

# Import substituting Goods Policy Generates New Era in Business. Can Building Cost be Cheaper Cause of Small Business Development in Uzbekistan?

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## Article Info

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## Abstract:

Today, Uzbekistan has become a country with an independent economic security in the global community and a member of authoritative international organizations. Political, diplomatic, economic, and cultural ties were established with the leading industrialized countries of the world. Bilateral and multilateral mutually beneficial relations are developing. Under these conditions, the country's foreign economic potential is determined by the availability of natural resources, production and scientific and technological potential, infrastructure, social services, export of goods and services to foreign and domestic organizations, enterprises and organizations, as well as joint ventures in the country. In this paper work it has been studied import potentials of Uzbekistan and its correlation and regressions with import partners. Main outcomes can be considered how small business effects construction industry cost with local building materials manufacturing policy. As a conclusion new perspective on producing energy efficiency and composite materials in spite of importing abroad.

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## INTRODUCTION

In the course of the reforms, an important role is assigned to foreign trade policy, which is designed, on the one hand, to help overcome the raw material orientation, increase export potential, protect domestic producers, and on the other hand, provide domestic consumers and create a competitive environment in the economy through imports. From this point of view, a special role is played by the import policy of the state. The import regime of Uzbekistan affects the economy and competitiveness of domestic producers through: The most important economic indicator that determines the country's foreign economic potential is the volume of GDP, including per capita, the share of exports of goods and services, as well as the total volume of exports of industrial goods in GDP. What do we primarily understand by foreign trade?

The key characteristics of business entrepreneurship are deeply involved in the

combination of taking risk and pitching new innovation. The entrepreneurial firms seem to behave more proactively and more aggressively when operating their businesses. As previous research illustrated that entrepreneurial capability can better fulfill customer requirements and business innovation (Hacioglu, Eren, and Celikkaan, 2012). Therefore, the firm oriented in entrepreneurial perspectives and characteristics would enlarge and promote the firm to arrive at the higher performance level, greater financial return, and newer business innovation.

Despite the fruitfulness of entrepreneurial capability research, the substantial understanding and evidenced of strategic entrepreneurial awareness concept are still limited. Since strategic entrepreneurial awareness is a principal fundamental in determining business plan and practice that consequences in business performance, therefore, it

cannot be denied that the concept of strategic entrepreneurial awareness is extremely importance and interesting that is necessary to be examining in more particular details. In order to illustrate the research phenomenon, Thai Small and Medium Enterprises (SMEs) in manufacturing sector are selected as the population of this research.

As SMEs play the critical role driving national economy around the globe, both developed and developing countries, therefore the development of national SMEs is one of the best solutions in maintaining and enlarging national economic growth and global competitiveness. This selected industry, manufacturing, represents the face of highly competitive and innovative business environment. Moreover, SMEs is not only the entrepreneurs who originate something new or awakening new opportunities in the market, but SMEs also creating the newness to the market, seeking for the new market and opportunities, and taking the advantage over its competitors by aiming to introduce new products, services, and processes to the market.

### **METHODS**

Current paper work used secondary data source from World Bank Uzbekistan Profile data sheet and local secondary source data on construction work with statistical and econometrical analyses in STATA 14.0, regression and correlation import ration local building activity indicated both in percentages and Uzbek sums presented in scatterplot, linear and mix graphs.

### **RESULTS**

Foreign trade is a process of mutual trade between countries. Foreign trade consists of exports and imports of goods and services. In turn, the country's foreign trade is made up of exports and imports. The development of trade between countries can bring them mutually beneficial. Foreign trade is the simplest and oldest form of interstate economic relations. The Silk Road connecting the countries of East and West, for the first time in the history of mankind, established intercontinental trade. This road led to a wide

increase in trade between cities located on the territories of ancient lands. What is the current concept of export and import in foreign trade?

The structure of export of goods varies under the influence of scientific and technological achievements and the intensification of the international division of labor. Currently, the share of industrial goods in the structure of international trade dominates with 3/4 of the world trade turnover. The share of food, raw materials and fuel is only one fourth of the total turnover.

