Shortly before WTO accession, the Russian government strategically proposed new six-year agreements to foreign automakers on stricter conditions.<sup>91</sup> In general, these agreements do not comply with WTO rules, but as a result of negotiations, they were permitted exceptionally until 2020. Taking Russia and Kazakhstan's economic positions (both of which are upper-middle-income countries), Uzbekistan (which is a lower-middle-income country) could also potentially be afforded even longer phase-out periods for adapting its auto industrial policy in line with WTO Agreements.

### E. Reforming Auto SOEs

Indirectly, however, a reform of SOEs would also be required. Most Uzbek SOEs have a range of advantages, including various tax holidays, as well as better access to commodities, utility supplies, local and external markets, and smoother access to financing. Additionally, SOEs are usually not subject to legislative budget constraints unless they are in low-priority industries. As a result, most become dormant and economically inefficient performers. "The fundamental reason that many SOEs are innately nonviable is because they are in industrial segments where [they] are not [to] the economy's comparative advantage".<sup>92</sup> No doubt, Uzavtosanoat remains at the top of the recipients' list as a 'strategic burden' for the State. Therefore, reforming SOEs according to Uzbekistan's comparative

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<sup>89</sup> Appellate Body Report, *India — Measures Affecting the Automotive Sector*, WTO Doc. WT/DS146/AB/R, WT/DS175/AB/R (adopted Mar. 19, 2002).

<sup>90</sup> Appellate Body Report, *Canada — Certain Measures Affecting the Automotive Industry*, WTO Doc. WT/DS139/AB/R, WT/DS142/AB/R (adopted May 31, 2000).

<sup>91</sup> Indermit S. Gill et al., *The World Bank, Diversified Development: Making the Most of Natural Resources in Eurasia* 126 (2014), <https://www.worldbank.org/content/dam/Worldbank/Feature%20Story/ECA/diversified-development-eurasia-full-report.pdf>.

<sup>92</sup> Justin Yifu Lin, *WTO Accession and Chinese Economy: Impacts on Agriculture, Financial Sector, and State-Owned Enterprises*, 21(1) *CATO J.* 13, 17 (2001) [hereinafter Lin].

advantages, while complying with WTO principles, may provide further impetus for growth. The reason, as Harry Broadman put most astutely, lies in the example of China's SOEs by "locking-in international commitments that will help induce efficiency gains in SOEs and make these and other public enterprises behave in ways similar to those of private industry."<sup>93</sup>

The authors of this paper expect Uzbekistan's accession to the WTO to speed up SOE reform, and especially Uzavtosanoat's efficiency so it can compete not only in the domestic market but also overseas. In addition to tariff cuts, abolition of discriminatory taxes and export subsidies, GATT provisions also prohibit the operation of import monopolies from eroding the value of tariff concessions, the imposition of import or export restrictions through State-trading operations, and also impose a general obligation of non-discrimination on State-trading enterprises.<sup>94</sup> This means the financial accounting and auditing, and commercial credit discipline of Uzavtosanoat and its subsidiaries would come under close scrutiny by trade partners. As a result, in order to operate competitively in line with WTO norms in the near future, Uzbek SOEs would be required to diversify ownership, simplify organisational structures, including enterprise groups and holding companies, create a market for managerial talent, and independently audit their financial accounts in line with international standards and make them publicly available.

No doubt, political incentives to reform Uzavtosanoat also play quite a prominent role. To make the automotive sector more competitive, diverse and a hub of automotive exports in Central Asia and the broader Eurasian region, the Uzbek government has already adopted the 2017-2021 development programme for its auto industry.<sup>95</sup> Accordingly, the Government reorganised the JSC Uzavtosanoat, approved the program of automobile industry development, and tasked Uzavtosanoat to reform its corporate governance in line with international standards.<sup>96</sup> Given that no administrative and corporate reform of Uzavtosanoat has happened ever since, reform remains outstanding, especially among the leading automakers.

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<sup>93</sup>Harry G. Broadman, *A Litmus Test for China's Accession to the WTO: Reform of Its State Owned Enterprises in CHINA AND THE LONG MARCH TO GLOBAL TRADE* 47, 64 (Alan S. Alexandroff et al. eds., 2002).

