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WHY SHOULD UZBEKISTAN JOIN THE WTO?

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POINT OF VIEW

■ Нуқтаи назар ■ Точка зрения ■

J. Normatov**Why should Uzbekistan join the WTO?**

WTO accession has been a long debated issue in Uzbekistan. Formally, the accession process started in 1994, when Uzbekistan applied for membership. The process, however, was halted in 2007 and was started again in 2018. This raises at least two important question: why the WTO accession of Uzbekistan is taking long and what is at stake on accession? The current article tries to address these questions.

The WTO is the organization that regulates trade among nations. The organization has 164 members, with 30 more countries willing to join. The striking feature of the WTO is that the organization promotes trade by progressively liberalizing trade practices of its member states creating more opportunities for competition and efficiency. The organization promotes trade without discriminations among member countries, promotes transparency and predictability of trade practices, and resolves trade disputes arising among nations. Countries join the WTO to embrace virtues of freer trade and benefit from integrated dispute settlement mechanism of WTO.

The accession to WTO takes time, because the organization has a detailed legal procedure and the case specific negotiations on terms of accession.

Uzbekistan's accession to the WTO has been among the longest. The country is officially WTO observer since its application from 1994. Enthusiasm for the WTO accession waned over the time, as the country became increasingly protectionist and slowed down economic reforms. However, the WTO

accession is back on agenda after the new president of Uzbekistan Shavkat Mirziyoev started renewed efforts to modernize the economy. Large scale reforms were commenced directed to increasing the efficiency of national economy and boosting its competitiveness. Integration to the world econ-

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omy is among the priorities of reforms again, as the country wishes to attract foreign investments to modernize its economy.

Why WTO accession takes so long?

Essentially, the WTO accession is all about market access. The acceding country needs to agree terms of accession by making commitments on market access. These commitments will stay after the country joins the WTO as benchmark for further opening markets. The extend of market openings for acceding countries may differ from country to country, depending the nature of economy and outcome of negotiations. For example, the protocol of accession of Kyrgyzstan to WTO in 1996 contained less sectoral coverage than Kazakhstan's accession to the WTO in 2016. While Kyrgyzstan's accession to the WTO was among the shortest (two years), it took Russia 15 years to complete the accession process.

The accession to WTO takes time, because the organization has a detailed legal procedure and the case specific negotiations on terms of accession. The accession process is described in article XII of WTO. The procedure can be summarized as follows. Step 1 – country applies for membership; step 2 – WTO establishes working party of accession; step 3 – applicant country and WTO working party on accession negotiates and agrees terms of accession; step 4 – agreement on terms of accession submitted by working group on accession to general council of the WTO for approval; final step 5 – ratification of agreement by application country. It is worth mentioning that the WTO working party on accession plays a very important role in accession process. The working party will comprise of WTO member countries, who have strong interest in trading with applicant country. These countries will negotiate with the applicant country the terms of market access. Understandably, the working party on accession will try to gain maximum access to the market of acceding country, while acceding country had to negotiate these terms based on its economic interests. While, steps 1,2,4,5 are technical, the step 3 – agreeing the terms on accession is a political process. The applicant country will have to agree with all countries of WTO working party on accession in order join the WTO.

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In many cases, negotiations go beyond basic WTO rules and may entail issues beyond the WTO (for example, Russia's accession to WTO was temporarily halted by Georgia's stance due to bilateral political tensions). Increasingly, the newly acceding countries are obliged to ac-

cept WTO+ commitments, that go beyond basic WTO membership commitments.

WTO accession: what is at stake?

Interestingly, the renewed interest of Uzbekistan in joining the WTO coincided with the increased protectionist measures of key WTO members, which been undermining the very principles the organization stands for. The question arises, why Uzbekistan should join the WTO, when the organization has been facing problems and being criticized of being less efficient. What does Uzbekistan stand to gain from accession? To answer this question, the arguments for and against need to be discussed.

