

The availability of international business opportunities in uzbekistan



International trade is exchange of goods, services and capital across the borders of different nations. No country in the world has all the natural resources present in sufficient quantity to sustain continuous development. So the countries trade with each other by exporting those goods or products which they have in abundance while importing those which they are deficient in. International trade tends to be generally more costlier than domestic as most countries imposes additional tariffs or duties on the goods travelling through their borders. International trade between two countries comprises both - the trade between 2 companies present in different country and trade between the government of a country and the business firm present in other country.

The main objective of this audit is to analyze the availability of International Business opportunities present in the Uzbekistan. The report starts with examining the country's attitude to international trade. Then a brief analysis of the country's Cultural, Political and Economic Environments is done. After that the country's business environment is analysed using some of the proposed theories of international trade and also Porter's diamond model of national competitiveness. Finally recommendations based on the above analysis are offered.

An Overview of Uzbekistan

Uzbekistan or Republic of Uzbekistan (Ozbekiston Respublikasi) is a country which is part of Central Asia having largest population within the region.

Uzbekistan became an independent state on September 1, 1991, from former Soviet Union. Uzbekistan elected Islom Karimov as its president who

continues his office till date. Uzbekistan is a land locked country surrounded by Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan and Turkmenistan.

Uzbekistan Essential Facts:

Government

Republic; Authoritarian Presidential Rule

Capital

Tashkent

Geographic Area

447, 400 sq km

Population

27, 865, 738

Literacy Rate

99. 3%

Labour Division

Agriculture: 44%, Industry: 20%, Services: 36%

Budget

Revenue: 10. 54 Billion, Expenditure: 10. 48 Billion (2009 estimates)

GDP (GDP Growth)

\$77. 55 Billion (6. 7%)

GDP – Per Capita

\$2, 800

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Inflation

14. 1%

Industries

Textiles, Food Processing, Machine Building, Metallurgy, Gold, Petroleum, Natural Gas, Chemicals

Source: CIA World Fact Book (<https://www.cia.gov/library/publications/the-world-factbook/geos/uz.html>)

Uzbekistan attitude to International Trade

Uzbekistan joined United Nations in 1992 as fully fledged member and cooperates with 8 UN agencies including The World Bank which supports Uzbekistan in its national reform efforts (United Nations, n. d.). Currently Uzbekistan has foreign diplomatic relations with about 124 countries of the world (Ministry of Foreign Affairs – Uzbekistan, n. d.).

Uzbekistan has membership in numerous, more than 33, International Organizations including Asian Development Bank (ADB), Commonwealth of Independent States (CIS), International Finance Corporation, International Monetary Fund, Islamic Development Bank, Shanghai Cooperation Organization and World Trade Organization (observer status) (Library of Congress, 2007). The main purpose of these organizations is to promote and facilitate international trade among various countries.

Commonwealth of Independent States (CIS) countries are the biggest trade partners of Uzbekistan. Russian secures first place as foreign trade partner of

Uzbekistan. Other countries like Ukraine, Kazakhstan and Afghanistan etc. are also heavy trade partners.

Uzbekistan has very active trade relations with European Union. Bilateral trade between Germany and Uzbekistan amounted to 470 million USD in 2008. France, UK and Spain are other major trade partners (Ministry of Foreign Affairs – Uzbekistan, n. d.).

Figure 1: Major Trade Partners of Uzbekistan (2009)

Source: http://www.buyusainfo.net/docs/x_6613529.pdf

Business Environment of Uzbekistan

Culture of Uzbekistan

Figure 2: Ethnic Group Composition

Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/uz.html>

Figure 3: Major Religions

Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/uz.html>

Figure 4: Spoken Languages

Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/uz.html>

Uzbekistan since ancient time was the home of Arab Muslims and Turks. And then in Mid-Nineteenth century, Russia seeing the region's potential captured Uzbekistan. That is why there are traces of Russian language and ethnicity can be found in the country dominated by Uzbeks. Islam being the major religion (about 88%) the culture of country is bit conservative. For both Men and Women conservative business suits are expected, casual clothes like jeans, t-shirts etc are considered inappropriate. While greeting someone it is common for handshake between same sexes but simple hello is done between opposite sex. During a meeting it is important to go and speak to the most important person in the room first. These local customs must be observed in order to forge good business relationship in the country (Culture Crossings, n. d.).