On January 1, 2019, the Presidential Decree "On measures to further streamline foreign economic activity and improve customs and tariff regulation of the Republic of Uzbekistan" came into force, according to which import customs duties are levied on 97 product groups: 1238 names of goods at rates - 0, 5, 10, 15, 20 and 30%; 257 items of goods and ad valorem (5-70% of the customs value) and at specific rates. At the same time, 846 (57% of the total number of import rates) of goods were taxed at a rate of 0%, 45 items - 5% and 248 items - 10%, 31 items - 15%, 38 items - 20%, 30 items - 30%.

According to the resolution:

1) Mandatory certification of conformity is not required for goods imported into the Republic of Uzbekistan, for which certificates of conformity have been issued by accredited bodies of the member countries of the Organization for Economic Cooperation and Development;

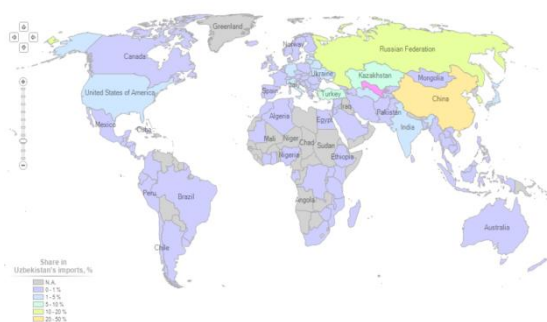
2) For customs clearance of goods in the "release for free circulation (import)" regime, mandatory marking of goods in the state language is not required. However, the situation has not changed regarding the customs regulation of import of cars and trucks: the existing rates of import customs duties and excise tax remained the same. For most of them, both the ad valorem rate of the import tariff and the specific rate in US dollars per cubic meter are set. cm, and also excise tax per cubic meter. cm in dollars.

It should be borne in mind that the presence of high rates of import customs duties in relation to the products of some sectors of the economy leads to

increased costs and reduced competitiveness of other related industries. For example, a high level of protection of fabric manufacturers from imports reduces the competitiveness of the clothing industry. High protection of agricultural machinery manufacturers from import competition increases the costs of agricultural producers. High customs duties on imports of trucks lead to an increase in their domestic prices and an increase in transportation costs. High import payments for finished consumer goods raise prices for the population. And, as a rule, these losses can exceed the gains of those sectors of the economy that are protected from import competition.

It should also be borne in mind that high customs payments and import costs, on the one hand, increase the prices of imported goods, reduce the demand for foreign currency and increase the exchange rate of the national currency, which reduces the competitiveness of exports. On the other hand, high costs of importing raw materials and intermediate goods increase the costs of domestic producers using these goods in the production process, which also reduces the competitiveness of domestic producers. On the third hand, higher prices of imported goods in the domestic market increase import volume and structure has been changing over time.

**Picture 1. List of supplying markets for a product imported by Uzbekistan in 2018**



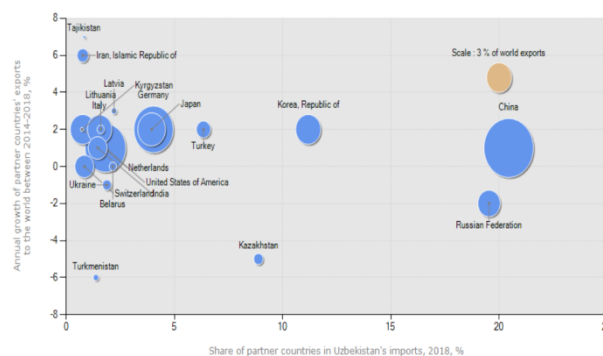
Source: [https://www.trademap.org/Country\\_SelProductCountry\\_Map.aspx?nvpm](https://www.trademap.org/Country_SelProductCountry_Map.aspx?nvpm)

Picture 1 presents that total import structure and destinations of Uzbekistan in 2018. Import deliveries are currently also subject to value added tax, mainly at a fixed rate of 20%. According to the Customs Code, the basis for calculating value added

tax for imports is calculated based on the customs value of the goods, taking into account customs duties and excise taxes. There are a number of exemptions and exceptions to the imposition of value added tax on imports. In accordance with the Tax Code, the category of goods exempted from VAT on imports includes medicines, medical devices, and technological equipment. Legal entities are also exempted from import customs duty and value added tax for imported timber and timber.

