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Cotton Policy of Uzbekistan and Accession to the WTO: Export Subsidies and Domestic Support at Issue

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ABSTRACT

1994 Uruguay Round provisions on Agricultural Subsidies and Domestic Support have led to decades-long debates and disputes among parties. Since then, many studies have specifically posed the question whether the agricultural export subsidies and domestic support reform (pre- and post-Doha) under the WTO System could actually work for the development of/in developing and least-developed countries. However, there are a few studies dedicated to exploring the case of both recently acceded Central Asian countries and those whose accession is in progress, such as Uzbekistan. Thus, this research aims to fill this lack by considering whether WTO's Domestic Support Scheme would affect Uzbekistan's current cotton policy whenever accession to the WTO is reached.

While the study focuses on agricultural support to cotton in the context of accession to the WTO by Uzbekistan, its core objectives are two: (a) to examine a broader framework of policy measures Uzbekistan should take into consideration as they have substantial effect on country's structure of domestic cotton production and its export; and (b) to explore how the mentioned structure is treated or handled according to WTO law perspective, namely Agreement on Agriculture (hereinafter AoA) and relevant provisions. To carry out this, the paper aims (i) to examine pre- and post-accession policy measures of WTO-member states (Central Asian countries, and India and China) in agricultural trade, after offering the framework of domestic support and export competition rules under AoA; (ii) to analyze the elements of domestic support programs of those cotton-exporter-countries recently acceded to the WTO in order to identify and clarify the framework and particularity of cotton subsidy and export structure of Uzbekistan; (iii) to provide policy directions for Uzbekistan in terms of trade in cotton to take the advantage from accession to the WTO, if any

The study consists of the five chapters. The first chapter offered the general overview of the study. It starts from outlining the problem statement, the objective of the study, and the research questions and hypothesis followed by the methodology to conduct a research. The second chapter, started with introducing the WTO system and accession process, discussed the extent of the relevant provisions of the AoA and SCM Agreement. In order to understand the context and the elements of agricultural support policies of incumbent WTO members and non-member Uzbekistan, it further elaborated the agricultural support provisions on trade in agricultural products: the three pillars of market access, export competition and domestic support. The third chapter explored the pre- and post-accession policies of the existing WTO member-states on their export and domestic subsidies. The case studies included three Central Asian countries of the Kyrgyz Republic, Tajikistan and Kazakhstan, and India and China. The chapter four examined the cotton policy of Uzbekistan, focusing mainly on domestic support and export policy. And, it further explored whether current policy agenda for the cotton production and its export is applicable by and consistent with the AoA and other relevant provisions of the WTO law. Chapter five dedicated to indicate the main findings and conclusions.

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ACRONYMS AND ABBREVIATIONS

AMS	Aggregate Measurement of Support
AoA	Agreement on Agriculture
CACP	Commission on Agricultural Costs and Prices
CAP	Common Agricultural Policy
CTAMS	Current Total Aggregate Measurement of Support
DDA	Doha Development Agenda
FAO	Food and Agriculture Organization of the United Nations
FBTAMS	Final Bound Total Aggregate Measurement of Support
GATT	General Agreement on Tariffs and Trade
MOA	Ministry of Agriculture
MFN	Most Favoured Nation
MPS	Market Price Support
MSP	Minimum Support Prices
NTBs	Non-tariff barriers
OECD	Organization for Economic Co-operation and Development
SCM	Subsidies and Countervailing Measures
SDT	Special and Differential Treatment
SPP	State Procurement Price
SPS	Sanitary and Phytosanitary Agreement
TBT	Technical Barriers to Trade
URAA	Uruguay Round Agreement on Agriculture
USDA	United States Department of Agriculture
WTO	World Trade Organization

CHAPTER 1. INTRODUCTION

1.1. Introduction

1986-launched Uruguay Round Agreement on Agriculture (hereinafter URAA) allotted many special treatments concerning trade in agriculture for the developing countries. However, it led rich countries to extensive cotton subsidies which caused 15 million farmers in the African countries to face huge barriers to compete against subsidized prices of cotton in the international cotton market. As a result, there have been many long-running disputes after Brazil Cotton Case of 2002 in the WTO (Schnepf, 2013 & Baffes, 2011). The so-called “Brazil-U.S. Cotton Case” is a long-lasting WTO Dispute Settlement Case (DS267) launched by Brazil (2002), a major cotton export competitor of U.S., against specific provisions of the U.S. Cotton Program, claiming that U.S. cotton programs were depressing global cotton prices and thus artificially and unfairly reducing the quantity and value of Brazil’s cotton exports, causing economic loss into Brazil’s domestic cotton sector. Then, in September 2004, a WTO Dispute Settlement panel ruled that certain U.S. agricultural support payments for cotton distorted international agricultural markets and should be either withdrawn or modified to stop the market distortions. However, following US’s long years of inadequate compliances with WTO recommendations, thereby failing to deliver compensations to Brazil, this incident (politically and economically speaking) left two major signs on the side of other member states: (i) WTO’s Dispute Settlement is quite rational so that any member state can sue the case against even a hegemonic state who abused any Agreements in the WTO; and (ii) agricultural domestic support programs (of governments), through Uruguay Round till today, have been drawn overwhelmingly critical attention among WTO member disputes which led the disputes over cotton subsidies very notorious. Consequently, the domestic support programs with latent trade distorting effect now become a salient issue for any countries acceding to the WTO.

With respect to cotton policy of Uzbekistan, Pomfret (2000), Guadagni et al. (2005), Kulikova (2005), Abdullaev (2005), Chertovitsky et al. (2007), Rudenko (2009), Djanibekov et al. (2010), Bobojonov et al. (2010), Kienzler et al. (2011) and other scholars have been conducting meaningful researches on the field. More recently, MacDonald (2012), Shtaltovna (2014), Hornidge (2014), Djanibekov (2013, 2016), and Bobojonov (2016) have conducted studies and surveys on mainly cotton procurement policy of Uzbekistan, the others were dedicated to the farmers' market participation decisions, farm and crop diversification as an alternative way to attain effectiveness of the production in Uzbekistan and other Central Asian countries. However, there appeared very few studies dedicated to exploring the cotton policy of Uzbekistan from the perspective of international trade law in agricultural products. In this sense, Lars Brink (2014)'s comprehensive study on agricultural policy issues of CIS countries in the context of the WTO offers a closer look. Yet, relying on the secondary data, the study lacks by large to evaluate the structure of the domestic support and export policy dimensions in Uzbekistan. This study contributes to filling this gap in the academic literature, and attempts to explore how the WTO accession would affect domestic support and export policy of cotton production in Uzbekistan.

1.2. Problem Statement

It is today widely known that ex-ante and ex-post WTO Accession impacts on developing countries' agricultural trade differ remarkably because WTO newly-acceding-state has to create its policy space through bilateral and plurilateral negotiations with incumbent WTO member states during accession process. It is a primarily burdensome process.

In addition to troublesome accession process, there are other concerns. As mentioned above, trade disputes with cotton subsidies by the US, Brazil and African Cotton-4 countries have been notorious in the previous General Agreement on Tariffs and Trade (hereinafter GATT) and current WTO History. Moreover, there are the much greater amount of losses through volatile low cotton prices in the world market, structural inefficiencies, and exchange rate appreciation by many developing countries. Then, following Doha Round, the changes in the guidelines in the domestic support of cotton further made developing countries rethink the details of newly accepted framework agreement which is potential for dramatic reforms in domestic agricultural policies (Hart & Beghin, 2008). Therefore, strictly speaking, WTO acceding developing countries, especially those involved in agricultural trade, are in urgent need of expert policy measures prior to accession and beyond. If so, Uzbekistan, the world's fifth largest cotton exporter, should draw meticulous attention to its cotton sector while accession to the WTO process is on.

Cotton industry in Uzbekistan accounts for 20% of the country's GDP, and its trade amounts to 11.3% of export earnings. (P. Jurewicz, A. Shlyapochnik, 2012). While Uzbekistan is on the threshold of joining the WTO, it confronts with huge problems dealing with external competition in agricultural trade in the WTO. Regarding benefitting from the trade in cotton under the WTO rule, the major problem in the context of Uzbekistan is its extensive domestic support policies including agricultural input, domestic subsidies, and export subsidies.

1.3. Objective of the Study

1994 Uruguay Round provisions on Agricultural Subsidies and Domestic Support have led to decades-long debates and disputes among parties. Since then, there have already been many studies relevant to the topic. And, after two major incidents namely those long years of Cotton-4 dispute settlement case of the WTO against US and massive FDIs to African Agro-Food Industries; many studies have specifically again posed the question whether the agricultural export subsidies and domestic support reform (pre- and post-Doha) under the WTO System could actually work for the development of/in African states, especially least-developed countries with Special and Differential Treatment (SDT) entitlement. However, there are few studies dedicated to exploring the case of both recently acceded Central Asian countries and those whose accession is in progress, such as Uzbekistan. Thus, my research aims to fill this lack by considering whether WTO's Domestic Support Scheme could tolerate Uzbekistan's current cotton policy whenever accession to the WTO is reached.

While the study focuses on agricultural support to cotton in the context of accession to the WTO by Uzbekistan, its core objectives are two: (a) to examine a broader framework of policy measures Uzbekistan should take into consideration as they have substantial effect on country's structure of domestic cotton production and its export; and (b) to explore how the mentioned structure is treated or handled according to WTO law perspective, namely Agreement on Agriculture (hereinafter AoA) and relevant provisions. To carry out this, the paper aims (i) to examine pre- and post-accession policy measures of WTO-member states in agricultural trade, after offering the framework of domestic support and export competition rules under AoA; (ii) to analyze the elements of domestic support programs of those cotton-exporter-countries recently acceded to the WTO in order to identify and clarify the framework and particularity of cotton subsidy and export structure of Uzbekistan; (iii) to provide policy directions for Uzbekistan in terms of trade in cotton to take the advantage from accession to the WTO, if any.

1.4. Research Questions

Uzbekistan currently has numerous bilateral agreements with especially Commonwealth of the Independent States and other countries such as EU, China, and Brazil. Concurrently, Uzbekistan's Accession to the WTO has been in trade policy agenda since 1994. However, Accession to the WTO indeed requires some consistency and modification towards foreign and domestic trade regime of newly-acceding states, thereby modifying institutional, legal and economic norms and regulations which are ambiguous or under question. To conduct a research on the cotton policy of Uzbekistan in the context of joining the WTO, I will endeavor to find answer to the fundamental and straightforward question: how would accession to the WTO affect the export and domestic support policy of cotton industry of Uzbekistan?

1.6. Methodology

In order to respond the research questions, the paper utilizes qualitative research method, and looks at it from the legal and policy perspective. How the WTO accession would affect the export and domestic support policy of cotton in Uzbekistan will be examined by exploring these two question: (i) what kind of policy implications can the government of Uzbekistan learn from the accession of existing WTO member states, especially China, India and Central Asia's transition economies of Kyrgyz Republic, Tajikistan and Kazakhstan? Because these three countries were both former communist-policy countries which had had a similar regime and structure of agricultural production and its export, as Uzbekistan; (ii) and how should the current regime of cotton production and its export be re-modified according to the latest regulations under AoA of the WTO?

1.7. Organization of the Thesis

This study consists of five chapters, including current chapter which introduces the topic of study, its ultimate purpose, and objectives followed by research questions. Chapter two, at first, offers a brief introduction to the WTO and its Accession Process and then examines Framework of Agricultural Trade and Agricultural Domestic Support thoroughly under AoA and Subsidies and Countervailing Measures (hereinafter SCM) Agreement of the WTO. Chapter three examines the policy measures which existing WTO member states (of those India, China, and Central Asia's transition economies) made during the WTO Accession process, as lessons for Uzbekistan in creating policy space during accession process. Chapter four, starting with introducing Uzbekistan and its trade policy, the historical background of growing cotton, elaborates government's domestic support of cotton production and input mechanism. The chapter further explores current terms of trade of cotton between Uzbekistan and its trading counterparts, and finally, interpretation of this mechanism according to the WTO Law on Agriculture. The final chapter summarizes findings and provides some concluding remarks.

CHAPTER 2 WTO ACCESSION AND LAW ON AGRICULTURE

The main objective of this chapter is to provide an overview of the Agreement on Agriculture under the WTO system as it applies to trade in agriculture, with the objective of presenting the extent of the agreements (AoA and SCM) reached with adequate interpretation and practice. For this, the chapter introduces first the WTO system, along with its predecessor GATT of eight rounds, and Accession process to the WTO currently. It further elaborates all agricultural support regulations, including market access, export competition, and domestic support in order to understand the context and elements of agricultural support policies of existing WTO-member states and Uzbekistan which comes in the following chapters.

2.1. The WTO and Accession process

2.1.1. About the WTO

The WTO, established in 1995, is a designated body for providing a common institutional framework to trade internationally among its members, on the basis of Multilateral and Plurilateral Agreements (Adamantopouos, 1997, pp. 30). Therefore, its main function is as a forum for international cooperation on trade-driven policies – the creation of codes of conduct for member states by periodic negotiations on Ministerial Conferences (Hoekman, 2002, pp. 41). In order to set the rules of trade, five main principles of pre-1994 GATT and the WTO are: (i) non-discrimination, namely Most-Favoured-Nation (hereinafter MFN) and National Treatment, (ii) reciprocity, (iii) enforceable commitments, (iv) transparency, and (v) safety valves such as 'trade measures', 'fair competition' and 'intervention'. Differing from earlier GATT, WTO rules apply to all member governments who are subject to binding Dispute Settlement Procedures. Primary objective to establish early eight GATT negotiating rounds was to reduce tariffs globally which peaked at as high as 40-60% prior to WW II. Non-tariff barriers (hereinafter NTBs) have emerged later raising concern in market access and domestic regulations. In the table, below, all eight rounds, elucidating the number of attendees, covered issues, and their outcomes are illustrated (Table 1).