<sup>94</sup>Weihuan Zhou et al., *China's SOE Reform: Using WTO Rules to Build a Market Economy*, 68(4) INT'L. & COMP. L. Q. 977, (2019).

<sup>95</sup>Eimear O'Casey, *Export and Diversification Drive in Uzbekistan's Automotive Sector*, CONTROL RISKS (Sept. 6, 2018), <https://www.controlrisks.com/our-thinking/insights/automotive-export-and-diversification-drive-in-uzbekistan>.

<sup>96</sup>*Uzbekistan Adopts Programme for Development of Automobile Industry*, UZDAILY (June 5, 2017), <https://www.uzdaily.com/articles-id-39678.htm>.

## V. ECONOMIC EFFECTS OF ACCESSION TO THE WTO

After having identified the likely demands that Uzbekistan may have to fulfil during the bilateral and multilateral negotiations in Geneva, we may now ponder upon the potential economic impact of Uzbekistan's accession on its auto industry.

A potential benefit of WTO accession for Uzbekistan may be a more efficient economic output due to wider access to foreign goods and services markets as well as the attraction of further investment. Moreover, the State could enjoy the benefit of the WTO's outstanding judicial functions such dispute settlements mechanisms, intellectual property rights, or non-discriminated trade under the established agreements. Reducing tariff and non-tariff barriers will offer Uzbek consumers lower costs, higher quality, and more diversified goods and services, that arise because of a competitive market after the country's WTO entry. On the other hand, the cost of domestic inputs for producers and exporters will become lower due to the reduced tariffs. This, in turn, improves the export capability creating forward and backward linkages in the economy in the long run.

However, there are several hurdles that the Uzbek policymakers and researchers should carefully seek to surmount, before and during the negotiations, especially regarding certain non-viable industries. Theoretically, non-viable industries are outside an economy's comparative advantage,<sup>97</sup> and therefore usually supported by the State. For example, Uzavtosanoat has been receiving government aid.<sup>98</sup> Uzbek auto industry is among the top innately non-viable industries in the country, since the auto industry is capital-intensive while Uzbekistan is a relatively labour and natural resource-abundant country.<sup>99</sup> The government has protected the industry by various means such as subsidies, high tariffs for importing cars, and tax privileges. As a result of such a preferential treatment, Uzavtosanoat has been enjoying monopoly in the market, to such an extent that the company has demonstrated a lack of incentive for applying innovations or reducing the production costs.

Despite such State support, it is still questionable whether the industry is ready to face harsh global competition post-WTO accession. How much is WTO accession likely to affect the industry?

### A. Current Trend

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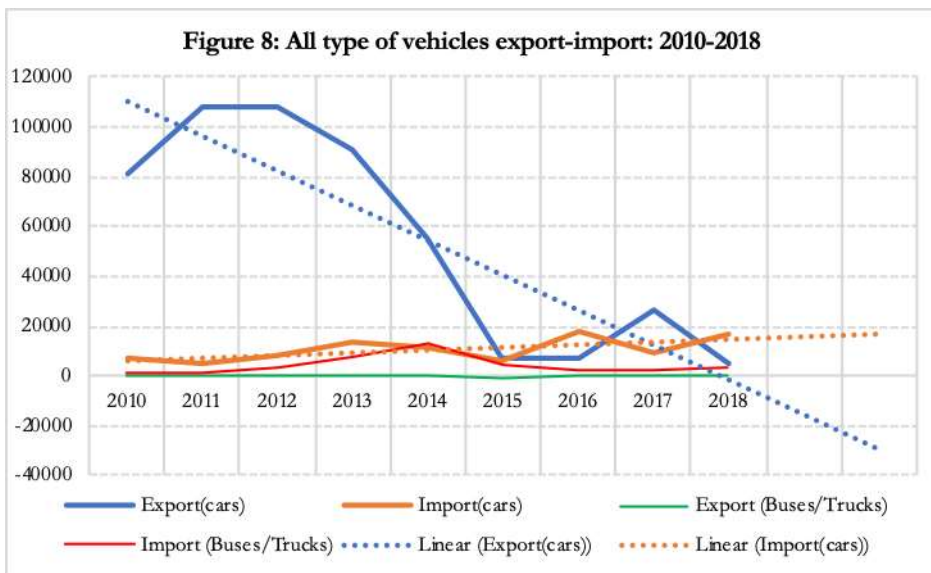
<sup>97</sup>Lin, *supra* note 92.