Following Picture 2 shows that import destinations of Uzbekistan during 2014-2018 years. It has been clearly shown that China and Russia dominated in import share. In construction materials are also the same scenario can be analyzed as proposed. Turkey and Germany can also be considered major importer of Uzbekistan.

**Picture 2. Import geography of Uzbekistan in 2014-2018**



Source:

[https://www.trademap.org/Country\\_SelProductCountry\\_Graph.aspx?](https://www.trademap.org/Country_SelProductCountry_Graph.aspx?)

## DISCUSSION

In this research we collected open source data from Word Bank about import during the 1992-2017 years in percentages.

- Merchandise imports from low- and middle-income economies in Middle East & North Africa (% of total merchandise imports)
- Merchandise imports from low- and middle-income economies in Latin America & the Caribbean (% of total merchandise imports)
- Merchandise imports from low- and middle-income economies

in Europe & Central Asia (% of total merchandise imports)

- d) Merchandise imports from low- and middle-income economies in East Asia & Pacific (% of total merchandise imports)

Figure 1

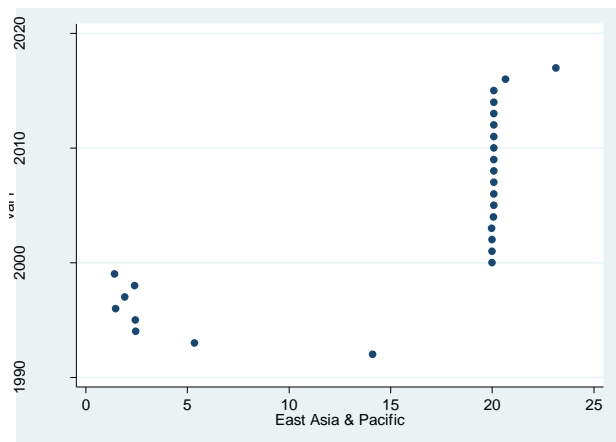


Figure 2

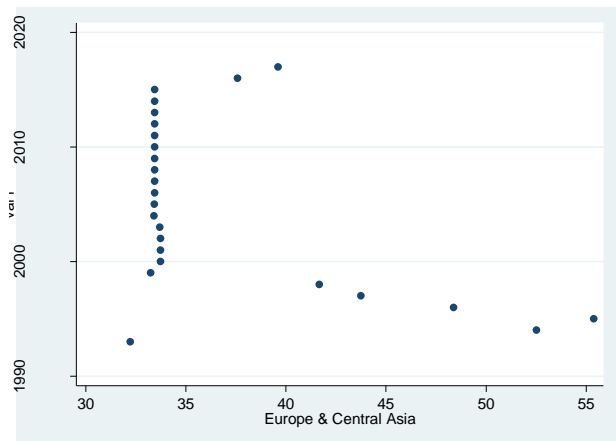


Figure 3

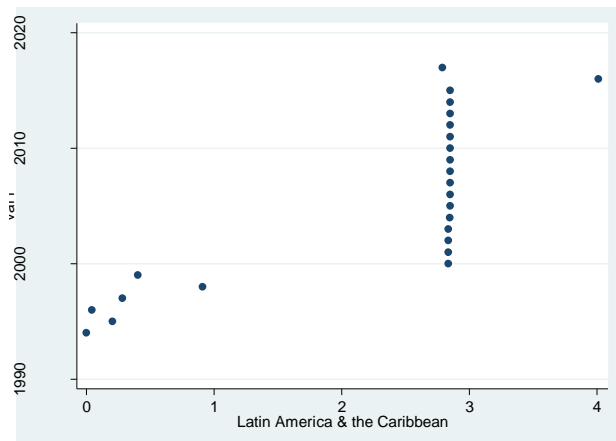
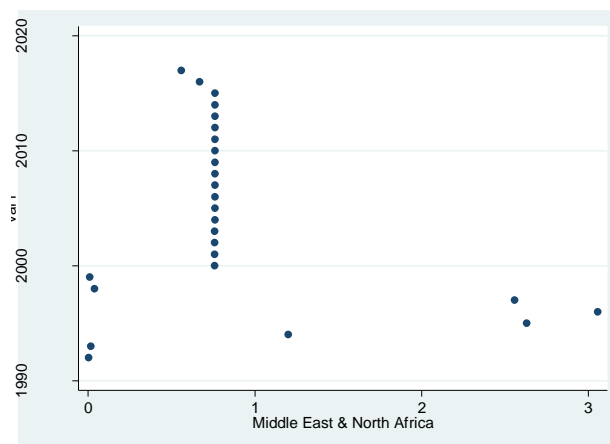


