

Article

Tax System Reforms in Uzbekistan Under Wto Requirements

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Abstract: This article argues that Uzbekistan's membership in the World Trade Organization will create favorable conditions for further improving economic cooperation with other countries, increasing trade volumes, and strengthening external competitiveness through access to new markets, tax benefits and the ways of their effective use, as well as broader understanding of the experience of foreign countries and its specific positive and negative aspects are highlighted.

Keywords: World Trade Organization, tax incentives, domestic producers, value added tax, excise tax, export, import, bound tariff rates, applicable rate.



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Introduction

Accession to the World Trade Organization (WTO) is expected to create substantial opportunities for Uzbekistan to expand its participation in international trade and increase the share of value-added and finished products in its export structure. The country's strategic objective of doubling or even tripling exports of finished goods over the coming years can be achieved more effectively through integration into the multilateral trading system established by the WTO.[1]

Membership in the WTO would facilitate the development of a more transparent and predictable trade environment, enabling Uzbekistan to establish fair and stable trade relations with developed economies. It would also improve access to foreign markets by reducing trade barriers and ensuring that national exporters operate under internationally recognized trade rules and standards.[2]

The competitiveness of Uzbekistan in global markets and the expansion of its foreign economic relations largely depend on strengthening the export potential of the national economy and utilizing existing economic opportunities more efficiently. In this regard, WTO accession represents an important strategic step toward enhancing export performance, attracting foreign investment, and integrating the country more deeply into the global economic system.[3]

Furthermore, the significance of WTO membership can be illustrated by the fact that currently 164 countries are members of the organization, accounting for approximately 98 percent of global trade turnover. At the same time, nearly 97 percent of Uzbekistan's foreign trade is conducted with countries that are already WTO members. This demonstrates that closer integration with the WTO framework is not only economically justified but also essential for ensuring the country's long-term trade competitiveness and sustainable economic development.[4]

Methodology

Tax incentives are frequently incorporated into broader international trade arrangements negotiated within the framework of the World Trade Organization (WTO). Such arrangements often involve commitments to reduce trade barriers, lower customs tariffs, or establish preferential trade regimes aimed at promoting economic cooperation and market access. One notable example is the Generalized System of Preferences (GSP), under which developed countries grant favorable tariff treatment to imports originating from developing economies. These preferences may include reduced tariff rates or duty-free access for selected categories of goods, thereby enhancing the export competitiveness of beneficiary countries.[5]

In addition to regulating trade relations, the WTO plays an important role in monitoring the compatibility of national tax and trade measures with international obligations. The organization provides a structured dispute settlement mechanism through which member states may challenge tax policies or fiscal measures that are considered inconsistent with WTO agreements. If a tax measure is found to violate established WTO rules, the Dispute Settlement Body may require the member state concerned to amend its legislation or administrative practices to ensure compliance.[6]

Moreover, where non-compliance persists, the WTO framework allows for the adoption of appropriate corrective measures by affected member countries. This institutional mechanism contributes to greater transparency, predictability, and fairness in international trade relations. By ensuring that tax and trade policies remain consistent with agreed international standards, the WTO helps preserve the stability and integrity of the global trading system while reducing the risk of discriminatory or trade-distorting fiscal practices.[7]

The reform of value-added tax (VAT) and border taxation represents another important area in which the requirements of the World Trade Organization (WTO) exert a significant influence. Under the principles established by the General Agreement on Tariffs and Trade (GATT), member countries are permitted to impose domestic taxes, including VAT, on imported goods provided that such taxes are applied in accordance with the national treatment principle. This means that imported products must not be subjected to a higher tax burden than similar domestically produced goods. In addition, tax refunds granted on exported products should not exceed the actual amount of domestic taxes incorporated into the production process. Such provisions are intended to ensure fair competition and prevent the use of taxation as a hidden trade barrier or export subsidy.[8]

Result and Discussion

In recent years, Uzbekistan has undertaken a number of reforms aimed at aligning its tax system with WTO standards and international trade practices. Particular attention has been paid to the modernization of excise taxation.[9]

First, as part of the process of harmonizing domestic legislation with WTO requirements and gradually equalizing excise tax rates applied to imported and domestically produced goods, excise duties on imported alcohol and tobacco products were reduced from January 1, 2024. Specifically, the excise tax rate on alcoholic beverages was lowered from 106.8 thousand soums to 101.5 thousand soums per liter, while the rate on cigarettes decreased from 342 thousand soums to 325 thousand soums per 1,000 units. As a result of these adjustments, approximately 6.8 billion soums remained at the disposal of importing businesses, thereby reducing import costs and contributing to a more competitive market environment.[10]

