

NEWSLETTER

UZBEKISTAN

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Uzbekistan's WTO accession: the impact of tariff liberalisation

The accession to the World Trade Organisation (WTO) has been among the economic policy priorities of Uzbekistan. The accession implies the reduction of import duties, which will have a significant impact on the Uzbek economy. We analyse this impact using a computable general equilibrium (CGE) model of Uzbekistan.

We show that Uzbekistan would benefit from tariff liberalisation. A uniform decrease of tariffs by 80%, which is close to a full liberalisation, would result in a 0.4% increase in real GDP growth per year. At the same time, the impact will be unequally distributed across sectors; some will gain from a tariff liberalisation like the basic metals sector, while others will face increased competition through imports like the production of motor vehicles.

Change of trade regime due to WTO

Uzbekistan is in the process of negotiating accession to the WTO. This step usually has a significant impact on the domestic economy due to the reduction of trade barriers, especially tariffs.

Currently, the country operates under three trade regimes. With ten CIS countries, Uzbekistan concluded free trade agreements (FTAs).

Uzbekistan's exports and imports by trade regime

	Share in	
	Exports	Imports
FTA	32%	42%
Bilateral MFN	33%	55%
Full rate: WTO	32%	1%
Full rate: non-WTO	3%	2%

Source: WITS, WTO, own estimates; Note: data for 2021

The country also has bilateral so-called most favoured nation (MFN) agreements with 47 partners, including 27 EU member states, China, the USA, and Turkey. MFN are tariffs that WTO members apply towards other members. For trade with all other countries, Uzbekistan applies a full tariff.

Around one-third of Uzbek exports are under FTA, MFN and full rate, respectively. For imports, 42% are under FTA, 55% under MFN, and the remaining 3% under the full rate. These shares are important as they define how much Uzbekistan's current trade will face changed conditions.

WTO membership will have the following impact on the current trade regime:

Changes of trade regime due to WTO

	Exports	Imports
FTA	No change	No change
Bilateral MFN	No change	UZH starts to use MFN import duties
Full rate: WTO	No change*	UZH starts to use MFN import duties
Full rate: non-WTO	No change	No change (UZH free to decide the regime)

Source: own illustration; *most WTO members already apply MFN duties

While joining the WTO might only slightly change Uzbekistan's access to partners' markets, it will reduce tariff rates for 56% for its current imports in line with its committed MFN schedule of concessions.

The analytical tool

We use a CGE model of Uzbekistan to assess the impact of the WTO-membership-induced tariff liberalisation on the country's economy. This is a standard tool to assess changes in trade policy. Nevertheless, it has several strong assumptions:

Time dimension: the model is static and thus assesses the long-term effect of policy changes but not the adjustment trajectory.

The ceteris paribus principle: the model does not consider any other possible economic shocks, like tax changes, global price shocks, new technologies etc., which affect economic development.

The economy's structure: all sectors are competitive, with constant returns to scale; the model does not assume any technological changes.

Factors of production: the amount of production factors is fixed; all factors of production are fully used and are mobile, except for capital in the mining industry.

By design, the model always has winners and losers. The increase in one sector can only be realised by attracting other sectors' production factors. In reality, technological improvements or using additional factors, e.g., employing more people or attracting FDIs, would mitigate the shock.

All in all, the model results should be interpreted with great caution: they contain a long-term assessment of the impact of policy changes within the considered scenario and are not a forecast.

The WTO accession impact

We analysed several scenarios of import duties reductions, from a 20% cut to an 80% cut in import duties.

Our estimates show that the liberalisation of foreign trade, associated with the WTO accession, leads to the growth in real GDP and the well-being of Uzbekistan's population.

Depending on the scenario, the reduced tariffs result in up to a 0.4% increase in real GDP per year in addition to the baseline, while households' welfare expands by up to 0.9% per year. The WTO accession will foster wage growth and, at the same time, contribute to slowing inflation, benefitting the consumers.

Macroeconomic impact of a close to full tariff liberalisation

Uniform change in duties by 80%

GDP	+0.4%
Welfare	+0.9%
Total exports	+4.1%
Total imports	+4.1%
Wages	+1.0%
Returns on capital	+0.8%
Domestic prices	-0.1%

Source: CGE model for Uzbekistan, own estimates

The major factors driving the change are lower prices on imports of capital and intermediate goods and the reallocation of production factors into more competitive sectors of the economy.

The WTO accession impact will be unevenly distributed across sectors. The highest output growth rates are expected for the manufacturing of basic metals, agriculture and services. The most robust increase in exports is estimated in the manufacturing of basic metals, motor vehicles, machinery and equipment. The highest expansion of imports is expected for motor vehicles, rubbers, and plastic products, exerting pressure on domestic production.

Change in output, exports and imports of selected sectors

Uniform change in duties by 80%

Economic sector	Output	Exports	Imports
Agricultural products	+0.6%	-1.6%	+5.0%
Crude oil & gas	-3.2%	-5.0%	+1.8%
Rubbers & plastic	-5.9%	-4.0%	+15.2%
Basic metals	+17.0%	+18.0%	+2.3%
Machinery & equipment	+0.1%	+3.7%	+1.8%
Motor vehicles	-4.7%	+7.3%	+9.2%
Services	+0.2%	-1.0%	-0.1%

Source: CGE model for Uzbekistan, own estimates

Conclusion

The analysis of the WTO-membership-induced tariff liberalisation shows that this policy step would benefit Uzbekistan's economy and people. The country will improve competitiveness, while households will enjoy more product variety, higher wage growth and slowing inflation.

Critical channels of the policy change impact are cheaper materials and components and the reallocation of factors of production into more competitive sectors, forcing industries to increase their efficiency.

Active labour market policies, including (re)training, would be advisable to support the intensified reallocation of labour from less competitive to more competitive sectors.

This newsletter is based on the Policy Study [“The CGE modelling of the impact of Uzbekistan's WTO accession: the change in import duties”](#).

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

*Advisory activities in Belarus are currently suspended.

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