Figure 4



Firstly, Figure 1,2,3,4 as Stata 14 has been distributed scatterplot graphics of each selected region import share into Uzbekistan. It is clear shown that two regions actively in import share as a dynamically growth in Uzbekistan. But two regions are less share in structure during 1992-2018 period.

	eastas~c	europ~a	latina~n	middle~a
eastasiapa~c	1.0000			
europcent~a	-0.7635	1.0000		
latinameri~n	0.9697	-0.7886	1.0000	
middleeast~a	-0.5089	0.7046	-0.5675	1.0000

Secondly, as for the analyses of Pearson correlation coefficient are not significant. It means no regions are statistically significant with p value for East Asia countries 1.000, Latin America & the Caribbean - 0,7653, Europe & Central Asia 0,9697 and for East Asia & Pacific is -0,5089 which  $P > 9,005$  does not distribute.

```
. sktest eastasiapacific
```

Skewness/Kurtosis tests for Normality					
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
eastasiapa~c	26	0.0271	0.2400	5.87	0.0532

Thirdly, according to the Skewness test shows that for East Asia countries (Prob>chi2 – 0.5320) bigger than  $p > 0.05$ . It means Uzbekistan import partners share from this region is significantly small.

```
. sktest latinamericathecaribbean
```

Skewness/Kurtosis tests for Normality					
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
latinameri-n	24	0.0242	0.8866	5.02	0.0811

According to the Skewness test shows that for Latin America & the Caribbean countries (Prob>chi2 – 0.0811) bigger than  $p > 0.05$ . It means Uzbekistan import partners share from this region is significantly small.

```
. sktest europecentralasia
```

Skewness/Kurtosis tests for Normality					
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
europecent-a	25	0.0005	0.0315	12.81	0.0017

Skewness test shows that for Europe & Central Asia countries (Prob>chi2 – 0.0017) smaller than  $p > 0.05$ . It means Uzbekistan import partners share from this region is significantly big. Trade policy whit that region countries are major share of the total amount import into Uzbekistan.

```
. sktest middleeastnorthafrica
```

Skewness/Kurtosis tests for Normality					
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
middleeast-a	26	0.0007	0.0145	13.40	0.0012

The lastskewness test shows that for East Asia & Pacific countries (Prob>chi2 – 0.0012) smaller than  $p > 0.05$ . It means Uzbekistan import partners share from this region is significantly big. Amount of import from this region significantly big for Uzbekistan.

