

## Impact Factor:

ISRA (India) = 4.971  
ISI (Dubai, UAE) = 0.829  
GIF (Australia) = 0.564  
JIF = 1.500

SIS (USA) = 0.912  
ПИИИ (Russia) = 0.126  
ESJI (KZ) = 8.997  
SJIF (Morocco) = 5.667

ICV (Poland) = 6.630  
PIF (India) = 1.940  
IBI (India) = 4.260  
OAJI (USA) = 0.350

SOI: [1.1/TAS](https://doi.org/10.15863/TAS) DOI: [10.15863/TAS](https://doi.org/10.15863/TAS)

## International Scientific Journal Theoretical & Applied Science

p-ISSN: 2308-4944 (print) e-ISSN: 2409-0085 (online)

Year: 2020 Issue: 06 Volume: 86

Published: 30.06.2020 <http://T-Science.org>

QR – Issue



QR – Article



A.M. Kodirjonov  
unemployed  
Independent PhD researcher


## DIVERSIFICATION OF FOREIGN TRADE AND ITS NECESSITY FOR THE EXPORT OF UZBEKISTAN

**Abstract:** In the current period of globalization and integration, for any country it is crucial to stay as a part of world economy, and participate in the international trade, which leads to increase the efficiency of the economic activity. And the level of that efficiency directly depends on what is exporting the country, and which countries are its trade partners. Also, when it is difficult for any country to forecast the international market tendency, the importance of the variety of the products that the country is selling, becoming more important, in order to guarantee the stability. The economy of Uzbekistan, as any other country's economy, is sensitive to the international trade changes, and with diversification of its structure the sensitivity can be adjusted till more confident level.

**Key words:** foreign trade, export, diversification, investment, trade policy, export structure, governmental support, subsidy, logistic.

**Language:** English

**Citation:** Kodirjonov, A. M. (2020). Diversification of foreign trade and its necessity for the export of Uzbekistan. *ISJ Theoretical & Applied Science*, 06 (86), 435-439.

**Soi:** <http://s-o-i.org/1.1/TAS-06-86-81> **Doi:**  <https://dx.doi.org/10.15863/TAS.2020.06.86.81>  
**Scopus ASCC:** 2001.

### Introduction

Economic diversification is a key element of economic development, which leads the country's industry to produce many variety of products, and offer more commodities in international trade. A low level of economic diversification is often associated with increased vulnerability to external shocks that can undermine prospects for longer-term economic growth. The world's poorest countries, many of which are often small or geographically remote, landlocked and/or heavily dependent on primary agriculture or minerals, tend to have the most concentrated economic structures. This creates challenges in terms of exposure to sector-specific shocks, such as weather-related events in agriculture or sudden price shocks for minerals [1].

Diversification is giving more steady and stable economy to the country helping to manage volatility. It has crucial role in providing economic growth, by trade expansion, which is central to creating new, higher productivity, jobs that will facilitate growth through structural transformation. Moving labour from low productivity employment, mainly in agriculture, to higher productivity jobs in a range of

mostly urban activities characterized by strong agglomeration economies is imperative for sustained growth.

Economic diversification and structural transformation – the movement of factors of production within and across different sectors towards higher productivity uses - are closely linked phenomena. Structural transformation can refer to the shift from agricultural to non-agricultural sectors, or from manufacturing to services. A broad and well documented trend has been the gradual decline in the importance of agriculture accompanied by an initial increase followed by decline in manufactures and a corresponding increase in services that consistently shows across many countries as a part of the process of economic development [2].

There are two well-known horizontal and vertical forms of export diversification. Horizontal diversification can be materialized through (i) a larger mix of diverse and complementary activities within agriculture; and (ii) a movement of resources from low value agriculture to high value agriculture. On the other hand, an economy is said to be vertically diversified if and only if that country starts processing