<sup>98</sup>*Id.*

<sup>99</sup> Richard Pomfret, *Resource Abundance, Governance and Economic Performance in Turkmenistan and Uzbekistan*, U. Bonn Ctr. for Dev. Res., (2004), <http://ageconsearch.umn.edu/record/18735/files/dp040079.pdf>.

As a developing country, Uzbekistan's national pride is associated with its the automotive industry as one of its primary industries. Having become familiar with the State's automobile production capacity (Part III), let us first delve into the current trading trend.

It is noticeable that the country's exports of light vehicles (unlike buses' and trucks'



export) dominate almost all the time (Figure 8).<sup>100</sup> However, this domination decreased dramatically between 2012 and 2015, and this 'dive' was deeper in 2018, right after the slight rise in 2017. An official of GM Uzbekistan explains this drop in reference to two events: Russia's WTO accession (2012) and Russia's economic meltdown (2014-2017). Since GM Uzbekistan exports more than 70%<sup>101</sup> of its vehicles to the Russian market (Figure 9),<sup>102</sup> new standards and requirements on imported cars after Russia's WTO accession caused a drop in Uzbek total car exports. Also, this dramatic fall was due to discrimination (such as technical

<sup>100</sup>Statistics Committee of Uzbekistan: [www.stats.uz](http://www.stats.uz) (The data has been received from the Committee by an official request).

<sup>101</sup> Even, coming to 2019 the company's market share in Russia dropped to 0%. The lack of sales is associated with the new policy of the company to abandon the export of cars at low prices. See *GM Uzbekistan Exports First Batch of Cars to Belarus*, KUN.UZ (Apr. 3, 2019), <https://kun.uz/en/99498103>.

<sup>102</sup>Statistics Committee of Uzbekistan: [www.stats.uz](http://www.stats.uz) (The data has been received from the Committee by an official request).

barriers and safety regulations) on the part of Russia against countries not part of the Eurasian Economic Union.<sup>103</sup>

Moreover, considerable international economic sanctions imposed on Russia (following Russia's annexation of Crimea and the Russian military intervention in eastern Ukraine) lowered the purchasing power of car consumers in Russia. From 2019, Uzavtosanoat resumed delivering automobiles to Russia as well as Afghanistan, Belarus, Kazakhstan, and Tajikistan<sup>104</sup> under the brand name *Ravon* by announcing 2019 to be the 'Year for Development of Export Potential'.<sup>105</sup>

Meanwhile, Uzavtosanoat is missing out in the domestic market as Uzbek customers had gradually developed a preference for foreign makes. Figure 8 shows that despite some drops in the number of imported cars during the given time, the linear forecast line implies that the trend for car imports is to increase overall (while the trend for exports are decreasing, on the other hand).



In terms of trade in buses (including minibusses) and trucks, the inflow of foreign goods into the country has surpassed the number of exports. This tendency is abundantly demonstrated in Figure 10.<sup>106</sup> When it comes to trade in motor vehicles designed to carry ten persons and above, and motor vehicles for cargo transportation, on average almost 90% of domestic demand is met by foreign producers. Overall, the current trend implies that imports outnumber exports in

<sup>103</sup>Pomfret, *supra* note 7 at 111.

