UZBEKISTAN’S ACCESSION TO THE EURASIAN ECONOMIC UNION: ADVANTAGES AND RISKS

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June 2020
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THE ROLE OF THE EAEU IN UZBEKISTAN’S FOREIGN TRADE

Uzbekistan’s possible entry into the Eurasian Economic Union (EAEU) has recently been the focus of public attention both within Uzbekistan and outside the country. Many articles appear in the press by experts arguing the Uzbekistan should or should not join this organization. This is natural, because membership in the EAEU would carry both benefits and risks for Uzbekistan. Determining the optimal way to integrate the country into the world economy requires an analysis of the positive and negative effects of various models of integration, and a choice of the best option that will maximize economic growth rates and the long-term prosperity for the nation.

Uzbekistan’s foreign trade has undergone significant liberalization since the adoption of the Strategy on the Five Priorities for the Development of the Republic of Uzbekistan in 2017-2021, the purpose of which is to modernize the country and accelerate its development through large-scale structural and institutional reforms. As a result, in 2017-2019 Uzbekistan’s exports increased from USD 12.5 billion to USD 17.9 billion, and imports grew from USD 14.0 billion to USD 24.3 billion.

The high rate of growth in foreign trade has made the economy much more open: the export quota has risen from 21.1% to 30.9%, and the import quota has risen from 23.7% to 42%.

In 2019, gold was Uzbekistan’s leading export (27.5% of exports), followed by services (19.9%), energy resources and petroleum products (14.1%), textiles (9.1%), food products (8.5%), nonferrous metals (5.3%), and chemical products (4.9%) (Fig. 1).

Imports to Uzbekistan in 2019 were dominated by machinery and equipment (43.8% of total import volume), followed by chemical products and goods made from them (13.2%), other goods (12.7%), services (10%), food products (7.8%), ferrous metals and goods made from them (7.6%), and energy resources (3.8%) (Fig. 2).
In recent years, the share of the EAEU countries in Uzbekistan’s foreign trade turnover has been about 27%: about 26-27% of its exports and about 27-29% of imports.

Uzbekistan’s main trading partners in the EAEU are Russia and Kazakhstan, which together represented nearly 90% of foreign trade turnover in 2019: 84.3% of exports and 93.3% of imports between Uzbekistan and the EAEU countries (Fig. 3).

Russia and Kazakhstan account for nearly 22% of Uzbekistan’s total exports. These countries are the primary markets for the sale of traditional Uzbek export goods. In particular, 53.6% of energy resources and petroleum products, 49.5% of machinery and equipment, 38.9% of textiles and textile goods, 1 33.6% of chemical products and goods made from them, 33% of food products, 2 21.8% of ferrous metals and goods made from them, and 20.9% of other goods are exported to the markets of these two countries.

**IMPORT CUSTOMS DUTIES**

A duty-free trade regime is currently in place between Uzbekistan and the EAEU member countries under the Free Trade Zone Agreement of the CIS (dated May 31, 2013), of which all EAEU countries are a part. However, during the negotiations on the terms under which Uzbekistan would sign the

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1 Over 46% of textile goods exported from Uzbekistan go to EAEU countries.

2 About 56% of food products exported from Uzbekistan go to EAEU countries.
agreement, Uzbekistan retained, until the date on which it joins the WTO or December 31, 2020 (whichever comes first), certain exceptions concerning dispute resolution, equal treatment of nationals and non-nationals, subsidies, technical barriers to trade, sanitary and phytosanitary measures, restrictions to maintain the balance of payments, customs fees, etc.

Therefore, beginning on January 1, 2021, the current rules of trade between Uzbekistan and the EAEU countries will change, and Uzbekistan’s use of non-tariff trade policy tools (excise taxation, sanitary and phytosanitary measures, etc.) will be restricted.

By joining the EAEU, Uzbekistan could become a part of the customs area in which the Single Customs Tariff (SCT) is in effect. As a result, the country’s import customs duty rates for third countries would change and be regulated by the Single Customs Tariff of the EAEU. The customs tariff systems of the EAEU and Uzbekistan differ significantly today, so the most important changes would occur in the rates of Uzbekistan’s import customs duties, affecting the price ratio and increasing structural costs in the economy.

**How joining the EAEU will affect Uzbekistan’s import customs duties**

Since Uzbekistan and the EAEU member countries currently have duty-free trade under the Free Trade Zone Agreement of the CIS, if Uzbekistan joins the EAEU, it will adopt the system of the EAEU’s single customs tariff. This would require a series of significant adjustments to Uzbekistan’s system of import tariff regulation.

Our analysis shows that the current average import tariff rate in Uzbekistan is very close to the rate in the EAEU – 8.7% versus 8.2%. However, due to significant differences in the structure of the economy, the average import tariff rates for various sections of the FEACN [Foreign Economic Activity Commodity Nomenclature] can differ significantly: for certain sections and items in the FEACN, average import duty rates in Uzbekistan are higher than in the EAEU, and for certain others they are lower.

Uzbekistan currently has higher import duty rates than the EAEU on many goods imported from third countries. Lowering import duty rates on these goods in Uzbekistan to the EAEU level could help create a competitive environment on the domestic market for these goods, expand consumer choice, make the distribution and use of resources more efficient, and improve the standard of living.

If Uzbekistan joins the EAEU and standardizes its import duties, we can expect a significant reduction in the average import duty rates on certain goods imported into Uzbekistan from third countries.

However, for some commodity groups and items, the average import duty rates are higher in the EAEU than in Uzbekistan, so if Uzbekistan joins the EAEU it will have to significantly increase import customs duties on imports of these goods from third countries.

Thus, even though the average import tariff rates in the EAEU and Uzbekistan are comparable overall, there are significant differences between them for certain commodity groups and items. While the average import tariff rate in Uzbekistan is higher than in the EAEU for some commodity groups and items, it is higher in the EAEU than in Uzbekistan for other groups and items. Therefore, if Uzbekistan joins the EAEU, lowering Uzbekistan’s customs duties on imports from third countries will be an important step toward liberalizing the import regime with third countries, reducing prices on these goods, and raising the standard of living of consumers, while raising import duty rates strengthens protectionism and causes losses to the nation overall. On the other hand, in the short term, changing
the price ratio in the economy by making divergent changes in customs tariff rates could cause structural costs in the economy.

It should be emphasized that the relatively higher import duties in Uzbekistan apply to consumer goods, while the relatively lower customs duty rates apply to industrial goods (capital goods and raw materials). In the EAEU, import duties are more evenly distributed among consumer and capital goods. This indicates that raising Uzbekistan’s import tariff rates on raw materials and capital goods to EAEU levels could increase the cost of investment and impede the modernization and restructuring of the economy.

Therefore, on the one hand, joining the EAEU would reorient domestic importers from purchasing technological equipment from more efficient sources outside the integration system toward less efficient sources within the integration system (the trade diversion effect). On the other hand, domestic importers’ costs for advanced technological equipment will rise, which will curtail imports. This could certainly also impact the country’s technological development and the long-term competitiveness of its economy.

Another very important effect of Uzbekistan joining the EAEU could be significant growth in imports of consumer goods from third countries (other than the CIS countries), because the main result of joining the EAEU would be a reduction in Uzbekistan’s import duty rates on imports from third countries to EAEU levels. This would affect primarily consumer goods. In the short term, this could significantly increase imports of consumer goods from third countries, worsen the balance of trade, and push down the exchange rate of Uzbekistan’s currency.