Table 1. GATT/WTO Eight Rounds.

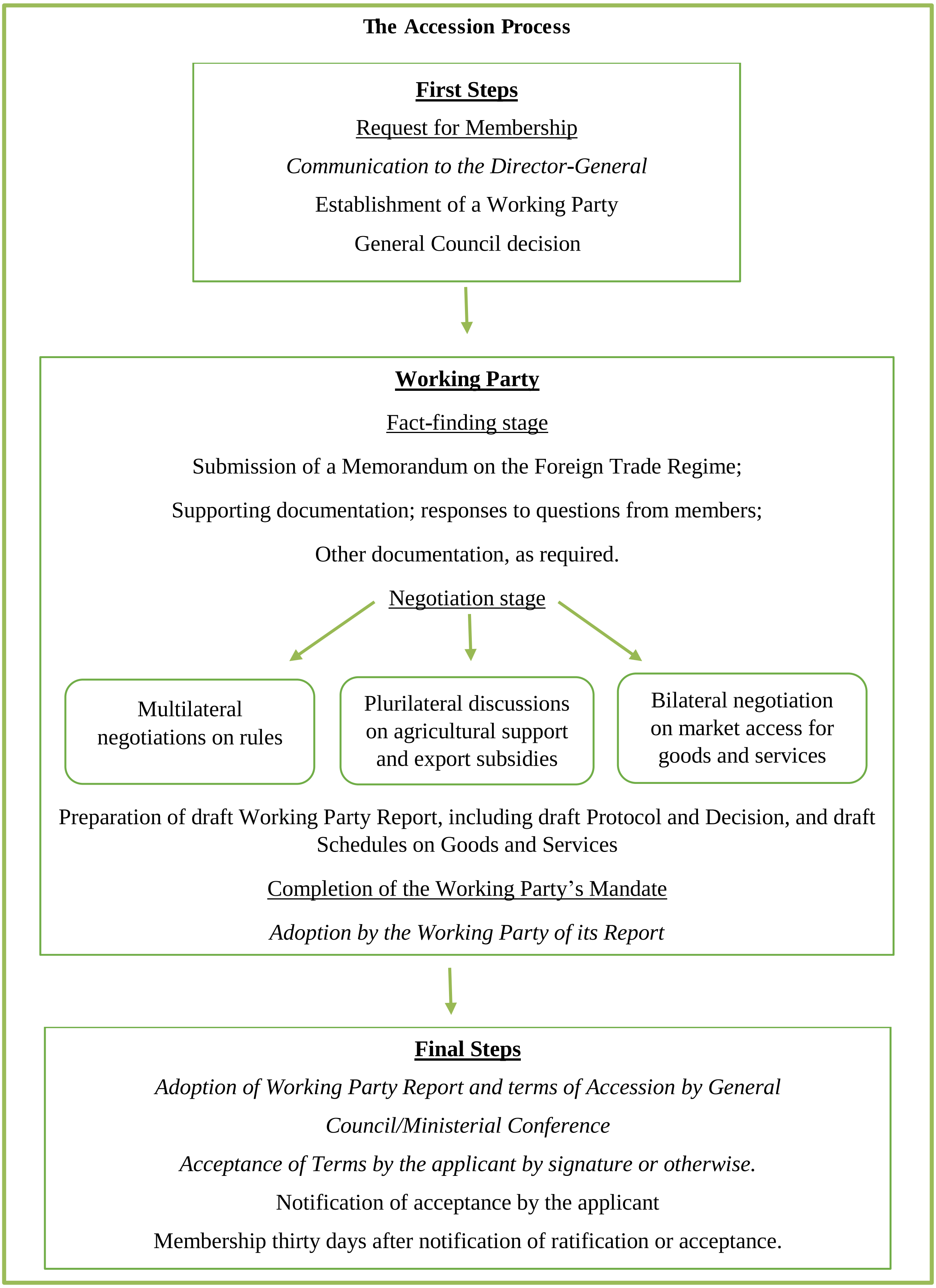
Name	Rounds	Subjects covered	Outcomes	Member
Geneva	1947, April	Tariffs	Signing the GATT, 45,000 tariff concessions affecting $10 billion of trade.	23
Annecy	1949, April	Tariffs	Member states exchanged about 5,000 tariff concessions.	13
Torquay	1950, September	Tariffs	Members exchanged 8,700 tariff concessions, reducing the 1948 tariff levels by 25%.	38
Geneva II	1956, January	Tariffs, and the admission of Japan	$2.5 billion in tariff reductions	26
Dillon	1960-1961	Tariffs	Tariff concessions worth $4.9 billion of the world trade balance.	26
Kennedy	1964-1967	Tariffs, and anti-dumping	Tariff concessions, with the value of 40 billion US$ of world trade.	62
Tokyo	1973-1979	Tariffs, and non-tariff measures, "framework" agreements, etc.	Tariff reductions valued for more than $300 billion US$.	102
Uruguay	1986-1994	The creation of WTO, tariffs, non-tariff measures, services, intellectual property, dispute settlement, textiles, agriculture, etc.	The creation of WTO, and extended range of trade negotiations, major reductions in tariffs (40%) and agricultural subsidies, an extension of intellectual property rights, an agreement to allow full access to textiles and clothing from developing countries,	123
Doha	2001~	Tariffs, non-tariff measures, agriculture, patents, labor standards, environment, investment, competition, transparency, etc.	The round is not concluded yet.	164

Source: Understanding the WTO, 5th edition, the WTO, 2015.

2.1.2. Accession process

Accession process is composed of four stages, in which the first serves as introductory formalities while others are substantive. Among those three, which are (i) preparation of memorandum on applicant's foreign trade regime, (ii) applicant's fact-finding stage, (iii) and the negotiation stage, the last two stages, though theoretically separate, can be overlapped, in reality. In introductory (formalities) stage, after an applicant sends a letter to Director-General expressing its interest in joining the WTO under Article XII, the formal request examined by the General Council (consists of all member-representatives, meeting frequently in the year) who is then responsible for establishing the Working Party, nominating its Chairman. Several working party meetings take place in order to examine the trade regime of the applicant state. And, there will be negotiation stage, comprised of bilateral and multilateral negotiations on market access and plurilateral negotiations. Then, the working party adopts the draft working party report ad referendum and submits it to the WTO General Council for final approval. (See Figure 1).

Figure 1. The Accession Process.



Source: A Handbook on Accession to the WTO, pp. 25

Because accession process takes place in one direction, only the acceding state is asked to meet WTO requirements as well as demands falling into provisions by existing members. Thus, the process tends to be demanding, heavy, and normally lasts nearly at least a decade for the applicant to demonstrate its institutions and policies in detail that have a major influence on the conduct of foreign trade while meeting WTO rules. During the accession process, negotiations phase is one of the inherently time-consuming processes, mainly due to: (i) inconsistency of applicant's institutions and policies with WTO agreements, and (ii) unwillingness to accept commitments and tariff bindings in agriculture and services (Williams, 2008). And, it is even undeniably true for developing countries in terms of plurilateral negotiations on agricultural support and export subsidies. Since the agricultural support and export subsidies are a mounting concern for developing countries in the negotiation phase, it is important to understand the whys and wherefores of concluding the Uruguay Round Agreement on Agriculture and its profound significance for developed and developing countries before accession and beyond.

2.1.3. Benefits of accession to the WTO

The WTO Accession is a complicated, troublesome and lengthy process. Three main advantages of joining the WTO are: (i) making the domestic policies and institutions strong and effective to deal with multilateral trade in goods and services; (ii) accessing to the Dispute Settlement Mechanism for trade-related issues; (iii) ensuring remarkable progress in the security of the market access to the main export markets (Michalopoulos, 2002).

However, all three mentioned benefits of the accession to the WTO can, in fact, be costly for the newly acceding country (Ostry, 2000, pp. 6). In this sense, indirect and direct costs of WTO Accession could be substantial. In fact, in the short period, such costs undermine immediate benefits (Kireyev, 2015). Among those, the primary challenge in accession to the

WTO is a prior necessity to introduce laws and regulations, and preparedness of the institutions for the conduct of private businesses and markets free from government controls – apart from what expressly mentioned under WTO rules (those standards, Sanitary and Phytosanitary provisions, IP rights, state-trading practices, etc. And, the other is preparedness of the competitive market conditions for imports. Though trade regimes of the newly acceding states should differ from one to another due mainly to market structure and institutional background, most regimes are characterized by liberalization of trade across borders, which includes the establishment of market regimes with proportionately low tariffs and, with no significant NTBs.

Therefore, it does not only allow a member state to enjoy the benefits of lowered tariffs and elimination of non-trade barriers in its major export markets, but also requires establishing a reasonably proportionate level of domestic market protection through its domestically-established market structure in order not to have injured severely by massive imports.

2.1.4. Countries in WTO Accession Process: An Overview

The accession of the developing countries to the WTO is a major challenge to their government administration, both legally and institutionally, as well as to the content of their external and internal trade policies. The rationale for joining the WTO can include (i) obtaining permanent MFN status, (ii) protecting its industry against arbitrary measures by trading partners, (iii) reducing the cost of negotiations, (iv) participating in international trade rule-making, and (v) accessing to an impartial and binding dispute settlement mechanism (Cattanao & Braga, 2009; Dadush & Osakwe, 2015, p. 200; Grynberg et al, 2006, p. 3). And, for the applicant, it is a grueling procedure which requires the preparation of detailed memorandum on its foreign trade policies and practices, and a convincing commitment to implement the WTO Agreements. And, on the line with it, the applicant has to negotiate its bilateral trade contracts with its most important trade partners. This, at the same time, means that member states have an increasing interest in obtaining concessions from acceding governments and leveraging their negotiating capacity accordingly. (Dadush & Osakwe, 2015, p. 199). Therefore, the procedure involves years of detailed examination on trade conducts by a working party and lengthy rounds of negotiations.

Actually, for the developing countries, one of the main concern by domestic institutions of the acceding governments is not always the fear of the market liberalization – thereby trading in reduced tariffs on top of the lack of experience – but, benefits and costs of the membership and the impact of the WTO on the economy's sovereignty (Gallagher et al, 2005). Evenett and Primo Braga (2009) also remarks the existence of the uncertainty about the cost of WTO Accession. The aforementioned statement can be well-defined by briefly reviewing two accession cases: Mongolia and China. False expectations of both business community and the government of Mongolia led to ill-prepared negotiations, then it followed by less advantageous accession terms than could have been achieved, it finally ended up with disenchanted accession effects on its foreign trade policy. For the China, relying on the facts by Shanghai WTO Affairs Consultation Centre; the government and the businesses were fairly confident to control over and to benefit from China's integration with the global trade, long before the accession to the WTO (Gallagher et al 2005, p. 5).

Regarding the legal aspects of accession, most authors agree that there is a single body of WTO accession law, with specific legal rules inferred from the international legal system, the 1994 WTO Agreement, Accession Protocols and WTO case law. However, the views differ considerably when it comes to the issue of legal fairness of WTO Accession. They conclude that accessions lack substantive fairness, meaning that incumbent WTO Members prescribe obligations for acceding governments that exceed the requirements of the WTO Agreement, and it is contributing to the WTO's legitimacy crisis. On the other hand, others argue that the primary question is whether accession practices strengthen or weaken the multilateral trading system. (Kireyev & Sekkate, 2015). Following the topic, Neumayer (2013) argues that the existing members become working party members in two cases: if their bilateral trade with the applicant country represents a large share of their GDP, unless they already have a preferential trade agreements with the applicant; or if they are structurally similar to the applicant country and compete with it in terms of export products and market structure. These determinants of the self-selection of the existing members into the working parties were found to be statistically significant.

As it is asserted earlier that negotiation stage is one of the two heavy and time-consuming conducts in the application process for nearly all newly-acceding states. Hence, some applicants' joining the WTO could slow down due to other internal factors, such as governments' slow progress in delivering policy agendas that are consistent with freer trade rules, or unwillingness to modify certain regulations or policies due to relevant sectors' sensitive or delicate context in the economy of the applicant state. One example could be the Philippines. The country's agriculture, as it was a major contributor to the GDP (21.5% as of 2004), was affected as liberalization implied by the WTO Uruguay Round commitments. Here, because of not weak negotiation terms, but the government's inadequate and non-deliberate consultation had resulted in a serious disconnection between the government's negotiating position and complex realities in the field often engaged by agricultural stakeholders (Gallagher et al, 2005, p. 486). As a matter of fact, not only the Philippines, but almost all developing countries face hardships in joining the WTO because of aforementioned reasons. Therefore, plurilateral negotiations on agricultural domestic support and export subsidies, and delivering the AoA-consistent policies are still being the major challenge for developing countries.

2.2. The Uruguay round agreement on agriculture (URAA) and agricultural support

The Uruguay Round Agreement on Agriculture

The Agreement on Agriculture is the outcome of the Uruguay Round which was concluded through 1986-1994. Although agricultural and industrial products are both considered as goods in the unambiguous wording of the former GATT, the consensus in the GATT original members made a de facto exemption of the agricultural products from GATT practice. Therefore, agricultural trade on the global scale principally started with Uruguay Round (concluded as of 1994) after seven GATT Rounds which was mainly dedicated to lowering tariff reductions in manufactured goods. (Matsushita, Schoenbaum, Mavroidis & Hann, 2015; Hart & Beghin 2006). The distinct and fundamental role that URAA played since the launch of the international trade was to establish systemic and the international regulation of agricultural production and trade, as a multilaterally-applicable sector-specific agreement devoted to agriculture (McMahon, 2012). It was, seemingly, the end of the exceptionalism and protectionism in the global trade of agricultural products in which agricultural was omitted from key principles of the GATT, lagging behind manufacture through eight rounds.

