

# EURASIAN ECONOMIC UNION AND UZBEKISTAN: ACCESSION PROSPECTS AND ECONOMIC IMPLICATIONS

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## Introduction

The Eurasian Economic Union (EAEU) may get a new member – Uzbekistan. Uzbekistan has been a country, which preferred to stay away from integration processes since its independence in 1991, but this seems to be changing since the new reformist president Shavkat Mirziyoyev came to power in 2016. The country resumed its accession negotiations with the WTO in 2019 and announced commitments for economic reforms. However, accession to EAEU was not on the public agenda till October 2, 2019, when the Chairwoman of Federation Council of Russia Valentina Matviyenko first announced Uzbekistan's intention to join the Union.<sup>1</sup>

The EAEU was established in 2015 as a supranational organization built after EU model. Currently it has five members - Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan. The organization evolved from the Eurasian Customs Union (ECU) between Russia, Belarus and Kazakhstan and pursues the goal of establishing a single market with free movements of goods, services, labour and capital.

The organization is emphasized to be an economic union, though some experts see it as a block led by Russia with a political agenda of restoring its influence among the states of the former Soviet Union.<sup>2</sup> Both statements seem to be justified. Undoubtedly, this integration project is firstly about economics. Members are obliged to apply common external tariff against third countries and commit to deeper integration by removing obstacles to forming a single market. The latter include removal of non-tariff barriers to trade, harmonization of technical standards, recognition of diplomas etc. Initial results show that the EAEU achieved some success in this area as trade and investment figures increased,

though gains from integration were different from country to country.<sup>3</sup> Economic studies show that smaller countries with lower income levels are, as a rule, to benefit more from integration, which is also the case with the EAEU. Economically, Armenia and Kyrgyzstan are to gain most, Belarus significantly, Kazakhstan much less and Russia the least.<sup>4</sup> In EAEU, the Russian economy is much larger than the economies of all other members combined; therefore it is least to gain from integration. Nevertheless, the EAEU project enjoys full support by Russia, apparently not only for pure economic, but also political reasons. Access to Russian subsidies, loans, investments, military support and work permits for migrants is some of the incentives for joining the EAEU.<sup>5</sup>

## What are the advantages and disadvantages of Uzbekistan's accession to the EAEU?

Primary incentives for joining economic integration are about reducing costs of trade and getting market access. The countries participating in the EAEU are set to reduce barriers to movement of goods, services, labour and capital among themselves and to apply common external tariff towards third countries.

Uzbekistan already has free trade with individual EAEU countries in the framework of the CIS Treaty on Free Trade.<sup>6</sup> Therefore, joining the EAEU is unlikely to change much in terms of access to markets for its goods. The EAEU is yet to achieve significant progress in removing barriers for movement of services and capital, so it has not yet created enough incentives to join the integration.

3 Vinokurov E., "Eurasian Economic Union: Current State and Preliminary Results." *Russian Journal of Economics*, 2017; <https://doi.org/10.1016/j.ruje.2017.02.004>

4 Knobel A., Lipin A., Malokostov A., Tarr D., and Turdyeva N., "Deep Integration in the Eurasian Economic Union: What Are the Benefits of Successful Implementation or Wider Liberalization?", *Eurasian Geography and Economics*, 2019; <https://doi.org/10.1080/15387216.2019.1627232>

5 Ibid.

6 "Treaty on a Free Trade Area between members of the Commonwealth of Independent States (CIS)", WTO; <http://rtais.wto.org/UI/PublicShowMemberRTAIDCard.aspx?rtaid=99>

Free movement of labour, however, makes the EAEU attractive for Uzbekistan, which is a labour abundant country due to its demographics. There are an estimated 3.5 million Uzbek labour migrants in the EAEU, mostly in Russia. Joining the EAEU could reduce the costs of obtaining work permits for Uzbek workers and thus increase the volume of remittances.

Accession to the EAEU, at the same time, may have a negative impact on certain businesses of Uzbekistan, such as automobile and textiles industries, which creates a serious disincentive for joining the EAEU. Average import tariffs of Uzbekistan are significantly higher than EAEU rates. Upon accession, Uzbekistan would need to reduce its rates to the levels of the EAEU. This would harm protected industries in Uzbekistan resulting in economic losses. Considering that most protected industries in Uzbekistan are owned by the state (e.g. automobile industry), the Uzbek government might be reluctant to give up such protections.