**Excise taxes on imports**

A characteristic feature of Uzbekistan’s trade policy is the extensive use of excise taxes as an instrument of import protectionism. At the present time, excise taxes on goods imported into the country and on goods produced in the country are very different, both in the list of goods subject to excise and in the rates.

If Uzbekistan joins the EAEU, it would have to standardize excise rates on domestically produced and imported goods. On the other hand, on December 31, 2020, the transition period expires for standardization of excise rates on domestically produced and imported goods, agreed to by Uzbekistan when it signed the multilateral Free Trade Zone Agreement of the CIS. Therefore, we can expect standardization of excise rates on imported and domestically produced goods by the end of 2020. These changes will likely be made by eliminating the majority of excise taxes on imported goods.

Standardizing excise rates on imported and domestically produced goods and eliminating most excise taxes on imported goods will significantly reduce customs payments on imported goods both from EAEU states and from third countries. This will facilitate the creation of a competitive environment and stimulate the efficient distribution and use of resources. However, given that these changes will occur as part of Uzbekistan’s performance of its obligations under the CIS Free Trade Zone, regardless of whether it joins the EAEU, these changes can be disregarded in the analysis of the effects of EAEU membership.
NON-TARIFF BARRIERS TO FOREIGN TRADE

The use of non-tariff barriers in the EAEU

Article 46, Non-Tariff Regulatory Measures, Part IX of the Treaty on the Eurasian Economic Union sets forth the following types of non-tariff regulatory measures that may be applied in the EAEU in trade with third countries:

- prohibition on the import and/or export of goods;
- quantitative restrictions on the import and/or export of goods;
- exclusive rights to export and/or import goods;
- automatic licensing (or monitoring) of exports and/or imports of goods;
- permitting procedure for the import and/or export of goods.

Annex 7 to the EAEU Treaty contains a Protocol on Non-Tariff Regulatory Measures, which describes the use of the non-tariff measures listed above in greater detail.

A decision to impose, apply, extend, or cancel these measures is adopted by the EAEU Commission upon a proposal by an EAEU member state or the Commission itself.

Prohibitions

There should be no prohibitions on the import and export of goods, but the Treaty provides an exception in clause 12 of the Protocol.3 In general, the provisions on quantitative restrictions and prohibitions are consistent with the provisions of Article XI of GATT (General Elimination of Quantitative Restrictions).

Quantitative restrictions

Clause 13 of the Protocol also regulates MFN status in the use of quantitative restrictions from third countries (import quotas on EAEU member countries are not allowed). Quantitative restrictions must not be applied against only one or a few countries; if they are used they must apply to imports from all third countries or exports to all third countries.4 In the EAEU, prohibitions or quantitative restrictions on exports may be imposed only on the List of Goods,5 which includes a broad range of food and non-food products at the level of the 4-digit codes in the EAEU’s FEACN.

Exclusive rights

According to clause 27 of article IV of the Protocol, “Goods for the export and/or import of which an exclusive right is granted, as well as the procedure for Member States to determine which participants of foreign trade activities will be granted the exclusive right, shall be determined by the Commission.” A proposal to grant an exclusive right to any enterprise or company must originate from an EAEU member state. Thus, the EAEU Commission must determine the list of goods and the list of enterprises or companies to which an exclusive right is granted for the import or export of a particular good. Essentially, these enterprises or companies are state trading enterprises for purposes of Article XVII

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3 http://www.consultant.ru/document/cons_doc_LAW_163855/dc7b1de8cb2cca4bb4de2755369919660e0f0245/
4 It should be noted that the prohibition imposed by the Russian Federation on the import of food products from certain EU countries was implemented without consultations with other EAEU member states, and it was imposed in violation of the MFN principle, i.e. not on imports from all third countries, but only a specified list.
5 List of Goods that are essential to the EAEU internal market and on which temporary prohibitions or quantitative restrictions on exports may be imposed in exceptional cases.
of the GATT (State Trading Enterprises). The basis for establishing an exclusive right as set forth in the Protocol is generally consistent with the criteria in Article XVII of the GATT.

**Licensing of exports and imports**

Under part IX of the Protocol to the Treaty (Annex 7), the Commission may impose licensing on the export and/or import of certain types of goods, if such goods are subject to:

- quantitative restrictions;
- an exclusive right;
- permitting procedures;
- a tariff quota;
- an import quota as a special protective measure.

Authorized agencies may issue the following types of licenses:

- one-time license;
- general license;
- exclusive license.

General and exclusive licenses are granted in cases determined by the Commission.

**Automatic licensing**

The Protocol to the Treaty also provides for automatic licensing for statistical purposes (“monitoring of export and/or import trends for certain types of goods”). The Commission is authorized to introduce automatic licensing either at the initiative of a member state or on its own initiative. Automatic licensing may be introduced only for goods on the List of certain types of goods established by the Commission.6

**Permitting procedure**

A permitting procedure means that licensing or additional administrative requirements or regulatory measures are established for imports and exports. The main types of permitting are licensing and quotas.

**USE OF NON-TARIFF BARRIERS IN UZBEKISTAN**

**Prohibitions**

Uzbekistan currently has no prohibitions (temporary or permanent) on the import or export of goods.

**Licensing of exports and imports**

The Republic of Uzbekistan has a uniform licensing system that applies to arms and military equipment, alloys of precious metals, gemstones, and radioactive substances.

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Annex 1 to Executive Order of the President of the Republic of Uzbekistan No. UP-5215, dated November 3, 2017, contains a list of specific goods, for the export and import of which a license is required from the Information and Analysis Department of the Cabinet of Ministers of the Republic of Uzbekistan on Developing Foreign Trade and the Export Potential of Economic Sectors and Areas of the Country on the Basis of Acts of the President of the Republic of Uzbekistan or Decisions of the Cabinet of Ministers of the Republic of Uzbekistan.

**Exclusive rights**

At the present time, there are over twenty enterprises (the exact number with details will be submitted to the WTO during the accession process) that are state trading enterprises within the meaning of Article XVII of the GATT. If Uzbekistan joins the EAEU, the goods for which exclusive import or export rights have been given to these enterprises will have to be added to the EAEU’s List of Goods. It is also likely that all state trading enterprises with exclusive rights will have to be reviewed for compliance with the criteria in Article XVII of the GATT.

**Permitting process**

Goods that were previously subject to a prohibition on export have been moved, as of 2017, into the category of goods that may be exported only on the basis of decisions by the President of the Republic of Uzbekistan or the Government of the Republic of Uzbekistan pursuant to Annex 1 to Executive Order of the President of the Republic of Uzbekistan No. UP-5286, dated December 15, 2017. Thus, as distinct from the EAEU’s list of products that can be subject to a temporary export prohibition in certain cases (i.e. export is not prohibited, but in certain cases a temporary prohibition may be imposed), in Uzbekistan the export of certain goods is not prohibited but may require a special permit.

**Measures necessary for Uzbekistan to standardize its licensing procedure if it joins the EAEU**

Although the EAEU Treaty requires that prohibitions, quantitative restrictions (quotas), and licensing requirements regarding third countries must be established by the EAEU Commission and the procedure must be consistent with WTO rules, in reality the prohibition on the import of food products from the EU to the Russian Federation was imposed without consultation with the EAEU member states and without a decision by the EAEU Commission; rather, it was imposed on the national level by the government of the Russian Federation.