It is commonly known that Uruguay Round Agreement on Agriculture is understood to be the main source to regulate international trade in agricultural products[1] among signatories to the Agreement. However, while the URAA is at the center, agricultural trade is further covered and partly regulated by other agreements and relevant provisions such as SCM Agreement, Sanitary and Phytosanitary Agreement and the GATT itself (Matsushita et al., 2015).

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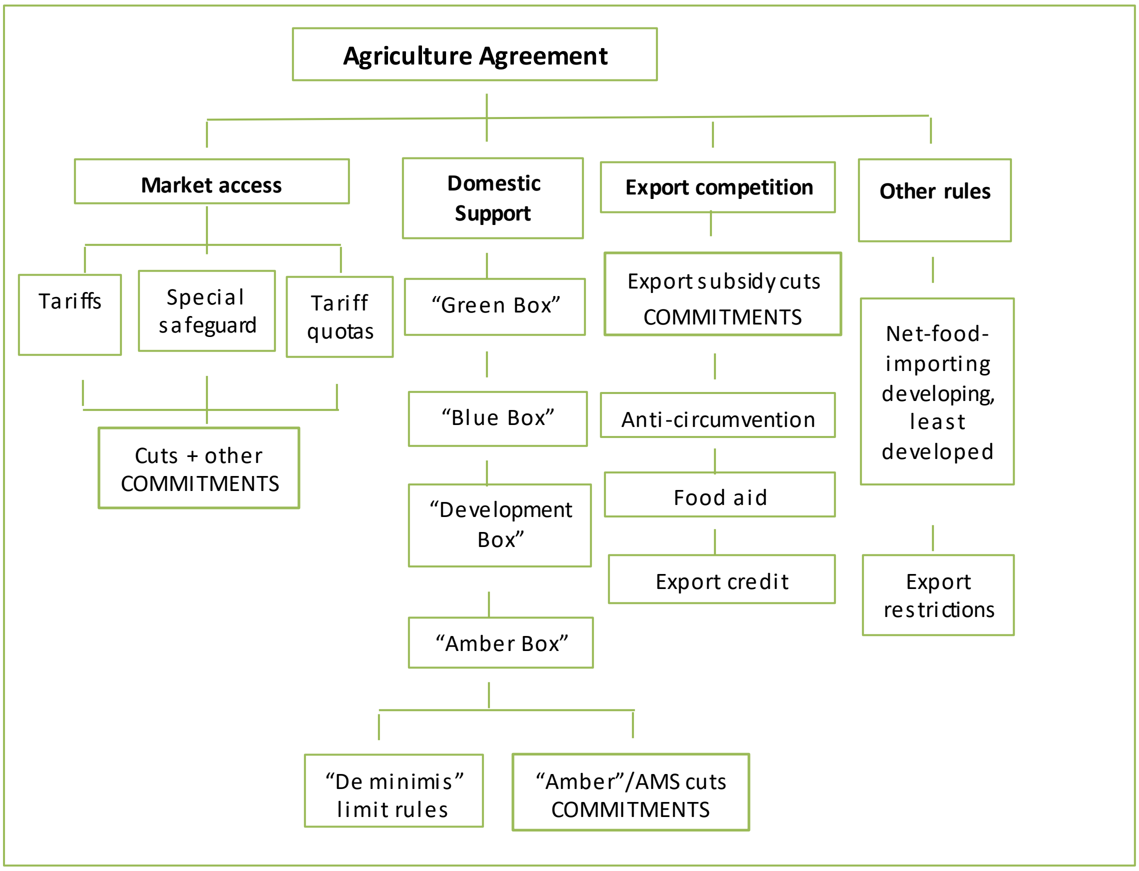
[1] Regarding the term of *'agricultural products'*, the AoA does not explicitly define the term "agricultural products", rather refers (in Annex 1) to all products listed in Chapter 1 and 24 of the Harmonized System (HS) and thirteen other categories, except fish and fish products (Matsushita et al, 2015, McMahon & Desta, 2012). Harmonized System is the system of codes (up to six digit numbers) by the the World Customs Organization (WCO). It stands for identifying products. For more, see at http://www.wcoomd.org/en/topics/nomenclature/overview/what-is-the-harmonized-system.aspx

Then, the primary objectives of AoA were to re-formulate a framework for the regulation of agricultural trade in global scale through agreed commitments into so-called "three pillars": (i) market access, (ii) export subsidies, and (iii) domestic support (See Figure 2). It meant "the establishment of certain degree of rule-making by ratified commitments in order to improve market access (AoA Part III, Arts. 4-5), to establish restrictive system for escalated domestic support (AoA Part IV, Arts 6-7), and diminish the scope of export subsidies (AoA Part V, Arts. 8-11) within agreed period of six years for developed and ten years for developing countries. And it should have also led to discipline the unpredictability, imbalances and instability in agricultural markets caused by restrictive and distorting trading practices by NTBs (McMahon & Desta, 2012).

The Figure 2. The Agriculture Agreement in a nutshell



Source: The WTO Agreement Series: Agriculture, the WTO Publication, 2015.

Agricultural Support in the Agreement on Agriculture

The historical background of the agricultural support goes back to three-decades-old Haberler Report[2] in which three elements of the support were originally outlined in the name of agricultural protection (GATT 1958). There, the two measures were deemed to directly discourage imports and encourage exports, thereby effectively in conjunction with border measures. While the third measure was to directly spur home production of agricultural produce. And, all three corresponded to generate, directly and indirectly, the net reward for the farmers at the price which enables them to trade their product competitively at the market. Consequently, those three measures have become the architecture of the 1994 URAA's three pillars: the market access, the export competition and domestic support (Brink, 2011). And, today, these agricultural support measures are regulated through three separate Agreements: the GATT, the SCM Agreement, and the AoA (Matsushita et al., 2015; Chigavazira, 2016).

2.3. Market Access in the Agreement on Agriculture

2.3.1. Market Access: An Overview

Market Access provisions principally required that (nearly all the) NTBs should be replaced by tariffs (the process is known as "tariffication") and the bound rate was to be set on those tariffs taken place. (Andreson & Martin 2006, McMahon & Desta 2012). And this attempt should have led the contemporary agricultural market to the more transparent system without spending massively on efforts and capacity-buildings for improved market access. Therefore, members, though it may affect economies of those prone to less domestic competition and primitive production technology, committed to newly reduced tariff lines. Because the exceptional merits of the tariffication were that it was easier to negotiate than massive and regionally-divergent NTBs. And customs duties could, in principle, become the only form of

[2] Prof. Haberler was the chairperson of a panel of experts organized by the contracting parties of the GATT.

border protection, according to AoA Art. 4.2[3], which means that the members agreed to proceed with the "tariffication" of their non-tariff market-access barriers (McMahon & Desta 2012; Matsushita et al, 2015). And footnote to AoA Art 4.2 defines the NTBs covering quantitative import restrictions, minimum import process, variable import levies, discretionary import licensing, voluntary export restraints, NTBs maintained through state-trading enterprises, and similar border measures other than ordinary customs duties….(See AoA Art 4.2, DS Case of Chili –Price Band System, and interpretation of the case by the DS).

Michalapoulos (WB) articulates that two core dimensions of market access, which are long-lasting and unconditional MFN status, and incidence of antidumping actions between WTO member and non-member states (which noted to be higher against the latter), are of importance for WTO-acceding governments. But, his stressed opinion (as of 2002) today seems to be outdated due to the emergence of recent prevalence of bilateral, trilateral and plurilateral FTAs.

2.3.2. Tariffication and Reduction Commitments

In order to calculate the tariff equivalent of a non-tariff measure, members used the price gap method according to Annex 3 of the "Modalities Agreement": the difference in the domestic market price to the world market price equals the new tariff. The pertinent base period were the years 1986-88 which were characterized by a stark price gap between the domestic market price and the world market price. As a result, very high tariffs have been commonplace. Therefore, following the conversion of the quantitative restrictions into tariffs, the second step was that members were obliged to reduce tariffs. Following the commitment, developed countries were obliged to reduce their overall tariffs by 36 %, and by at least 15 % of any product category within the implementation period of 1995-2000. For developing countries, it had been 24 %

[3] See the the interpretation of Art 4.2 by the Appellate Body in the "*Chile – Price Band System"* Case, (DS207/AB/R, 200)

overall with the minimum of 10 % within the period of ten years; least developed countries have been under no obligation to enter into any such reduction commitment. After the end of the implementation period, the tariffs were included in the schedules of commitments and therefore became binding. As a result, members are bound not to raise tariffs above the scheduled level; lower rates are possible either on an MFN basis or exceptionally, for example, on the basis of an Art XXIV GATT-compatible FTA.

2.4. Export Competition in the Agreement on Agriculture

2.4.1. Export Competition Provision under AoA

It is a fact that in many developed countries certain agricultural products cannot be produced at world market prices due to high production costs including consequences of high labor standards, or simply high costs itself for any raw products and their process to the intermediate products. Under these circumstances, export subsidies can help the producers successfully deliver their product in the world market price, as the financial contribution by the government allows them to enter the market with competitive prices. Thus, these prices could be well below their real production costs and even below the prices of competitors who are non-subsidized but efficient producers. As a consequence, the supply of the product and, for that reason price pressure increase. And, for the developing countries who are, in particular, dependent on their agricultural sector can easily suffer from catastrophic consequences of the price-competitive markets (Chigavazira, 2016). Their sometimes only comparative advantage from trading within WTO would be eliminated by the exposure to export subsidies of wealthy subsidizers, such as EU, the US, Japan, etc. It is improper that countries which promote fair and market-oriented trade are committed to their premise when it comes to industrial goods or services, but are lawbreakers when trading in agricultural goods (Matsushita et al., 2015). For this reason, the AoA on Arts 3 and 8-10 try to discipline export subsidies by restricting them or at least keep them at lowest levels. For this, when introducing regulations on domestic support and market access, the volume of export subsidies is first calculated, then scheduled, and finally asked for reduction commitments as of 21 and 36 percent for developing and developed countries respectively.

The AoA, contrasting with general subsidies regime specified in Article 3 of the SCM Agreement, maintain export subsidies to be lawfully permissible whenever certain conditions are met. The proper understanding of two agreements is that SCM Agreement Art 3 prohibits all export subsidies except those allowed by AoA. Thus, in order to exercise the use of export subsidies, the member states have to list all the export subsidies in their schedule of concessions separately for each agricultural product. Then, the member state can only use export subsidies of the type specified in AoA Art 9.1. After export subsidies were scheduled in the commitment, the member is disallowed to exercise the use of subsidies in excess both in quantity and quality; and is prohibited from the use of subsidies not indicated in the schedules, according to AoA Art 8.

Importantly, it is worth noting that export subsidies have been observed substantially during the Uruguay Round of 1986-1994, and became one of the critical issues to be dealt with during the negotiations. In fact, export subsidies for manufactured products had already been regulated under the GATT, and rich countries had been restricted on those subsidies during previous GATT negotiations. Yet, the disciplines on export subsidies to agriculture have been fairly loose in theory and ineffective in the application (Hart & Beghin, 2006, pp. 221).

2.4.2. Definition of the Export Subsidies

According to AoA Article 1 (e), "export subsidies' refers to subsidies contingent upon export performance, including the export subsidies listed in Art 9 of AoA. However, the Agreement does not explicitly define the meaning of "contingent upon export performance", as the same expressed in SCM Agreement Art 3.1 (a).[4] And, it led the parties to lengthy disputes, thereby the wordings and interpretations by the Panel and the Appellate Body. While both SCM Agreement and AoA deal with subsidies, pursuant to the interpretation by the AB in US-Upland Cotton Case, SCM Agreement have to be used for guidance in interpreting AoA provisions when appropriate. (Matsushita et al. 2015, 275-276 and Geboye Desta 2002, 216-220).

According to Art 9.1 of AoA, there are six different forms of export subsidies, which, though permissible, are subject to reduction commitments: (a) the direct subsidies provided by governments or their agencies contingent on export performance, (b) payment on the exports of agricultural products which is financed by virtue of governmental actions, such as levies on all production that are then used to subsidize the exports of part of that production, (c) the sale or disposal for export by the government or its agencies of non-commercial stocks at prices lower than on the domestic market, (d) subsidies to reduce costs, such as subsidies for marketing goods exports; this can include costs of upgrading, handling and international freight, (e) transport and freight charges on exportable produce, provided by the government, on terms more favorable than for domestic produce, such as for bringing export shipments to one central point for shipping, (f) subsidies on products used to make other products ("incorporated products"), such as subsidies on wheat used to make biscuits on condition that the biscuits are exported (Matsushita et al. 2015, 276-281). On the contrary, Art 10.1 of AoA prohibits the kinds of export subsidies which are not listed in AoA Art 9.1 but having the similar effect (Matsushita et al. 2015, 282).

[4] As expressed in Art 3.1 of the SCM Agreement: "Except as provided in the Agreement on Agriculture, the following subsidies, within the meaning of Article 1, shall be prohibited: (a) subsidies contingent, in law or in fact, whether solely or as one of several other conditions, upon export performance, including those illustrated in Annex I; (b) subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods."