Second, excise tax rates on tobacco products were increased by 12 percent beginning in 2024. The additional revenues generated from these taxes are intended to support public health initiatives, promote healthy lifestyles, and provide financing for the healthcare sector. For example, the retail price of a pack of "Kent 6" cigarettes increased from 16,000 soums to 16,500 soums following the tax adjustment. At the same time, the excise tax component rose from 5,400 soums to 5,900 soums per pack, increasing the tax share in the retail price to approximately 36 percent.[11]

A comparison with neighboring countries demonstrates that Uzbekistan's excise taxation

remains broadly consistent with regional practice. The share of excise taxes in cigarette prices is approximately 35 percent in Russia and 24 percent in Kazakhstan. Such comparisons indicate that Uzbekistan is gradually moving toward internationally accepted approaches to tobacco taxation while maintaining fiscal and public health objectives.

Furthermore, WTO rules require that excise tax rates be applied equally to domestically produced and imported products in order to avoid discriminatory treatment and ensure compliance with the principle of national treatment. In addition, a portion of excise tax revenues, currently amounting to 5 percent, is allocated to social protection programs through transfers to the Social Protection Agency. This mechanism strengthens the social function of taxation by linking fiscal revenues to public welfare objectives.[12]

The ongoing adjustment of VAT and excise taxation in Uzbekistan reflects the country's efforts to create a transparent, non-discriminatory, and internationally compatible tax system capable of supporting both economic development and integration into the global trading system.

Further reforms of excise taxation in Uzbekistan are being implemented in line with both fiscal policy objectives and international recommendations, particularly those aimed at protecting public health and harmonizing domestic legislation with global standards.

One of the most significant measures involves doubling the excise tax rate on domestically produced ethyl alcohol, increasing it from 7,450 soums to 14,900 soums per liter. According to recommendations of the World Health Organization (WHO), excise taxes should account for at least 60 percent of the retail price of alcoholic beverages in order to effectively reduce harmful consumption. Prior to the reform, the excise component represented only about 27 percent of the price of one liter of ethyl alcohol, which was sold at approximately 28,000 soums. Following the increase in the excise rate, the tax share is expected to rise to around 40–43 percent of the final product price.[13]

International comparisons indicate that the tax burden on alcoholic products in Uzbekistan remains below that of several neighboring countries. For example, the excise tax share in alcohol prices reaches approximately 76 percent in Russia and 51 percent in Kazakhstan. Nevertheless, the ongoing reforms demonstrate a gradual movement toward internationally accepted taxation standards. As a result of substantial increases in excise rates on alcoholic products, budget revenues from this source are expected to rise significantly. Estimates suggest that revenues could reach 349.4 billion soums, compared with 90.9 billion soums collected previously, representing an increase of nearly 5.8 times.

Additional reforms have been introduced in the taxation of energy products. Beginning in 2024, fixed excise tax rates on petroleum products have been indexed by 12 percent. This measure is designed not only to generate fiscal revenues but also to encourage the consumption of environmentally friendly fuels. In particular, higher excise rates are being applied to gasoline products that contain elevated levels of harmful emissions, while fuels that comply with European environmental standards continue to benefit from existing tax rates.

Environmental considerations have become increasingly important in tax policy. For example, AI-80 gasoline is widely recognized as having a significant negative impact on both human health and the environment. In many countries, this type of fuel is no longer produced for general consumption or is used only in limited sectors such as agriculture. By adjusting excise taxation according to environmental performance, the government seeks to create incentives for cleaner fuel consumption and support sustainable development objectives.

Furthermore, the excise tax rate on compressed natural gas has also been revised. The indexation of the tax rate is expected to increase consumer prices by only 2.9 percent, equivalent to approximately 95 soums per cubic meter, thereby limiting the impact on households and businesses while still contributing to budget revenues.[14]

Another important reform concerns excise taxation on domestically produced alcoholic

beverages. From July 1, 2024, the excise tax rate on alcoholic products manufactured within the country increased by 5 percent, rising from 38,000 soums to 40,000 soums per liter. As an illustration, the retail price of a 0.5-liter bottle of locally produced “Juravli” vodka currently stands at approximately 22,200 soums. Before the adjustment, excise taxes accounted for around 34 percent of the product's retail price; following the increase, this share is expected to rise to approximately 36 percent.

Despite these changes, the tax burden on alcoholic beverages in Uzbekistan remains lower than in some neighboring economies. The excise tax share in the retail price of vodka is approximately 49 percent in Russia and 41 percent in Kazakhstan. Consequently, the ongoing reforms reflect a balanced approach that seeks to strengthen fiscal revenues, improve public health outcomes, and align Uzbekistan's tax system with international standards while avoiding excessive burdens on consumers and producers.