Political & Civil Environment of Uzbekistan

When Soviet Union broke in 1991, Uzbekistan gained its independence and appointed Islom Karimov as the Presidential head (Angus Reid Public Opinion, 2008). Since then Karimov have led an autocratic rule by extending his term of office in 2000 and 2007 in a series of democratic election that has come into fierce criticism from the international community (Harding, 2007). Next elections are scheduled to be held in 2014.

In almost all international political and civil parameters Uzbekistan has shown downward trends indicating its worsening of the situation overtime.

Figure 5: Uzbekistan Political Indicators.

Source: Author

Uzbekistan also has extremely high level of corruption. According to recent Transparency International's Corruption Perception Index (CPI), Uzbekistan ranks among the bottom of the 180 countries at rank 174. It has extremely poor confidence range of 1.5 – 1.8 (Transparency International, 2009).

Figure 6: CPI Index 2009

Source: http://www.transparency.org/policy_research/surveys_indices/cpi/2009

Due to this firms frequently have to pay informal payments (bribes) to government to get the things done. About 67% percent of the firms are expected to make these payments to get things done (Enterprise Surveys, 2009).

Figure 7: Informal Payments Statistics

Source: http://www.enterprisesurveys.org/documents/CountryNotes/Uzbekistan_09.pdf

Economic Structure of Uzbekistan

Uzbekistan when it got freedom had relatively slow economic growth rate for first 12 years. Uzbekistan GDP, between 1994 to 2003, grew at average rate of 3.9% per year. But from 2005 onwards the country witnessed average growth of 8.2% (Asian Development Bank, 2010). Although the official data is doubtful as it probably overstates the level of economic growth. The U. S. Department of State – Background Note for Uzbekistan states that “ many observers believe that employment growth and real wage growth have been

stagnant” (U. S. Department of State – Background Notes, 2009). The poverty is quite prevalent in the country with 76. 7% of population living below \$2 a day (United Nations Development Programme, 2009).

Although government is taking some positive steps to ramp up the economy. Policies like “ Anti-Crisis Program” for 2009-2012 that government adopted in 2008 to combat the global recession had quite beneficial impact on Uzbekistan economy. Part of the policy was to promote foreign investment, for which government established free industrial economic zones in 2008, which provided foreign investors with tax and custom preferential facilities. Due to this government was able to tie up with 37 foreign investors for \$500 million investment. This resulted in huge increase of 80% in foreign investment in 2009. Uzbekistan also observed very high import growth rate of 25. 8% in 2009, mainly in infrastructure development, indicates government’s acceptance to allow foreign investment in the country (Asian Development Bank, 2010).

Figure 8: Uzbekistan Import/Export Indicators

Source: <http://www.adb.org/Documents/Books/ADO/2010/UZB.pdf>

Petroleum, Gold, Natural Gas and Cotton are the main 4 exports products of the Uzbekistan. According to the IMF estimations, energy products (Petroleum and Natural Gas) comprised about 26. 3% of total exports in 2008 followed by gold at 15. 7% and cotton at 13. 1% (International Monetary Fund, 2008).

International Trade of Uzbekistan

International Trade Theory Framework is all about analysing from a country's perspective about with whom they should trade and what products to trade.

According to Daniels, Radebaugh and Sullivan (2010), there are five theories which try to explain a country's advantage in International Trade.

Figure 9: Theories of International Trade

The advantage in international trade of Uzbekistan will be explained using two theories – Natural Advantage and Factor Proportion Theory.

Natural Advantage in case of Uzbekistan

According to this theory a country produces those goods in which it has some natural advantage by way of its climate, people, resources etc.

Uzbekistan has substantial advantage over most of the countries in the world in production of cotton due to favourable climatic conditions and availability of low cost labour. Climate in Uzbekistan is generally hot which is suitable for cotton growth. Hence Uzbekistan is the world's 6th largest Cotton producer and 3rd largest Cotton exporter (National Cotton Council of America, 2010).

Figure 10: World Cotton Export Rankings (2009)

Source: Author

Also the country has abundant energy resources. Uzbekistan is a major producer and exporter of Natural gas. Natural gas production was 2, 387 billion cubic feet in 2008 ranking it at 14th place in the world. Out of this

Uzbekistan exported about 22. 20%, i. e. 530 bcf of natural gas (US Energy Information Administration, 2010).