2.5. Domestic Support in URAA: Green, Blue, and Amber Box measures

2.5.1. Domestic Support Provisions in AoA

According to the URAA, "the domestic support" is any types of support that governments provide for their agriculture which is subject to rules. And, the primary aim of establishing those rules on agricultural domestic support pursues two objectives. The first is to discipline domestic support measures adopted by the governments or their entities whenever the support type is deemed to distort trade. While the other objective is to leave a room for member states to cater for their special circumstances in agricultural production and its trade. Thus, the domestic support measures are to neither undermine commitments on their market access, nor affect their schedules on export subsidies (WTO, 2015).

Conceptually speaking, domestic support can be classified into two types: trade-neutral (non-distorting) and trade-distorting, thereby can be permissible or restricted respectively. In this sense, there is a plausible justification for certain subsidies to be prohibited, while the others not. Any type of financial support to the domestic industry can result both in high domestic production in the local market and, thus better competitive prices in export markets that could damage the domestic producers of the export market immensely, such as market price support does so. They are known as "Amber Box" policies deemed trade-distorting. The other type so-called "trade-neutral", on the other hand, does not distort trade or does so minimally, such as state-funded agricultural research or training. So, they are referred under the name of "Green Box" measures. (McMahon & Desta, 2012, p. 7; Matsushita et all., 2015, p. 269). The third kind of domestic support, so called "Blue Box", is subject to establish the regime that may lead to adverse effects on the trade interests of the host member state. But, they can be permitted only subsidies are decoupled from production.

It is a fact that AoA does not provide a definition for "domestic support", it rather uses the technical wording "subsidies", which is defined in SCM Agreement. Whether a member state may exercise a type of domestic support for their domestic industry is disciplined by AoA Part IV (Arts 6-7, and Annexes 2-4) depending on their apparent trade effects.

2.5.2. "Green Box" measures

As mentioned in the previous sub-section, the "green box" type support[5] is permissible without any reduction commitments (no limit) as they do not have a trade-distorting effect, if not minimally, according to the AoA Art 6.1 and Annex 2. Yet Appellate Body omitted to define the term "minimal", therefore it should be interpreted by comparative analysis of what is perceived as "de minimis" in AoA Agreement while Annex 2, paragraph 1 broadly specifies the measure to be qualified as "green box".[6]

The "Green Box" support covers two groups: the government service programs and direct payments. For the former, it includes the provision of certain beneficial services, domestic food aids, and public stockholding for the food security. In short, they have to be publicly-funded state programs, and should not involve transfers from consumer side on the one hand, and should not have an effect in supporting the prices for producers, on the other. Direct payments are subject to the specific disciplines pursuant to Annex 2 para 6, along with general disciplines of the AoA Annex 2 para 1. And, they can include, for example, decoupled income support, direct payments to producers, income safety-net programs, and income insurance, structural adjustment assistance, payments for relief from natural disasters and payments for regional assistance programs.[7]

[5] As for the term "green box", it represents the color on traffic lights which means "go".
[6] See US-Upland Cotton Case (Appellate Body), para. 333.
[7] See AoA Art 7.2 (a) for modifications to the existing measures to fulfill requirements consistent with the Annex 2.

2.5.3. "Amber Box" measures

The primary aim to conclude the Agreement on Agriculture as a multilateral regulatory framework for agricultural trade was to reduce domestic support measures that are unfairly trade-distorting, such as artificially lowered (or raised) prices. Indeed, the price support is the most significant measure in the Amber Box measures. And, it is provided to the agricultural sector in two ways: (i) by certain types of government funding, or (ii) by administered prices. Those measures include government buying-in at a minimum or guaranteed (procurement) prices as one of the instrument of market price support. Therefore, they are called as 'Amber Box' subsidies, the term comes from 'slow-down-color' on traffic lights. Because those types of subsidies will consequently adversely affect the trading interests of the signatories to the AoA, they are subject to reduction commitments (Chigavazira, 2016; Matsushita et al, 2015; Williams, 2008).

As a matter of fact, all WTO acceding states have pledged to minimize or reduce domestic support type of Amber Box in their Schedules, with a few exceptions (the WTO, 2015). Those countries that provided such type of support during their base period should conclude the base level of domestic support, and concurrently execute specific reduction commitments pursuant to their respective Schedule of Concessions. On the contrary, the other members who did not provide such types of support over the base period are not permitted to introduce or keep them in the future, except negligibly few exceptions. According to the AoA, Art 7.2 (b): "… (b) Where no Total AMS Commitment exists in Part IV of a Member's Schedule, the Member shall not provide support to agricultural producers in excess of the relevant *de minimis* level set out in paragraph 4 of Article 6".[8] As a consequence, there have established the so-called "Total Aggregate Measurement of Support" (hereinafter AMS) to measure the aggregate support of

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[8] According to the Art 18.2, the member states should notify the Committee on Agriculture whenever they change their domestic support measures.

members on the basis of product-specific and non-product-specific support, by calculating three items; (i) the value of market price support, (ii) non-exempt direct payments and (iii) other non-exempt policy measures.[9]

Currently, 28 members, the EU as one, retains non-exempt domestic support throughout their base period, thereby reduction commitments stated in their schedules, as mentioned earlier. Developed and developing countries with a Total AMS are to reduce the base period support by 20% and 13% within 6 and 10 years, respectively. In the implementation period, for any year the *Current* Total AMS for non-exempt domestic support measures should not exceed the scheduled Total AMS limit pertaining to the respective schedule for that year. In short, the maximum level for such types of domestic support are bound pursuant to the WTO rules. Here below we will examine the most significant type of the non-exempt domestic support: the market price support. The market price support is generally provided in two ways: (i) through administered prices (involving transfers from consumers), and (ii) through direct payments by the governments. In the Table 2 below, for the Current Total AMS, the market price support is calculated by 'determining the gap between the fixed reference prices (the world market price) and applied administrative price multiplied by the volume of production', pursuant to paragraph 8 of the Annex 3. . The subsidy of price support, for each product, is added to other product-specific subsidies (e.g., a product-specific fertilizer subsidy) to arrive at a product-specific AMS (See Beans AMS, in the table). It is then calculated towards the applicable de minimis threshold. Here in the example, the only Cotton AMS was included in the Current Total AMS as it exceed de minimis level.

[9] See the AoA Annex 3.6 and 3.8, and Matsushita et al. 2015 and Geboye Desta 2006 for interpretation of the Annexes. And, the Aggregate Measurement of Support is defined in Art 1 (A) of the AoA, and the Annex 3 provides the thorough guidance on the calculations of the AMS.

Table 2: Calculation of Current Total AMS, a developing country (10% de minimis), year X	
Cotton:	
Intervention price for cotton	$215 per tonne
Fixed reference price (the world market price)	$95 per tonne
Domestic production of cotton	1,600,000 tonnes
Value of cotton production	$232,000,000
Cotton AMS (AMS 1) ($ 215–$95)*1,600,000 tonnes =	$192,000,000
de minimis level of 10%	$23,200,000
Wheat:	
Deficiency payments for wheat	$2,500,000
Value of production for wheat	$86,500,000
Wheat AMS (AMS 2)	$2,500,000
de minimis level of 10%	$8,650,000
Beans:	
Deficiency payments for beans	$12,000,000
Fertilizer subsidy	$985,000
Value of beans production	$245,800,000
Beans AMS (AMS 3)	$12,985,000
de minimis level of 10%	$24,580,000
Non-product specific support	
General interest rate subsidy	$3,500,000
Value of total agricultural production	$564,300,000
Non-product specific AMS (AMS 4)	$3,485,000
de minimis level of 10%	$56,430,000
Current Total AMS (only AMS 1)	$192,000,000

Source: Tabulated by the author, relying on the data from WTO official website.

On the other hand, according to the Annex 3 of the AoA, a non-product-specific support is separately calculated, and is included in the Current Total AMS whenever they exceed de minimis level. In our table, it is lower than de minimis threshold, thereby not included in the Current Total AMS.

Hence, whenever the calculation of the product-specific AMS is unfeasible as indicated in the Agreement, the provisions are made up of an "Equivalent Measurement of Support" (EMS). The EMS is measured on the basis of member's budgetary spending to support a product, in place of price support calculated in respect of a fixed reference price (the world price).

The government direct payments can also be exempted from the reduction commitments whenever they pertain to other conditions, such as Blue Box measures.

2.5.4. "Blue Box" measures

Domestic subsidies can also be allowed without limit (be also exempted from reduction commitments) whenever (1) the payments are based on fixed area and yields, or (2) are based on 85 per cent or less of base level of the production, or (3) livestock payments made on fixed number of head.[10] It is because the types of subsidies indicated do not or minimally encourage over-production while Amber Box measures do in contrast, thereby "Blue Box" measures can be trade-distorting but partly. Since they are ruled out, "Blue Box" measures have been heavily used by mostly the EU and the US labeled as non-production-increasing practices, such as livestock headage and arable land payments in (reformed) CAP Program by EU, and the deficiency payments by the US (Swinbank and Tranter, 2005, 6,47,48, Desta 2002, 412, and Anderson and Martin 2006, 229-230).

In this chapter, starting with introducing the WTO system and Accession process, we then provided an overview of the AoA, together with its extent, the relevant interpretations and its applications. We further elaborated the agricultural support regulations, including market access, export competition, and domestic support in order to understand the context and the elements of agricultural support policies of existing WTO-member states which comes in the next chapter.

[10] See AoA Art 6.5.

CHAPTER 3 PRE- AND POST-ACCESSION POLICIES OF WTO MEMBER STATES IN AGRICULTURAL AND COTTON SPHERE: LESSONS FOR UZBEKISTAN

The main objective of this chapter is to examine pre- and post-accession policies of WTO member states in Agricultural Trade, for the sake of policy implications for Uzbekistan's Accession. To determine the scope, three Central Asian transition countries, Kyrgyzstan, Tajikistan, and Kazakhstan are primarily involved in the study for two reasons: (i) their geographical location (landlocked-ness) and similar background upon setting policy agenda (economic planning, predominance of the agricultural production monoculture), and (ii) farm (and production) structure which is the closest that of Uzbekistan within WTO-acceded CIS states. (Lerman et al, 2007; Lerman, 2009). However, because their experience in international agricultural trade policy is limited; Indian and Chinese Accession are also examined to get better benefited from country-experiences to establish wider policy space in global agricultural trade through decades.

3.1. WTO Accessions of India and China

India and China were originally two of the twenty three Contracting Parties to the GATT 1947. The main purpose of the two countries to join the original GATT 1947 was to draw greater attention towards economic development (industrialization) and full employment while securing restrictive measures (quantitative import quotas) to protect their infant industries in order to attain aforementioned purposes (Irwin, Mavroidis & Sykes, 2008).

India is one of the first less developed countries to join international trade regime in 1950s. And, the country is symbolized to lead groups of developing countries in the subsequent GATT Rounds. India has been active in the international trade negotiations though long-decades of negative balance of payments. The country, however, was reluctant to commit to the provisions of the Uruguay Round Agreements. Because, while former seven GATT Rounds involved commitments on border measures such as tariffs and quotas, the Uruguay Round Agreements covered domestic policy measures. Thus, domestic measures on agricultural policies have been great concern for India.

Yet, China, considering the remaining in the GATT table would be ‘at risk’, exited the GATT in a short period after its establishment, and re-applied to join the international trade forum in 1986. Thus, its accession to the WTO (the GATT’s successor) is characterized by the largest legislative and structural reform though fifteen years for two reasons: (i) its re-application itself after the exit from the former respective regime, and (ii) to establish the WTO-consistent legal system that favors not only opening of the Chinese market to the world, but also massive increase in the volume of tradable products and services on global scale. Prior to accession to the WTO, Chinese exports were often subject to discriminatory treatment and anti-dumping actions in overseas markets as a non-member of the WTO. Under the WTO Membership, China should have taken the advantage of new market access for foreign markets and new protection under the WTO rule-based system. (Gallagher P et all, 2005, p. 167). China implemented its commitments, though highly demanding, by gradually lowering tariffs, abandoning import quotas and other restrictions, offering free access to foreign trade and finally opening up to foreign investment. China opened up more than one hundred service sub-sectors, including banking, insurance, and telecommunications. To sum up, China amended 3,000 laws, decrees and regulations at the central level and nearly 200,000 at the regional level in order to bring its trade regime into conformity with WTO provisions. In Agriculture, China’s overall bound tariff was reduced from 15.3 to 9.8 per cent and even lower (Lu Xiankun, 2015, p. 439).

In the following paragraphs, we will examine the agricultural support measures of those two countries.

3.1.1. India: Agriculture and domestic support

India is the second largest agricultural producer, and has been famous for its much protected markets for agricultural commodities, with the highest agriculture tariffs. The four other countries with highest tariffs are Iceland, Norway, Switzerland and South Korea (Laborde, 2007; Gopinath & Laborde, 2008). As mentioned earlier, for India, agriculture is vitally important for two reasons: (i) self-sufficiency; and (ii) employment objectives (Priyadarshi, 2005; Gopinath, 2011). Although the share of agriculture in GDP was declining through a decade from 26.3 % in 1995 to 17.4 % 2014, the agricultural sector accounted for 69% (a little 700 million people) and for 51 % of total employment in India, in 2005 and in 2010, respectively. (The World Bank Database, 2016).

Since 1947, India's agricultural policy objective was to attain self-sufficiency in agricultural production (Pursell, Gulati & Gupta, 2007; Gopinath, 2011). To achieve this goal, it used (a) market price support through border measures (import licensing system) and (b) input subsidies.