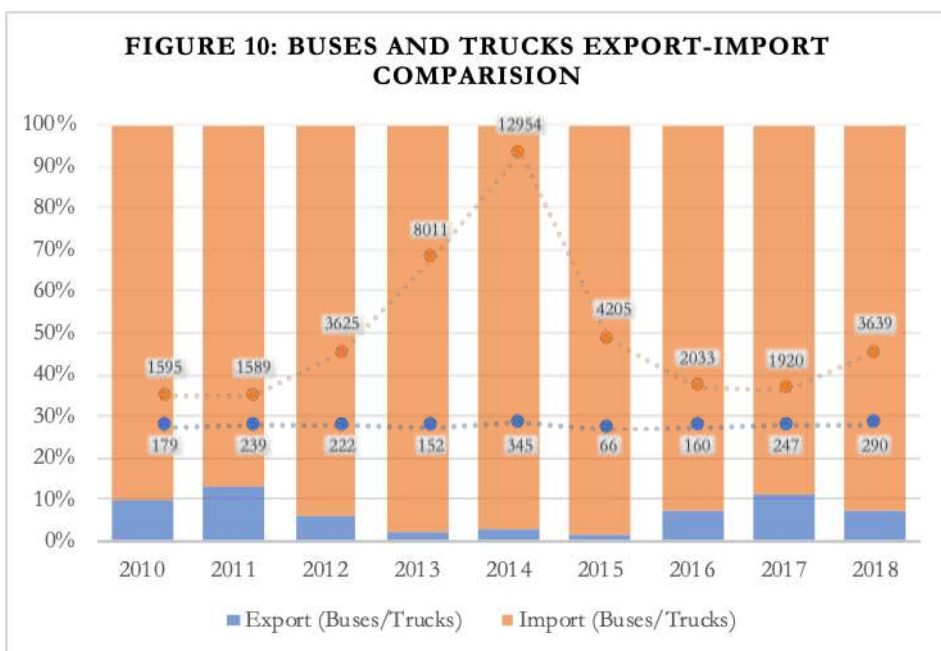
<sup>104</sup> GM Uzbekistan to Resume Sales of Cars in Russia, KUN.UZ (Apr. 8, 2019), <https://kun.uz/en/news/2019/04/08/gm-uzbekistan-to-resume-sales-of-cars-in-russia>.

<sup>105</sup> Vehicles of GM Uzbekistan Exported to Belarus, UZAUTO (Apr. 3, 2019), <http://uzavtosanoat.uz/uz/GM-UZBEKISTAN-avtomobillari-belarusga-eksport-ilindi.html>.

<sup>106</sup>Uzbekistan Statistics Committee, *supra* note 32.

both light and commercial vehicles.

Considerable reliance on Russia as a light vehicle export market destination has had sweeping implications for the whole industry. As for commercial vehicles, import-dependency should signal that capacity, along with the quality of buses and trucks in the industry, should be properly addressed for their further enhancement domestically before having to face the harsh competitive market conditions after WTO entry.



**B. Post-WTO Economic Effects**

Having become familiar with the current situation of Uzavtosanoat, the following question arises - to what extent does trade liberalisation impact the company's overall performance? According to some statistics, Uzavtosanoat owns 90% share of the domestic vehicle market.<sup>107</sup> Meanwhile, one cannot deny the fact that currently, the head of Uzavtosanoat is rather worried about the imminent, sharp decrease in import tariffs for foreign vehicles post-WTO. Their concern pertains to auto-giants such as German and Japanese car-makers and their existing large and efficient economies of scale. Uzavtosanoat is urging the government to take

<sup>107</sup> *Uzbekistan 2017. GM Uzbekistan Stable at 92% Share*, FOCUS2MOVE (Feb. 19, 2018), <https://focus2move.com/uzbekistan-vehicle-market/>.

prudent measures towards tariff cuts in light of the WTO trade liberalisation requirements.<sup>108</sup> However, even though the auto industry is likely to suffer static effects in the short-run as a result of tariff cuts, dynamic effects are also likely to appear in different forms after WTO liberalisation realisation.