If Uzbekistan were to impose prohibitions or qualitative restrictions (quotas) on imports or exports, formally the government would be required to file a proposal for consideration by the EAEU Commission and, after consultations, add a product to the EAEU’s List of Goods subject to licensing or quantitative restrictions.

The procedures for obtaining import and export licenses and for obtaining export permits in Uzbekistan differ in that all permitting procedures are in the category of “discretionary” procedures, i.e. they are based on decisions of the Government, President, or authorized agency, without clear criteria. The procedures for licensing imports are not consistent with the rules of the WTO Agreement on Import Licensing Procedures, which provide for the issuance of automatic and non-automatic licenses. In the case of “non-automatic” licenses, the time for review, the authorized agency, the issuance criteria, the rejection criteria, the procedures for importers to appeal decisions, the cancellation criteria, etc., must be clearly defined. If Uzbekistan joins the EAEU, it is possible that its member states will demand that Uzbekistan make its laws on licensing and permitting procedures consistent with the Rules for the Issuance of Licenses and Permits for the Export and/or Import of Goods provided by Annex 7 to the EAEU Treaty.
APPLICATION OF SANITARY AND PHYTOSANITARY (SPS) MEASURES AND TECHNICAL REGULATION IN THE EAEU AND IN UZBEKISTAN

Use of Sanitary and Phytosanitary (SPS) Measures and Technical Barriers to Trade (TBT) in the EAEU

Technical regulation, in particular technical rules mandating safety requirements for products, is allowed by the EAEU Treaty in Part X and Annex 7 to the Treaty (Protocol). The main provisions on technical regulation are generally consistent with the WTO Agreement on Technical Barriers to Trade (TBT). However, there is a significant contradiction in that the parameters of safety and quality of food products are contained in the EAEU’s technical regulations. Accordingly, the procedures for assessing conformity (certification, declaration, collection of samples, testing methods, etc.) of food products are also contained in the EAEU’s technical regulations. This is because when it joined the WTO, the Russian Federation insisted that food parameters be recognized as SPS technical regulations, but on the condition that in time they would be harmonized with the international standard Codex Alimentarius. Thus, the Customs Union’s Technical Regulation TR CU 021/2011 on food product safety, along with other Technical Regulations on certain types of food products (dairy, meat, fish, water, juice, etc.), are considered technical regulations of the EAEU on the same level as other Technical Regulations regarding non-food (industrial) products. The approach to safety parameters is based mainly on verification of conformity (certification) of the final product, without assessing risk, which itself is an outdated approach. Many parameters are based on Soviet state standards (GOST), which have not been updated in a long time. The Codex Alimentarius, the international standard for food products, represents a new approach based on risk assessment and the use of best practices (hygienic, manufacturing, hazard analysis critical control points) along the entire chain “from farm to table”.

At the same time, Sanitary and Phytosanitary (SPS) Measures are regulated by Part XI of the EAEU Treaty and Annex 12 (Protocol), and overall the principles of SPS measures in the EAEU Treaty are consistent with the principles of the WTO Agreement on SPS Measures. However, the EAEU’s uniform list of goods subject to sanitary-epidemiological oversight also includes a wide range of non-food products, to which SPS measures should not apply.

Thus, there is a duplication of procedures for assessing conformity of animal products, which are simultaneously subject to sanitary or veterinary measures and to conformity assessment under the technical regulations. For example, to import unprocessed products into the EAEU, it is necessary to obtain a veterinary-sanitary permit and a veterinary certificate verifying conformity with the uniform veterinary-sanitary requirements of the Customs Union, along with a document verifying veterinary-sanitary inspection for conformity with the requirements of the Customs Union’s technical regulations, which are the same as the uniform veterinary-sanitary requirements.

In order to enter EAEU territory, food products must have a declaration of conformity (a form from the manufacturer certifying conformity) on a standard form. The declaration will be accepted in EAEU member states if the testing results are from a laboratory on the EAEU’s Unified Register of Conformity Assessment Agencies. Testing performed by laboratories in third countries, even those

8 http://www.eurasiancommission.org/ru/act/txnreg/dephtexreg/tr/Pages/TVsily.aspx
accredited by the international organization ILAC, is not sufficient for a declaration of conformity to be accepted. This is not entirely consistent with clause 6.4 of the WTO Agreement on TBT.

The biggest shortcoming in the regulation of SPS measures and TBT within the EAEU is that there is no uniform supranational regulation and administration of oversight functions along the entire production chain. In other words, all matters involving oversight measures (phytosanitary, sanitary, veterinary) and the systems for assessing conformity in member countries, accrediting laboratories, and imposing liability on them for violations are governed by the national laws of the member states, which have not yet been harmonized, either among themselves or with international standards, and which do not yet provide for coordination among the appropriate agencies of the various countries. As a result, the EAEU has a two-level system of applying technical regulations and SPS measures, supranational and national, which have not yet been made uniform.

As a result, trade disputes frequently arise between EAEU member states over the application of SPS measures and TBT. For example, notwithstanding the mutual recognition of veterinary certificates of EAEU member countries, in February 2018 the Russian Federal Veterinary and Phytosanitary Oversight Service imposed temporary restrictions on certain types of dairy products from Belarus, i.e. on an entire sector, arguing that the products failed to meet the safety parameters of the Russian Federation. Given that the share of Belarusian dairy products on the Russian dairy market is over 80%, these restrictions caused significant harm to the Belarusian dairy sector. In April 2019, at a meeting of the Eurasian Intergovernmental Council, an agreement was reached, and Russia removed the prohibition on the entire sector, instead imposing a temporary prohibition on products from individual enterprises and requiring them to undergo an additional inspection by Russian authorities.

Opportunities to export food products, in particular meat and dairy products, from Kyrgyzstan to Russian and other EAEU countries remain limited, because no laboratory in Kyrgyzstan is on the list of EAEU verified laboratories whose testing results are recognized on the EAEU market.

**Application of SPS control and TBT in Uzbekistan and necessary measures to standardize them if the country joins the EAEU**

Compared with the application of SPS measures and TBT on the markets of the EAEU member countries, such measures – including the harmonization of laws, the status of institutions, and the readiness of economic sectors to use new approaches and international standards – are at a rudimentary level in Uzbekistan. Because all of the EAEU countries (except Belarus) are members of the WTO, the main principles of the WTO Agreement on the Application of SPS Measures and TBT are generally found in the laws of those countries, although, as noted above, there are many problems with the implementation of an oversight system based on risk assessment and best practices. However, in Uzbekistan, even its basic laws (the Law on Technical Regulation, the Law on Conformity Verification, the Law on Standardization, the Law on Quality and Safety of Food Products, the Law on Veterinary Science, the Law on Plant Quarantine, etc.) are not consistent with such basic principles as scientific rationale, risk assessment, necessity, traceability, regionalization, equivalency, transparency, etc. There is inefficient duplication of food safety parameters in the Sanitary Norms and Rules and in the Technical Regulations. Moreover, many of the parameters are either unreasonably high or superfluous, because they are parameters not of safety but of quality, or, on the contrary, with regard to residual amounts of some groups of antibiotics, veterinary medications, or pesticides, there are no parameters. There is no single authorized agency on food safety, plant protection, etc. The entire oversight system, regarding both technical regulation and SPS measures, is based on certification of the final product, which is an inefficient and obsolete approach.
Expanding exports of fruit and vegetable products is very important to Uzbekistan, because the country has great potential in this area. It is essential to ensure the phytosanitary safety of these products, i.e. that they are free of harmful organisms that importing countries are concerned about, but also that the products contain less than the maximum permissible amounts of pesticides, fertilizers, veterinary medications in feed, etc. This is especially important for the export of fruits and vegetables to the EU countries, Asia, and the United States, because the requirements in these countries and regions regarding residual amounts are consistent with the Codex Alimentarius international standards.

