



## **FOREIGN TRADE ACTIVITIES OF UZBEKISTAN: PROBLEMS AND OPPORTUNITIES FOR DEVELOPMENT**

Bakoeva Gulbahor Matyakubovna

Doctor of Philosophy in Economics (PhD)

University of World Economy and Diplomacy, Tashkent, Uzbekistan

gbakoyeva@uwed.uz

Ibodullaev Shohboz Tulkin ugli

Master student, University of World Economy and Diplomacy, Tashkent, Uzbekistan

sh\_ibodullayev@mail.ru

**Abstract:** Effective foreign trade activity is one of the prerequisites for increasing the country's export potential, improving scientific and technological progress. Also, foreign trade activity allows economic entities to technically and technologically re-equip production activities, expand product markets.

The article identifies the problems associated with the development of foreign trade activities of Uzbekistan and developed scientific proposals aimed at solving these problems.

**Key words:** foreign trade activity, foreign trade balance, foreign trade partners, export, import, negative balance, exchange rate, devaluation, letter of credit.

### **Introduction**

In the Action Strategy for five priority areas of development of the Republic of Uzbekistan in 2017-2021, it is noted that the continuation of the policy of stimulating the localization of production and import substitution, primarily of consumer goods and components, the expansion of intersectoral industrial cooperation, liberalization and simplification of export activities, diversification of the structure and geography of exports, expansion and mobilization of the export potential of economic sectors and territories are prerequisites for further strengthening macroeconomic stability and maintaining high rates of economic growth [1, p. 32]. And this necessitates the development of ways to solve urgent problems associated with the development of foreign trade activities of the state and companies in Uzbekistan.

As the President of the Republic of Uzbekistan Sh.M. Mirziyoyev “we must move to an export-oriented economy, form a competitive environment in the domestic market” [2, p. 22].

It should be emphasized that in order to fulfill the tasks set in the Action Strategy, a number of important activities were implemented. In particular, in accordance with the Resolution of the President of the Republic of Uzbekistan No. 5177 of September 2, 2017 "On priority measures to liberalize foreign exchange policy":

- ensured to the full extent of the exercise of the rights of legal entities and individuals to freely acquire and sell foreign currency and dispose of their own foreign exchange funds at their own discretion;

- introduced a market mechanism for the formation of the exchange rate of the national currency in relation to foreign currency;

- the task was set to increase the role of market instruments in the use of foreign exchange resources, create equal competitive conditions in the foreign exchange market for all economic entities, increase the stimulating role of foreign exchange policy in the development of exports in non-traditional industries, strengthen regional and international economic cooperation [3, p. 54-55].



### Review of literature on the topic.

According to F. Mahlup, the main factors influencing changes in the supply of foreign currencies associated with the country's exports are the elasticity of exports and imports and the system of restrictions on imports (tariff and non-tariff restrictions) [4, p. 28-29].

According to the terms of Marshall-Lerner, if the absolute value of elasticity indicators associated with an increase in foreign demand (export elasticity) to national exports and national demand to foreign imports exceeds one, then a devaluation policy can have a positive effect [5].

According to A. Gloriov and D. Mikhailov, the main risks of foreign trade are the following: commercial risks; production risks; operational risks; the risk of bilateral cooperation; signature risk; credit risk; currency risk; default risk; transfer risk; financial risks; legal risks [6, p. 205-206].

The results of A. Smirnov's research showed that state financial support for the practice of lending to the export of commercial banks is an objective necessity, while it is necessary to use such forms of state support as a state guarantee of export loans and bonification of interest rates of export loans [7, p. 60-61].

According to F. Ahmedov, to ensure the stability of interest rates of loans provided to importers, the following measures must be taken:

- it is necessary to ensure the difference between the interest rates of foreign currency loans and foreign currency deposits at the level of the standard value of the net interest margin ratio (4.5%);
- it is necessary to increase the supply of foreign currency loans by providing foreign currency collateral loans from the Central Bank to commercial banks;
- it is necessary to set limits on the upper limit of international loans attracted under the guarantee of the Government of the Republic of Uzbekistan [8, p.19].

### Research methodology

The regulatory and legal foundations of foreign trade activities of the Republic of Uzbekistan are the laws of the Republic of Uzbekistan "On external borrowing", "On currency regulation", Decrees and Resolutions of the President of the Republic of Uzbekistan, Resolution of the Cabinet of Ministers of the Republic of Uzbekistan in the field of foreign trade.