## Impact Factor:

<b>ISRA (India)</b>	<b>= 4.971</b>	<b>SIS (USA)</b>	<b>= 0.912</b>	<b>ICV (Poland)</b>	<b>= 6.630</b>
<b>ISI (Dubai, UAE)</b>	<b>= 0.829</b>	<b>PIHIQ (Russia)</b>	<b>= 0.126</b>	<b>PIF (India)</b>	<b>= 1.940</b>
<b>GIF (Australia)</b>	<b>= 0.564</b>	<b>ESJI (KZ)</b>	<b>= 8.997</b>	<b>IBI (India)</b>	<b>= 4.260</b>
<b>JIF</b>	<b>= 1.500</b>	<b>SJIF (Morocco)</b>	<b>= 5.667</b>	<b>OAJI (USA)</b>	<b>= 0.350</b>

and exports value-added products that would have previously been exported in raw forms. Thus, vertical diversification involves a radical change in export structure and further uses of existing and new innovative export products by means of value-added ventures such as processing and marketing [3]. Likewise, vertical diversification can also be more linked with higher learning possibilities that, in turn, may produce greater dynamic externalities than that of horizontal diversification. In other words, through forward and backward linkages, production of a diversified export structure is also likely to provide stimulus for the creation of new industries and expansion of existing industries elsewhere in the economy [4].

While both horizontal and vertical diversifications are targeted to attain three interrelated objectives: stabilizing earnings, expanding export revenues, and upgrading value-added; however, requirements for the two could vary considerably in terms of technological, managerial and marketing skills. Accordingly, it is vertical integration that may require more advanced technology, skills and initial capital investment than horizontal diversification. Hence, significant amount of investment on human capital through education and high rate of physical capital formation either by raising domestic savings or through FDI are pre-requisites for a country especially, to achieve vertical diversification. Most often vertical diversification occurs when country's start processing commodities that were previously exported in raw form (Cramer, 1999). Fore-example, vertical diversification takes place by moving up the value chain to produce manufactured products as in Korea, China, and Malaysia. Countries of the region according to the recommendation of the World Bank, choose the police to directly finance the sectors of economy, that the government consider need a support to export the product, and play key role in export diversification. Mainly, government dedicated focused loans as a credit, subsidy and other local mechanism of stimulating the export of the companies [5].

Australia also succeed in diversification the export not only in commodity structure but also by the destination during the recent years. In order to reach that, the country is using the strategy to support the companies providing them informative assistance about the countries of destination, market. The second direction of the policy is to support the producer with special financial grants, which is helping the producer to cover partially the costs of promoting Australian products abroad the country. Besides that, the government is tried to attract direct foreign investments, which is leading to diversify the geography of the export of the country. Because of the actions mentioned above the country improved its export from raw materials to value added

commodities, also occupying new markets in the South Amerika and Middle east countries.

Chile followed a two-track diversification strategy: (i) diversification "within" industry (increasing value added in the copper industry by improving the quality of copper extraction and exporting processed products and complementing this with the development of domestic ancillary/logistics services; and (ii) diversification "across" industries (development of fisheries: high quality salmon exports, increasing exports of high value-added agricultural goods such as fruit and vegetables and wine production). In addition, Chile set up mechanisms that allowed it to save the rents from mineral extraction and invest in critical growth expenditures. Specifically: (i) a structural fiscal surplus rule that sterilizes the country's spending levels against copper fluctuations. This ensures macroeconomic stability and also generates accumulation of wealth when copper prices are high; and (ii) sovereign funds to administer the rents saved. Chile invested a significant amount of savings on training in advanced skills (i.e. scholarships to enroll Chileans into top global universities) and financing and mentoring to high growth start-up firms. With other words, we can show Chile as a country who spent temporary financial flow from the export of raw materials to develop more steady sectors of the economy.

