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Supporting the removal of regulatory and procedural barriers to trade: Uzbekistan

Economic Commission for Europe study on regulatory and procedural barriers to trade in the Republic of Uzbekistan: Recommendations

Submitted by the secretariat

Summary
This document provides a summary of the key findings and recommendations emerging from the Economic Commission of Europe (ECE) study of regulatory and procedural barriers to trade in Uzbekistan. The study, which was funded by the United Nations Development Account (UNDA), was carried out in 2021–2022 pursuant to the Government’s request to support the trade sector’s contribution to economic development post-coronavirus disease (COVID-19) and the achievement of the Sustainable Development Goals of the United Nations 2030 Agenda for Sustainable Development. It is an initial snapshot of key takeaways and policy recommendation for further discussion with Uzbekistan.

The study, prepared in close consultation with public and private sector stakeholders, provides an overview of the trade regime in Uzbekistan, and the contribution of related initiatives to the goal of achieving sustainable development. It also elaborates on the state of play vis-à-vis the following areas: trade facilitation, technical regulations and standardization, conformity assessment systems and metrology. Particular focus is given to the profile of micro-, small and medium-sized enterprises (MSMEs) and their challenges in harnessing the benefits of trade. The study also provides three business process analyses in the sectors of handicrafts, textiles and electronics, and dried fruits and vegetables.

Finally, the study presents recommendations for related internal reforms and initiatives, also taking into consideration ongoing accession to the World Trade Organization (WTO) and other regional processes. The study provides entry points for the type and nature of assistance that ECE could provide to Uzbekistan to support these initiatives.

ECE stands ready to assist the Government of Uzbekistan in implementing the recommendations. The document is presented to the Steering Committee on Trade Capacity and Standards for decision.
I. Introduction

1. Uzbekistan, as one of only two double-landlocked countries in the world, has a unique geographical location in Central Asia. It shares borders with Kazakhstan to the north, Tajikistan and Kyrgyzstan to the east, Afghanistan to the south, and Turkmenistan to the south-west. It is the most populous country in Central Asia, with a population of 34.2 million in 2021. With a large cotton industry, and being rich in natural resources such as gold and natural gas, Uzbekistan possesses extensive trade opportunities.

2. Since 2017, Uzbekistan has been undergoing a wide range of reforms to make the transition to a market-based economy. Trade development is among the priorities of the Government’s reform agenda, including in the recently adopted Decree of the President of the Republic of Uzbekistan “On Development Strategy of New Uzbekistan for 2022–2026”. Uzbekistan is actively pursuing both regional and global integration. At the regional level, this includes the Government’s efforts to expand its trade relations with other Central Asian countries and the Eurasian Economic Union. As chair of the United Nations Special Programme for the Economies of Central Asia (SPECA) in 2021, Uzbekistan has also actively shaped deliberations of the SPECA Working Groups. To strengthen regional cooperation and implementation of investment projects, the Government hosted the first meeting of the SPECA Investment and Financial Cooperation Working Group in Uzbekistan in 2021.

3. At the interregional level, Uzbekistan has also been expanding its cooperation with the European Union. In April 2021, the European Union accepted Uzbekistan as the ninth beneficiary of its expanded Generalised Scheme of Preferences (GSP+) trade arrangement, which gives permission for duty-free exports of selected commodities to the European Union.

5. With respect to global integration efforts, recent reforms also indicate the Government’s commitment to join WTO. With the Working Party for the accession of Uzbekistan resuming its work in 2020, the country has stressed its determination to accelerate WTO accession negotiations and related reforms, including during the Tashkent International Investment Forum in March 2022.

6. Reforms to date have borne fruit. The economic outlook of Uzbekistan shows an upward trend since 2017, despite a slight slowdown due to the pandemic. Significant progress has been made in relation to trade facilitation reforms, also in line with the trade facilitation

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2 Available at https://lex.uz/docs/5841063 (in Uzbek).
3 Detailed information on cooperation between the countries of Central Asia, as a factor in ensuring their development, is available at https://review.uz/en/post/cooperation-between-the-countries-of-central-asia-as-a-factor-in-ensuring-their-development.
4 See Strategy, footnote 2.
6 This includes the following Working Groups: Trade; Innovation and Technology for Sustainable Development; Sustainable Transport; Transit and Connectivity; and Water, Energy and Environment. Available at https://unece.org/speca.
8 Resolution of Cabinet of Ministers No. 1040, dated 25 December 2018, on approval of the composition of the interdepartmental commission to work on accession to WTO.
strategy for SPECA countries. As a result, Uzbekistan was one of the few economies to avoid negative growth in 2020. Furthermore, its economy grew by 7.4 per cent in 2021.