### **Uzbekistan's accession to EAEU may take time**

Joining the EAEU will require a political decision from governments. As evident from media reports,<sup>7</sup> Russia favours Uzbekistan's accession to EAEU. Uzbekistan's stance was less clear however. No immediate official statement was made on this issue, though the draft Resolution of the President of Uzbekistan from October 7, 2019 called "Concept of socio-economic development strategy of Uzbekistan till 2030"<sup>8</sup> mentioned the prospect of country's integration into the WTO and the EAEU.<sup>9</sup> Uzbek officials

<sup>7</sup> Prokofiev V., "Issue of Uzbekistan joining EAEU under consideration, says Russian speaker", Russian news agency TASS, 2 October 2, 2019; <https://tass.com/economy/1080900>.

<sup>8</sup> ID-8839.

<sup>9</sup> Government portal on discussion of proposals of normative-legislative documents of Republic of Uzbekistan, Presidential resolution ID-8839 "Koncepcija kompleksnogo social'no-jekonomiceskogo razvitiya Respubliki Uzbekistan do 2030 goda" (Concept of socio-economic development strategy of Uzbekistan till 2030), October 7, 2019; <https://regulation.gov.uz/ru/document/8839>.

held a restrained position on the matter, implying that the decision had to be made after a thorough cost-benefit analysis.<sup>10</sup> The deputy foreign minister of Uzbekistan Ilhom Nematov stated<sup>11</sup> for instance that he personally would support Uzbekistan's accession to the EAEU and that Uzbekistan would ultimately join the organization once conditions were right. In March 2020, the state source of official information Uzbekistan National News Agency reported that the Uzbek government preferred to become an observer-state in the EAEU before making a membership decision.<sup>12</sup>

The Uzbek government's decision to join the EAEU as an observer confirms its interest in integration with the EAEU. At the same time, it may signal that the country is not yet ready for full membership. An observer status could serve as transition to full EAEU membership once favourable terms on accession are agreed on. In particular, Uzbekistan might want to keep some of its industries (automobile, textile and agriculture to name a few) protected and might try to secure investment commitments into its economy. Russian companies have already significantly invested in Uzbekistan's energy sector and there are prospects for further expansion. Moreover, the Russian state nuclear energy company Rosatom and the Uzbek government have been negotiating the construction of a first ever nuclear plant in Uzbekistan designed to meet the growing energy demand of the Uzbek economy.<sup>13</sup>

<sup>10</sup> "When deciding whether to join the EAEU Uzbekistan will proceed from its national interests - Sodiq Safoev", The Tashkent Times newspaper, October 10, 2019; <https://tashkenttimes.uz/national/4414-when-deciding-whether-to-join-the-eaeu-uzbekistan-will-proceed-from-its-national-interests-sodiq-safoev>.

<sup>11</sup> "Il'hom Nematov: u Uzbekistana segodnya net nikakih problem s sosedjami." News agency, RIA Novosti, December 26, 2019; <https://ria.ru/20191226/1562831901.html>.

<sup>12</sup> "Uzbekistan, EAEU discuss cooperation development issues", Uzbekistan News Agency UzA, March 7, 2020; <http://uza.uz/en/society/uzbekistan-eaeu-develop-economic-cooperation-07-03-2020>.

<sup>13</sup> Geert De Clercq, "Rosatom says close to signing contract for Uzbekistan nuclear reactors", Reuters, September 6, 2019;

These and other issues might be discussion topics during the accession negotiations.

## What would be the implications of EAEU accession?

Uzbekistan would most likely gain economically from accession to the EAEU. Uzbekistan's economy is more closed compared to the EAEU economies. Import duties of Uzbekistan are highest in the regions of Europe and Central Asia. Although, the new leadership of Uzbekistan has significantly lowered import duties, they still remain high (Table 1). In 2020, the average import tariff rate in Uzbekistan was equal to 8.4%, which, however, did not include import exclusive duties, which are tariff equivalents. If the WTO definition applied, import tariffs of Uzbekistan would also increase a lot.

**Table 1. Customs duties EAEU and Uzbekistan compared**

Average applied MFN import tariff rates %

	Simple average MFN applied tariff rate %	Bound MFN
EAEU/Russia	6.8	7.6
Uzbekistan	8.4	none
EU	5.1	5.2

Source: WTO (World Tariff Profiles 2019) and author's calculations

All EAEU countries are already members of the WTO<sup>14</sup> and bound by WTO rules. Russia's import tariff rates are accepted by members as common external tariffs with minor exceptions. By international comparison the EAEU has lower levels of protection.