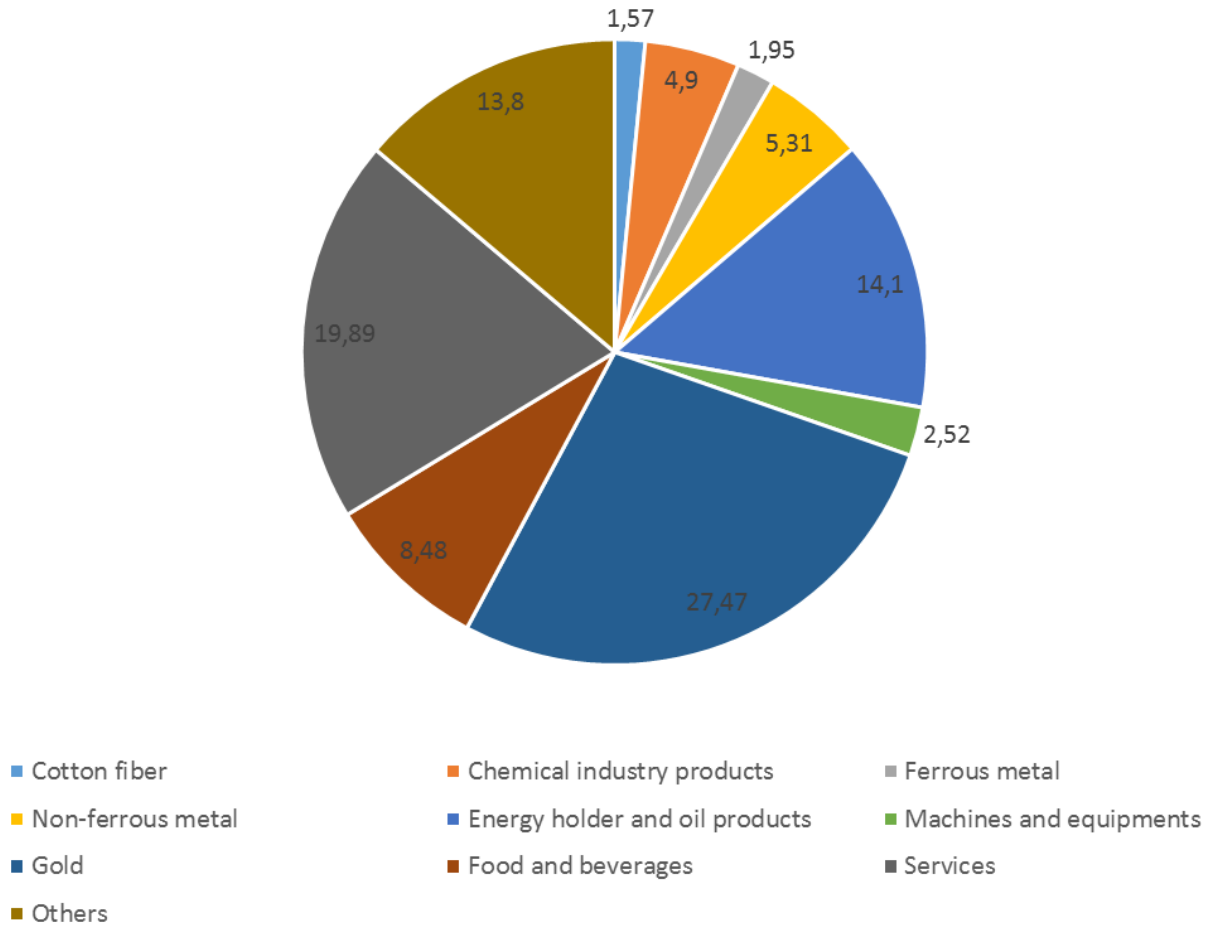
Unlike Chile, which enjoys a coastal location, Zambia is a landlocked country with high trade and transportation costs. Growth has not been inclusive and poverty in Zambia is widespread, with 61.2 percent of the population estimated to be living below the national poverty line. Sustained growth and continued political stability have produced only modest improvements in Zambian livelihoods. The effect of economic growth on overall poverty reduction has been small, as much of the benefits of growth have accrued to those already above the poverty line. Growth has been primarily driven by mining, construction, and financial services and has done little to create jobs and expand opportunities beyond the relatively small labour force already employed in these industries. Thus, for Zambia, economic diversification remains an essential objective to deliver more inclusive growth in the face of declining prices for copper, and to create employment for its fast growing, urban and youthful population [1].

Besides those countries, noted above, other African countries like Uganda, Kenia, Mozambique passed very interesting road to increase the quantity and quality of their export, trying to diversify the export horizontally and vertically.