Therefore, Uzbekistan must determine, at the institutional level, how it will control the use of pesticides at farms, taking into account pre-harvest intervals, and introduce national monitoring of the use of pesticides and other agricultural additives in growing fruit and vegetable products.

Uzbekistan must implement major reforms at the legislative level, enshrine new approaches and principles, and establish at the institutional level clear guidance, oversight, and coordination in the product safety system.

**Rules for determining the country of origin of goods**

Within the CIS free trade zone, the criterion for determining the country of origin of goods is one of the factors that restrains mutual trade among its members. In accordance with the Agreement on the Free Trade Zone among the CIS Countries, dated October 18, 2011, in order to determine the country of origin of goods originating from the signatory Parties that are in circulation among them, the Parties are guided by the Rules for Determining the Country of Origin of Goods, which is an integral part of the Agreement on the Rules for Determining the Country of Origin of Goods in the Commonwealth of Independent States, dated November 20, 2009. It is also stipulated that the procedure for determining the country of origin of goods originating and imported into the territories of the Parties from third countries and exported from the customs territory of the Parties to third countries is governed by the national laws of the Parties and by international treaties of which they are signatories.

These rules call for the application of strict criteria in determining the country of origin of goods (by level of added value, set of technological operations, specific requirements) in order to prevent products from that country from being recognized as domestically produced goods. In particular, for many product groups the requirements for added value have been increased from 30% to 50%, and other manufacturing and technological operations necessary to assign origin status to a product are stricter than the Rules for Determining the Country of Origin of Goods, dated September 24, 1993. Goods that do not meet these criteria will not be recognized as produced in the country, so they will be subject to import customs duties, which can have a negative impact on the terms of exporting products of countries that are members of the free trade zone. Therefore, when it acceded to that Agreement, the Republic of Uzbekistan retained the right to apply, in trade with parties to the Agreement, the Rules for Determining the Country of Origin of Goods, dated September 24, 1993.

One important advantage of Uzbekistan joining the EAEU could be the fact that, theoretically, in trade among the EAEU member countries the country of origin of a product is irrelevant, because the Customs Union, as a trade and economic association, contemplates the formation of a common customs area and the application of a uniform customs and tariff policy with respect to goods from third countries. Moreover, as structural reform of the economy takes root, stronger relationships are built with foreign transnational companies for manufacturing high-tech products, and as such products increase as a share of total production and exports, the significance of this factor in developing the economy and ramping up the country’s export potential will grow. As a result, the member countries
of the EAEU will gain a significant advantage in exports of high-tech products to each other’s markets, regardless of the degree to which they are processed within the country.

In practice, however, the process of creating a common customs area in the EAEU is not yet complete, and for many goods a certificate of origin is required, as indicated by the continuing problems and trade disputes on non-tariff regulatory measures in mutual trade among the member countries of the EAEU.

INDUSTRIAL SUBSIDIES
Regulation in the EAEU

According to the EAEU Treaty, “The Member States shall independently develop, shape and implement national industrial policy, in particular, adopt national industrial development programs and other measures of industrial policy, and shall determine the ways, forms and areas of providing industrial subsidies not contradicting Article 93 of this Treaty.” The rules on subsidies in Annex 28 to the Treaty are consistent with the provisions of the WTO Agreement on Subsidies and Countervailing Measures. The EAEU Treaty sets forth the main principles on the basis of which industrial policy should be formulated within the Union:

1) equality and consideration of the national interests of the member states;
2) mutual benefit;
3) fair competition;
4) nondiscrimination;
5) transparency.

The obligations of the member states arising from articles 92 and 93 of the Treaty and Annex 28 to the Treaty do not apply to relations between member states and third countries. Therefore, the Treaty also provides that specific and prohibited subsidies may be regulated by the WTO Agreement on Subsidies and Countervailing Measures. Prohibited subsidies (the so-called Red Basket) include export subsidies and subsidies intended to incentivize the use of local goods rather than imported ones (substitution).

As of today, the member states of the EAEU conduct policy on industrial subsidies at the national level, without approval at the supranational level by the EAEU Commission. The EAEU Treaty provides that “a member state may apply to the Commission for approval of a specific subsidy to be granted by it,” so there is no requirement to consult with member states at the EAEU level. Moreover, the amount of subsidies also remains at the national level, i.e. there is no common supranational policy on this issue, which creates significant disproportions in the amount of subsidies among the EAEU member states.

Regulation of industrial subsidies in Uzbekistan and necessary measures to standardize them if Uzbekistan joins the EAEU

In Uzbekistan, industrial subsidies are not regulated by a particular law. However, subsidies, export supports, and allocation of subsidies to individual enterprises, economic sectors, and geographic areas are widely used and are provided for by multiple laws and numerous resolutions and executive orders of the President, resolutions of the Cabinet of Ministers, etc.
For example, certain tax preferences for exporters are found in the Tax Code. Under Resolution of the President of the Republic of Uzbekistan “On Additional Measures to Enhance Incentives for Exporters and Expand Exports of Competitive Products” No. 1731, dated March 26, 2012, exporting companies are granted certain benefits and preferences, such as exemptions from VAT, excises, property tax, profit tax and, in some cases, customs duties. Certain enterprises and associations receive support to facilitate exports. The government is especially interested in diversifying and expanding exports of fresh and dried fruits and vegetables, including by providing simplified export certification procedures, expedited customs procedures, etc.

At the same time, as of April 1, 2018, all preferences to enterprises in the localization program have been discontinued. According to Executive Order of the President No. 3756, dated May 31, 2018, “On Measures to Fundamentally Improve the Procedures for Receiving Benefits and Preferences,” any benefits on tax or customs payments (or any preferences and benefits) may be granted by law or by acts of the President for all sectors, types of activity, or territory, but they must have a specific purpose of achieving social, economic, and financial results. Temporary benefits may be granted for no more than three years, except in cases provided by international treaties to which the Republic of Uzbekistan is a party.

Individual privileges may not be granted by acts of the President, except in cases of socially significant projects in sectors that are not attractive to the private sector and investment, if there is a specific social and economic justification.

If Uzbekistan joins the EAEU, it is possible that the EAEU member states will demand that the country enact special laws to regulate industrial subsidies in accordance with the WTO Agreement on Subsidies and Countervailing Measures. However, given than the EAEU has no supranational regulation of matters involving the use of industrial subsidies, it is unlikely that serious demands will be made to Uzbekistan to eliminate prohibited and specific subsidies.

REGULATION IN THE SERVICE SECTOR

Agreements on services in the EAEU

Pursuant to Article 38 of the EAEU Treaty, “the member states shall coordinate trade in services with third parties. This coordination shall not imply supranational jurisdiction of the Union in this sphere.” The member states shall strive to create and maintain a common market for services, as provided by clauses 38-43 of Annex 16 to the Treaty, in the maximum number of service sectors.