Static effects are easily noticed in the short-term as a result of trade creation or trade diversion. The changes in customs rates for an imported car in a region provides us a numeric (static) effect such as changes in economic welfare and/or government revenue. For example, VORSIM economic modelling<sup>109</sup> simulates that a 1% decrease in the average tariff (including that relevant to the auto industry) could lead to a 2.7% increase in imports and a 1.2% decrease in import revenue. As a result, consumers benefit by USD 15 million while the balance of payments deficit becomes three times more than that.<sup>110</sup> The model claims that tariff cuts in particular significantly increase vehicle imports. If so, simple math implies that if the current 120% customs payment for importing cars were reduced by 25-30% as per the Chinese case, the number of foreign makes will rise substantially. This rough estimate in relation to tariff-cuts in a short period of time urges the State to properly consider this matter. Besides, tariffs presuming the elimination of non-tariff barriers (such as unpredictable changes in tariff schedules, quantitative restrictions, taxes on imports that are not levied on domestically produced goods etc.) are expected to couple the inflow of car imports.<sup>111</sup>

Another likely dynamic effect may be tracked in the long-term as a result of productivity increase in the overall industry, since the WTO urges Members to reform their economy to progressively integrate with the competitive global economy. This integration encourages producers to innovate and spend more on research and development in order to better survive in a ‘merciless’ global market. The scale of economies, per-unit cost reduction, dynamic increase of returns, learning curve, and the knowledge spill-over may be the fruits of such dynamic

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<sup>108</sup> Temir Isaev, *How Musk and American Tariff Wars Are Connected with Uzbek Duties on Cars and Why Uzavtoprom Asks to be Careful*, PODROBNO.UZ (Feb. 5, 2019), <https://podrobno.uz/cat/economic/kak-mask-i-amerikanskie-/>.

<sup>109</sup> Vernon O. Roningen & Dean A. DeRosa, *Economic Impacts of WTO Accession by Uzbekistan—Preliminary Assessment and Recommendations for Future Work*, CITE SEER X (Apr. 20, 2004),

<http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.513.738&rep=rep1&type=pdf>.

<sup>110</sup> *Id.*, at 12.

<sup>111</sup> *Id.*, at iii. (The economic welfare’s gain out of tariff removal coupled with the removal of non-tariff barriers is 2.4 times that of the scenario where only tariffs are removed, p. 8). As per the International Trade Administration, “Surveys of foreign companies consistently conclude that trade/border/customs restrictions are the most serious challenges to doing business in Uzbekistan”; *Uzbekistan – Trade Barriers*, EXPORT.GOV (Mar. 7, 2019), <https://www.export.gov/article?id=Uzbekistan-Trade-Barriers>.



effects that appear over time. For example, one type of dynamic effect that Uzavtosanoat achieved over two decades, is that the company now produces a car in less than 24 hours – previously this has been 50 hours – which is the world average, using the ‘Just in Time’ service system.<sup>112</sup> It is hoped that the Uzbek auto-industry will gain many other dynamic effects by its 2035 strategic plan,<sup>113</sup> if and only if Uzavtosanoatis is able to take full advantage of liberalisation.

The recommendation is that Uzavtosanoat should partially invest in research and development, personnel training, and capacity-building, while mainly focusing on cutting-edge technology transfer, based on long-term Foreign Direct Investment strategy.<sup>114</sup>

In a nutshell, bound tariff effects post-WTO accession may threaten Uzavtosanoat in the short run. However, in the long run, the industry stands to gain through the chance to internationalise its old-fashioned management system toward the global arena.

## VI. CONCLUSIONS

WTO membership will undoubtedly lead to increased competition. Therefore, Uzbekistan must ensure that its auto industry can maintain its cost competitiveness. The application of WTO provisions would make imported products more affordable to the rising Uzbek middle-class, thus enhancing their economic welfare. It would also make investment more profitable for foreign companies and increase their confidence in the Uzbek market. The country is required to commit to tariff cuts, abolish non-tariff barriers, eliminate export subsidies, and stop discriminatory taxation, as well as adjust its auto-localisation with WTO rules. In other words, Uzbekistan's accession to the WTO would lower tariffs and prohibit other trade barriers, eliminate domestic content requirements, and may facilitate foreign participation over distribution and financing.

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<sup>112</sup> *Salimov: Uzbek Automobile Industry is Not Afraid of Competitors, Now One Car is Assembled in Just 24 Hours*, KUN.UZ (Dec. 29, 2018), <https://kun.uz/en/news/2018/12/29/salimov-uzbek-automobile-industry-is-not-afraid-of-competitors-now-one-car-is-assembled-in-just-24-hours>.