At the time of Uruguay Round Agreement on Agriculture, India completed schedules on market access, domestic support and export subsidies. However, India claimed an exclusion from reduction commitments on two pillars (market access and domestic support) in the period after the Uruguay Round on the basis of the balance-of-payments exemption allowed in the GATT (Gopinath & Laborde, 2008; Pursell, Gulati & Gupta, 2009; Gopinath, 2011).

Market Access

Concerning market access, entering the Uruguay Round, India had kept its two-tier strategy of protection scheme for imports: (a) import licensing of most agricultural and non-agricultural products; (b) quantitative restrictions on imported products. (Gulati & Pursell, 1993; Pursell, Gulati & Gupta, 2009). Almost 96% of agricultural tariff lines encountered quantitative restrictions in India's policy measures by 1990. As well as quantitative restrictions, India had adopted high tariffs in the form of three kinds of import duties, made up of (a) basic customs duty, (b) auxiliary tariffs and (c) additional tariffs. While India's basic customs duty peaked at 200 per cent, its auxiliary tariffs varied between 40 and 50 per cent (Honda & Gulati, 2007). A vast number of products, those quantitative restrictions were applied, also faced high tariffs as of import duties, but there were many exceptions in tariffs (Pursell, Gulati & Gupta, 2009; Orden et al. 2007).

Bearing 'the balance-of-payment exemption' in mind, pertaining to the Agreement, India bound its tariff rates for agricultural products which were not bound before. However, upper bound rates of certain commodities negotiated in earlier rounds were retained after 1994 too, and the ceiling rate, after all, was kept as high as 100%, 150% and 300% for commodities, processed products and edible oils, in sequence. And, due to some major changes, such as real exchange rate stability of 14 years (thereby foreign exchange reserves) in the late 1990s, made India eliminate the justification of balance-of-payments reasoning for quantitative restrictions (1999), and import licensing system between 1998 and 2001. As a result, it caused India to re-negotiate its commitments for commodities (rice, maize, sorghum, milk products, etc.) and the post-2003 tariff reduction program in manufacturing (Pursell, Gulati & Gupta, 2009, p. 355; Gopinath, 2011, p. 281). And, the new tariffs, negotiated after 1999, was combined of minimum market access in the form of tariff-rate quotas in the schedule. Surprisingly, the difference between the average applied rate on agricultural products and bound rates was overly high, at 37% and 114.8% in 2004, respectively (Hoda & Gulati, 2007; Gopinath & Laborde, 2008).

Export Subsidies

India was retaining few export subsidies at the time of Uruguay Round negotiations. The two types of export subsidies were: (a) cash compensation scheme (CCS) for exports, which was eliminated as a part of 1991 trade reforms after the AoA, and (b) income tax exemption of profits from exports. The former scheme was to supply cash incentives to exporters, and could be payable for marketing and freight costs. However, income tax exemption of profits has been retained though after URAA, because it did not appear on the export subsidy provisions pertinent to the Agreement (Gopinath, 2011, p. 281).

Domestic Support

Regarding domestic support, India has adopted two main instruments which were (a) the minimum support prices (MSP) for major agricultural commodities, and (b) the input subsidies provided to farmers. The MSP was used for most crops, including cereals, oilseeds, pulses and commercial crops (those are sugarcane, tobacco, cotton, etc.). And, public agencies was responsible for the markets to operate with MSPs as the floor price to procure agricultural products from farmers. In fact, the Food Corporation of India (FCI) was accredited to procure paddy and wheat from farmers, and sugar and rice from millers. (Pursell, Gulati & Gupta, 2009; Gopinath, 2011). The Ministry of Agriculture (MOA) is to decide the level of MSP through recommendations from the Commission on Agricultural Costs and Prices (CACP). By establishing MSP scheme, CACP's aim is to cover the production costs for each crop, including the value of farm labor, and to provide farmers with a reasonable rate of return.

Furthermore, the input subsidies provided to farmers at subsidized prices were (i) fertilizer, (ii) electricity, (iii) irrigation, (iv) credit subsidies, and (v) seeds for poor farmers at zero costs (Gulati & Narayan, 2003; Gopinath, 2011). The main objective of providing fertilizer subsidies was to maintain a statutory retail price for farmers which was below than per unit local cost of production and the price of imported fertilizers. As well as the difference between the domestic cost of production and the statutory price, the fertilizer subsidies also covered the distribution costs of imported fertilizers. Then, in order to produce fertilizers domestically, a retention price scheme creates a fixed sales price for each manufacturer of the fertilizers and this price for each manufacturing unit enables a farmer to buy fertilizers at the statutory retail price. At this stage, the difference between the fixed retail price and the cost of production, and the marginal profit for each manufacturing unit were all covered by the Indian government. This scheme has slightly changed after around 2008-10, but it has been maintained as a major form of the input subsidy for farmers. Electricity subsidies for individual states were flexible and complex, in which each state is to make an individual choice with different electricity departments or boards. Thus, electricity charges on agriculture were at zero or amounted to a little portion of the per-unit operating costs of selected individual electricity department. Irrigation subsidies were at the same state, costing the farmer a little fraction of the irrigation infrastructure's operating expenditures. And, both aforementioned two subsidies was allocated by central and state budgets directly. Credit subsidies are also varied by individual states, in the form of loan waivers, or low interest rates on short-term, intermediate-term, and long-term loans for farmers. And, this type of input subsidy has been increased by 2008, closing to those of fertilizer and electricity type ones. (Gopinath, 2011)

3.1.2. China: Agricultural Support before and after the accession to the WTO

Chinese Agriculture before the Accession to the WTO

In the pre-reform and reform period, two key foreign policies had a negative effect on agriculture. The first, in the pre-reform period, agricultural trade was subject to the planning system (Huang & Chen 1999a, 1999b, Lardy, 2001). To summarize nearly thirty years of Chinese socialist agricultural development by 1978, it is concluded that agriculture could prove its policy-driven character ineffective in fulfilling any of its roles. Adhering the principle that nation's commitment to self-sufficiency in all spheres of the economy, imports were used for only procuring the machinery (which cannot be produced locally) and productive investments. In the 1970s, the state agricultural trade firms monopolized almost all food imports and exports.

The agricultural output was increasing just because of large central and local government investments, along with corvée labor burdened by farmers. Thus, in this pre-reform period, the productivity and incomes were stagnant (Huang et all, 2009, p. 117).

China's agricultural transition reform, as a structural shift towards productivity and higher efficiency, starts from the early 1970s with the implementation of the household responsibility system which was later bolstered by the development of rural township-village enterprises. In the early and mid-1970s, agricultural GDP increased by 2.7 per cent a year, and the annual growth rate reached 7.1 per cent between 1978 and 1984, before dropping to 4.0 % in 1985-95 and 3.4 % in 1996-2004.

During the reform period, the agricultural growth rate was 5 per cent on average annually. And, the growth rate in industrial and services sectors, since 1985, were two to three times faster than the growth in agriculture. Thus, agriculture's share of the GDP declined from 40 per cent in 1970 to less than 13 per cent in 2005. It was the major shift in the economy that industrial and services sectors grew in importance than the decades-age agricultural sector. (Huang et al, 2009, p. 125-126)

Chinese Agricultural trade liberalization: preparation for the Accession to the WTO

Chinese open-door policy took place much earlier than accession-driven policy reforms (Huang & Chen 1999a, 1999b). Between 1980 and 2000, the total value of China's agricultural trade grew by around 6.0 per cent annually. One the one hand, China's growing imports made the country fourth largest importer of agricultural commodities (Gale 2006). But, on the other hand, the level of exports exceeded that of imports every single year since the reforms were launched (Huang et al, 2009).

China's pre-reform strategy of self-sufficiency has changed through over 25 years; the country started exporting the commodities in which it has a comparative advantage and importing those products in which it does not have an advantage. It is remarkably seen in the composition of trade that net exports of the land-intensive commodities, such as oilseeds, grains, and sugar, have declined between 1985 and 2001, whereas exports of higher-valued, more labor intensive products, such as livestock, horticultural and aquaculture products, have grown (Anderson et al 2004; Rosen et al 2004; Huang et al 2009).

After major policy shifts in pricing, marketing, investment and technology over the past decade, China reinforced new policies that straightforwardly favored the agricultural sector, including (i) direct payments to farmers, (ii) agricultural tax elimination, (iii) agricultural input subsidies, (iv) protective and minimum prices, and (v) removal of barriers to private entry into agricultural marketing channels, (vi) research and development, and (vii) more spending on rural infrastructure. In short, China has changed its policy stance from taxing agriculture to supporting it. It was more of the policy agenda that the government-led provision of the various agricultural subsidies to farmers should ultimately raise their income cash, which would, in return, pacify the prevailing resentment that the economic agenda has disproportionately favored the urban people much than rural.

3.2. WTO Accessions by Central Asia's Transition Economies: Kyrgyz Republic, Tajikistan, and Kazakhstan

All Central Asia's transition countries became independent right after 1991-dissolution of the Former Soviet Union. And, agriculture and its relevant sectors were the major part of the all regional economies during the Soviet period and after, accounting at least for 10% of the GDP for each and more than 30-40% employment of the whole population. And, the agriculture in those countries experienced a dramatic decline in the 1990s due to national self-sufficiency policies by the individual governments[11], and their pre-independence level was restored in early 2000s and after. Though these transition economies had a decades-long history of growing and harvesting various agricultural products, they had acquired only a little or no experience in trading those agricultural products in market-based regulations until the dissolution of the Soviet Union, except government purchase of the products in procured prices. Therefore, one of the challenges of the Central Asia's transition economies towards 1994 WTO accession was to establish the structure of the production and export of the agricultural products under market-oriented institutionalized mechanism which fulfills the expectations of the free trade across borders between states.

Of all, the two central problem pertaining to Agriculture sector, in accession to the WTO, are (i) the adjustments in the economic structure of agriculture, and (ii) non-reporting or lack of reporting (to the working party) in full course of the discussions regarding questioned policy whether changed or implemented after submitted policy measures previously. With regard to the former, the main issues are four: (a) privatization of (agricultural) land, industrial and trading enterprises, including food-processing industry, (b) (rights and privileges of) state-owned or state-trading enterprises, (c) agricultural taxation, and (d) sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT). (Brink, 2014)

Privatization issues, ranging from liquidation of government or municipality farms and redistribution to individual farmers matters because the working party's main concern is whether foreigners and foreign companies are allowed to participate in the privatization process as equally as domestic entities, or whether privatization process is transparent, including

[11] During the Soviet Union period, each of the Central Asian countries had concentrated on growing/producing certain limited numbers of the agricultural products predominantly to satisfy the demands of its own and the rest of whole Soviet Union states for those particular product. For example, growing and delivering of cotton and wheat for Uzbekistan and Kazakhstan, respectively; thereby establishing of the government procurement policies in early decades from 1960s.

justifications for exclusions and exemptions for certain regulations. All these caused transition countries lengthening of the accession process, due mainly to delayed land reforms and non-transparent privatization process.

3.2.1. WTO Accession of Kyrgyz Republic: Agricultural Trade at stake

WTO Accession of Kyrgyz Republic

The Kyrgyz Republic (the stated name of Kyrgyzstan as a WTO member) became the first CIS country to join the WTO in 1998 as it took only two years (from 1996) to be a WTO member. Though it is a rare case, obtaining WTO Membership in short period, Pomfret (2007) argues that principle reason is simply that the Kyrgyz Republic was ready to accept existing WTO rules, and incumbent WTO members had no complaints on trade regime and transition of the Kyrgyz economy to a market-based frame. (Pomfret, 2007; Brink, 2014). Therefore, many argue that slow and long-lasting negotiations behind accession process of other CIS states (especially, Central Asian ones) are due to (i) less commitment to transition from centrally-planned to a market-based system, and (ii) being densely-populated regions with larger economy. This notion is inapplicable to western CIS states, as those Estonia, Latvia, and Lithuania acceded at the same time or right after Kyrgyz Republic (1998, 1999 and 2001, respectively).

The main expectation of Kyrgyz Government to join the WTO was, to a large extent, to resolve vast problems around emergent economic destruction and breakdown of supply chains that factories had been involved in manufacturing (of military equipment), thereby causing massive unemployment (Milanovic, 1998; Christensen & Pomfret, 2008).

Being dissimilar with other transition economies, the GDP of Kyrgyz economy was constantly and predominantly reliant on agriculture as a principal sector while it accounted for two-fifth (of GDP) in 1991, half in 1996, above a third in 2000, one fifth in 2010. Despite the gradual and constant decline in agriculture's share of GDP, more than 50 per cent of the population is dependent on the farm, directly or indirectly, as of 2001 (Christensen & Pomfret, 2008, p. 265). However, since 2002, it dropped steadily to even about 32% without any surge by 2013. And, it is characterized by a massive gradual increase in imports, till the present (the Ministry of Economy of Kyrgyz Republic, 2015).

Domestic Support policies of Kyrgyz Republic in WTO Accession

The Kyrgyz Republic abolished its monopoly on international trade from 1994. By then, it had sought fairly moderate and liberal (probably loose) economic policies, in fact, pursuing MFN principle for the potential accession to the WTO. When acceded in 1998, its all sectors were included in the commitments under General Agreement on Trade in Services (GATS), and its MFN tariffs were at a maximum of 15% (mostly of 10%), with no specific duties. And, tariff rate was even lower, 5% for imports from developing countries, zero tariff rate for trades within CIS states and LDC countries (Mogilevskiy, 2004; Christensen & Pomfret, 2007; Christensen & Pomfret, 2008).