7. Maintaining this upward growth requires addressing remaining challenges and building a resilient, sustainable and diversified economy post-COVID-19. In this regard, the implementation of the SPECA Principles of Sustainable Trade, adopted in 2019, is relevant. The analysis conducted by ECE in 2020–2021 indicates that Uzbekistan has made significant progress in recent years to incorporate sustainable considerations in its trade policies, also with the view to support the diversification of its economy. At the same time, more could be done while Uzbekistan is undergoing the economic reforms.

8. To facilitate this process, innovative approaches are needed. The Government of Uzbekistan has placed innovation high on its political agenda. It has put in place a variety of institutions, organizations and policy mechanisms in support of innovation-led growth. At the same time, legal, policy and coordination gaps remain, leaving some of the innovative potential of the country untapped. To support the policy formulation in this area, and in line with the SPECA Innovation Strategy for Sustainable Development, ECE conducted the first Innovation for Sustainable Development Review of Uzbekistan in 2022.

9. To support the Government’s efforts in promoting trade, ECE undertook an assessment of regulatory and procedural barriers to trade in Uzbekistan. The assessment was carried out in 2021–2022 using the ECE survey-based evaluation methodology, which covers the areas of trade and transport facilitation, as well as quality infrastructure (standardization, technical regulations, conformity assessment and metrology). The recommendations are based on the survey of 75 MSMEs engaged in strategic sectors across the country.

10. The study focuses on the following areas: state of play in relation to trade and market liberalization, trade facilitation, technical regulations and standardization, conformity assessment system and metrology. Particular focus is given to the profile of MSMEs and their challenges in harnessing the benefits of trade. The study also provides three business process analyses, in the following sectors: handicrafts, textiles and electronics, and dried fruits and vegetables. Finally, the study presents recommendations for related internal reforms and initiatives, also taking into consideration ongoing accession to WTO and other regional processes, and provides entry points for the type and nature of assistance that ECE could provide to Uzbekistan to support these initiatives.

II. Key findings

11. In response to the pandemic, the Government, in addition to tax relief and expanded business financing schemes, also introduced trade facilitation measures, such as a trader assistance hotline and further digitalization of customs and trade procedures. The study showed that recent reforms, in particular in the area of trade facilitation, have generated significant benefits for traders and contributed to increased export opportunities, including for MSMEs.

12. At the same time, traders continue to encounter regulatory and procedural trade barriers. These barriers reflect the ongoing reform process, and indicate the need to improve expertise skills, including in relation to information and communications technology (ICT).

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systems, on the side of both the private and public sectors. Subsections below summarize the key barriers identified by the surveyed traders.\textsuperscript{16}

A. **Lack of transparency**

13. Traders report that they have sufficient up-to-date sources of information on export and import procedures, documentation requirements, transportation and logistics services, including from the State Customs Committee of Uzbekistan. At the same time, they indicated interest in receiving further information on applicable tariff quotas, rates, duties and taxes on imports and exports, as well as information on import, export and transit trade procedures and required documents.

14. Furthermore, traders are interested in engaging more actively in public-private consultations on trade-related matters. It was suggested that such consultations are useful for enterprise development and promoting trade facilitation initiatives.

B. **Complex documentary requirements**

15. To export goods from Uzbekistan, traders need to submit various types of documents, and in some instances these submissions have a repetitive nature. Furthermore, the use of electronic documents is not yet uniform.

16. Obtaining some documents – such as conformity, sanitary and phytosanitary certificates – is a complex and lengthy procedure. The business process analysis conducted in relation to dried fruits and vegetables suggests the need to reduce and simplify documentary requirements associated with obtaining phytosanitary certificates.

17. As for the time frames, they depend on a complexity of various factors (such as testing and certification criteria for the product in question). The survey suggests that delays in Uzbekistan were primarily caused by a lack of testing equipment and skilled staff to conduct the tests.

18. The business process analysis conducted in relation to exports of textiles and electronics from Uzbekistan indicated that the railway transportation process needed further simplification, including through the introduction of electronic documents and developing multimodal solutions in the form of a single document.

C. **Challenges at border controls**

19. Some traders report on existing discrepancies on Harmonized System (HS) code application within the customs evaluation process, which creates additional bottlenecks, both for importers and exporters.