Annex 16 to the Treaty – the Protocol – sets forth the legal basis for regulation of trade in services, incorporation, activities, and investment in the member states. Horizontal restrictions maintained by the member states with respect to all sectors, as well as sector-specific restrictions and exclusions and any additional requirements and terms, are all covered by the Annex. Member states retain the right to adopt and apply any measures with respect to new services, i.e. services that did not exist on the effective date of the Treaty.

The Protocol and the Treaty provide that trade in services shall be based on the fundamental principles of nondiscrimination, such as equal treatment of residents and non-residents and MFN, but with respect to services, service providers, and recipients of services of another member state, each member
state may apply certain restrictions and terms indicated in the national lists or in Annex 2 to the Protocol.10

According to the Protocol to the Treaty, a common market for services means a market for services in a particular sector in which each member state grants to persons of any other member state the right to:

1) provide and receive services on the terms specified in clauses 21, 24, 27, 29, 30 and 32 of the Protocol, without restrictions, exceptions, or additional requirements, except for the terms and restrictions provided by Annex 2 to the Protocol;

2) provide services without forming an additional legal entity;

3) provide services based on a permit to provide services obtained by the service provider in the service provider’s own member state;

4) recognition of the professional qualifications of the service provider’s personnel.

As of today, the EAEU does not have a functioning common market in most service sectors, because these conditions do not yet exist. Decision of the Supreme Eurasian Economic Council No. 110, dated December 23, 2014, “Adopting the List of Service Sectors (or Subsectors) in which a Common Market for Services is Functioning within the Eurasian Economic Union,” contains the List of Service Sectors (or Subsectors) in which a Common Market for Services is Functioning within the EAEU. According to a report by the Higher School of Economics (HSE), “The Vision of the Future EAEU among the Academic Community,” the sectors/subsectors listed in this Decision by the Commission comprise only 16.8% of the total number of sectors/subsectors according to the UN’s Central Product Classification, which is used to regulate services in the WTO. The Decision does not list such basic types of services as financial, transportation, telecommunications, and others.

According to the HSE Report,11 “deep convergence on three main markets (banking, insurance, and securities) presupposes a single macroeconomic policy based on coordinated action and consistency with general criteria.” In 2017, the member states reaffirmed their obligations to create a common financial market in the banking and insurance spheres, and in the circulation of securities, by 2025, and in 2018 the heads of the national banks of the EAEU countries signed an agreement to harmonize laws in the financial sector. The document’s objective is to move toward a common financial market, establish mutual recognition of licenses in all areas of financial services, and provide non-discriminatory mutual access to financial markets in the countries.

However, from the perspective of today it is difficult to predict that the EAEU will have a supranational agency to regulate financial services by 2025, in light of the significant differences in the microeconomic policies of the member states and in their currency, monetary, and credit policies.

**Regulation of the service sector in Uzbekistan and necessary measures to standardize it if the country joins the EAEU**

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10 [http://www.consultant.ru/document/cons_doc_LAW_163855/a6a3d774e5f2d0e767a1b5b5f62f9df7446f559b/](http://www.consultant.ru/document/cons_doc_LAW_163855/a6a3d774e5f2d0e767a1b5b5f62f9df7446f559b/)

As of today, about 60 types of activity (services) require a license (efforts are currently underway to reduce this number) according to article 6 of the Law “On Licensing of Certain Types of Activity” and the Resolution of the Oliy Majlis [Parliament] of the Republic of Uzbekistan “On the List of Types of Activity Requiring a License”. Many of the activities requiring a license are in the sectors/subsectors for which there is a common market as provided in the Decision of the EAEU Commission. This means that if Uzbekistan joins the EAEU, it will need to review all legal provisions on the licensing of these activities for consistency with the terms of the common market or, if Uzbekistan plans to consider exclusions from any sectors/subsectors or restrictions, the activities would need to be added to the List of Exclusions. However, the latter option would depend on the outcome of the negotiations on joining the EAEU.

For a common service market to function, Uzbekistan will also have to reconsider the role of the regulatory agencies that issue licenses for various activities. It is quite likely that, in the process of Uzbekistan joining the EAEU, the member states will raise questions and demands to remove from regulatory agencies the function of market operators. However, such demands may not be very persistent, because the EAEU Treaty and the attached Protocols contain no clear mechanisms to regulate enterprises, organizations, or monopolies in which the state owns equity.

**LABOR MIGRATION**

The Russian Federation is the largest destination country for international migrants from Uzbekistan. Over 75% of migrants who leave the country go there. Following Russia is Kazakhstan, with 18% of Uzbekistan’s migrant workers, and Turkey with 4%. According to the Russian Ministry of Internal Affairs, in 2019 over 2.1 million Uzbek citizens (6% of the country’s population) went to Russia seeking work. Among Uzbek migrants, 47% are in the 17-30 age category. The large majority (91%) of Uzbekistanis going to the Russian Federation are men, 60% have completed vocational schools, and 30% have completed 11 grades of school. According to administrative data, in 2017 45.2% of all migrants worked in the construction sector, 12.2% in industry, 9.8% in the service sphere, and 7.4% in agriculture (Seitz, 2019).

Most migrants send money back home. The largest share of money transfers to Uzbekistan comes from the Russian Federation and Kazakhstan. According to the Russian Central Bank, in 2018 migrants transferred USD 3,690 million from Russia to Uzbekistan. The study “Listening to the Citizens of Uzbekistan” showed that the average Uzbek labor migrant sends about USD 400 per month (men about USD 420 and women about USD 275).

Money transfers from Russia to Uzbekistan are seasonal: the amount of personal transfers decreases in the first quarter of each year. Presumably, most migrants return home in the winter, when demand for labor is lower, and the amount of money transfers declines accordingly.

If Uzbekistan joins the EAEU, it will become easier for labor migrants to work in other EAEU countries. First and foremost, the process of obtaining employment authorization will be simplified. Labor migrants from Uzbekistan spend up to $2 billion obtaining and renewing labor patents, which is about $950 per migrant on average.

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12 https://lex.uz/docs/69142
The incomes of EAEU citizens from work under an employment contract are taxable at the same rate as incomes of citizens of the country where they work. Under article 224 of the Tax Code of the Russian Federation, residents of the RF pay tax at a rate of 13% of their income, while nonresidents pay 30%. According to article 224 clause 3 of the RF Tax Code, the following nonresidents pay tax at the 13% rate:

- **workers from EAEU countries:**
- **workers with labor patents:**
- highly qualified specialists;
- international refugees or asylees in Russia;
- participants in the government program to assist voluntary resettlement in the Russian Federation;
- crew members of ships sailing under the flag of the Russian Federation.

### Chart 1: Rates of the Individual Income Tax and the Payroll Tax (%)

![Chart 1: Rates of the Individual Income Tax and the Payroll Tax (%)](chart.png)

Source: Migrant Media.ru

If an individual works under a labor patent or is a citizen of an EAEU country, the individual income tax rate is 13% of gross income. The employee pays only the income tax, and the other taxes and contributions are paid by the employer. In addition to income tax, the following payments are made

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from wages: 1) contributions to the Pension Fund, 2) contributions to the Social Insurance Fund (SIF), 3) contributions to the Federal Mandatory Medical Insurance Fund (FMMIF).

