EXPORT ORIENTATION AND IMPORT SUBSTITUTION: EVALUATING POLICIES IN TRANSITIONING TO AN EXPORT-ORIENTED DEVELOPMENT MODEL

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ABSTRACT

This study analyzes two major industrial development strategies—import substitution (IS) and export-oriented (EO) growth—highlighting their relevance for developing economies, particularly Uzbekistan. While IS policies aimed to foster domestic industries by limiting foreign competition, they often led to inefficiency and economic stagnation. In contrast, EO strategies, as demonstrated by countries like South Korea and China, have proven more effective in promoting innovation, competitiveness, and global market integration. The paper discusses systemic issues restricting Uzbekistan's shift to an EO model such as strong reliance on primary goods exports, poor quality infrastructure, low value-added exports, and skill mismatch. It also reviews the contribution of WTO in promoting trade liberalization and provides the policy steps that would enable Uzbekistan to deal with the existing challenges. These policies include investment in education and R&D, modernization of the logistics and component manufacturing infrastructure, facilitation of small and medium enterprise activity, and deregulation. With these steps, Uzbekistan will be able to move towards a more diversified, competitive nondomestic, and sustainable economy.

Introduction

A country's economic and policy choices affect its development path and prospects for long-term competitiveness, industrial development, and global market integration. There are two important strategies in economic history: Import Substitution (IS) and Export-Oriented (EO) industrialization. These different strategies have been of paramount importance in the economic development of several countries. While Uzbekistan is in the process of a major

transformation in the economy, there is a need to analyze which strategy is more suitable for sustainable global growth and development.

Understanding Import Substitution (IS) Policies

Initially, these policies were put in place in developing countries to limit the overdependence on foreign goods while facilitating local industrial development. The ultimate goal of IS is to substitute imported products with domestically manufactured ones through the reduction of foreign competition and provision of ample government support to local businesses. Some key measures of IS policies include protection of local manufacturers through the collection of high tariffs and imposing trade restrictions, subsidizing certain strategically important industries, exercising stringent control over foreign investments to foster economic independence, and shifting emphasis from global competitiveness to domestic consumption. Many nations have adopted these strategies, albeit with varying results. India, for example, set up self-sufficient licensing and trade barriers internally through the use of heavy regulation and was self-sufficient for a period, but by the 1980s Indian industry was uncompetitive and technologically stagnant. In the same manner, Latin American countries tried implementation of IS policies between the timeframe of the 1950s to 1980s, but underwent severe stagnation and high inflation rates that led to financial recession due to extreme central control and insufficient stimulus export growth. While the policy claims to generate domestic employment opportunities and develop industrial potential, the IS policies result in inefficiency and economic stagnation. Some fundamental drawbacks of IS policies are lack of competition, weak incentives for innovation, chronic trade deficits, and financial burdens due to government transfers. In the long run, low levels of global competition leads to lower productivity growth, as domestic industries find it increasingly difficult to compete internationally. Even though IS policies may afford some short-run economic benefits, evidence suggests that these policies often lead to underperformance in the economic growth rate over the long run.

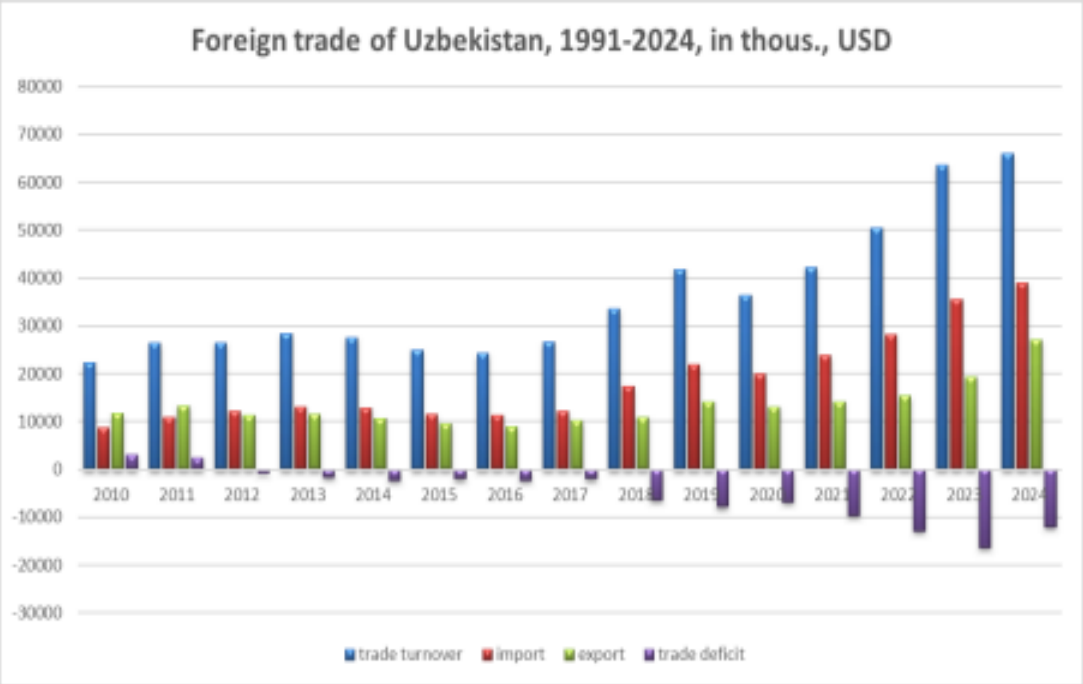
Understanding Export-Oriented (EO) Policies