As it is actual for many countries, Uzbekistan also needs to diversify the export in both directions: commodity and geography. In the figure below we can

Impact Factor:	Value	Impact Factor:	Value	Impact Factor:	Value
ISRA (India)	= 4.971	SIS (USA)	= 0.912	ICV (Poland)	= 6.630
ISI (Dubai, UAE)	= 0.829	ПИИИ (Russia)	= 0.126	PIF (India)	= 1.940
GIF (Australia)	= 0.564	ESJI (KZ)	= 8.997	IBI (India)	= 4.260
JIF	= 1.500	SJIF (Morocco)	= 5.667	OAJI (USA)	= 0.350

see the structure of the export of the country for the 2019.



**Figure 1- Export structure of Uzbekistan (2019)**

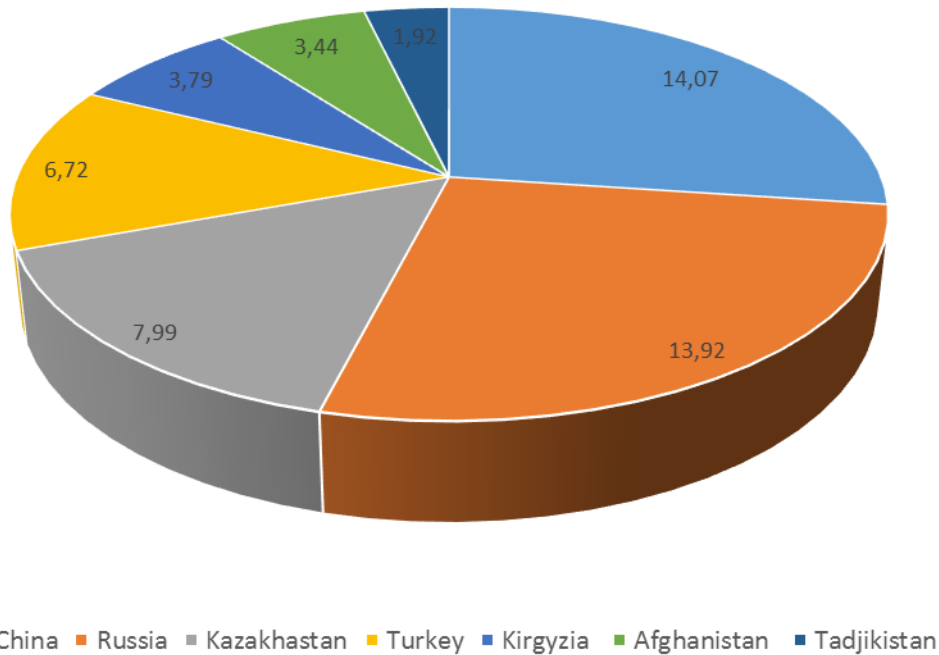
Here, obviously, it can be seen that gold and natural gas, oil products, which are raw materials and natural resources, provides more than 40 percent of the export [8]. Which means that, the economy and financial stability of the country directly depends on international market prices for this raw materials. And, especially, in the situation of pandemic, when the price for oil and gas is falling rapidly, it affecting the budget and all sectors related with those products.

Of course, during the recent years it was seen positive changes in the export of the country, but those are not relevant, considering the majority of share of raw materials.

The same concentration can be seen in the export geography of the country. 7 countries among more than 120 partners of Uzbekistan, dividing more than 50 percent of its export. And China with Russia are leader with total share [Figure 2].

**Impact Factor:**

<b>ISRA</b> (India) = <b>4.971</b>	<b>SIS</b> (USA) = <b>0.912</b>	<b>ICV</b> (Poland) = <b>6.630</b>
<b>ISI</b> (Dubai, UAE) = <b>0.829</b>	<b>ПИИИ</b> (Russia) = <b>0.126</b>	<b>PIF</b> (India) = <b>1.940</b>
<b>GIF</b> (Australia) = <b>0.564</b>	<b>ESJI</b> (KZ) = <b>8.997</b>	<b>IBI</b> (India) = <b>4.260</b>
<b>JIF</b> = <b>1.500</b>	<b>SJIF</b> (Morocco) = <b>5.667</b>	<b>OAJI</b> (USA) = <b>0.350</b>



**Figure 2 – Export geography of Uzbekistan (2019)**

The transport corridors are main problem of the country to expand the geography. It can be seen that main partners are physically and historically close countries to Uzbekistan.

Taking in to account all the numbers of export of Uzbekistan, and experience of other countries, can be suggested some strategies, actions to improve the export structure of the country.