20. There are also challenges associated with the infrastructure of border crossing points. In addition to traffic management at the border, some respondents reported on the lack of non-intrusive inspection equipment at the border checks.

D. **Gaps within the national system of quality infrastructure**

21. Uzbekistan has undergone significant reforms in the areas of technical regulation and standardization in the last 10 years. Further reforms, also as part of the WTO accession process, might be needed to formalize this process. For example, at the moment there is no clear division between mandatory product requirements, which are established in technical regulations, and voluntary requirements for the application of standards. The legislation of

Uzbekistan does not provide for the use of standards for the evidence base of the conformity of products into the requirements of technical regulations.

22. A significant challenge relates to the underdeveloped infrastructure of laboratories, including conformity assessment centres, which also complicates trade operations.

E. Shortcoming in enterprise development

23. The number of MSMEs has almost doubled from 2017 to 2022. While this growth indicates a positive trend, most sectors in Uzbekistan are still dominated by State-owned enterprises, thus reiterating that privatization is among the important objectives of the Government. To further support this objective, Presidential Decree No. PP-168 – “On additional measures to further reduce state participation in the economy and accelerate privatization” – was adopted on 18 March 2022.

24. Private sector representatives report on the lack of related skill sets. In addition to the legal and economic expertise, MSMEs traders often lack technological skills, and thus are unable to engage in e-commerce and fully reap the benefits of trade.

25. While the Government introduced several finance support mechanisms during the pandemic, the surveyed traders indicated that there is a need to establish credit guarantee schemes for facilitating access of MSMEs to bank loans.

III. Recommendations

26. A running theme throughout the study is the need to continue pursuing the reform process, also in line with the regional and international integration processes of Uzbekistan, including accession to WTO. The table below provides action-oriented recommendations for enabling such an approach. The recommendations are geared to carry direct contributions to Sustainable Development Goal 8 (decent work and economic growth), Goal 9 (industry, innovation and infrastructure), Goal 16 (peace, justice and strong institutions) and Goal 17 (partnerships for the Goals). Uzbekistan is strongly committed to implementing the United Nations Sustainable Development Goals and to integrating national goals for sustainable development into all sectors, as well as into regional strategies and development programmes.17

27. Further incorporation of sustainable and circular approaches is an important consideration for the way forward for Uzbekistan. Increased implementation of circular economy business models can change production, consumption and distribution patterns, and improve efficiency along the supply chain. In the long term, such strategies can bring multiple economic, social and environmental benefits, and serve as a global resilient growth strategy.18 Relatedly, following decisions by ECE at its sixty-ninth session, in April 2021, regarding the circular economy and the sustainable use of natural resources, the ECE secretariat has been integrating a circular economy approach in its relevant activity streams, including in relation to trade.19

28. Digitalization can play a supporting and, in many instances, key role in addressing these challenges. Overall, the United Nations Global Survey suggests that the implementation rate of general and digital trade facilitation measures for Uzbekistan is around 65 per cent, well below the ECE average level of 76 per cent.20 With newly established strategies – e.g. a new National Development Strategy for 2022–2026 and a new National Innovation Strategy

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for 2022–2030 – the Government is committed to digitalization and innovation policies. Relatedly, the topic of “Digital and green transformations for sustainable development in the ECE region” has been identified by ECE member States as the cross-cutting priority topic for the forthcoming seventieth session of the Commission in 2023.

29. A concrete commitment to sustainable and circular economy principles with the support of digital tools has been done in the textile sector of Uzbekistan. During the Tashkent International Investment Forum in March 2022, the Confederation of Employers of Uzbekistan and Uztextileprom (2,000 members) signed up for the ECE “Sustainability Pledge”. Through blockchain technology, the Pledge (comprising a United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) Policy Recommendation, information exchange standard and implementation guidelines) is aimed at improving transparency and traceability throughout the garment and footwear supply chains.

30. ECE, through its three core functions – development of norms, standards and legal instruments; hosting of a convening platform; and technical cooperation across a number of relevant sectors – stands ready to support Uzbekistan in its efforts to achieve a sustainable, inclusive and resilient post-pandemic recovery.

31. For the challenges summarized in this study, the tools developed under the ECE Economic Cooperation and Trade Division (ECTD) are particularly relevant. They include standards and best practice recommendations for trade facilitation and electronic businesses (by UN/CEFACT, public-private partnerships, regulatory cooperation, agricultural quality standards and innovation policies (see table below)).