Unlike the development plan for EO, which centers around global competition and trade liberalization alongside industry specialization, the approach toward growth here is different. Instead of replacing imports, domestic industries are encouraged to compete in international markets, leading to enhanced productivity, efficiency, and sustained economic growth. Prominent aspects of EO include open market systems, free trade agreements, forbidding government caps on foreign investments, allowing the infusion of capital and technology, nurturing competition driven market industrialization, and enhanced investment with aid from the government to boost innovation in high value industries. Several economies have successfully implemented EO policies. During the 1960s from Taiwan and South Korea, they supported and enabled high-tech investment, education, and infrastructure fostering high economic growth. China during the 1980s initiated the Open Door Policy to get access to the global supply chain making them the largest export economy in the world. The positive outcomes that EO brings stem from the competition in the market encouraging efficiency, technological advancement, access to larger consumers, participating in the global value chains, and economic stability without excessive government funding. Compared to countries focusing on Import Substitution policies, countries focusing on the Export oriented strategies have higher industrial diversity, higher levels of innovation, and economic instability

resilience.

Challenges on the way of Uzbekistan

In 2024, Uzbekistan's foreign trade turnover reached $65.9 billion, marking a 3.8% increase from the previous year. Despite this growth, the country continues to face a significant trade deficit at $12.04 billion in 2024, with imports consistently surpassing exports. This reflects that Uzbekistan heavily relies on foreign goods among which is not only machinery and transportation but also consumer products. While trade deficit is not always a sign of bad economic situation, for developing countries with limited industrial development like Uzbekistan, this ongoing trade imbalance highlights a number of structural issues that delay a country's shift to an export-driven economy.



Source: State Committee of Uzbekistan on statistics

One of these main problems is the excessive dependence on exports of raw materials, especially gold, which accounts for a sizable amount of the nation's export earnings. This reliance restricts the growth of value-added sectors and leaves the economy susceptible to changes in world prices. In recent years, gold has made up almost 30% of total exports, but the export portfolio is dominated by other raw resources like cotton and metals. Exporting raw materials instead of finished products, like jewelry or textiles, constrains industrial development and economic diversity.

But inability to produce value added goods that will handle competition in the global market is yet another problem. In the case of agriculture, due to overuse of fertilizer and pesticides, agricultural exports, including fruits and vegetables, usually fall short of international requirements. This has resulted in rejections in important export markets like Europe. Furthermore, the underdeveloped packaging industry shortens the shelf life and aesthetic appeal of products, especially in the processed food sector where eco-friendly materials and durability are required by international standards. These quality issues are the result of larger structural challenges, such as outdated technology, insufficient investment in modernization, and a shortage of skilled people to drive innovation and development across industries.

The World Bank reports that 69% of Uzbekistan's recent graduates lack the technical knowledge and practical skills needed by sectors including manufacturing, textiles, and information technology. Attempts to modernize industrial processes and enhance export quality are further hampered by this mismatch between educational outputs and labor market demands. According to numerous businesses, bringing new hires up to speed requires a lot of on-the-job training, which delays productivity gains and raises operating expenses. The workforce of Uzbekistan will continue to be underprepared to fulfill the demands of a contemporary, export-oriented economy unless there are substantial improvements made to education and vocational training.