Figure 5

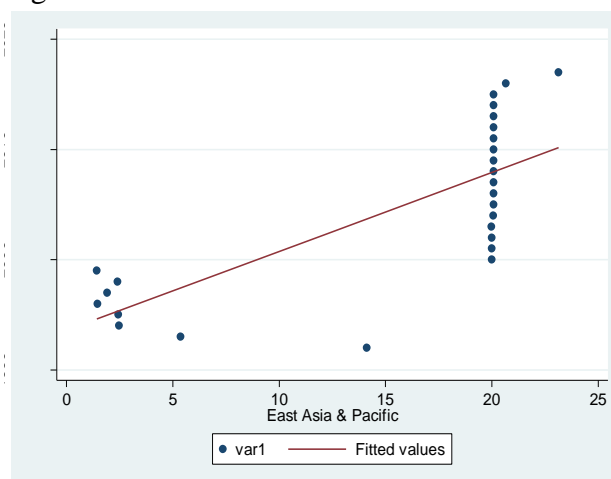
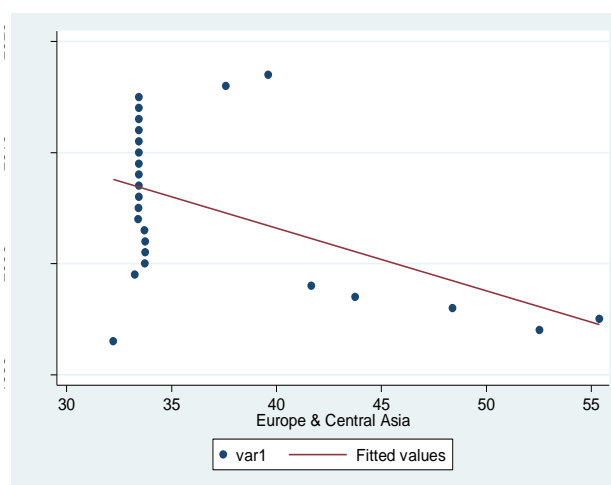


Figure 6



Current figure shows that how strong relationship with total import volume of the countries. East Asia & Pacific countries are positive relationships with gradually increasing share of the import and regarding Europe & Central Asia countries negative relationships liner graphs has been distributed. It means import share reducing dynamically during indicated time period.

For about Latin America & the Caribbean states import share is increased during 2000 and 2012 years. Regression linear equation states that at figure 8 for East Asia & Pacific countries represents dynamically degreasing.

Figure 7

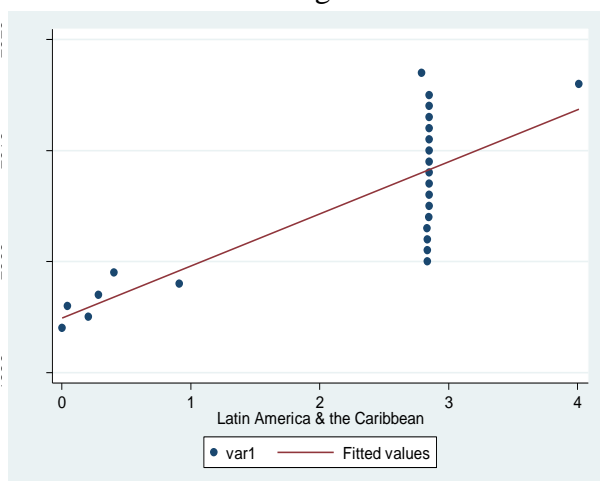
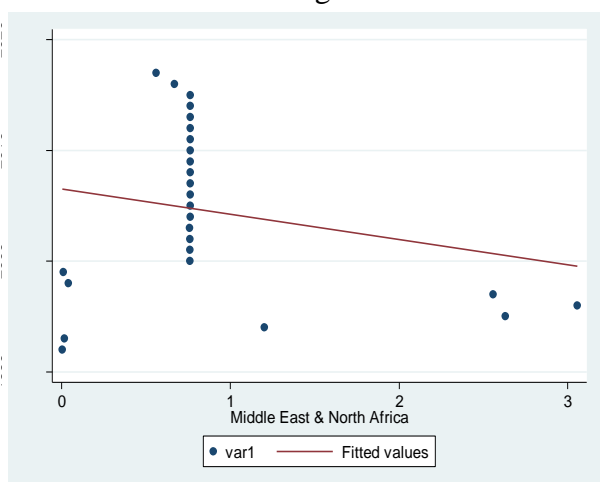
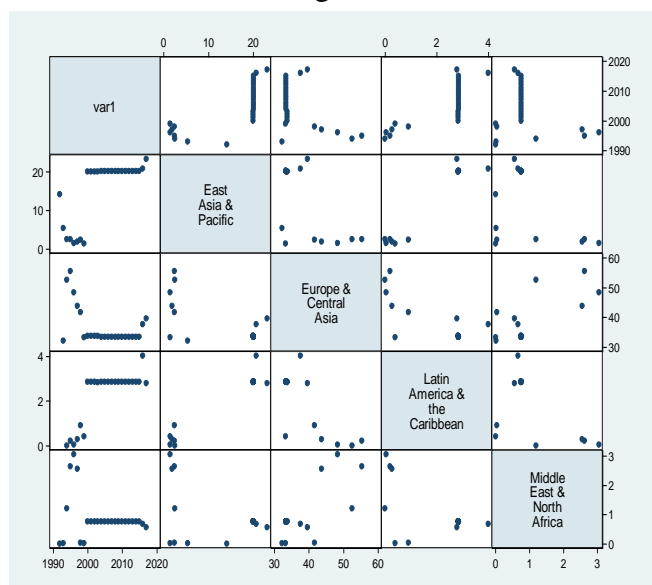