Non-discriminative market access. Countries join the WTO primarily to gain access to markets of other WTO members. Countries joining the WTO will enjoy benefits the organization enforces for all its members – trade without discrimination. Trade without discrimination applies for both trade measures at the border and within the country. The former is called principle of Most-favored-nation, which guarantees that the same import tariffs and duties will be applied for all WTO members, and no discrimination will be tolerated. The latter – principle of national treatment, obliges all WTO members to apply the same treatment for imported product as for national treatment, so that foreign products will not be given less favorable treatment than local products. Without the WTO accession, countries exports might be subjected to less favorable treatment, both in terms of tariffs and local regulations.

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Predictable of trade. WTO established principle of transparency, which obliges its members to make all information concerning foreign trade available for all members and inform about planned changes into trade legislation in advance. Members will have information in order to adjust to planned changes, which will reduce uncertainty and risks in trading for member states.

Resolving trade disputes. Probably, one of the most important benefits of joining the WTO is the integrated dispute settlement system of WTO, which is sometimes referred as ‘Pearl of WTO’. The possibility of bringing disputes to the WTO, which has efficient time restricted procedures for resolving trade disputes, is another motivation for countries to be part of WTO system. Without WTO membership, the country has less effective means to resolve trade disputes.

Participating in international trade negotiations. Once WTO member, country can participate in ongoing multilateral trade negotiations and form the future of international trade system. Being part of the WTO and taking part in forum for trade talks allows countries to pursue their interests to get more benefits from the system.

At the same time, WTO membership benefits apply for all members, which means one's benefits equal their commitments as well. For example, when one country gets an access to market of the second country, the latter will gain access to the market of the former. The extend of market access as well as market opening commitments differ from country to country. In case of acceding country, however, there is less room for maneuvering. Since the acceding country is joining the WTO, it may effectively not require increasing of market access commitments on members. In fact, it is an acceding country who is applying for membership and who has to agree terms of its accession, which puts obligations on it. Acceding country must agree with existing WTO countries, which may request extensive market opening commitments. Acceding country has no choice but to negotiate unless terms are agreed. The acceding country has more interest in joining the WTO than the WTO accepting it. This may limit the level playing room for a country negotiating accession to the WTO.

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Potential risks and benefits for Uzbekistan

Opening up trade may carry risks of damage for domestic industry, as the domestic industry may be exposed to fierce competition and rivalry in some markets. International competition may reduce revenues and profitability of domestic industries forcing them to optimize their businesses, which may lead to negative outcomes such as reduced wages or job cuts. In addition, increased trade also increases the risk of unfair business practices in form of fraudulent, deceptive and unethical methods to gain market share. In international practice there are many examples of companies engaging in predatory pricing, dumping and other unfair methods to gain market share by driving competing industry out of market. Such risks, however be can be handled and minimized when the country possesses adequate regulations and functioning institutions on market supervision.

In case of Uzbekistan, weighting out benefits and consequences of WTO accession is a difficult issue. Uzbekistan trades mostly with the

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countries with which it has free trade agreements (FTA) like CIS countries; it is beneficiary of generalized system of preferences (GSP) of EU and other industrial nations. In fact, free trade areas and GSP are exempt from the WTO rules. Therefore, Uzbekistan is unlikely to gain dramatically improved market access to WTO member countries. Most likely, the country will have to open its markets for other

WTO members, which will increase competition and force domestic inefficient industries out of business.

WTO accession for Uzbekistan is a more an opportunity to foster market reforms aimed at modernizing its economy and increasing its competitiveness. Uzbekistan will have to reduce import tariffs, allow foreign products to equally compete in domestic markets, and oblige itself to further liberalize its trade within multilateral trade negotiations. The reduction of trade restrictions will boost business activity, foster investments and help the country to integrate into international value chains, which undoubtedly will contribute to modernization and growth of Uzbek economy.

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