Trading across Borders - Uzbekistan

Indicator	Uzbekistan	Europe & Central Asia
Time to export: Border compliance (hours)	32	16.1
Cost to export: Border compliance (USD)	278	150.0
Time to export: Documentary compliance (hours)	96	25.1
Cost to export: Documentary compliance (USD)	292	87.6
Time to import: Border compliance (hours)	111	20.4
Cost to import: Border compliance (USD)	278	158.8
Time to import: Documentary compliance (hours)	150	23.4
Cost to import: Documentary compliance (USD)	242	85.9

Source: World Bank Group, Doing Business 2020, Uzbekistan

These difficulties are made worse by insufficient infrastructure and inefficient logistics. When compared to regional averages, Uzbekistan's exporting time and expenses are substantially higher. For example, export border compliance costs $278 and takes 32 hours, whereas the regional average in Europe and Central Asia is $150 and 16.1 hours. In a similar vein, import documentation compliance costs $242 and takes 150 hours, while the regional average is 23.4 hours and $85.9. Outdated rail systems, poorly maintained transportation networks, and ineffective customs procedures all contribute to delays that raise export prices and lower competitiveness. These obstacles will keep undermining the effectiveness of commerce unless significant investments are made in logistics and transportation infrastructure.

Monopolistic market structures and regulatory restrictions exacerbate the structural inefficiencies in Uzbekistan's economy. Important industries like energy and transportation are dominated by state-owned businesses, which inhibits competition and creativity. These monopolies reduce the profitability of export-driven industries by increasing production costs and causing inefficiency. For example, unstable energy sources usually cause delays and rising prices in industrial output. Time-consuming customs procedures and other

bureaucratic obstacles deter companies from doing business internationally and damage Uzbekistan's standing as a trustworthy trading partner.

These structural issues—reliance on raw resources, poor quality, a lack of skills, logistical bottlenecks, and monopolistic inefficiencies—are related to one another and reinforce one another. Exports' poor quality and lack of diversity are not isolated concerns; rather, they are a direct result of larger structural difficulties like poor infrastructure, underdeveloped human resources, and little market competition. Only modest progress will be made if one problem is solved without addressing the others.

WTO policy concerning the export-oriented trends for developing countries

Researching in detail about current borders of export, the personality of a problem seems to be in small volumes of exported goods, poor quality, not bearing any trademark, protection of intellectual property rights and technical obstacles. Best example of a step for a developing country is its access in the WTO, and for such purpose, most significant points and directives will be discussed below.

Though relationships between access to markets and oriented towards exporting are irreducible, their interaction in increasing volumes of the goods, diversification of the range of goods, and integration in value chains brings about economic development. First of all, alone the fact that tariffs and obstacles to trading have reduced or otherwise have been diminished creates a situation for easy access to the world markets and competitiveness of goods. Admission in multilateral trading agreements is the first step towards export-led economic development.

The most favoured nation principle of WTO is a general platform for all its member countries and opens doors for easy and simple channels towards creation of a level field for trading and competitiveness. Most particularly, under Article 1 of GATT, MFN treatment applies in case of customs duties and charges in terms of imports and exports and the terms under which such customs duties and charges are levied, any preference, benefit, privilege, or exemption granted by any contracting party to any product of any country of origin in or for any country of exportation shall extend towards similar product of all other contracting parties. That is, all signatory parties will grant similar duties to all the members of the WTO. It is a principle that does not discriminate in any manner in terms of trading, and therefore, the criterion is kept simple for everyone, opening a gateway towards a worldwide marketplace and availability of entry for all the members. Perhaps an example clarifying it is South Korea's case. It, in fact, started with low-value-added goods and agricultural produce; but having entered into world markets, it then diversified to high-tech, high-value-added industries with a high technology level. In fact, South Korea increased its value for its exports in 2020 to 512 billion dollars compared to its value in 1995, which was 150 billions. Consequently, it is clear that access to a market will grant room for improvement in our export and foreign exchange earnings, a position in terms of a balanced system of imports and exports, boost competitiveness, and restrain unemployment.

