

EXAMINING FRUIT AND VEGETABLES SECTOR AND WAYS OF PROMOTION OF UZBEK FRUIT AND VEGETABLES IN FOREIGN MARKETS

Khulkar Karimova Rahmanali kizi

The University of World Economy and Diplomacy, Phd candidate

hulkarkarimova24@gmail.com, +998908061294

ABSTRACT

The paper analyzes the current status of fruit and vegetable sector in Uzbekistan. Legal framework, structure of commodity producers and trade statistics are presented. It addresses different trade theories firstly concentrating on different basis and industries; then moving to trade theories mainly in agriculture sector. The study tries to identify a suitable agriculture trade theory to employ and derive main trade determinants, so that to formulate proper policy recommendation. Finally, the research outlines several recommendations to increase the production capacity of the sector and promote it into foreign markets. They cover the supply chain: from harvesting to the basket of consumers. The policy measures take into account tariff and non-tariff barriers and possible resolutions for them. The main recommendations focus on innovative approach: implementing digitalization of the sector. To achieve this target, main attention was given to research and development, marketing, to make the Uzbek branding more attractive in the global market.

Keywords: *fruit and vegetable sector, export, trade theory, agricultural commodities, sustainable irrigation development, agriculture mechanization, agricultural market development, agro processing and value addition, institutional development, coordination and capacity strengthening, comparative advantages, the gravity theory.*

АННОТАЦИЯ

В статье анализируется современное состояние плодовоовощной отрасли Узбекистана. Представлены нормативно-правовая база, структура товаропроизводителей и торговая статистика. В нем рассматриваются различные теории торговли, в первую очередь концентрирующиеся на разных основах и отраслях; затем переход к теории торговли в основном в сельскохозяйственном секторе. В исследовании делается попытка определить подходящую теорию торговли сельскохозяйственной продукцией, чтобы использовать и вывести основные торговые детерминанты, чтобы сформулировать надлежащие политические рекомендации. Наконец, в

исследовании излагается несколько рекомендаций по увеличению производственных мощностей сектора и продвижению его на зарубежные рынки. Они охватывают цепочку поставок: от сбора урожая до потребительской корзины. Меры политики учитывают тарифные и нетарифные барьеры и возможные решения для них. Основные рекомендации сосредоточены на инновационном подходе: внедрении цифровизации сектора. Для достижения этой цели основное внимание было уделено исследованиям и разработкам, маркетингу, чтобы сделать узбекский брендинг более привлекательным на мировом рынке.

Ключевые слова: плодоовощная отрасль, экспорт, теория торговли, сельскохозяйственные товары, устойчивое развитие ирригации, механизация сельского хозяйства, развитие сельскохозяйственного рынка, переработка сельскохозяйственной продукции и добавленная стоимость, институциональное развитие, координация и укрепление потенциала, сравнительные преимущества, теория гравитации.

INTRODUCTION

Fruit and vegetable exports have grown faster than other agricultural commodities over the last two decades. So far, fruit and vegetable trade has become highly globalized, with a large volume of produce traded globally. According to the Food and Agriculture Organization (FAO), global fruit and vegetable production has increased at a rate of about 3% per year over the last several decades. Furthermore, FAO stated that as global demand for fruits and vegetables grows, farmers in developing countries will have more opportunities to increase their income (FAO, 2013).

Diversification of a country's export portfolio can reduce its reliance on primary products (Ferdous and Farazi, 2011). Many commodity-dependent countries or those with a narrow export basket frequently experience export instability as a result of inelastic and volatile global demand. A more diverse export structure reduces vulnerability to demand shocks and price swings in overseas markets and creates more opportunities in regional and global markets. As a result, export diversification could be viewed as a means to alleviate these specific constraints. To be successful in export diversification, countries' exports must be globally competitive in order to take advantage of leveraging global markets (Heiko, 2007). In general, empirical evidence from developing countries shows a close relationship between export earnings volatility and export diversification. The key challenges for developing countries are

expanding and diversifying their export baskets and trading partners in order to increase export revenues, stabilize export earnings, and increase value added. As a result, policymakers are increasingly concerned about export diversification as a key solution to the export sector's instability.

As a result, addressing the issues surrounding the unstable state of the fruit and vegetable export subsector in Uzbekistan, despite rising global demand, is critical.