The country concluded a nil commitment on Bound Total AMS, with not more than 5% de minimis[12] AMS support (Brink, 2014, p. 17). It reported both green box support utilizing structural adjustment assistance as an investment aid (as of 1994-1996) and product-specific support for many crops and various non-product-specific AMS support programs, such as (i) input subsidies for fertilizers and fuel and (ii) credit support by the rescheduling of arrears and preferential credit for agricultural purposes. But, in the case of Kyrgyz Republic, the volume of both non-product-specific and product-specific AMS was lower than 5% de minimis support

[12] The term "de minimis' refers to "the minimum amount of domestic support" that is permitted for the member states to exercise, although they distort trade. It is up to 10% of the value of production for developing countries, and 10% for developed ones.

for both value of production for each product and the total value of agricultural production, respectively (Brink, 2014).

Export Policy of the Kyrgyz Republic

The country applied temporary restrictions on export after its accession to the WTO, and imposed export duties on certain products, including foodstuffs and livestock feeds in 2008. Then, the same measure imposed to the fertilizers in 2012 in order to aid farmers. The country further banned the export of wheat and meslin within 2012 October 2013 April (Brink, 2014; WTO, 2013g).

3.2.2. Tajikistan's WTO Accession: Agriculture and Cotton

The main objective of Tajikistan to join the WTO was to access to new markets (in Western Europe and China) that were, to trade on favorable terms, unattainable before Accession, and to gain the right to freedom of transit under GATT/WTO regulations. And, in order to secure the WTO participation, the government of Tajikistan made several domestic reforms: it enacted, repealed, and amended about one hundred laws and regulations (Nazriev, 2015).

Tajikistan before Accession to the WTO and Agriculture

The Republic of Tajikistan is one of the mountainous (93 %, including plateau) and landlocked country in Central Asia, with the population of 8.5 million and GDP per capita of 928 US$, both for 2015. While country's dominant export product is aluminum (more than 50%), it also exports hydropower, vegetable oil, fruits, cotton and textiles to Russia, China, Turkey, Uzbekistan, Iran, and the Netherlands. The main import products are oil and its derivatives, electricity, machinery, cars and foodstuffs from the same countries above, except the Netherlands.

High transportation costs, shortage of access to the seas, remoteness from global markets, territorial constraints, and the political instability have long been the major barrier to the economic development of the country (Pomfret, 2008, pp. 301; Narziev, 2015, pp. 558).

It is an agrarian-industrial country with substantial water resources, favorable climate, and cheap labor. It has a comparative advantage from agriculture (mostly grain) and animal husbandry. However, high transport costs make agricultural trade less competitive when exporting. Tajikistan has maintained an intermediate position between centrally-planned and marked-based systems due to many factors, including (i) land reforms which come from the breakdown of the planned economy by 1992-1997 civil war, (ii) lack of water pricing, (iii) unclear property rights system.

Among Central Asian states, the Tajikistan is the second, after the Kyrgyz Republic, to introduce domestic reforms in order to attain market-liberalization and to comply with the international trade regulations. After ten years of economic growth by 2012 (GDP increase of twofold), it has aimed at developing mining industry (including extracting and processing of minerals, precious and semi-precious stones) by inviting FDI to undertake joint ventures focused on manufactured final products.

The WTO Accession of Tajikistan and Domestic Support in Agriculture

During the plurilateral meetings in accession process, Tajikistan could manage to keep its agricultural support level at 8 percent of the GDP, as the sector being critically important for the national economy. While the final average bound rate has been maintained at 8.0 per cent, the highest among WTO-acceded CIS states; the average final bound rate for agricultural products has been 10.4 per cent, and for non-agricultural products is 7.6 per cent.

Tajikistan's total green box expenditures, as of 2008-2010 base period, amounted to 7.9 million US$ which had comprised of (i) general services in the form of research, pest and disease control, infrastructure for irrigation, roads and drainage (7.1 million US$), and (ii) investment aids for structural adjustment (0.8 million US$). It is unusual that the country reduced its investment subsidies to the agriculture from 5.3 million US$ in 2008 to 2 million US$ in 2010, while it was exempted in the development box as it amounts to 4 million US$ on average. And, AMS support (of free distribution of seeds) reported for corn, potatoes and wheat below 1% of each product's value of production was also exempted from Current Total AMS, because it was very small at the amount.

Tajikistan had non-product specific AMS of 200 to 300 million US$ which did not exceed the de minimis threshold of 10%, while its value of agricultural production amounts to two to three billion US$). However, its many product-specific AMSs have been in excess of its respective de minimis level, and amounted to more than 180 million US$. Though additional product-specific AMSs did not exceed de minimis threshold for other products, further increase is predicted as long as the value of production grows over the upcoming period (Brink, 2013).

Hence, it is worth noting that Tajikistan may upsurge its domestic support in development and green boxes with no limitation. Therefore, the country can benefit from using greater domestic support policy space within the Bound Total AMS, enjoying exemptions (FAO, 2012). Then, the next challenge can only be the ample resources to execute those policies, and effectiveness (cost-benefit analysis) of pertinent programs or policy measures.

Cotton Sector in Agriculture

Cotton is the second of the two most important export product for Tajikistan, aluminum being the first. Mechanization of the cotton harvesting of Soviet Union in the 1960s had led 320 hectares of land in Tajikistan sown for cotton production (Lewis, 1992). And, the industry has grown until the dissolution of the Soviet Union, and it suffered from civil war and its consequences in poor performance of governance on land reforms, then recovered at around 2000.

Cotton sector had received domestic support of nearly 550 million US$, as reported, in only 2009. Yet, it was by reason that cotton sector debt had been written off, this support was recorded as high as half of the value of cotton production which is more than 180 million average cotton AMS within 2008 and 2010. And, it cannot be reduced within transition period. Moreover, other non-product-specific AMSs, amounting to almost 4 million US$, was exempted because it was negligibly small in proportion to the value of production, at 0.15 %. This non-product specific AMS came from discounted electricity charges for water pumping in year 2010, and exemptions from value-added tax for importation of the machineries and poultry feeds.

3.2.3. WTO Accession of Kazakhstan and Agriculture

Kazakhstan's Agricultural Sector before Accession.

Kazakhstan's post-independence (1991) agricultural trade was characterized by exporting primary products and importing processed food products, and this pattern remained as it has been major exporter of grains, vegetables and fruits to Russian Federation as well as CIS countries (Pomfret, 2008, pp. 221 & 227-228). Perhaps there occurred deep crisis during 1990s, the farm sector was neglected by the central government. However, it then attracted greater attention in the early 2000s when budgetary assistance (the government revenue extracted from oil exports) was provided to agricultural sector through Agricultural and Food Program of 2003-05.

However, since independence, architecture of the agricultural sector in Kazakhstan has undergone a comprehensive transition from a planned economy to a market economy, direct involvement or intervention in agriculture by the government has been declining to a minimum level in the last two-decades. The decision making of the usage of lands, the processing of agricultural products and trading of final products are currently handled by the farmers themselves (not the government or its local entities) (Shtaltova & Hornidge, 2014).

The WTO Accession of Kazakhstan

Kazakhstan submitted its application for the accession to the WTO on January 29, 1996, and the Working Party (of 43 member states) was established on February 6. Within 2003-2015, the country concluded its bilateral negotiation on goods market access with thirty WTO member states (EU as one member), and services market access with fifteen WTO Members. And, it actively entered into plurilateral negotiations on agriculture and on the trade and economic issues through twenty working party meetings, within the same period, and became the WTO Member from 2015, November 30 (WTO, 2015).

Cotton Policy of Kazakhstan

The government of Kazakhstan declared to prioritize its agricultural sector for the decade leading up to 2020, concentrating more on eight agricultural subsectors, including grain, fruit, vegetables, sugar, milk, oil crops, meat, poultry, and wool (Pomfret, 2013). The primary objective to establish the program is to develop competitive environment among farmers. Though cotton is not in the list of priority crops, the government supports cotton producers as a part of the development program in agricultural in order to attain a stabilized level of advancement in the field of cotton production (Umbetayev, 2012; Shtaltova & Hornidge, 2014).

In the southern region of Kazakhstan, the government established a resolution known as 'Projection of the socio-economic development of the Southern Kazakhstan region for 2013-2017' which provides multiple measures to promote cotton production: (i) subsidies for fuel and fertilizers; (ii) subsidies for utilizing drip irrigation (216 US$ per ha); (iii) agricultural support to cotton seed development farms; (iv) subsidy for the land under cotton growing (118.8

US$ per ha); (v) subsidized loans (annual 4 per cent); and (vi) diversification of cotton growing program in the region, in the form of subsidies to the farmers who grow fruits and vegetables instead of cotton.

Domestic Support

Domestic support increased in the country in 2011-2012, according to the OECD study. More than 70% of the support was supplied as MPS resulting from interventions in the grain sector (wheat in particular), and border protection in the livestock (OECD 2013a, 2013b). Other support forms such as per ton payments for poultry and eggs farms, and per hectare payments differentiated by technology and crop itself. Various types of domestic support were supplied for inputs such as loans with low interest rates for sowing, harvesting, and government-selected investment programs. Domestic subsidies were given for chemicals, fertilizers, elite seeds, delivery of irrigation water, breeds of and feed purchase for livestock. Programs are applied to increase domestic support subsidies to the so-called “agro-industrial complex”, including primary agriculture as well as processing industry, by 4.5 times from 2013 to 2020 (FAO, 2012h).

While support from border protection alone is not represented in the measurement of AMS for WTO purposes, intervention in grain markets, such as purchases of wheat or other crops by a state agency, might require the calculation of WTO market price support. The crucial factor is whether or not the purchase prices are administered prices as indicated in the AoA. Thus, depending on specific parameters of the instruments Kazakhstan uses to provide support to agricultural producers and how they are interpreted in relation to the Agreement on Agriculture, the calculation of AMSs may generate larger or smaller amounts of AMS support in the base period. The support through purchases of wheat by the government agency at prices above market prices was moderated by the poor infrastructure, which increased the cost of transportation (OECD 2013a).

Many of the instruments for delivering input subsidies, such as those for fuel, water and credit, seem to benefit agricultural producers in general, which would result in such support being accounted for in the non-product-specific AMS. If the non-product-specific AMS is larger than the de minimis threshold in the base period, it contributes to the size of Bound Total AMS. This threshold would have been about 640 million US$, assuming Kazakhstan's 2010-12 value of production in agriculture for WTO purposes is the same as that used by the OECD (calculated from an average 2010-12 value of production of 12.8 billion US$, using OECD (2013b)). A much larger non-product-specific AMS in the base period would contribute to a correspondingly larger Bound Total AMS, along with any product-specific AMSs that exceed their respective de minimis thresholds in the base period.

The size of the Bound Total AMS depends on the de minimis percentage applied in the base period, whether it is 5 or 10 percent, or perhaps even something in between, such as the 8.5 percent applied in China's accession to the WTO. If Kazakhstan's Bound Total AMS is derived from support in a recent base period, such as 2010-12, the scope to increase AMS support in future years from base period levels would be circumscribed to some extent. The sum of non-de-minimis AMSs could not exceed the Bound Total AMS, although there would, of course, be room to increase some AMSs up to their respective future de minimis thresholds. The green box support could also be provided without constraint. According to the notifications to the WTO by Kazakhstan, the country utilized the export restrictions or taxes.

3.3. Conclusion to Chapter Four

In this chapter, we have examined pre- and post-accession policies of WTO member states in Agricultural Trade. As of WTO-member states, we have focused on three Central Asian transition countries, Kyrgyzstan, Tajikistan, and Kazakhstan, for two reasons: (i) their geographical location (landlocked-ness) and similar background upon setting policy agenda (economic planning, predominance of the agricultural production monoculture), and (ii) farm (and production) structure which is the closest that of Uzbekistan within WTO-acceded CIS states. However, because their experience in international agricultural trade policy is limited, we have extended the scope by including Indian and Chinese Accession in order to get better benefited from country-experiences for the sake of policy implications for Uzbekistan.

Firstly, looking at the country experiences of the WTO-member states, it can be concluded that all the member states extensively utilize domestic support measures, being India the most active.

Secondly, depending on the trade interests of the negotiating countries and the experiences and technical capacity of acceding states, the policy space of the member governments can be different. And, the technical capacity of member states prior to the WTO accession playes vital role in the accession process, thus wider policy space in negotiations. In our study, we have observed that the member states such as India and China with WTO-trade centers of domestic experts have succeeded meaningfully in the market access negotiations stage and post-WTO accession policy agendas.

Thirdly, newly-acceding countries can benefit from the experiences of the incumbent WTO-members states. The Russian Federation and Tajikistan could benefited from gaining much better of AMS Support through learning the case of Kyrgyz Republic and other CIS countries.

Here below in the table 3, we will outline the elements of the domestic support and export policies, we have examined in the case of Central Asian countries, and India and China.

Table 3. The Elements of Domestic Support and Export Subsidies in Central Asian countries, and India and China.[13]

Countries	WTO Member, year	Dominant Farming Structure	Export Subsidies	Types of Domestic Support	Final Bound Total AMS	De minimis
Kyrgyz Republic	Member (1998)	Individual small farmers	No		0	5% de minimis
Tajikistan	Member (2013)	Individual small farmers	Yes in base period, but 0 in bound export commitments	No notifications, but hidden subsidies for cotton production.	182.7 million US$	5% de minimis
Kazakhstan	Member (2015)	Individual small farmers	—	Input subsidies for fertilizers, electricity, mechanization, services		5% de minimis
Uzbekistan	Non-member	Individual small farmers	Not available	Inputs (fertilizers, electricity, mechanization, services) in subsidized prices	No	No
India	Member (1995)	Small and medium farmers	Yes	Subsidies for fertilizer, electricity, MPS, etc.		10% de minimis
China	Member (2001)	Small and large farmers	No	Direct payments to farmers, other domestic subsidies		5% de minimis

Source: Tabulated by the author relying the data on the WTO official website and Brink (2014).