Even if it looks simple, but naming goods in form of one standardization would mean that it can be imagined. More precisely, in accordance with TBT agreement of WTO exporting goods is regulating technical barriers such as goods specifications, such as security standards, labelling or packaging. Simple example of our goods can be represented in producing butter in our country, that, even being of high value, doesn't answer sanitary and phytosanitary

requirements, and requirements for labelling, under administration of the TBT and SPS agreements. Planning, according to example, it must develop a platform for voluntary certification for exporters. The assignment would be started for locally producers of goods and simple process of standardization for easier its implementing and exporting goods. In effective assistance it can help to cooperate with International Organization for Standardization, that can represent assistance for quick and qualitative result as NGO.

The next issue is in logistics that hindered the export process. Comparing with WTO agreement in this regard, most applicable is Trade Facilitation Agreement, governing simplification and simplifying in-process of go in borders, customs clearance and transportation process. Specifically, this agreement harmonizes and simplify administration actions in goods moving. By providing concrete guidance, flexible practice in implementation can be attained as it implemented by developing country in South America, Colombia. Successful accomplishment in country's statistics is witnessed in growing export from $34 billion USD to $43.6 billion USD in 2015-2021 years. In order to make the progress is ongoing, in its steps, must have: minimizing bureaucracy in administration, logistics adaptation using all applicable forms of exporting, and rapid government backing for entrepreneurs.

Conclusion of aforementioned, recommendations will be following:

To successfully transition toward an export-oriented economy, Uzbekistan must prioritize several strategic measures. First and foremost, improving the quality of domestically produced goods is essential to compete in the global market. The government should support local producers by providing subsidies and helping them meet higher quality standards, especially in preparation for WTO accession. Secondly, strengthening the national standardization system is critical—creating a simplified platform for certification and compliance would ease the burden on local businesses and promote consistency in export products. Third, enhancing export competitiveness requires significant adaptation in logistics, port infrastructure, and customs administration to reduce costs and time inefficiencies.

The economic transformations of China and South Korea serve as valuable case studies in this regard. These countries successfully shifted to export-oriented models through tailored policies and structural reforms. China’s transition from central planning under Mao Zedong to market-led development under Deng Xiaoping marked a turning point in the country’s economic history. Central to this transformation was the establishment of Special Economic Zones (SEZs) in cities like Shenzhen, Zhuhai, Xiamen, and Shantou. These zones offered tax incentives, improved infrastructure, and streamlined regulations to attract foreign investment, bringing in capital and technology while generating employment.

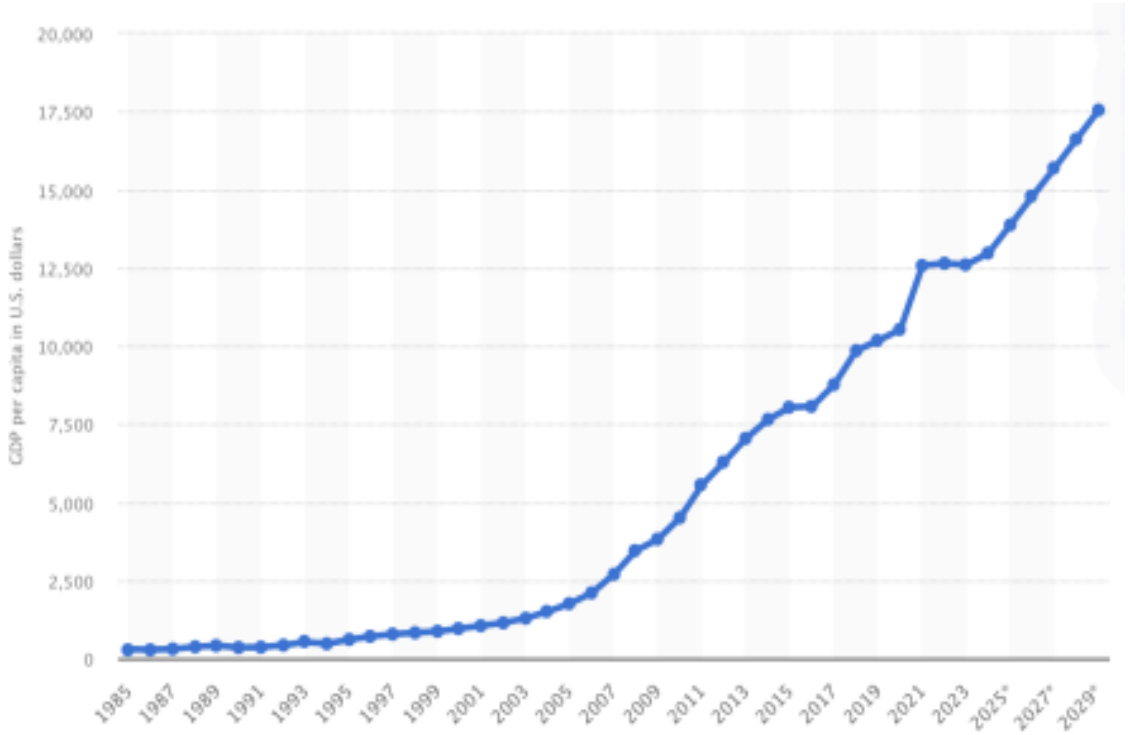
Agricultural reforms also played a vital role. Through the family responsibility system, farmers were allowed to sell surplus produce, increasing productivity and redirecting labor to industrial zones. In parallel, the government eased regulations for foreign investors, accelerating the growth of export-driven sectors such as textiles and electronics. Reforms in state-owned enterprises further improved efficiency by decentralizing decision-making processes.