Table 2: Taxes and Contributions Paid from Wages

<table>
<thead>
<tr>
<th>Status of Foreign Employee</th>
<th>Individual Income Tax</th>
<th>PF</th>
<th>SIF</th>
<th>FMMIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign citizen working temporarily with a labor patent under an employment contract (EC)</td>
<td>13%</td>
<td>22%</td>
<td>1.8%</td>
<td>0%</td>
</tr>
<tr>
<td>Foreign citizen working temporarily with a labor patent under an independent contractor agreement (ICA)</td>
<td>13%</td>
<td>22%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Foreign citizen from the EAEU working temporarily under an EC</td>
<td>13%</td>
<td>22%</td>
<td>2.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Foreign citizen from the EAEU working temporarily under an ICA</td>
<td>13%</td>
<td>22%</td>
<td>0%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Foreign citizen from the EAEU, highly qualified specialist, working temporarily under an EC</td>
<td>13%</td>
<td>0%</td>
<td>2.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Foreign citizen from the EAEU, highly qualified specialist, working temporarily under an ICA</td>
<td>13%</td>
<td>0%</td>
<td>0%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>

Thus, even though Uzbekistan joining the EAEU would make it easier for Uzbek labor migrants to be present and work legally in EAEU member countries, from the perspective of taxes and mandatory payments, their situation would be worse, not better, given the generally low qualifications of migrants from Uzbekistan. However, the law requires migrants from EAEU countries to pay contributions to the FMMIF, and this gives them better access to medical care. On the other hand, surely not all employers in the Russian Federation who employ foreign citizens under labor patents know that the migrants working at their companies face double taxation on their incomes. Double taxation of individual income tax occurs because the tax is paid twice: the first time by the foreign employee working under a labor patent when the employee makes the advance payment of individual income tax under the patent, and the second time when the employer withholds income tax from the employee’s wages. Even if the employer completes and files an application with the Federal Tax System, in the manner provided by law, for reimbursement of individual income tax to the foreign employee with a labor patent, there is no certainty that the reimbursed amount will be returned to the migrant worker who purchased the patent. This may be the reason that many analysts classify the expenses paid by Uzbek labor migrants in the RF to purchase labor patents as unrecoverable losses for them and for Uzbekistan.
DIRECT FOREIGN INVESTMENT

One of the beneficial results of any economic integration is the increase in flows of foreign investment among the member countries of the association. Under the EAEU, free movement of capital is enshrined in the foundational Treaty on the Eurasian Economic Union of May 29, 2014. In particular, it establishes legal guarantees for investors from other member states and for their investments (excluding investments in the form of incorporating legal entities) and activities related to these investments, and the guarantees apply to all investments made by investors from member states.

Under the EAEU Treaty, the member states are obligated to provide within their territory a fair and equitable regime for all investments and investment-related activities by investors from other member states, including equal treatment of nationals and non-nationals and most favored nation status for investments. The investor may choose whether equal treatment of nationals and non-nationals or most favored nation status will apply, depending on which regime is more favorable to the investor. The EAEU Treaty also provides additional guarantees for investors from other member states, such as the right to compensation of harm, guarantees of the rights of investors in the event of expropriation, the right to use income received from investment activity, and procedures to resolve investment disputes in arbitration, in a national court, or in the International Center for Settlement of Investment Disputes.

The attractiveness of a country or group of countries for investment is often evaluated not by the total amount of investment in one economy or another, but by the volume of incoming or outgoing direct foreign investment.\textsuperscript{16}

To give a better understanding of changes in DFI in the EAEU countries, Figure 1 shows incoming DFI in the EAEU-5 countries (Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia) compared to the other countries of the CIS (Azerbaijan, Georgia, Moldova, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine).\textsuperscript{17}

16 In addition to volatile portfolio investments, the total volume of investment includes so-called other investment (investments in various types of financial assets, including currency, deposits, interest-bearing loans, past-due indebtedness, and others).

17 Although Ukraine and Georgia have suspended their participation in CIS bodies, they continue to apply the fundamental agreements reached within the CIS framework, in particular the CIS provisions on free trade, free movement of capital and people, etc.
Figure 1 shows that flows of DFI into the EAEU-5 countries fell precipitously in 2014 and 2015, rose in 2016, declined in the next two years, and grew again only in 2019. In 2010-2014, average annual DFI coming into the EAEU countries totaled USD 61.5 billion, but in 2015-2019 it dropped to less than half that amount at USD 30.2 billion. DFI fell both in the EAEU and the CIS countries that are not in the EAEU, but the magnitude of the decline was much greater in the EAEU countries.

Given that the EAEU countries comprise 87% of the economy of the CIS (2018 data), the decline in DFI to the level of the other CIS countries in certain years (2015 and 2018) evidences a sharp drop in DFI in the EAEU countries. The volatility of DFI in the Russian Federation after 2014 largely determines the volatility of DFI for all EAEU countries, so we excluded the Russian Federation and compared the EAEU-4 (Armenia, Belarus, Kazakhstan, Kyrgyzstan) with the other seven CIS countries. The data in Figure 2 show that DFI into the EAEU-4 gradually fell from 2011 to 2015, grew significantly in 2016, but fell even more in the subsequent years. In the other CIS countries, DFI fell after 2015 but was more stable than in the EAEU-4.

Thus, DFI into the EAEU countries (both with and without Russia) trended downward overall after 2015. In addition, DFI into EAEU countries became much more volatile compared with the CIS countries that are not in the EAEU. These facts indicate that, since the formation of the EAEU, the hopes for significant increases in DFI into the EAEU have not been realized.

The scenario in which capital movement increases, in particular inflows of DFI, is possible if Uzbekistan joins the EAEU, but it will depend largely on many factors, such as trends in the world and regional economy, growth of the domestic economy, the attractiveness of the country to investors both from the EAEU countries and outside them, etc. The current Covid-19 pandemic will certainly have a major impact on capital movement into all countries of the region, including Uzbekistan. The expected rapid recovery of the region’s economies in 2021 following the recession of 2020 might not happen, which would have a powerful inhibiting effect on foreign investment in developing markets in general.
LONG-TERM EFFECTS OF JOINING THE EAEU FOR UZBEKISTAN

In deciding whether to join the EAEU, Uzbekistan should be confident that this is the best step for the country among all other existing alternative options to integrate Uzbekistan into the world economy, from the perspective of long-term prospects for development. This requires a deep analysis of the long-term effects of all possible options for integrating the country into the world economy, so that the most optimal choice can be made.

In order to analyze the long-term effects of various options to integrate Uzbekistan into the world economy, we must forecast long-term changes in the trade regime and in international migration of labor and capital, both in Uzbekistan and in the EAEU, and make a comparative analysis of them. This will require answers to these questions:

- How will tariff and non-tariff methods of regulating foreign trade in the EAEU and Uzbekistan change with regard to third countries in the long term? Joining the EAEU would be justified if the EAEU reforms its trade regime more rapidly and creates more liberal, fair, and specific terms that will make a large-scale impact, expand access to raw materials and new technologies, and improve the distribution and use of resources, stimulate economic growth, and improve the standard of living of the public in Uzbekistan, as compared to not joining the EAEU.

- How will tariff and non-tariff methods of regulating foreign trade among the EAEU countries change in the long term? Other things being equal, Uzbekistan will benefit more from joining the EAEU in the long term to the extent there is deeper integration and fewer “exclusions” of various types and non-tariff barriers to trade in goods and services in mutual trade among the EAEU member countries.