In the next chapter, we will examine cotton policy of Uzbekistan, focusing on its domestic support and export policy in a broad sense. And, we will further explore whether current policy agenda for the manufacture and export of the cotton is consistent with the AoA.

[13] The authors could not find the data in the empty cells.

CHAPTER 4 UZBEKISTAN AND ITS COTTON POLICY

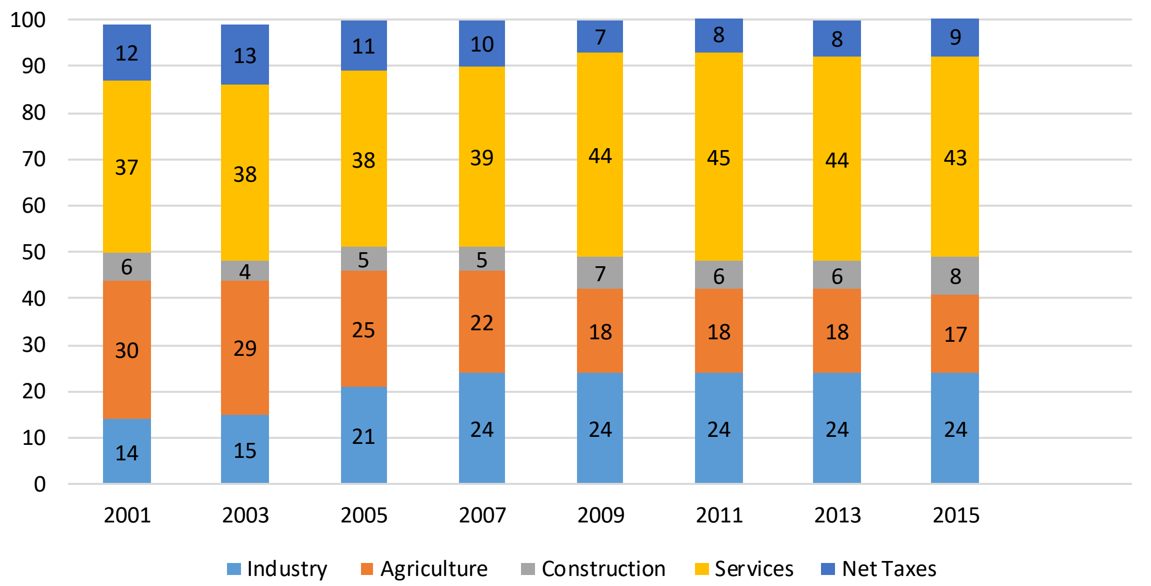
The major purpose of Chapter four is to examine Uzbekistan's cotton policy as the country pursues its WTO accession from 1994. To carry out this, the chapter (i) offers specific examination into Uzbekistan's cotton policy, focusing mainly on domestic support and export policy, and (ii) explores further whether current policy agenda for the manufacture and export of the cotton is applicable by and consistent with market-based regulations of global trade while the country is at the forefront of joining the WTO, an organization for rule-based global trading system, (iii) makes use of policy implications from country-experiences examined in the previous chapter, and comes up with conclusions.

4.1. Uzbekistan and WTO Accession

The Republic of Uzbekistan, a double-landlocked country of Central Asia, is bordered by five states: Kazakhstan, the Kyrgyz Republic, Turkmenistan, Tajikistan and Afghanistan. From the first days of independence, the government of Uzbekistan declared to run market economy through the gradual transition period and beyond. Since then, the country kept protracted phase of sustained economic growth, with slightly difficult periods in early independence (1991). However, international financial institutions still blame the government of intervening in the business of public and private entities. Its economy predominantly relies on manufacturing and trading of goods, especially natural resources including cotton yarn, gold, petroleum gas, copper, and automobiles.

In 2015, 43 % of the GDP came from the service sector, while 24%, 17%, and 8% are from industrial, agricultural and construction sectors, respectively (Figure 3). Of all sectors in GDP structure, there observed remarkable growth in industrial and service sectors which contributed to the economy significantly, from 2001 to 2015. Services remained increasingly stable from 37 % (as of 2001) to 43-45 % between 2008 and 2015. In addition, the share of the industry contributing to the GDP increased by approximately 10 % during the last decade (24.1%, as of 2015), outnumbering that of agriculture (17.2 %). Amounting to nearly 30 % of the GDP in 2001, the agricultural sector declined gradually to 22% in 2007, then maintained the stable state at 17-18% over eight years by 2015. Though, its share in the GDP reduced over the observed period, it is the fact that the share of the labour force in the sector did not decline proportionately, at 26%, as of 2014 (WB, 2015).

Figure 3. GDP Structure by Sectors of Economy, 2001-2015 (%)



Source: "World Bank Group – Uzbekistan Partnership: Country Program Snapshot", 2015.

The economy grew steadily through the last decade and brought a substantial portion of the population out of poverty. Despite that the population size increased by half, from nearly 21 million in 1991 to about 31 million in 2013, the GDP per capita growth reached just above 2,000 US$ of 2015 from 650 US$ in 1991, with fluctuations in the first decade (Table 4). It is probably because the increase in the export of natural gas, copper, and gold (at high commodity prices) brought about budgetary revenues which enabled to increase the allocations in investment and income to encourage domestic consumption. But, the country needs to pursue the new drivers for stable economic development in the near future due to predicted steady decline in commodity export, and the prices for commodity exports in the world market are not to repeat the last decade record. Nevertheless, the country set the goal of attaining the upper-middle-income status through improving the competitiveness, the business environment, and the domestic infrastructure to accelerate job creation by 2030 while it had started Country Partnership Framework (for 2016–20) with the World Bank Group. This Framework prioritizes three spheres to develop: (a) private sector, (b) modernization of agricultural sector, and (c) improvement of public service (WB, 2016).

Table 4. Population and GDP Growth Rate in Uzbekistan.

Years	Population Growth, million	Population Growth, annual %	GDP, billion US$	GDP per capita, US$	GDP per capita growth, annual %
1991	20.95	-0.50	13.68	652.81	-2.59
1993	21.94	-2.30	13.10	596.98	-4.50
1995	22.79	-0.90	13.35	585.93	-2.68
1997	23.67	5.20	14.75	623.00	3.24
1999	24.31	4.30	17.08	702.48	3.18
2001	24.96	4.20	11.40	456.70	2.89
2003	25.57	4.20	10.13	396.13	2.99
2005	26.17	7.00	14.31	546.78	5.76
2007	26.87	9.90	22.31	830.41	8.37
2009	27.77	8.10	32.82	1181.85	6.29
2011	29.34	8.30	45.32	1544.83	5.43
2013	30.24	8.00	56.80	1877.97	6.33
2015	31.30	8.00	66.73	2132.07	6.13

Source: The World Bank Data, 2016. (Tabulated by the author).

The government adopted numerous development programs in agriculture, infrastructure, industry, and energy-efficiency programs for the period 2015–19. It has declared to cut administrative obstacles for small-scale entrepreneurship, instituted standards for corporate governance at state-owned enterprises, and started privatizing shares of more than 1,200 SOEs till the end of 2016, and to help diversify the private sector. (WB, 2015)

The WTO Accession.

Uzbekistan has not yet joined the WTO. It applied for the membership in 1994, and the Working Party on Accession was established on December 21, 1994. Three Working Party meetings were held, the last being in October 2005. Since then, Uzbekistan has kept updating its legislative framework in order to be consistent with WTO provisions. And, in 2013, the country asked the assistance from WTO Secretariat to prepare to proceed its WTO accession negotiations, according to 2014 Trade Report by the US Trade Representative Office. Since then, there have been remarkable improvements in the border, fiscal and agricultural policies which will be discussed in the subsequent paragraphs.

4.2. Trade Policy of Uzbekistan and Agriculture

The main objectives of the trade policy of Uzbekistan are (a) import substitution, (b) development of export-oriented industries, (c) support of local producers, and (d) improvement of the competitiveness of products, manufactured locally, at the domestic and foreign markets (Ilina, 2016).

In 2015, real GDP increased by 8%, supported by a large fiscal stimulus that was prompted by the worsening external environment. Uzbekistan's growth rate makes it one of the rapidly-growing economies among lower middle-income countries over the past decade. This reflected still buoyant domestic demand, driven by countercyclical government policies that largely offset the impact of the worsening external environment. These policies included a strong increase in investment of 9.6 percent year-on-year that drove growth as business taxes was cut, a new public investment program adopted for 2015–19, and the delivery of more credit to small firms (WB, 2016).

As mentioned above, in 2016, in the global market prices for natural gas, copper, ferrous metals, and gold have declined by 18%, 9%, 11% and 7%, respectively, affecting the export incomes of the country. Moreover, the decline in the demand from the main trading counterparts will be reflected in Uzbekistan's lower export, current account, and budget revenue surpluses.

In the economy, agriculture still plays a major role, amounted to nearly 20% of the GDP, and employing just below than 30% of the population. About more than 10 % of the land is utilized for intensive agriculture, whereas approximately 40% of the total land is used by natural pastures. Although, since 1991, cotton production has declined by 35 percent, it still dominates in the agricultural sector, being sixth biggest cotton producer, and fifth largest exporter. The other areas are covered by fodder crops, potatoes, tomatoes, rice, barley, grapes and apples. Though the area designated for nuts trees and fruits is noticeably smaller than cotton and wheat fields, the existing climatic environment is appropriate to expand the production (McDonald, 2012).

The growth of exports of food products was 113.2% in 2014, and share in total exports - 11.9%. And, the imports of food products increased by 113.1% in 2014. Thus, the average indicator for 2010-2014 years shows that export has grown on averagely 132.2% annually, while import on average of 115.3 per cent (Ilina, 2016).

4.3. Government Domestic Support of Cotton: Production and Export

The production and export of cotton have many decades been the backbone of the economy in Uzbekistan, remaining to be fifth largest cotton exporter and sixth largest producer in the world at the moment (The World Bank, 2015; Bendini, 2013).

Although its popularity has declined quite recently, cotton yarn and cotton products still account for 20% of the GDP and 11% of the foreign export (Golub & Kestelman, 2015; Responsible Sourcing Network, 2012). It is planted in all 12 provinces of Uzbekistan around in April and early May, and harvested from September till the late November. There are now approximately 40,000 farmers involved in manufacturing cotton.

After independence in 1991, Uzbekistan declared to lead market-oriented transition and liberalization of the economy. However, the country still intervenes in cotton production and purchase raw cotton from farmers based on centrally set State Procurement Price (hereinafter SPP). The government and its relevant entities are involved in each stage of producing cotton, including (i) field activities, ranging from selecting appropriate farmlands (also their size, location, etc.) to sowing the seeds, until prescribing total product output; (ii) management decisions in farming such as determining plowing dates, irrigation, fertilizer application, and harvesting (Djanibekov et al, 2010; Veldwisch & Spoor, 2008). In turn, the government still promotes entire input system, including subsidizing; fertilizers, maintenance and operation of irrigation systems, fuel, and machinery services) to grow the cotton product (Bobojonov, 2008).

From 2000s, the architecture of the cotton production has been evolved in the way that the incumbent government entities have experienced the processes of transition (into free-market structure), privatization, and transformation into semi-governmental and private entities, up to now. From 2001, National Association of "Uzhlopkoprom" was given an authority to manage the quality and the quantity of cotton and its by-products (e.g. raw cotton, cotton yarn and lint), and had regional "Hlopkoprom" joint-stock associations. In turn, the "Uzdoshlopkopromsbyt", has been in charge of buying and selling of the raw cotton, and responsible for the delivery of processed cotton production for the export.

4.3.1. Domestic support policy of Uzbekistan

Cotton input system

In Uzbekistan, agricultural input system inherited from Soviet Union period still favors cotton production by its comprehensive service support, but lacks effectiveness. There are, for farmers, many government-affiliated and non-government-affiliated entities involved in manufacturing the production of cotton, including fertilizer suppliers, banks, veterinary stations, bio-labs, alternative machine-tractor parks, water user organizations, and fuel suppliers.

It is fairly evident that the government input subsidy and harvesting system of cotton production break the fair market rules for competition as well as deteriorate the effectiveness of conducting private farm business in employing development. In fact, Uzbek farmers have deep roots in manufacturing cotton without government support in earlier times. In 1860s, the old independent states occupying today's territory of Uzbekistan (namely, the Bukhara Emirate and the Khiva and Kokand khanates) were the main cotton supplier of the Tsarist Russia (Djanibekov et al, 2010).

After independence, the architecture of the agricultural input and service system has been evolved in parallel to the privatization of lands (2004) for farming. In other words, the former system in which a few large state farms enjoyed centrally-operated agricultural services entities transitioned to deliver the same services to a fairly wider contingent of individual farmers (Shtaltovna & Hornidge, 2014). The transition process has rapidly accelerated because of flexibility in terms of control and state supervision, and financial autonomy. However, the peculiarity is that they were still remained under obligation to deliver the inputs and services for cotton and wheat production whenever requested by the farmers, in pursuit of fulfilling the demands of state procurement plan annually. The main distinction between pre- and post-privatization systems in agricultural production and service delivery is that, though still subordinated to the central government, today both agricultural services providers and the farmers can de jure function independently and benefit from the profit derived from in excess of the procurement plan.