Figure 8



For about graph matrix analyses Uzbekistan import share from four region clearly shown in one figure, each country relationship in percentage.

Figure 9



From this mix graph we see can analyze individual variable intersection and relationship into each other of import partners all over four regions.

. reg eastasiapacific europecentralasia latinamericathecaribbean middleeastnorthafrica

Source	SS	df	MS	Number of obs	=	24
Model	1424.06051	3	474.686838	F(3, 20)	=	111.70
Residual	84.9914307	20	4.24957153	Prob > F	=	0.0000
				R-squared	=	0.9437
				Adj R-squared	=	0.9352
Total	1509.05194	23	65.6109541	Root MSE	=	2.0614

	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
eastasiapacific					
europecentralasia	-.0634505	.1235372	-0.51	0.613	-.3211445 .1942435
latinamericathecaribbean	6.669251	.5906045	11.29	0.000	5.437271 7.90123
middleeastnorthafrica	.8886322	.8246415	1.08	0.294	-.8315399 2.608804
_cons	2.148644	5.291459	0.41	0.689	-8.889145 13.18643

As for the inferential analyses of the import structure into Uzbekistan regression coefficient for Latin America & the Caribbean states increasing dynamically. Due to p value for this variable is statistically significant we can choose as a solution among four regions.

Other three regions because of p value is bigger that  $p > 0,005$  we can reject for as a solution in our research. It means:

- 1) Uzbekistan import share gradually degresing in that regions
- 2) Uzbekistan changed its foreign trade policy as import substutted goods manufacturing
- 3) Uzbekistan imported such good from otherclose region over.
- 4) Uzbekistan incresed tarriffs for the goods selected items
- 5) Uzbeistan intened membership of WTO

As for the small business category main import structure can be seen as following:

- Construction services
- Transport services
- Trips (tourist services)
- Communication services
- Financial services
- Insurance services

In uzbekistan new economic development requires moder infreastructure and development. Due ot high level demand to construction work

government support and issued preferences for investors. Following table presents total construction potential in manufacturing and service amount in Uzbek sums according to National statistical Committee of Uzbekistan.

<b>Table 1. Construction works in small business sector</b>							
<i>(billion soums)</i>							
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>January-September 2019</b>
<b>Republic of Uzbekistan</b>	15219.3	20060.4	25423.1	29413.9	34698.0	51129.3	50922.2
<b>Republic of Karakalpakstan</b>	720.8	1053.5	1219.3	1171.8	1398.8	2193.0	2514.3
<i>regions:</i>							
<b>Andijan</b>	862.7	1131.8	1341.9	1578.0	1782.9	2828.9	2742.6
<b>Bukhara</b>	1279.6	1648.4	2061.7	2202.9	2543.7	3594.5	3291.9
<b>Jizzakh</b>	532.2	659.5	759.2	906.1	996.1	1552.4	1634.4
<b>Kashkadarya</b>	1168.2	1560.0	2067.5	2560.0	2759.1	3702.8	3332.3
<b>Navoi</b>	746.0	891.7	1019.2	1153.1	1313.6	2303.2	2531.5
<b>Namangan</b>	730.9	890.4	1010.4	1289.9	1475.2	2241.7	2384.6
<b>Samarkand</b>	1214.5	1562.8	2010.6	2194.9	2342.4	3328.7	3207.6
<b>Surkhandarya</b>	849.5	1051.5	1351.3	1554.8	1827.0	2893.0	2942.6
<b>Syrdarya</b>	313.0	376.5	478.9	540.7	552.4	994.8	1100.7
<b>Tashkent</b>	1151.7	1330.9	1562.0	1646.3	1825.4	2999.5	3328.7
<b>Fergana</b>	1089.7	1396.2	1649.0	1840.0	1969.5	2929.6	3147.2
<b>Khorezm</b>	790.3	961.4	1174.7	1220.9	1375.8	1881.3	1945.7
<b>Tashkent city</b>	2725.6	3460.1	4113.0	4633.4	6197.9	10822.1	11294.5