- What will be the impact of Uzbekistan joining the EAEU on labor migration in the long term? Joining the EAEU makes sense for Uzbekistan if the long-term results are more tangible, qualitative improvement in the investment climate, higher quality of human capital, the creation of good new jobs and less labor migration, especially of highly qualified people (“brain drain”), than if Uzbekistan did not join the union. Policies intended to make it easier for Uzbek labor migrants to go to other EAEU countries and work legally there and increase money transfers from them back home in the short and medium term will have the long-term effect of depriving the country of a prosperous future and turning it into a mere appendage of the world economy exploited for its resources.

- How will joining the EAEU affect DFI into Uzbekistan’s economy and the pace of modernization and structural reform of its economy in the long term? The country will benefit from joining the EAEU if membership will accelerate these processes, raise economic growth rates, and improve the standard of living of its people in the long term. Otherwise, membership in the EAEU will make the country worse off in the long run.

Unfortunately, it is not possible today to find correct answers to all of these questions. This is due to the continued high level of import protectionism in the EAEU itself with regard to trade with third countries, the low level of integration and high frequency of trade disputes among the EAEU member countries, the ineffectiveness of the EAEU court, and the absence of a long-term vision for liberalizing the trade regime both in Uzbekistan and in the EAEU. To answer the question of whether joining the EAEU as a full member is the best of all possible options, we must analyze the alternative paths to integrate Uzbekistan into the world economy and compare their advantages and disadvantages with membership in the EAEU.
ALTERNATIVE PATHS TO INTEGRATE UZBEKISTAN INTO THE WORLD ECONOMY

In the “Concept for Comprehensive Socio-Economic Development in the Republic of Uzbekistan until 2030,” the first stage (2020-2021) calls for expansion of foreign trade by signing free trade zone agreements with the EAEU and several other countries, and the second stage (2022-2025) contemplates a thorough study of whether the country should join the EAEU and the WTO, liberalization of trade policy and exports, and efforts to reconsider non-tariff trade barriers and make them consistent with WTO agreements and norms.18

On March 7, 2020, the Government of Uzbekistan approved a proposal to become an observer state of the EAEU. In a session on April 28, 2020, the Oliy Majlis (Parliament) approved the government’s proposal for Uzbekistan to participate in the Eurasian Economic Union (EAEU) as an observer state. On May 11, 2020, the Senate of Uzbekistan – the upper chamber of the country’s parliament – approved the country’s participation in the EAEU as an observer.

If Uzbekistan receives observer status, the government will send a delegate to the commission with the authority to maintain regular contact and interaction. Although observer status does not entitle a country to participate in decision-making by the union’s bodies, it allows delegates from the observer state to attend sessions of the Supreme Council and the Eurasian Intergovernmental Council by invitation, and to receive documents adopted by the bodies of the Union, except confidential documents. This will help establish and maintain regular contacts between executive agencies of the observer state and the commission on issues involving cooperation on trade and economic matters, technical, customs, sanitary and phytosanitary regulation, etc. Moreover, the observer state has access to acts adopted by EAEU bodies on matters of interest to the observer state, except documents of limited distribution (confidential or “for official use”).

Because observer status does not obligate a country to standardize its trade regime with the EAEU regime, if it has this status it will be extremely important for Uzbekistan to join the WTO and reform its trade regime in accordance with its standards. The fundamental principle of the WTO is trade without discrimination, and all of its requirements are intended to create a fair environment for international trade.

The purpose of the WTO agreement on technical barriers in trade is to ensure that technical norms, standards, testing procedures, and certifications do not create unnecessary obstacles to trade and that they meet the criteria of equal treatment of nationals and non-nationals. Article 11 of the GATT of 1994 disallows prohibitions or quantitative restrictions on exports, except in cases when such prohibitions are applied temporarily to eliminate or ease a significant shortage of food or other goods that are vital to the exporting country. The WTO agreement on subsidies and countervailing measures strictly limits the basis on which subsidies may be granted to domestic manufacturers etc.

Therefore, joining the WTO would allow Uzbekistan to achieve the following goals in the reform of its trade regime:

First, eliminating strong price distortions, which would make the distribution and use of available scarce resources more efficient, stimulate growth in efficient sectors of the economy and types of production, and accelerate structural reform and economic growth.

Second, reducing prices for goods in sectors that currently have a high degree of import protectionism, incentivizing manufacturers to find market niches in foreign markets, and increasing the country’s exports.

Third, a low level of import protectionism would suppress imports of contraband, reduce lobbying pressure from importers seeking exemptions from customs duties, and increase government revenues from import tariffs.

Fourth, many commodity markets in Uzbekistan are currently monopolized due to high customs payments on imports, preferences granted to individual entities on taxes and customs fees, unofficial division of markets for imported goods, etc. Reducing import tariffs and non-tariff barriers to import trade would facilitate the creation of a competitive environment in the economy, reduce prices, enhance incentives to create and introduce advanced technologies, improve quality, reduce production costs, and make products more responsive to consumers’ needs and preferences.

Fifth, membership in the WTO would increase openness in the economy, make economic policy more predictable and worthy of the public’s trust, narrow the field for lobbying and inefficient protectionist policies, and thereby improve the investment climate in the country. All of this will stimulate not only internal but also foreign direct investment in the economy, and it will hasten structural reform and diversification in the economy.

Although many of the requirements of the WTO and the EAEU regarding the trade regime are similar and the EAEU’s requirements in the area were developed to be consistent with the WTO requirements, the sequence in which Uzbekistan joins these organizations is very important. By joining the WTO first, Uzbekistan will not only reduce tariff and non-tariff barriers to trade and improve the quality of government institutions and economic policy, but also expand export opportunities by obtaining MFN status in trade with all 164 WTO member countries. On the other hand, if it joins the WTO first, Uzbekistan will undertake obligations toward its members not to increase rates of import customs duties. These obligations could require the country to set import customs duties on goods that are important to the standard of living and competitiveness of the economy that are lower than they would be under the single customs tariff in the EAEU after Uzbekistan joined that organization. This is what Kazakhstan did. Pursuant to Decision 59 of the EEC Council, dated October 14, 2015, “On the list of goods for which the Republic of Kazakhstan, in accordance with the obligations it undertook as a condition of joining the World Trade Organization, applies rates of import customs duties that are lower than the duty rates of the Single Customs Tariff of the Eurasian Economic Union, and the list of rates of such duties,” 19 3317 items in the EAEU commodity nomenclature are on the list of Kazakhstan’s exclusions under its membership in the WTO. Of course, an EAEU member must ensure that goods that are on the list of exceptions and imported at reduced rates are traceable, not exported to EAEU member countries, and used only within that country. If a product will be subsequently exported from that country to a member state of the union, it will have to undergo customs clearance at the rates of the EAEU single customs tariff.

If Uzbekistan joins the WTO, it would be advisable at the same time to sign free trade zone agreements with the EAEU and its main trading partners that provide for duty-free trade and harmonization of non-tariff barriers. The Concept for Comprehensive Socio-Economic Development of the Republic of

19 https://www.alta.ru/tamdoc/15sr0059/#pril
Uzbekistan until 2030\textsuperscript{20} calls for the country to expand foreign trade by signing free trade agreements with the EAEU and several other countries. Uzbekistan is currently negotiating on the formation of free trade zones with Turkey\textsuperscript{21}, South Korea\textsuperscript{22} and Singapore\textsuperscript{23}.

Joining the WTO, reforming its trade regime in accordance with its standards, and signing free trade zone agreements with the EAEU and other main trading partners would allow Uzbekistan, as an observer in the EAEU, to make a deeper assessment of the long-term trends in the development of foreign trade and the trade regime both in the EAEU and in Uzbekistan. This would help Uzbekistan determine the most optimal path of integration into the world economy, which will maximize the growth of the economy and the prosperity of its people in the long term.