The challenge for Uzbekistan would be to lower its import duties to the level of the EAEU and to apply WTO rules in trade. This would result in increased imports to Uzbekistan and would put pressure on domestic producers

<https://www.reuters.com/article/rosatom-nuclearpower-uzbekistan/rosatom-says-close-to-signing-contract-for-uzbekistan-nuclear-reactors-idUSL5N25X4RU>.

<sup>14</sup> Belarus is not a WTO member, though de-facto bound by WTO commitments since 2012 due to its participation in the Customs Union.

competing with imports. Interestingly, a lowering of import duties would create more trading opportunities for third countries than EAEU countries. Imports from EAEU countries are already duty free due to the CIS free trade agreements and will not be affected. Major trading partners of Uzbekistan such as China, EU, Turkey and others would gain increased market access, which would benefit consumers in Uzbekistan. Additionally, the application of WTO rules would limit state intervention to economy and thus help to proceed with market reforms. The EAEU countries have more advanced market regulations even by international comparison. For instance Russia was granted 'market economy' status by EU and USA in 2002, which China still tries to achieve. In this regard, Uzbekistan would definitely benefit from adopting EAEU standards.

Another significant implication of EAEU membership for Uzbekistan would be labour migrants' rights to work in Russia. Citizens of the EAEU are not required to obtain a work permit. In Russia, non-EAEU citizens have to apply for a patent to get a work permit and pay a significant fee. For most Uzbek migrants patent fees are too high, so many of them work illegally in Russia. EAEU membership would help legalize their status, increase access for them to higher paid jobs and to social protection. Experience of Kyrgyzstan shows that in 2015, when the country joined the EAEU, financial remittances from labour migrants significantly increased (+13%), while transfers to non-EAEU countries declined (Tajikistan -25%, Uzbekistan -11%).<sup>15</sup> Uzbekistan could benefit from remittances of its labour migrants' in a similar way, since Uzbek citizens top the number of labour migrants in Russia.

Economic consequences of EAEU membership would have spill-overs in other spheres as well. Integration into the EAEU would link Uzbekistan more closely to its members,

<sup>15</sup> Knobel A., Lipin A., Malokostov A., Tarr D., and Turdyeva N., "Deep Integration in the Eurasian Economic Union: What Are the Benefits of Successful Implementation or Wider Liberalization?", Eurasian Geography and Economics, 2019. <https://doi.org/10.1080/15387216.2019.1627232>

foremost to Russia, which might have political and military implications as well.

## Should Uzbekistan join the EAEU or the WTO?

Uzbekistan has started to open up to the world and to integrate into the world economy. The government formally re-opened WTO accession negotiations. Recent talks about the possibility of Uzbekistan to join the EAEU have raised questions of whether its accession to the WTO will be affected. How do these two integration projects relate to each other and which one should Uzbekistan choose? To answer this question we need to see what the requirements are for accession to both agreements.

The WTO is a multilateral system, which establishes common rules on trade among nations. It aims to reduce barriers to trade, eliminate discrimination and create conditions for economic efficiency. The EAEU is a regional integration project, which is smaller in scope but deeper in scale. It goes much beyond reducing barriers to trade aiming at creating a common market among its members with uniform tariff rates towards third countries. The supranational status of the EAEU implies a loss of sovereignty for member states over their economy in trading with third countries.

From a sovereignty point of view, WTO accession would be preferable for Uzbekistan, as it would retain sovereignty over its foreign trade policy. WTO membership would bring economic benefits for the country and make it more efficient in the long run.

Joining the EAEU, however, would bring similar economic benefits to Uzbekistan. As EAEU trade rules are based on WTO rules, accession to it would make Uzbekistan a de-facto member of the WTO. The major challenge Uzbekistan would face in joining the EAEU would be accepting common external tariff of organization, which is based on Russia's tariff schedules. EAEU tariff schedules may not fully reflect the interests and needs of the Uzbek economy and there is not much room for negotiations. On the

other hand, accepting EAEU tariff rates would make Uzbekistan much more open to foreign competition and benefit its economic efficiency.

In the given situation, Uzbekistan should continue its integration into the WTO, regardless whether it will join EAEU or not. The WTO provides an opportunity to solve trade disputes, when/if disputes cannot be resolved within regional integration blocks. Therefore, WTO accession should remain a priority for Uzbekistan.

While economically speaking, joining the EAEU would be equally beneficial for the Uzbek economy, the decision on accession is a political one. It is dependent on terms yet to be agreed on to join the organization. The government needs to decide if the benefits of joining are worth the cost of losing sovereignty over its foreign trade.

Foreign stakeholders should support whatever decision Uzbekistan makes, as both would increase Uzbekistan's integration into the world economy and make it a more market oriented and open economy.

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