METHODOLOGY

International trade involved many well-known economists. The Mercantilist theory, A. Smith's Theory of Absolute Advantages, D. Ricardo's Theory of Comparative Advantages and D. Mill's Theory, Heckscher – Olin's Theory, Leontiev Paradox, R. Vernon's The Goods Life Cycle Theory, M. Porter's Theory, Rybchinsky's Theorem, and Samuelson and Stolper Theory, The Gravity Theory are the main theories of international trade.

Many international trade theories contend that trade barriers impede expected mutual gains from trade. Despite the fact that the World Trade Organization (WTO) has reduced trade barriers such as subsidies, quotas, and import tariffs in raw agricultural commodities (Verter and Osakwe, 2015; Verter and Becvarova, 2014), there are still enough challenges to make progress in global agricultural trade. There are some arguments for trade support in agriculture. According to Stiglitz and Charlton (2007) and Erokhin and Ivolga (2013), increased agricultural trade brings a wider range of food options, as well as stable food demand and supply. In recent years, the study of international trade in agriculture and food has greatly improved globally (Josling et al., 2010), as agricultural trade stimulates economic growth, particularly in developing countries whose export and foreign earnings are heavily reliant on agriculture. According to Berkum and Meij (2000), in order to benefit more from trade, more emphasis is placed on processed food and agricultural commodities rather than raw agricultural products, as they generate added value.

Some studies have attempted to link trade theories to agriculture (Abbott and Kallio, 1996; Berkum and Meij, 2000; Josling et al., 2010; Pokrivcak, Ciaian, and Kancs, 2011); however, the primary focus of these studies is the agricultural potential of developed countries or regional blocs, such as the United States and the European Union.

Given the shortcomings of various trade theories in explaining trade in the fruit and vegetable sector, the Gravity trade theory comes into play, which is based primarily on the assumption that trade volume is generated by mass or economic size

in the importing country, which is proxied by GDP (the gravitational force), and is inhibited by distance (friction).

ANALYSIS AND RESULTS

Agriculture is a significant sector of the Uzbek economy. Rural areas are home to nearly half of the country's population. The agricultural sector contributed 25.5 percent of Uzbekistan's GDP in 2019¹. Nonetheless, agriculture is the most heavily regulated sector of the economy. Property rights of major agricultural producers and farmers are poorly protected, methods of regulating their activities are de facto inherited from the Soviet past, and markets for a wide range of agricultural products, manufacturing resources, and sector services are underdeveloped. Agriculture desperately needs reform, but no significant changes have occurred thus far².

The key relevant national laws and regulations can be subdivided into two groups:

1) Constitution, Land Code, Civil Code, the Laws "On Farm Enterprise", "On Dekhkan Enterprise", "On seed production", "On protection of agricultural plants from pests, diseases and weeds", "On Environmental Protection" and others;

2) Presidential Decrees and Resolutions, Cabinet of Ministers' Resolutions and industry regulations.

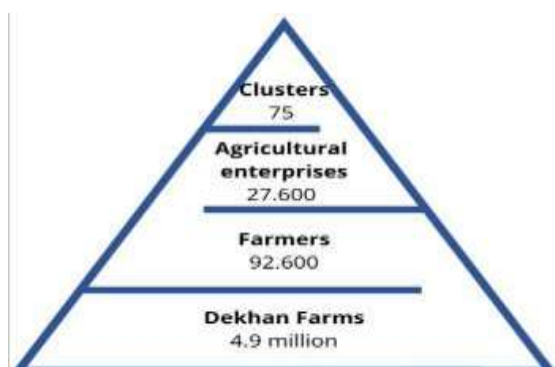
Uzbekistan is not a member of the World Trade Organization. Uzbekistan first applied to join the WTO in 1994, but negotiations have been stalled since 2005, until 2019. The GoU resumed discussions with the WTO in summer 2019, and the WTO Secretariat submitted documents covering various aspects of the foreign trade regime, including information on the application of WTO Agreements on customs valuation, technical trade barriers, sanitary and phytosanitary measures, trade aspects of intellectual property rights, and a plan of measures to adapt national legislation to WTO agreements³.

Today's agricultural and food production landscape in Uzbekistan consists of a small number of clusters (75), agricultural enterprises (27.000), farmers (92.000), and a large number of Dekhan farmers (4.9 M) (Pic. 2.2.3.).

¹ Data of State Committee on Statistics of Republic of Uzbekistan

² Julius Yusupov, The agricultural sector of Uzbekistan: features, key problems, the need for reform, Centre for Economic Development, <http://ced.uz/issledovaniya/agrarnyj-sektor-uzbekistana-osobennosti-klyuchevye-problemy-neobhodimost-reform/>. Other publications on the topic: Centre for Economic Development, Agrarian reform, <http://ced.uz/uzbekistanu-neobhodima-agrarnaya-reforma/>

³ <http://tashkenttimes.uz/national/4179-uzbekistan-s-wto-accession-process-officially-launched>



Pic. 2.2.3. Structure of agriculture.