- By the Australian experience it was proved that informative assistance is key factors to discover and enter new markets, which means new potentials, new products, new standards. If we pay attention to the dynamic of partner share in Uzbekistan’s export, there is not any big move in the rank, which means the companies, producers are stuck on already explored markets. Providing the local companies with all pack of the information concerning the new markets will help them to properly evaluate the risk, to be prepared for new standards, and react faster in any change in the regional and international market. Also to attract foreign investment will lead the economy to reach the aim. That relation between direct investment and export was researched by Azam S.E in his works [9].

- From the experience of the Uganda and Malaysia, Uzbekistan can follow to establish agencies and unions for some agro sectors. It will help to share the costs of researching and promotion of the product in foreign markets between many producers, causing to decrease the amount in order to increase the

efficiency of the companies. They can share marketing costs, transport costs, applying to certificates, etc. This practice will give possible not only to win in financial cases, but also in time, focusing on selected regions. Government should help to establish such agencies and unions, also should participate there to provide equality and justice between the members. In other case, it can lead to appear monopoly, which will, for sure, bring more problems than solutions.

- Chile lesson can teach Uzbekistan to redistribute income from raw materials export to develop modern sectors of economy by offering subsidies, special loans. And in this direction the small business entities should be in priority.

In conclusion, governmental policies that support innovation and entrepreneurship and the reallocation of resources to innovating firms can be important in supporting the move to a wider range of higher quality of goods and services. Investing in innovation increases firm capabilities, facilitating the adoption of new technologies that improve productivity and product quality. Both product and process innovation can help firms to diversify by reducing production costs and freeing up resources that could be redeployed into innovative activities. Among the other developing countries, Uzbekistan government should pay to that more attention and dedicate financial resources.

<b>Impact Factor:</b>	<b>ISRA (India) = 4.971</b>	<b>SIS (USA) = 0.912</b>	<b>ICV (Poland) = 6.630</b>
	<b>ISI (Dubai, UAE) = 0.829</b>	<b>ПИИИ (Russia) = 0.126</b>	<b>PIF (India) = 1.940</b>
	<b>GIF (Australia) = 0.564</b>	<b>ESJI (KZ) = 8.997</b>	<b>IBI (India) = 4.260</b>
	<b>JIF = 1.500</b>	<b>SJIF (Morocco) = 5.667</b>	<b>OAJI (USA) = 0.350</b>

## References:

- (2019). Aid for trade at a glance : Economic diversification and empowerment - © OECD, WTO.
- Herrendorf, B., Rogerson, R., & Valentinyi, Á. (2014). "Growth and Structural Transformation", Chapter 6 in Aghion, P. and S.N. Durlauf Handbook of Economic Growth, Amsterdam: Elsevier, (pp. 855-941).
- (2008). Aye Mengistu: Determinants of vertical and horizontal export diversification. *Ethiopian Journal of Economics*, Volume XVII, No 2, October.
- Hirschman, A. (1958). *The Strategy of Economic Development*. New Haven, CT: Yale University Press.
- Borovko, M.V. (2007). Diversifikacija vneshnej trgovli: analiz zarubezhnogo opyta. *Belorusskij jekonomicheskij zhurnal*, № 1, pp.69-79.
- (n.d.). Export diversification in Pacific Island countries. United Nations : Economic and social commission for Asia and The Pacific (Electronic resource) the bulletin on Asia-Pacific perspectives, 02-02-03.
- Bonaglia, F. (2003). Export Diversification in Low Income countries: An International Challenge after Doha. Organization for Economic cooperation and development (Electronic resource). Working paper #209.
- (n.d.). Retrieved from stat.uz - web-site of Uzbekistan State Statistics Committee.
- A#zam, S.Je. (2018). Vneshnetorgovaja dejatel'nost' predpriyatij s inostrannymi investicijami v Uzbekistane: voprosy transformacii. *Jekonomicheskij analiz: teorija i praktika*, T. 17, № 3, pp. 515 - 538.
- Lederman, D., & Maloney, W.F. (2012). *Does What You Export Matter?* In Search of Empirical Guidance for Industrial Policies. Latin America Development Forum. Washington, DC, The World Bank.