Factor Proportion Theory

According to this theory different countries have different level of endowment of land, labour and capital. And the factor which is in more abundance will have lower costs than other factors. So the country tends to take advantage of this in the international trade by exporting those products that utilize the abundant factor and importing products that requires utilization of deficient factor.

Uzbekistan has the advantage of low cost and skilled labour. It also has relatively low land. The country has very high literacy rate of 99. 3% in 2003. There is lack of substantial capital or high level technology present in the country. Therefore Uzbekistan's export mainly comprises of agricultural products, mined natural resources, services or low tech industrial products like chemical, plastic etc.

Figure 11: Percentage Distribution of Total Exports

Source: [http://www. statistics. uz/data_finder/128/](http://www.statistics.uz/data_finder/128/)

On the other hand the country is severely lacking in the modern infrastructure and necessary technology or capital required to develop it. Therefore the bulk of its import, almost 50% comprised mainly of machinery and equipments.

Figure 12: Percentage Distribution of Total Imports

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Source: [http://www. statistics. uz/data_finder/128/](http://www.statistics.uz/data_finder/128/)

Porter's Diamond of National Competitiveness

Figure 13: Extended Porter's Diamond Model of National Competitiveness

Source: Porter (1990)

Michael Porter introduced a diamond shaped model to analyze the areas of strength or weakness that gives a country a competitive advantage or disadvantage. This model includes four interconnected key elements:

Figure 14: Key elements of Porter's Diamond

Factor Conditions:

Uzbekistan has inconsistent infrastructure development. Main roads in the capital Tashkent and other major cities are relatively maintained outside the cities their conditions are poor. Suppliers have trouble in transporting goods from one place to another. The country has extensive rail network but only 17% is electrified. Although government recently announced big plans to improve both its national highway and rail network. Literacy in the country is very high at 99. 3% for 15 years and up. The country also has abundant energy resources. The country is able to almost meet its coal requirement and produces enough natural gas that it manages to export 22% of it.

Firm Strategy or Rivalry:

Almost all the Industrial firms in the Uzbekistan are government owned and as such there is little to no competition among them. There are only few

industries like energy, gold, foodstuff etc. present in the country which have some foreign investment. Most foreign investing companies are only allowed to invest by creating joint venture with state owned company in which the government owns majority stakes.

Related and Supporting Industries:

One of the most important supporting industry to establish a firm is financial sector which is seriously underdeveloped in Uzbekistan. It is dominated by state-owned banks and lacks competition. The government banks give loans to state owned companies at subsidized rate and for all else the interest rate is very high. Due to this private investors rarely take loans from local credit market.

The whole country has access to electricity but the infrastructure is quite old and need modernizations. And as such there are frequent power outages.

Demand Conditions:

Due to widespread poverty of 76. 7% there is not much demand of products apart from basic need like food, clothes, energy needs etc. And in these basic need the country is self-sufficient hence demand never exceeds supply. The government of Uzbekistan is the major importer of goods and services. Most of the imports comprises of equipments in energy, telecommunication and Information Technology hardware and software.

Role of Government

The government did not liberalise the economy sufficiently enough since freedom. It owns all major companies, strictly regulates foreign trade and follows the policy of import substitution. Monopolistic environment created by state-owned companies stifle the development of private sector.

Recommendations for Uzbekistan

The following are the recommendations the Uzbekistan government should implement for sustained growth of the country:

Improving Business Climate: Government should stop pursuing the policy of import substitution and make it easier for foreign investment to invest in the country.

Sustaining Macroeconomic Stability: Need improved macroeconomic policies to control inflation, eliminate restrictions on currency conversion, better regulation of financial sector would help in maintaining high economic growth rates.

Boosting Agriculture Productivity: Better agricultural reforms, abolition of state dictated crop production, more power to farmers and investment in modern machinery would raise per capita income and reduce poverty.

Improve Accountability and Transparency: The country ranks very poor in Transparency International Index at 174 of 180 nations. Corruption is rampant and Firms are frequently subjected to pay bribes. The government must put efforts in improving transparency for the firms to have any confidence in doing business in the country.

Promote Open Competition: Government should end the policy of controlling all industries and creating monopolistic environment. Government should allow free control of industries by private sector. This will create more competition, promote innovation and would improve overall efficiency of the industries and boost economy.