Source: adopted from Carl, R. and Victor, P. (2020)

By far the most important final destination for horticultural products is Russia. However, trade statistics show that more than half of Uzbek vegetable exports are destined for Kazakhstan, with only 23% destined for Russia. Lower import tariffs encourage export to Kazakhstan and re-export to Russia. Kazakhstan has a Customs Union with Russia and Belarus, which encourages re-export. Kazakhstan recently enacted administrative measures to prevent the re-export of goods imported at lower tariff rates to Russia and several other Customs Union members.

DISCUSSION

Uzbekistan's fruit and vegetables exports are still heavily reliant on the neighboring market. It is critical for the sector to diversify export destinations in order to reduce this dependence and the vulnerability of Uzbek exporters.

To achieve this goal, the Government officials stationed at embassies and consulates in target markets must be tasked with conducting market research and delving into the nuances of import requirements. In parallel, measures must be taken to strengthen the capacity of sector enterprises in the area of export procedures, with detailed information about import requirements for all target markets provided.

Uzbekistan fruit and vegetables have little visibility on a global scale. Marketing activities such as the development of catalogues that can be distributed to potential buyers will be pursued in order to build a national brand for Uzbekistan fruit and vegetables in regional and international markets.

This can be accomplished by facilitating sector enterprises' participation in relevant international fairs and exhibitions, as well as organizing business-to-business meetings to assist Uzbekistan's sector enterprises in developing relationships with

international buyers. Investment incentive packages will be promoted to encourage the establishment of warehouses in upcoming target markets.

Sustainable Irrigation Development

Promote innovative and high-quality agricultural extension and advisory services that involve both public and non-state extension service providers.

Create efficient, demand-driven agricultural innovation systems for the generation and dissemination of research and technology.

Facilitate farmers' timely and equitable access to high-quality farm inputs such as inorganic and organic fertilizer, improved seed, livestock breeds, and fish fingerlings.

Encourage investment in climate-smart agriculture and long-term land and water management.

Encourage substantial private-sector investment in high-productivity agricultural production.

Advocate for increased access to financial services, such as agricultural credit and insurance.

Give farmers incentives to diversify crop, livestock, and fisheries production and utilization.

Agriculture Mechanization

❖ Encourage farming mechanization, agro-processing, and value addition.

❖ Allow for market-based imports of new and used agricultural machinery that is suitable for Malawi and meets established standards.

❖ Facilitate market-based imports and the production of high-quality agricultural machinery spare parts.

❖ Encourage the development of entrepreneurs in the agricultural mechanization and services industries.

❖ Encourage in-house inventions and innovations in agricultural mechanization and service provision.

❖ Encourage the formation and expansion of farmer-managed agricultural mechanisation groups.

Agricultural Market Development, Agro processing and Value Addition

❖ Encourage the expansion and development of efficient and inclusive agricultural value chains that ensure competitive and equitable agricultural commodity pricing.

❖ Encourage agro-processing and agricultural value addition.

- ❖ Support the growth and competitiveness of agricultural commodity exchanges in order to improve agricultural market efficiency.
- ❖ Increase the efficiency and consistency of agricultural market information systems.
- ❖ Ensure that agricultural market and trade policies and regulations are transparent, evidence-based, and effectively implemented.
- ❖ Encourage producers and small and medium-scale agro-processors, including women, youth, and people with disabilities, to have access to financial services and agricultural credit.

Agricultural Risk Management

- ❖ Create a diverse portfolio of agricultural risk management instruments and technologies.
- ❖ Help to improve the quality of market information systems for risk management in agricultural markets.
- ❖ Encourage integrated pest and disease management and control.

Institutional Development, Coordination and Capacity Strengthening

- ❖ Encourage stakeholder collaboration in the development, implementation, and evaluation of agricultural and related policies and programs.
- ❖ Encourage the establishment of well-managed and efficient farmer organizations, particularly cooperatives.
- ❖ Improve agricultural service delivery coordination and capacity.
- ❖ Improve agricultural public service delivery by facilitating and supporting infrastructure development.
- ❖ Encourage agricultural institution, subsidy, and program reforms to make them more sustainable and cost effective.
- ❖ HIV/AIDS interventions should be integrated into agricultural strategies and program implementation.⁴

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