

Impact of a WTO accession on the SME sector development in Uzbekistan

– Arguments and international experience –

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1. Introduction

- The government of Uzbekistan is in the process of discussing the opportunities and challenges of Uzbekistan's possible accession to the World Trade Organization (WTO).
- The WTO Working Party on the Accession of Uzbekistan was set up in 1994 already. After prolonged periods of inactivity, the WTO Working Party relaunched earlier this year.
- The Agency for the Development of Entrepreneurship under the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan was asked to assess the impact of the WTO accession on SMEs

Aim of analysis: Support of the agency by presenting the most important arguments as well as results from available studies

2. Arguments why SMEs should benefit from WTO accession

- One of the most important argument for acceding to the WTO is the reduction in variable costs of trade, such as tariffs.
- SMEs will benefit from reduced variable costs of trade, as will all types of enterprises.
- A second important argument for acceding to the WTO from a SMEs' perspective is the reduction in fixed costs of trade. The latter include costs and time spend for
 - Certification for technical standards and sanitary standards
 - Conformity and pre-shipment requirements in the export market
 - Other administrative burden related to trade
- SME benefit from reduced fixed costs of trade more than large enterprises do. That is because SMEs' export volumes are small and the fixed costs are big in relation to the export volumes. The fixed costs of trade can even form a prohibitive barrier to export for SMEs. Reducing the fixed costs of trade therefore can result in an increasing number of exporting SMEs.

3. WTO instruments to support SME development

The special situation of SMEs is acknowledged and addressed in a number of the WTO agreements, plurilateral agreements and work programs, and through technical cooperation. Some of these are highlighted in the following.

- **Trade Facilitation Agreement:**
 - Aims at reducing the fixed costs of trade
 - Contains measures to enhance impartiality, non-Discrimination and transparency, as particularly relevant to SMEs
- **Agreement on Technical Barriers to Trade and the Agreement on the Application of Sanitary and Phytosanitary Measures:**
 - Stipulate that technical regulations shall not be more trade-restrictive than necessary to fulfil WTO members' policy objectives
 - WTO members are encouraged to base their measures on international standards, guidelines and recommendations.
 - Could potentially help reduce fixed costs for Uzbek SMEs entering export markets

3. WTO instruments to support SME development (cont.)

- **Agreement on Trade-Related Aspects of Intellectual Property Rights:**
Special provisions regarding SME, give WTO members greater leeway to promote the technological development of their SMEs.
- **Anti-dumping Agreement:**
Special provisions make it easier for a WTO member to make use of its rights when it acts on behalf of SMEs.
- **Subsidies and Countervailing Measures Agreement:**
National SME support programs (which are neutral, economic in nature, and horizontal in application) are exempt from being subject to countervailing duties imposed by other WTO members, or from being challenged at the WTO.
- **WTO work programs:**
Have a prominent SME focus examining how best SMEs might take advantage of e-commerce or connect to global value chains.

3. WTO instruments to support SME development (cont.)

- **WTO's capacity-building programs:**
Help SMEs by enhancing their productive capacity or helping them to connect to markets.
- **WTO members' notifications on regulatory changes, WTO members' enquiry points and the global *ePING* notifications alert system:**
Help Uzbek SMEs to track, consult and comment on measures that are being developed and/or adapt as necessary to changing international regulatory conditions.
Increasing transparency on the evolving regulatory landscape will support Uzbek SME to increase their international competitiveness.

4. Short-term effects of WTO accession on SME sector

According to international experience the expected short-term economic effects of a WTO accession on the SME sector could be summarized as follows:

+ **Increasing direct export demand**

The demand for products and services produced by Uzbek SMEs is likely to increase.

+ **Increasing indirect export demand**

The demand for products and services produced by Uzbek large companies is likely to increase. Uzbek SMEs which deliver intermediate products and services to large Uzbek exporters will benefit from that indirect export demand.

+ **Decreasing costs of imported inputs**

This could be important for Uzbek SMEs that buy machines or intermediate products on international markets. Due to decreasing tariffs and the removal of trade barriers, such input becomes cheaper for Uzbek SME.

— **Increasing competition from importers on local output markets**

Due to decreasing tariffs and the removal of trade barriers, more imported products and services are likely to enter the Uzbek markets and to compete with Uzbek SMEs on the national market.

5. Long-term impact of WTO membership on SME sector

According to international experience the expected long-term impact of a WTO membership on the SME sector could be summarized as follows:

+ **Reduction in variable and fixed costs of trade for Uzbek SMEs**

Uzbek SMEs can offer better prices on world markets because trade related administrative costs and transactions costs will decrease.

+ **Increasing efficiency and competitiveness of Uzbek SMEs**

The increased intensity of competition by importers may cause Uzbek SMEs problems in the short term, but in the long term it will improve their competitiveness. Furthermore, SME learn important skills and get access to technology by participating in global value chains.

+ **Increasing export volume**

The volume of Uzbek SMEs' exports is likely to increase continuously.

+ **Growth of Uzbek SMEs**

More of Uzbekistan's SMEs are likely to grow to sustainable sizes, because they can enter and develop foreign markets and thus increase their sales and production.

6. Potential risks for Uzbek SMEs

Although the overall impact of WTO accession on the development of SME sector is expected to be positive, individual enterprises may be exposed to some of the following risks:

- Lack of knowledge and skills for international competition at the management level (e.g. marketing expertise, internationalization strategies, finding customers in foreign markets, uncertainties of operating in foreign markets etc.)
- Lack of access to capital to finance internationalization or innovation to improve the enterprise' competitiveness
- Lack of access to trade finance: Local banks may lack the capacity, know-how, regulatory environment, international network or foreign currency to supply import and export-related finance.
- Transport risks and risks of intransparent and cumbersome border procedures
- Lack of knowledge with respects to conformity and pre-shipment requirements in the export markets.

The Uzbek government can help SMEs to overcome the above-mentioned risks by implementing SME promotion programs, Trade Facilitation Programs and Export Promotion Programs.

7. Effects on other countries

- The case of China is an outstanding example for observing positive effects of WTO accession on private entrepreneurship and SME development. During eight years after China's WTO accession, studies identified:
 - A positive effect on the productivity growth of both private-owned enterprises and SOE
 - A positive effect on the export growth of private-owned SME
- The reason for China's success: China has continuously improved the general framework for the development of private entrepreneurship and SME, before and after the WTO accession. Furthermore, China implemented trade facilitation resp. SME export promotion programs.
- Some studies show, that WTO accession can have no or little effects on the SME sector, when it is not accompanied with SME development policy and/or trade facilitation measures (e.g. studies of Indonesia, Nigeria, Vietnam).
- At the same time, studies show that trade facilitation can have strong positive effects on SMEs. For Asia countries, e.g., it was demonstrated that improvement in trade facilitation indicators tend to increase the probability that SMEs will become exporter - as well as their export propensity.

8. Conclusions and implications for Uzbekistan

Uzbekistan can learn from international experience.

Uzbekistan can expect positive effects of WTO accession on the development of private entrepreneurship and SME, especially if Uzbekistan parallelly

- implements the WTO's Trade Facilitation Agreement (which is currently mandatory),
- implements trade facilitation programs and export promotion programs for private entrepreneurs and SME,
- continues to improve the general conditions for private entrepreneurship and SME, including:
 - Macroeconomic stability
 - Regulatory environment
 - Level-playing field with regards to the access to resources
 - Transparency and efficiency of customs procedures
 - Access to finance in general and to trade finance in particular

About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

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