Source: <https://stat.uz/en/181-ofytsyalnaia-statystyka-en/6376-construction>

**Figure 10**

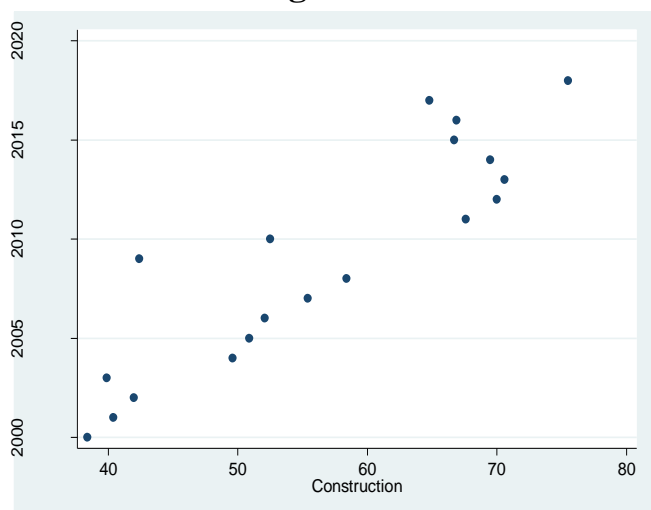


Figure 10 presents total construction work in 19 years as manufactured by small business

members. So we can see it positive relationship in years and done work by this sector.

```

. pwcorr years construction export
-----+-----+-----+-----
              years constr~n  export
-----+-----+-----+-----
years              1.0000
construction      0.8976    1.0000
export            0.9025    0.7959    1.0000
    
```

Correlation with two variable, share of construction in small business and its export amount. It is clear that p value 0,7959 indicated almost 80% of small business export amount in construction industry potential.

## Share of small business and private entrepreneurship

(in% to the total volume)

Years	GDP	Industry	Construction	Employment	Export	Import
2000	31.0	12.9	38.4	49.7	10.2	27.4
2001	33.8	12.5	40.4	51.8	9.3	26.9
2002	34.6	15.4	42.0	53.5	7.5	24.9
2003	35.0	10.8	39.9	56.7	7.3	33.7
2004	35.6	11.0	49.6	60.3	7.3	32.7
2005	38.2	10.0	50.9	64.8	6.0	33.7
2006	42.1	10.9	52.1	69.1	10.7	34.0
2007	45.7	13.2	55.4	72.1	14.8	32.0
2008	48.2	14.6	58.4	73.1	12.4	35.7
2009	50.1	17.9	42.4	73.9	14.6	42.5
2010	52.5	26.6	52.5	74.3	13.7	35.8
2011	54.0	28.6	67.6	75.1	18.8	34.3
2012	54.6	29.7	70.0	75.6	14.0	38.6
2013	55.8	33.0	70.6	76.7	26.2	42.4
2014	56.1	36.8	69.5	77.6	19.8	45.4
2015	54.5	40.6	66.7	77.9	27.0	44.5
2016	57.3	45.3	66.9	78.2	26.0	46.8
2017	54.9	41.2	64.8	78.0	27.2	50.2
2018	59.4	37.4	75.5	76.3	24.1	53.6