In general, accession to the World Trade Organization (WTO) requires a comprehensive transformation of a country's tax system and fiscal policies. This process often involves significant legal, administrative, and institutional reforms aimed at ensuring compliance with WTO principles, which promote fair competition, reduce trade distortions, and establish a transparent and predictable international trading environment. Consequently, countries seeking WTO membership must review and adjust their tax legislation to align with internationally accepted trade standards.

A key aspect of this transformation is the elimination of export subsidies. WTO agreements generally prohibit subsidies that are directly linked to export performance because such measures distort competition in international markets. As a result, countries are required to abolish tax incentives and preferential fiscal regimes that provide advantages exclusively to exporting enterprises. This may involve restructuring existing tax benefit programs and eliminating tax exemptions that function as indirect export subsidies. The objective is to ensure equal treatment of domestic and foreign producers while creating a level playing field in global trade.

Another important area of reform concerns the gradual reduction of import tariffs. WTO members commit themselves to maximum tariff ceilings, known as “bound tariff rates,” which are established through multilateral trade negotiations. Although countries may apply tariff rates below these ceilings, they are not permitted to exceed the agreed limits. Such commitments encourage trade liberalization by reducing barriers to market access and increasing competition. However, lower tariff revenues may also require governments to strengthen alternative sources of public revenue, particularly through improvements in domestic taxation and tax administration.

The harmonization of indirect taxes represents a further requirement associated with WTO membership. Taxes such as value-added tax (VAT) and sales taxes must be designed in a manner that does not discriminate between imported and domestically produced goods. This principle is derived from the WTO's national treatment obligation, which requires equal fiscal treatment of foreign and domestic products once they enter the domestic market. Therefore, governments must adjust tax rates, structures, and administrative procedures to ensure that imported products are not subject to higher tax burdens than comparable domestic goods.

The implementation of these reforms contributes to the creation of a more transparent, competitive, and investment-friendly economic environment. At the same time, aligning tax policies with WTO standards enhances the credibility of national economic institutions, facilitates international trade integration, and strengthens long-term economic growth prospects. For countries such as Uzbekistan, the adaptation of the tax system to WTO requirements represents not only an international obligation but also an opportunity to modernize fiscal policy, improve tax administration, and increase the competitiveness of domestic producers in global markets.[15]

Conclusions

Several important advantages can be identified from a country's accession to the World Trade

Organization (WTO).

First, WTO membership is fundamentally based on economic interests and the promotion of free trade. By reducing barriers to international commerce, member countries gain broader access to foreign markets, facilitating the exchange of goods and services under transparent and predictable conditions. Increased trade integration also encourages the transfer of advanced technologies, stimulates innovation, and supports the modernization of domestic industries.

Second, participation in the WTO contributes to improving the standard of living of the population. Greater market openness increases consumer access to a wider range of high-quality products at competitive prices. As a result, consumers benefit from improved product quality, greater choice, and enhanced purchasing power.

Third, WTO membership can strengthen the competitiveness of domestic producers by encouraging efficiency improvements and reducing production costs. Access to imported raw materials, equipment, and intermediate goods at lower costs enables domestic enterprises to increase productivity and enhance the quality of their products. Consequently, national products become more competitive both in domestic and international markets.

Fourth, trade liberalization contributes to the expansion of national production and export activity. Increased exports generate additional foreign exchange earnings, stimulate economic growth, and create new employment opportunities. Furthermore, the expansion of economic activity broadens the tax base, resulting in higher budget revenues and increased income for both businesses and households.

More broadly, deeper integration into the global economy creates favorable conditions for sustainable economic development. Access to larger markets, increased foreign investment, technological advancement, and stronger international cooperation all contribute to long-term economic growth and modernization.

At the same time, WTO membership may involve certain risks and challenges, particularly for industries that are not yet fully competitive in international markets. However, in the modern era of globalization, economic isolation is neither practical nor sustainable. Countries can no longer remain detached from global economic processes if they seek long-term prosperity and development.

Therefore, the successful realization of WTO membership benefits depends largely on the effectiveness of domestic economic policies. By strengthening national competitiveness, improving the quality of human capital, modernizing institutions, and supporting business development, Uzbekistan can accelerate its integration into the global economy and enhance its readiness to compete in international political and economic environments. The sooner these reforms are implemented, the greater the opportunities for the country to secure sustainable economic growth and improve its position in the global marketplace.

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