The problem of migrants from Uzbekistan to the EAEU countries, which is also important, could be covered in an expanded free trade zone agreement with the EAEU countries, similarly to the way this issue is regulated by the free trade agreement between Japan and Indonesia. Moreover, there are mechanisms for bilateral agreement on these issues that can improve the legal status of migrants. Uzbekistan has signed a series of agreements with EAEU countries to protect the rights of migrant laborers from Uzbekistan, including the “Agreement between the Government of the Republic of Kazakhstan and the Government of the Republic of Uzbekistan on Labor and Protection of the Rights of Migrant Laborers who are Citizens of the Republic of Uzbekistan in the Republic of Kazakhstan and Migrant Laborers who are Citizens of the Republic of Kazakhstan in the Republic of Uzbekistan” (Tashkent, April 15, 2019), the “Agreement between the Government of the Russian Federation and the Government of the Republic of Uzbekistan on Organized Recruitment and Hiring of Citizens of the Republic of Uzbekistan for Temporary Employment in the Russian Federation,” which was signed on April 7, 2017 (and took effect on December 21, 2017) during an official visit by the President of Uzbekistan in the Russian Federation. Such agreements have also been signed with other CIS countries that are not EAEU members.\textsuperscript{24}

**CONCLUSIONS**

Uzbekistan currently has duty-free trade with the member states of the EAEU under the Free Trade Zone Agreement (May 31, 2013) of the CIS, of which all EAEU countries are members.

During the negotiations on the terms for Uzbekistan to accede to the Agreement, an agreement was reached to allow the Republic of Uzbekistan to retain, until the date on which it joins the WTO or December 31, 2020 (whichever comes first), certain exclusions concerning dispute resolution, equal

\textsuperscript{20} Concept for Comprehensive Socio-Economic Development of the Republic of Uzbekistan until 2030 //

\textsuperscript{21} Uzbekistan and Turkey Plan to Create a Free Trade Zone // https://kun.uz/ru/news/2020/02/21/uzbekistan-i-tursiya-planiruyut-sozdat-zonu-svobodnoy-torgovli

\textsuperscript{22} Uzbekistan and South Korea Discuss Signing a Free Trade Agreement // https://kun.uz/ru/73885295; Uzbekistan and Korea Agree to Faster Timetable for Signing Free Trade Agreement //https://kun.uz/ru/news/2020/05/08/uzbekistan-i-koreya-dogovorilis-uskorit-podpisaniye-soglasheniya-o-svobodnoy-torgovle

\textsuperscript{23} Uzbekistan and Singapore Plan to Sign Free Trade Agreement // https://kun.uz/ru/26274244

treatment of nationals and non-nationals, subsidies, technical barriers to trade, sanitary and phytosanitary measures, restrictions to maintain the balance of payments, customs fees, etc.

Therefore, beginning on January 1, 2021, the current rules of mutual trade between Uzbekistan and the EAEU countries will change, and Uzbekistan’s use of non-tariff trade policy tools (excise taxation, sanitary and phytosanitary measures, etc.) will be restricted.

By joining the EAEU, Uzbekistan could become a part of the customs area in which the Single Customs Tariff (SCT) is in effect. Therefore, the country’s import customs duty rates for third countries (except other signatories to the CIS Free Trade Zone Agreement – Moldova, Tajikistan, Ukraine) will change, and they will be regulated by the Single Customs Tariff of the EAEU. The customs tariff systems of the EAEU and Uzbekistan differ significantly today, so the most important changes will occur in the rates of Uzbekistan’s import customs duties, causing a change in the price ratio and increasing structural costs in the economy.

In the short term, full membership of Uzbekistan in the EAEU would lead to lower import tariff rates on many consumer goods, enhance competition on the domestic market for these goods, and lower prices for them. At the same time, import customs duties would rise on many other goods, especially resource and capital goods, which could impede modernization and structural reform of the economy. Overall, if Uzbekistan’s import customs duties are standardized with the single rates of the EAEU, we can expect imports of consumer goods from third countries to grow, the exchange rate of the national currency to fall, and structural costs in the economy to increase.

Synchronizing the standards and regulations in effect in the EAEU member states and in Uzbekistan would reduce non-tariff barriers and simplify the procedures for moving goods across borders between Uzbekistan and EAEU countries and between Uzbekistan and third countries. This is because in the EAEU countries, non-tariff barriers to international trade are much lower, and the quality of institutions is higher, than in Uzbekistan. Evidence of this is the fact that the EAEU countries place higher than Uzbekistan in the “international trade” category of world ratings on ease of doing business. For Uzbekistan, EAEU membership would reduce trade barriers and improve the quality of government institutions to the average EAEU level.

Other important results of joining the EAEU for Uzbekistan would be that tariffs on transit and transportation would decrease, and it would be easier and simpler for Uzbek migrants to work in EAEU in the short and medium term, which could increase migration and money transfers back to Uzbekistan.

However, when studying whether the country should join a regional integration group, it is important to consider not only the short- and medium-term, but also the long-term effects of this move. And the long-term effects of the country’s membership in a regional economic group would be no less, and could be more significant for the nation than the short- and medium-term effects.

Flows of DFI into the economy depend on numerous factors, including world and regional economic trends, prospects for economic growth within the country, its attractiveness for investors both from the EAEU and beyond, etc. Statistical data on inflows and outflows of DFI among the EAEU member countries show that membership in the EAEU is not the determinative factor in attracting DFI into a country.

In deciding whether to join the EAEU, Uzbekistan should be confident that this is the best step for the country among all other existing alternative options to integrate Uzbekistan into the world economy, from the perspective of long-term prospects for development. This requires a deep analysis of the
long-term effects of all possible options for integrating the country into the world economy, so that the most optimal choice can be made.

Unfortunately, at the present time it is not possible to accurately predict the long-term changes in the trade and investment regime of both the EAEU member countries and Uzbekistan. In this situation, with observer status in the EAEU, it makes sense for Uzbekistan to join the WTO first. This would not only lead to lower tariff and non-tariff barriers in trade and improve the quality of government institutions and economic policy, but also expand the country’s export opportunities by obtaining MFN status in trade with the WTO member countries.

By joining the WTO, Uzbekistan would undertake obligations toward its members not to increase rates of import customs duties. These obligations could require the country to set import customs duties on goods that are important to the standard of living and competitiveness of the economy that are lower than they would be under the single customs tariff in the EAEU after Uzbekistan joined that organization.

If Uzbekistan joins the WTO, it would be advisable at the same time to sign free trade zone agreements with the EAEU and its main trading partners that provide for duty-free trade and harmonization of non-tariff barriers.

Joining the WTO, reforming its trade regime in accordance with its standards, and signing free trade zone agreements with the EAEU and other main trading partners would allow Uzbekistan, as an observer in the EAEU, to make a deeper assessment of the long-term trends in the development of foreign trade and the trade regime both in the EAEU and in Uzbekistan. This would help Uzbekistan determine the most optimal path of integration into the world economy, which will maximize the growth of the economy and the prosperity of its people in the long term.

Issues involving the legal status of migrants could be included in an expanded free trade zone agreement with the EAEU countries, and bilateral efforts could be made to reach an agreement on these issues that would improve the legal status of migrants in EAEU member countries.