Also, when studying the issue of the development of foreign trade, such methods of scientific analysis as, expert assessment, statistical grouping, induction and deduction were used.

In the process of analysis, official statistical materials of the State Committee of the Republic of Uzbekistan on Statistics and the Central Bank were used.

### Analysis and results

It should be emphasized that in recent years there has been a negative foreign trade balance in the republic (Table 1).

**Table 1**

**Export, import of the Republic of Uzbekistan and negative foreign trade balance [9]**

	2018 y	2019 y	2020 y	Change in 2020 compared to 2019 in percent(%)
<b>Export, mln USD</b>	13 990	17458	15127	86,6



<b>Imports, mln USD</b>	19 439	24 292	21 171	87,2
<b>Negative foreign trade balance, USD million</b>	- 5448	- 6833	- 6043	110,9

As can be seen from the data in Table 1, in 2020, the volume of Uzbekistan's exports decreased significantly (13.4%) compared to 2019, and the negative foreign trade balance increased by 10.9% over this period. This is due to the negative impact of the coronavirus pandemic on foreign trade.

A negative foreign trade balance negatively affects the stability of the nominal exchange rate of the national currency.

The main foreign trade partners of the Republic of Uzbekistan are China, Russia, Kazakhstan and Turkey (Table 2).

**Table 2**

**The share of the main foreign trade partners in the total volume of foreign trade of Uzbekistan, in percent [10]**

	<b>2017 y</b>	<b>2018 y</b>	<b>2019 y</b>
China	17,8	19,3	18,1
Russia	17,8	16,9	15,7
Kazakhstan	7,7	8,7	7,9
Turkey	17,8	19,3	18,1

As can be seen from the data in Table 2, the main foreign trade partners of the Republic of Uzbekistan are China, Russia, Kazakhstan and Turkey. In 2019, they accounted for 47.7% of the republic's foreign trade turnover.

Another problem associated with the development of trade activities in the Republic of Uzbekistan is the increase in the real exchange rate of the national currency in relation to the national currencies of the main foreign trade partners. As a result, there is a rise in the cost of exported goods from Uzbekistan to these countries.

In 2018, the increase in the real exchange rate of the national currency - the soum in relation to the currencies of the countries-main foreign trade partners was:

- \* against the Russian ruble - 20.7%;
- Kazakh tenge - 14.9%;
- Turkish lira - 45.8%;
- Chinese yuan - 12.6%.

In 2019, there was also an increase in the real exchange rate of the national currency - the soum against the currencies of the main foreign trade partners.

One of the main reasons for the rise in the real exchange rate of the soum is the relatively high inflation rate in Uzbekistan.

In 2020, the annual inflation rate was:

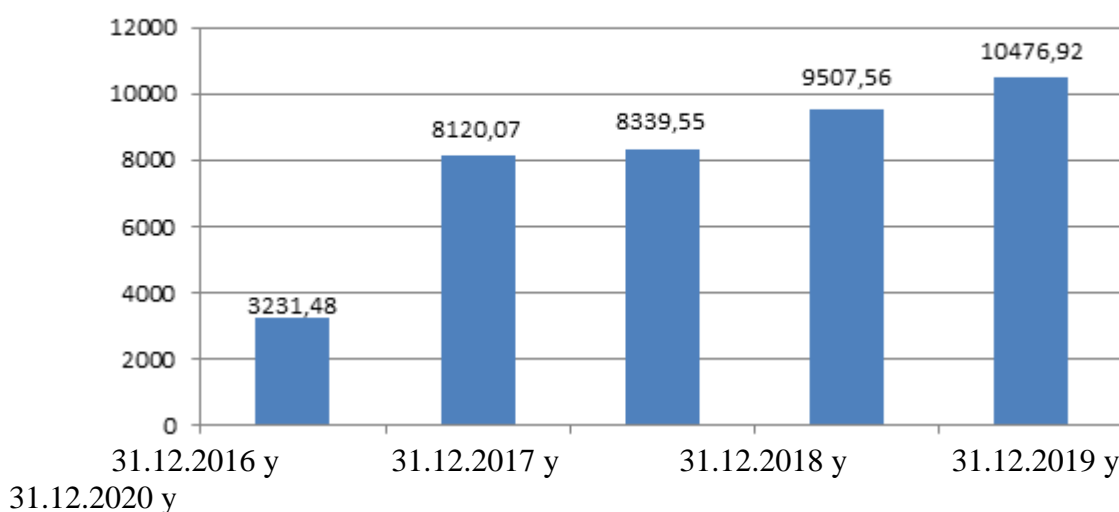
- \* in Uzbekistan - 11.1%;
- \* in China - 2.5%;
- \* in Russia - 4.9%;



\* in Kazakhstan - 7.5% [11].