Source: <https://stat.uz/en/181-ofytsyalnaia-statystyka-en/6376-construction>

Figure 11

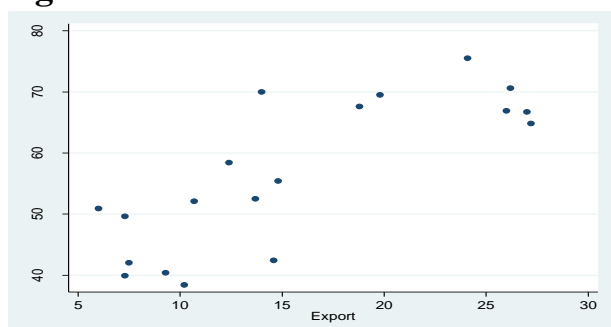
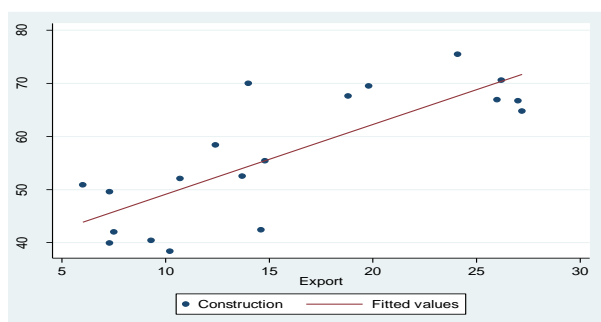


Figure 12



Correlation analyses as figure 11 construction industry share into export amount done by small business and private entrepreneurship relationship, We may say it is positive significance. As figure 12 regression line export amount from small business in construction sector increasing dynamically, reached by 24,1 % of 2018.

Skewness/Kurtosis tests for Normality					
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	joint Prob>chi2
export	19	0.3836	0.0706	4.25	0.1196

```
. twoway(scatter construction export) (lfit construction export)
```

```
. reg construction export
```

Source	SS	df	MS	Number of obs	F(1, 17)	Prob > F	R-squared	Adj R-squared	Root MSE
Model	1713.96908	1	1713.96908	=	=	0.0000	=	0.6334	=
Residual	991.980161	17	58.3517742					0.6118	7.6388
Total	2705.94924	18	150.330513						

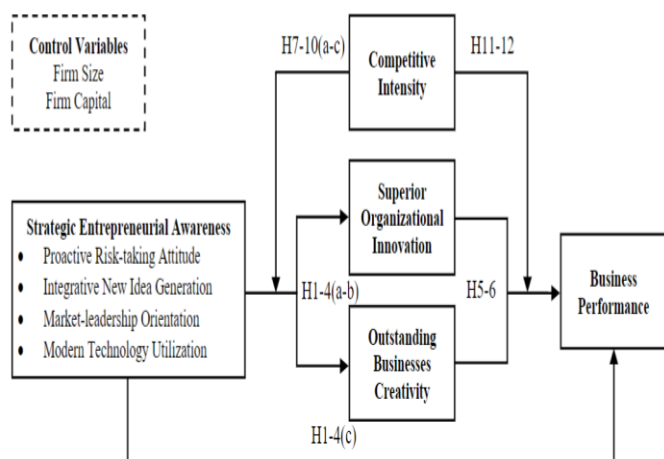
  

construction	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
export	1.314709	.24258	5.42	0.000	.8029095 1.826508
_cons	35.96121	4.176127	8.61	0.000	27.15035 44.77207



Regression analyses with construction work amount with export amount it is presented above. It means F statistics is significant, T statistics are also strong relationship with positive growth.

**Picture 3**



## CONCLUSION

Information on trade in depends on harmonized common interpretation of concepts providers of such World Bank data. It is determined by what information can be obtained through the line accounting systems and accounting or represented by individuals as well as from variety of data sources including administrative sources, statistical examination, and from quantification methods. For Uzbekistan import operation still stays main objectivity for economic prosperity.

Paper work discussed that close countries anyway important partnership for trasbporation and logistics poit of view. Regarding construction sector we can clearly say that import services for building infrastucture and commercial for the past decades incresed gradually. Small business development system is incresing dynamically in the region. The cost of services and work performed is can not be able cut current cost of the any project in Uzbeksitian. But local manufacturers not only active in building sector but also in exporting. We must organize and operate the optimal performed for further deveelopment in innovative ways to make cheaper local construction project total cost.

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