<sup>113</sup> The ‘Development Strategy Framework of the Republic of Uzbekistan by 2035’ includes the aim that the auto industry will gain 30% of electric cars along with 40,000 jobs expanding its export territory to India, Pakistan, China, and Turkey.

<sup>114</sup> Justin Yifu Lin, *WTO Accession and Chinese Economy: Impacts on Agriculture, Financial Sector, and State-Owned Enterprises*, CITE SEER X, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.495.648&rep=rep1&type=pdf>.

Having observed the lessons from a similar post-Soviet economy – namely, Kazakhstan’s commitments during WTO negotiation – it may take between three to four years to adjust and implement the measures and obligations related to the auto industry. For Uzbekistan, though, a wise negotiation would require a more extended phase-out period in order for its auto industry to achieve export competitiveness, and the State to lessen its support gradually with a smoother transition. That is because the auto industry’s share of Kazakhstan’s GDP is c. 1%<sup>115</sup> while that of Uzbekistan is c. 3%, as well as the fact that the former only assembles vehicles while the latter produces domestically, having already localised more than 50% of auto-parts.

Being the largest car producer in Central Asia can bring pride, but the industry has failed to realise its full potential despite colossal government financial support. The authors consider this failure to be due to the inability of the Uzbek auto industry to achieve a competitive pricing domestically (and regionally) as a result of the uncompetitive atmosphere in the domestic market. In terms of buses and trucks, production capacity has not reached the level to satisfy domestic demand. Such failure could be turned into success by eliminating Uzavtosanoat’s monopoly position, and by attracting other joint ventures in automobile making. In other words, the State should encourage competition in the domestic auto industry and market among several joint ventures, as China developed in relation to its auto industry.<sup>116</sup> In addition to that, accessing new markets, especially those of its neighbours, will create an incentive to boost production and to consequently take advantage of economies of scale as a dynamic effect.

Meanwhile, the capacity building necessary for efficient production and to take full advantage of market utilisation should remain the focus of the Uzbek government during accession talks. For doing so, the country would need to quickly establish WTO research centres to investigate economic and social effects of WTO entry and train the government officials accordingly, which it currently palpably lacks. Even though several governmental and non-governmental think-tanks exist, their capacity is very limited due to lack of transparency and financial resources, as compared to those abroad. Furthermore, the previous government’s reluctance to join any kind of free trade pacts has kept Uzbek scholars, as well as universities, from paying necessary attention to international economic law, the WTO

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<sup>115</sup> *Mechanical Engineering of the World and Kazakhstan: Today and Tomorrow*, KAZAKHSTAN CENTRE FOR INDUSTRY AND EXPORT (Jan. 23, 2017), [http://kidi.gov.kz/public/publications/481?fbclid=IwAR3svSVS7ufyCKOO147S-iZuYBcOLVxZr92\\_xb-02NIRVKgmE1pYKiVVKUo\\_](http://kidi.gov.kz/public/publications/481?fbclid=IwAR3svSVS7ufyCKOO147S-iZuYBcOLVxZr92_xb-02NIRVKgmE1pYKiVVKUo_)

<sup>116</sup> Raj Bhala & Won-Mog Choi, *China’s First Loss*, 45(2) J. WORLD TRADE 321, 322 (2011) (Unlike Japan and Korea, China’s automotive industry has developed extensively through FDI as a form of Joint Ventures).

negotiation process, and the study of WTO jurisprudence. It is further hoped that WTO technical assistance and capacity-building training may significantly aid in this regard. In a long run, the nation's economy would enjoy a closer integration and harmonise its customs procedures with the world economy.

Remaining outside the WTO, Uzbekistan's national economy may find itself removed from significant global trade and finance flows, and the country's products will suffer from forms of discrimination. On the other hand, joining the WTO holds much potential for optimising Uzbekistan's further integration into the global economic system, and an opportunity to strengthen the country's position for the future. The crucial matter is how shrewdly Uzbekistan negotiates its accession to the WTO, and how fast it utilises the wider market access that WTO accession undoubtedly provides.