As a result of these measures, China experienced a dramatic economic shift. Prior to the 1980s, the economy was heavily state-controlled and foreign trade was minimal, keeping GDP growth sluggish. Following the reforms, GDP began to rise steadily, with particularly strong growth from the early 2000s. By 2023, China’s GDP had surpassed $17 trillion—a substantial

leap from its pre-reform levels. According to World Bank projections, this upward trend is expected to continue, albeit at a more moderate pace in the coming years.

Figure 1

GDP per capita in current prices in China from 1985 to 2023 with forecast until



2029 **Source:** World Economic Outlook Database, IMF, updated January 19, 2025.

In 1960, exports accounted for only 3.2% of GDP, reflecting a largely closed economy. As China's participation in global trade increased, this figure gradually increased, reaching over 35% in the early 2000s. Since the 2008 financial crisis, the share of exports has declined, reflecting global economic changes and China's shift to growth through domestic consumption. Despite some fluctuations, exports continue to play a significant role in China's economy, remaining above 15% of GDP in recent years (Figure 2).

Figure 2

Exports of goods and services (% of GDP) - China

Source: World Bank national accounts data, and OECD National Accounts data files.

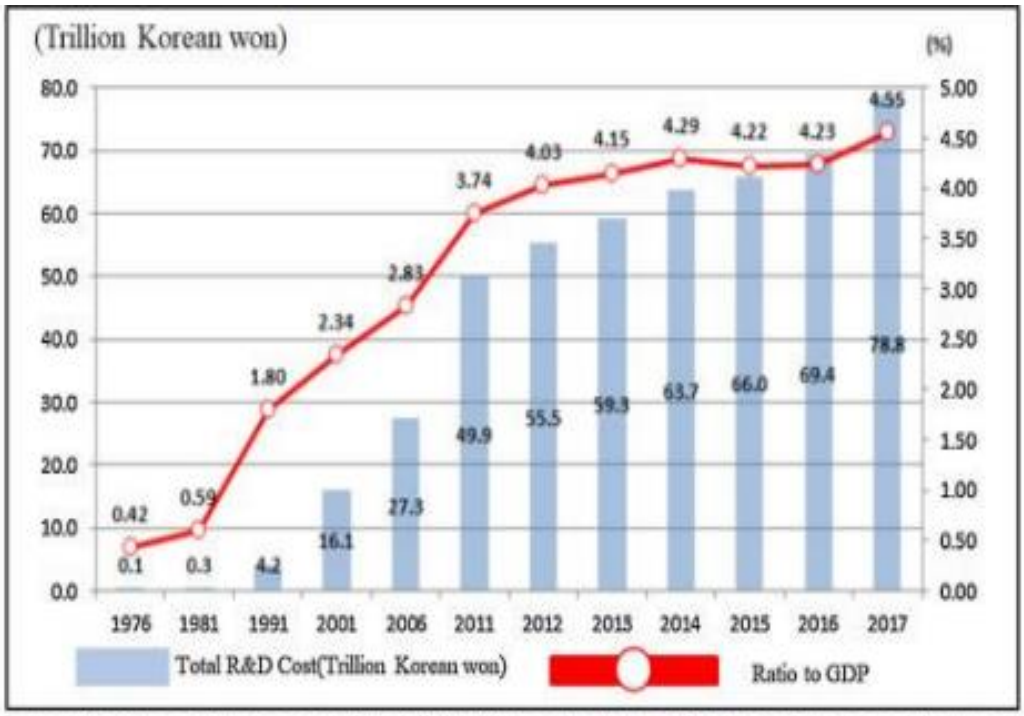
Economic success of South Korea

Over the past 60 years, South Korea has gone through one of its most significant economic transformations. In the 1960s, the country was predominantly agricultural, but by 2023, it ranked 14th in the world in terms of gross domestic product (GDP). How did the industrialization miracle take place?

South Korea dominates in ease of starting a business and enforcing contracts. All of these play an important role in encouraging investment, production, communications, and ultimately economic growth. Second, South Korea places a strong emphasis on technology development and innovation to promote growth. Innovation and technology are key factors that support South Korea's export competitiveness and fuel the country's remarkable economic growth over the past decades.

In fact, South Korea now spends the largest share of its GDP on research and development (R&D), even more than the United States and Japan, the two world leaders in R&D-intensive innovation. Between 1976 and 2017, R&D intensity in South Korea increased by 88.5 per cent (from 0.42 per cent in 1976 to 4.55 per cent in 2017).

Figure 3



Source: Ministry of Science and ICT, KISTEP (Korea Institute of S&T Evaluation and Planning), and Annual R&D surveys by Bank of Korea

Recommendations for Uzbekistan:

Considering the successful experience of China and South Korea, Uzbekistan can take the following concrete steps to transition to an export-oriented economy: 1. Investment in education and innovation:

Current situation: Uzbekistan is actively engaged in reforming its education system and increasing investment in science, but the level of innovation activity remains low. Recommendation: Increase funding for educational institutions and research projects, especially in the areas of technology and engineering. Promote cooperation between universities and industry to develop innovative products and technologies. 2. Improving infrastructure:

Current situation: Insufficient development of transport and energy infrastructure limits opportunities for efficient production and export.

Recommendation: Invest in modernization and expansion of transport corridors, logistics centres and energy capacities. This will reduce costs for producers and increase the competitiveness of Uzbek products in world markets.

Addressing the challenges

Although Uzbekistan has made significant strides in economic development, a number of structural challenges continue to limit the country's full potential. Rather than viewing these

issues as obstacles, they should be approached as opportunities for modernization and reform. One of the primary concerns is the narrow export base, characterized by low value-added goods and limited participation in global value chains. To counter this, Uzbekistan should enact and implement an Industrial Policy Law that supports export-oriented industries, encourages integration of domestic firms into global production networks, and attracts foreign direct investment in advanced and technology-driven sectors. Strengthening small and medium-sized enterprises (SMEs) is equally important—through organizing trade fairs, establishing advisory platforms, and helping businesses comply with international quality and certification standards. Addressing technological gaps requires increased investment in research and development, the promotion of public-private partnerships in areas such as technology transfer, and the creation of innovation hubs and incubators, especially in the ICT and digital economy. Uzbekistan could also position itself as a regional center for outsourcing services, including customer support, legal, accounting, and healthcare services.

Another pressing issue is the shortage of qualified labor. This challenge can be addressed by increasing public funding for education, with a strong focus on STEM fields, raising the social and financial status of teachers, and providing incentives for companies to invest in staff training. Expanding English-language education is also crucial for participation in global service and IT sectors. Infrastructure remains a major barrier to growth—outdated transport, logistics, and energy systems drive up costs and reduce export competitiveness. To improve this, the government should increase funding for infrastructure projects through sovereign borrowing and public-private partnerships, while also introducing regulatory reforms to simplify logistics and transit procedures.

The continued dominance of state-owned enterprises, lack of competition, and inefficiencies in key sectors also hinder progress. Strengthening the role of competition authorities, opening strategic industries to private enterprise, and offering tax and financial incentives for companies that adopt advanced technologies would boost productivity and innovation. Lastly, bureaucratic hurdles and complex regulations discourage foreign investment. Simplifying business procedures, aligning national standards with those of the WTO, promoting digital government services, and offering preferential trade terms and tax benefits to foreign investors are essential steps toward building a more favorable business environment.

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