MECHANISMS FOR PROTECTING NATIONAL PRODUCERS UNDER WTO CONDITIONS

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Our country's economy is at its most serious and critical turning point. Pursuant to Decree No. PF-85 of the President of the Republic of Uzbekistan dated June 3, 2024, “On measures to accelerate the accession process to the World Trade Organization and align national legislation with WTO agreements”, it was established that, starting from January 1, 2025, any financial incentives and subsidies that contradict the requirements of the WTO Agreement on Subsidies and Countervailing Measures, i.e., those granted solely based on export volume, shall be abolished. Exclusive rights granted to certain state-owned enterprises in export and import operations are being phased out.

Conditions were established for a full transition to a system of assessing the value of goods entering the market based on the actual transaction value of the goods (Transaction value) in accordance with Article VII of the WTO Agreement, rather than artificial minimum prices.

Based on Presidential Resolution No. PQ-181 dated May 18, 2024, “On Additional Measures to Harmonize National Legislation with World Trade Organization Agreements,” the provision of tax and customs benefits in the domestic market for products manufactured by local enterprises was made equal to that for foreign goods. Accordingly, many of the preferences granted under the “localization program” were abolished. In addition, the decision provides for stringent penalties for the import and domestic sale of counterfeit and unlicensed software and intellectual property objects.

On the one hand, the “Uzbekistan-2030” strategy sets the goal of tripling exports, while on the other hand, Decree No. PF-85 is ending direct subsidies for exporters in logistics and finance. Our major local holdings (for example, in the textile, automotive, and electrical engineering sectors) cannot compete independently in the international market without such government subsidies and preferential treatment. The documents require the elimination of subsidies, but the “green box” support mechanisms intended to replace them, namely the system for providing scientific and infrastructural support to clusters, have not yet been fully implemented in practice. This, in turn, creates a risk of slowing export growth rates in the near future.

The issue of protecting national producers in the global market has always been one of the most controversial topics among economists. For example, the renowned economist and Nobel Prize laureate Joseph Stiglitz says in his work “Globalization and Its Discontents”: “If developing countries sharply liberalize trade under pressure from international organizations without fully strengthening their domestic markets and institutional infrastructure, this will lead to the complete collapse of national industry and the monopolization of foreign imports”.

In his opinion, before opening markets, the state must implement a strict protectionist and preparatory phase.

However, in stark contrast to this theory, economist Bela Balassa advocates free trade and external competition in his work "The Theory of Economic Integration". Any form of state protectionism and preferential treatment makes local enterprises complacent and kills their drive for technological renewal, reducing efficiency in the long term.

Today, we are witnessing the clash of these two theories in our country's economy as well. The essence of the Head of State's Decree No. PF-85 and Resolution No. PQ-181 is consistent with Bela Balassa's theory. In other words, within the framework of localization programs, many benefits and direct export subsidies are being abolished, and the market is being opened up to competition.

If this theory were applied in practice and the state suddenly abandoned direct financial support for enterprises, a severe crisis could arise in the real sector. Because our textile, electrical engineering, and automotive industries are not competitive by international standards. They cannot survive in a free market without government support.

Taking economist Stiglitz's concerns into account and in accordance with WTO rules, it is advisable to propose a completely new economic solution for a crisis-free transition to the Balassa model. For this, it is necessary to shift from direct financial protectionism to the WTO-permitted "tariff-free technical protectionism".

If this proposal is implemented in practice, the following specific results can be achieved in the economy:

1. Instead of directly providing money for enterprises' logistics or production volume (prohibited by Decree No. PF-85), these funds should be directed to research and development (R&D) laboratories under industry clusters. If the state invests money not in the enterprise, but in science and infrastructure, WTO rules will not be violated, and the technological cost of locally produced goods will decrease, increasing their competitiveness.
2. It is necessary to establish special anti-dumping groups under the Ministry of Investment, Industry and Trade. If foreign brands deliberately sell their goods cheaply in the domestic market to drive local enterprises out of business, a system should be established to prove this through mathematical models and file claims with WTO courts. Through this, national manufacturers will feel protected in the global market.
3. We are nevertheless forced to reduce tariff rates at the border, but we need to sharply strengthen sanitary, phytosanitary, and technical regulations for imported goods (within the framework of the WTO's SPS/TBT agreements). If our national metrology and certification laboratories are internationally accredited, it will be possible to fully protect our domestic market from foreign dumping and low-quality imported goods, without customs duties and through legal means.

Protecting national producers under conditions of international integration should not rely on outdated administrative restrictions or customs barriers. The only right path for Uzbekistan's economy is to learn to use the "subtle and smart" mechanisms permitted by international law norms and WTO agreements. By transitioning from direct subsidies to an infrastructure and scientific support system and updating the national standardization framework, we can both liberalize our markets and fully guarantee national economic security.

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