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21 At the time of writing, the Ministry of Innovative Development submitted to the President’s Administration for review and approval a programme for this Strategy, designed for 2022–2026.


24 Available at http://thesustainabilitypledge.org/index.html.

Selected recommendations for strengthening the regulatory and procedural environment in Uzbekistan

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Improving border control and customs clearance

**Improve the customs valuation process**

Ensure that tariff classification of goods is determined through the use of the General Rules of Interpretation and the Legal Notes to the Harmonized System Nomenclature, as required under the International Convention on the Harmonized Commodity Description and Coding System (HS Convention).

**Improve facilities at border crossing points**

Improve traffic management through: (a) ensuring the proper segregation, into separate lanes, of trucks, buses and cars; (b) providing a “fast-track” lane, from the point of entry to the border crossing points, for trucks carrying consignments of transit and Authorized Economic Operator goods; and (c) the introduction of non intrusive inspection equipment for physical examination of goods.

**UN/CEFACT set of aligned standards for the digitalization of intermodal transport data exchanges**

**UN/CEFACT Recommendation 41 (Public-Private Partnerships in Trade Facilitation)**

Improving the national system of quality infrastructure

**Strengthening standard setting**

Finalize the formation of the national system of technical regulations in line with WTO rules, taking into account regional integration processes.

Finalize formalizing the division between mandatory product requirements, which are established in technical regulations, and voluntary requirements for the application of standards.

**ECE Recommendations on Regulatory Cooperation and Standardization policies**

**ECE Agricultural Quality Standards (covering Fresh Fruit and Vegetables; Dry and Dried Produce; Meat; and Seed potatoes)**

**Strengthening conformity assessment**

Continue enhancing conformity assessment bodies with the required institutional capacity.

Further improve international recognition through acceding to international agreements.

**UN/CEFACT Recommendation 41 (Public-Private Partnerships in Trade Facilitation)**

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In order to improve the legal framework of the sphere of national standardization and technical regulation a new version of the draft Laws of the Republic of Uzbekistan “On Technical Regulation” and “On Standardization” have been prepared. These draft laws include the recommendations provided in this document.
Continue extending the number of new accreditation programmes based on industry needs.

Continue developing consistent test programmes for various product groups.

**Strengthening metrology**

Continue extending the scope of accreditation, both at the national and international levels, in agreement with the preceding action.

Continue improving the equipment of the laboratories.

**UN/CEFACT Recommendation 41 (Public-Private Partnerships in Trade Facilitation)**

**Improving enterprise development**

**Promote enterprises’ greater engagement in trade activities, including through enhancing the skillset**

Promote greater engagement of MSMEs in e-commerce.

Promote the implementation of international and regional harmonized standards among MSMEs.

Launch targeted, sector-focused programmes to develop the export competitiveness of farmers and food producers.

Enhance competition and innovation culture.

Consider establishing business incubators to nurture MSMEs and start-ups.

Develop training programmes on various thematic trade-related areas for MSMEs, including through in-person and online lectures.

**ECE report “Findings and recommendations emerging from the COVID19 impact assessments targeting micro, small and medium enterprises in selected countries”**

**ECE online self-paced training programme of studies on standards implementation for MSMEs**

**ECE Portal on Standards for the SDGs**

**ECE Agricultural Quality Standards (covering Fresh Fruit and Vegetables; Dry and Dried Produce; Meat; and Seed potatoes)**

**ECE e-learning modules on Conformity Assessment, Risk Management, Market Surveillance and Gender-Responsive Standards (forthcoming, June 2022)**

**ECE online self-paced training on Agricultural Quality Standards and Food Loss and Waste (forthcoming, mid-2022)**

**ECE Policy Handbook of Business Incubators for Sustainable Development in the SPECA region**

**Innovation for Sustainable Development Review of Uzbekistan**

**Improving access of MSMEs to finance**

Improve credit guarantee schemes for facilitating access of MSMEs to bank loans.

**UN/CEFACT White Paper on Integrated Services for MSMEs in International Trade (ISMIT)**

- Enhance competition and innovation culture.
- Consider establishing business incubators to nurture MSMEs and start-ups.
- Develop training programmes on various thematic trade-related areas for MSMEs, including through in-person and online lectures.
Improve resilience of MSMEs to crises, including through launching clustering initiatives fostering inter-firm collaboration, both at the vertical and horizontal levels.