Another problem in this area is the high level of devaluation of the national currency (Fig. 1).

As can be seen from Fig. 1, in 2016-2020, the level of devaluation of the national currency against the US dollar was high. Over the past five years, the level of devaluation of the national currency against the US dollar amounted to 342.2%.



**Fig. 1. Nominal exchange rate of the national currency - sum against 1 US dollar, sum [12]**

One of the pressing problems associated with the development of Uzbekistan's foreign trade activity is a high proportion of all (80%) covered letters of credit in the total volume of letters of credit issued by import commercial banks.

The main disadvantage of covered letters of credit is the diversion of companies' foreign exchange funds from circulation. Since, in covered letters of credit, the amount of the letter of credit is deposited in a separate account and banks do not pay interest on these foreign exchange funds, and companies cannot use them.

### **Conclusions and offers**

The decrease in the volume of exports of the republic in 2020 compared to 2019 is explained by the negative impact of the coronavirus pandemic on foreign trade.

In 2018-2020, the foreign trade balance of Uzbekistan had a negative balance, which negatively affects the stability of the nominal exchange rate of the national currency.

The actual problems of the development of foreign trade activity of Uzbekistan are the following:

- the presence of a negative foreign trade balance;
- increase in the real exchange rate of the national currency in relation to the national currencies of the main foreign trade partners;
- a high proportion of all (80%) covered letters of credit in the total volume of letters of credit issued by the commercial banks of the republic for import.



In our opinion, in order to solve urgent problems associated with the development of foreign trade activities of the Republic of Uzbekistan, it is necessary to take the following measures:

1. In order to ensure a positive balance of the foreign trade balance of the Republic of Uzbekistan, it is necessary, firstly, to increase the efficiency of production of import-substituting goods and introduce non-standard restrictions on the import of certain types of consumer goods; second, to increase the competitiveness of exported goods by eliminating the rise in the cost of imports under the influence of inflation and devaluation; thirdly, to consider the possibility of reducing customs duties on exported goods from Uzbekistan.

Bangladesh is an example. In 2006, the volume of exports from Bangladesh to the United States amounted to 3.3 billion dollars, the amount of customs duties paid amounted to 500 thousand dollars. Great Britain also paid customs duties to the United States for the same amount, however, the volume of exports from Great Britain to the United States amounted to 54 billion dollars [13, p. 141].

2. In order to prevent an increase in the real exchange rate of the national currency in relation to the currencies of the main foreign trade partners of Uzbekistan, it is necessary, first, to ensure a low and stable level of inflation; secondly, when forecasting the nominal exchange rate of the national currency, it is necessary to take into account the forecast indicators of the exchange rate of the central banks of the countries - the main foreign trade partners of the republic.

3. In order to reduce the level of devaluation of the national currency, it is necessary to take the following measures:

\* Given the ineffectiveness of measures aimed at ensuring the stability of the national currency, it is necessary to abandon the free floating regime and switch to a controlled floating exchange rate regime.

\* in order to ensure low and stable growth of the money supply, firstly, to assess the levels of influence of each factor on the growth rate of the money supply and to develop specific measures aimed at reducing the influence of the main factors; secondly, to close the channels for the additional issue of money in circulation (increase in prices for goods and services of natural monopolies; financing of the state budget deficit; increase in prices of foodstuffs, etc.).

4. It is necessary to improve the practice of using documentary letters of credit by increasing the share of uncovered and irrevocable letters of credit in the total volume of letters of credit issued by commercial banks for import operations of companies with good credit history. As a result of this, firstly, the diversion of foreign exchange funds of importers from economic circulation is prevented; secondly, the amount of commission income of commercial banks increases.

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