As the architecture of the agricultural service providers have changed since two and half decades from independence, today the government employs several of them. Shtaltovna and

Hornidge (2014) categorizes the agricultural service providers into three: (i) state-affiliated service providers, which was widely discussed in previous paragraph, (ii) state-ignored service providers, and (iii) state-neglected ones. The first includes the entities responsible for the delivery of the fertilizers, fuel supply, gas, along with cotton gins and wheat mills which the government still have a pervasive control over those industries, thereby closely tighten to the state mandates. The certain limited number of banks that are responsible for the credit lines for the delivery of inputs, services and other transactions to the farmers.

The second one, state-ignored, comprised of external input suppliers, independent bio-labs and veterinary services, insurance and other services for horticulture and animal husbandry. Thus, the regular users and consumers of those agricultural services by state-ignored service providers are private commercial farmers, individual horticulture and animal husbandry farmers which all not being subjected to state procurement. The third one is types of agricultural service providers which is still in the transition from state-affiliated to state-ignored service providers, those alternative machine-tractor parks, semi-state bio-labs, water user organizations and farmers' organizations for consulting and other services (Shtaltovna & Hornidge, 2014; Shtaltovna, 2013). The main difference from their previous status is that the volume of the services they provide could slightly be reduced due to less financial and technical support from the central government. In contrast, many of them can also be active in the delivery of services because of few plausible facts: (i) since the farmers are de jure independent to contract with any of the service and input providers, state-neglected service providers can still utilize their old networks with farmers and other entities, (ii) because those state-neglected service providers will be financially independent to make decisions, they can use their technical and financial resources effectively, without government mandate.

4.3.2. Cotton export policy

Cotton export policy of Uzbekistan is one of the heavily criticized, less explored sphere of the study. Among a few, the most closely-analyzed researches conducted by Pomfret, R., Lamers, J.P., Djanibekov, N, Rudenko, I, Guadagni, MacDonald and others. They explored mainly the state-procurement pricing (in forming value of production), export pricing, foreign exchange rate and other policy measures.

State procurement pricing (SPP) system

It is a fact that cotton exporting countries, especially those developing ones, temporarily happen to confront remarkable gaps between their export prices (administered price) and the world price (fixed reference price) due to that the price fluctuates frequently and concurrently in the world market. Though Uzbekistan is considered to be one of the two double-landlocked countries in the world, leading Uzbekistan's transporting costs higher than its competitors, SPP is set permanently well below world price average. The government of Uzbekistan has justified its relatively lower export price, but it is not fully convincing by 3 factors: (a) cotton export price system, (b) government's exchange rate overvaluation[14], (c) export parity of overstated domestic prices and reportedly extensive subsidies (Pomfret, 2008; Rudenko, 2008; Djanibekov et al, 2010).

The cotton export pricing system

The cotton export pricing system of Uzbekistan is one of the debatable topic due to the non-transparency issue. Mainly, there have been two differing arguments in the interpretation of the export pricing of cotton: (i) the first, an attempt to define and interpret the unclear pricing system through using publicly-available data and economic methods to disprove the government's justification for export pricing policy; (ii) the second, a direct observation along

[14] Since Uzbekistan is exporting about 21% of its cotton (2015), foreign exchange rate policy plays a key role in controlling capital flows and its exchange rate which influences export output and the share in GDP.

with cost-benefit analysis for the export price in order to clarify and explore the contemporary condition of the cotton export. Both are involved to elaborate the reason for the cotton export price being relatively lower than the world price while transportation costs to deliver the Uzbekistan's cotton makes the export prices quite expensive. The following paragraph explains those two arguments.

The first studies claim that Uzbekistan is regulating cotton export price under implicitly unclear pricing system, rather than liberalizing its cotton-exporting policy and exploring valuable predictability measurements in order to adapt to the world price. Guadagni et al (2005) explains the export price mechanism, asserting the idea of overstating the costs, while Rudenko et al (2009) indicate the process in which semi-governmental and affiliated trading companies are involved in the determination of export price. In the process, around 75-80 % of the cotton production is exported. Another portion of the export comes from the cotton received for domestic mill use bought through the Uzbek Commodity Exchange.

MacDonald (2012) asserts that the foreign trade of cotton is heavily managed by the official channels of Uzbekistan, and the export price is determined by balancing the competing interests within the government, semi-governmental entities and three foreign companies. In other words, the semi-governmental state joint stock company UzPakhtaSanoat monopolizes the cotton ginning and negotiates the export price of cotton with the three foreign trade companies, State Joint Stock Foreign Trade Company Uzmarkazimpex and Uzprommashimpeks, Joint-Stock Company Uzinterimpex.[15] This process restricts the transmission of the global price, and allots the resources to be transferred from cotton producers, either directly by the government or indirectly through semi-governmental entities. Rudenko, Lamers and Grote (2009) notes that

[15] Those three companies were authorized by the Ministry of Foreign Economic Relations, Investments, and Trade to trade Uzbekistan's cotton in the market.

the export price for cotton are based on the A Index[16] which is considered to be the world price of cotton published by Cotton Outlook Ltd. Accordingly, unpredicted price modifications between initially negotiated prices and the final price at the time exportation are absorbed by the aforementioned three trading companies, thereby effectively smoothing farm prices. In this way, they justify the arguments why the contract price of exported cotton by the Government of Uzbekistan never outnumbered the world market price of cotton even in the period of dramatic decline.

The whole arguments and explanations could be partly true in terms of the formation of the export price for cotton. Yet, the arguments lacks in two ways: (i) they disregard the crucial points in terms of actual bargaining power in the conduct of the country's cotton export, and (ii) they omit some important facts about the condition that has changed since the some studies aforementioned have been conducted, thus made them outdated.

Regarding the first point, the statement about the export price of cotton, which is claimed as underestimated in order to absorb the extracted earnings from speculated exchange rates, is not fully acceptable. In fact, there is other plausible explanation for the export price of cotton being lower than the world market price. In practice, because while the world price of cotton constantly keeps volatile, the government of Uzbekistan intentionally lowers the price in order to secure the long-lasting interests of the already established networks (major trading partners). More importantly, there is only little interest by the western and other countries for the exportable cotton of Uzbekistan due probably to lower domestic quality standards on cotton.[17]

[16] 'A index' is an average of the five lowest quotes for middling 1 3/32' upland cotton among nineteen categories of cotton traded globally.

[17] The study does not discuss "the child labor" issue for two reasons: (i) it is not the center of discussion for this research, and (ii) it is today almost resolved issue so that holds not strong effect. In fact, according to the official sources, there is going to be improvement in the harvest policy in which hand picking of cotton (to secure the quality of the harvest and due to seasonality) is replaced by automated machinery by 2019-2020.

In fact, EU, the US and other certain developed countries had already suspended the import of cotton and cotton products from Uzbekistan.

With regard to second point, there have been a few considerable steps in trading Uzbekistan's exportable cotton. Since the First International Uzbek Cotton Fair has been established in 2005, the government of Uzbekistan developed the experience that organized its XII International Uzbek Cotton and Textile Fair as of October 2016, attracted around thousand companies from the world's forty countries. During the Fair, for the export price to be set, the initial price comes from Cotton Outlook's Index at first, as mentioned earlier. And, the final contracting prices could be determined depending on the offered price by the companies. In addition, pursuant to 44th Resolution of the Cabinet of Ministers (2016) on "On additional measures to establish the activities of the Holding Company UzPahtaSanoatEksport, being a part of UzPakhtaSanoat", it has been the necessary changes in the former regime of the cotton export.[18] As a result, one of the main responsibilities of the Holding Company has been, taking into consideration of the world market condition, to organize the negotiations of the export contacts on the the delivery of the cotton and its by-products. Therefore, the company has been one of the key organizers of the XII International Uzbek Cotton and Textile Fair 2016.

The government's exchange rate overvaluation

Since Uzbekistan is exporting about more than one fifth of its cotton production, foreign exchange rate policy plays a key role in operating capital flows and its exchange rate which influences export output and its share in the GDP. Therefore, the studies indicate that, when examining the interaction between the SPP and the overvaluation of the exchange rate, the central government set the SPP intentionally lower than the world price due that it can be convertible to the real exchange rate. MacDonald (2012) explains the process that, when valued

[18] http://lex.uz/pages/getpage.aspx?lact_id=3060747. Last accessed on January 11th, 2017. The abbreviation "Uzpakhtasanoateksport"came from "the organization for the exports by cotton industry of Uzbekistan".

at official exchange rates, the SPP of Uzbekistan has recorded as low as around 50 percent on average compared to the world price in the 1999/00-2010/11 period, and as low as 60 percent on average at parallel markets. And, his argument underlines that the SPP considerably underestimates the value of the export cotton in the world markets.

4.4. Uzbekistan's Agricultural Support for Cotton: from WTO Law perspective.

4.4.1. Domestic support

From here, we will discuss how the accession to the WTO would affect the already established domestic support mechanism of cotton policy. In other words, Uzbekistan's possible joining the international trade arena with binding rules could affect its domestic structure of promoting the cotton production.

Since 1991, there observed plenty of reforms to the domestic support structure of cotton production in Uzbekistan, as we discussed in previous subchapters. Regarding the institutional making, the three major Cabinet Resolutions and Presidential Decrees are: (i) the Resolution of the Cabinet of Ministers (2000) on "the establishment of a special commission for the privatization, and transformation of entities and organizations of the cotton-processing industry into joint-stock companies", (ii) the Resolution of the Cabinet of Ministers (2003) on "the perfection of account mechanisms for the production and sale of cotton fiber", and The Presidential Decree (2001) on "measures on the de-monopolization and perfection of the management of the cotton-processing industry in Uzbekistan". And, those legal documents have played vital role in re-constructing the domestic support mechanism of cotton production, as we outlined in the previous subchapter.

Brink (2014) evaluates the agricultural domestic support programs of Uzbekistan from the perspective of the AoA. By 2015, numerous agricultural domestic support programs is now in place, and focused on agricultural processing industry. The programs include agricultural domestic subsidies on inputs, including transactions for fertilizers, chemicals, water, machinery services along with credit lines are reported to have been in place for some years through the 2000s till now (2016). Though cotton and wheat are considered to be country's two major crops, a number of input subsidies are to have extended to the other crops in recent years due to: (i) crop diversification programs, and (ii) increasing the share of the textile industry in the domestic market. The government still interferes in setting quotas on producing cotton, directing the application of the fertilizer, procuring cotton production at relatively low prices, and operating exchange rates which affects the overly 75 % of the cotton production that is deliberately exported (Brink, 2014, pp. 30).

Brink (2014)'s evaluation can be partly plausible. Yet, the evaluation lacks largely at some crucial points. Because the study relies on the secondary data, his evaluation was based on slightly old data and partly exaggerated by the referred author, MacDonald (2012). Regarding the management of input subsidies and the use of agricultural services offered by the government and semi-governmental entities, the decision-making rights can be executed by the farmers at many stages unless the cotton production is damaged by the seasonality of the cotton. In other words, the rainy seasons of early September through late November may cause massive loss of the "white-gold" crop, thereby huge deficit to the annual state budget. The farmers have autonomy in utilizing the input subsidies. More importantly, if a farmer, voluntarily, intends to employ its own financial and technical resources to grow the product without using inputs or services of the government-affiliated agricultural entities, it is his discretionary right whether or not to utilize. In practice, regardless of farmers becoming the rich or the poor, they frequently exploit those agricultural inputs and services as types of domestic support just because they have comparative advantage from the prices between the government-subsidized inputs and services, and privately-accessible supplies at the market that is quite costly.[19]

However, relying on the data for the practice of domestic support scheme in cotton production, it is clear that it takes considerable efforts and time for the government of Uzbekistan to fulfill the requirements of the AoA, as a package of international trade rules on agricultural products. The government's input subsidies can be regarded as non-product-specific type, thereby calculated as in non-product-specific AMS. Certain product-specific subsidies could be offset by the negative price support which is calculated utilizing product's administered prices and the production. Therefore, the calculation necessitates transparent exchange rate to build the external reference price to have the volume of support measured. Whenever it is done so, it can bring about product-specific AMSs below the country's de minimis support levels. However, if the amount of domestic support subsidies for inputs and agricultural services and the the data on value of production are unavailable, it is problematic to measure whether non-product-specific AMS could be above or below the de minimis level. Thus, the Bound Total AMS cannot be measured.

To conclude, since the volume of domestic support is measurable though it needs transparency, Uzbekistan may not have insurmountable problem by providing domestic support to its cotton production. As we learned the practice of providing the domestic support to the agriculture by the cases of India, China and Central Asian countries, Uzbekistan is not an exception rather it repeats to give the similar types of domestic subsidies. However, the country's regime and management of the domestic support structure do not meet the conditions under the WTO rules, thereby puts remarkably large obstacles towards accession to the WTO.

Policy Recommendations

[19] Author's survey results that came from the farmers in the southern parts of the country, 2016, September-October.

Bobojonov (2008) and Djanibekov (2010)[20] offers a complete liberalization the scheme of the cotton production and its trade. The reform entails the marketing and the export of the cotton products which entirely depends on free decisions of the farmers and the owners. And, they further insists that at the cost of removal of the government mandate on the cotton production (determining the area and targeting the output for cotton cultivation), the farmers have an opportunity to select the type of product to grow, and the potential market to sell the product there. As a result, the farmers can be freed from the government procurement targets, and the area for cotton producing may decline due to the fact that the expansion of the other products (rice, vegetable and melons) are more profitable than cotton production (Djanibekov, et al. 2010, pp. 11). Djanibekov (2013) further asserts that the abolishment of cotton procurement policy is the most economically attractive option. At first, Djanibekov and Bobojonov's recommendation is de jure consistent with the AoA. However, it can only be applicable when considering the other set of policies implemented at the same time, and thus takes considerable steps and time upon the accomplishment. On the one hand, the recommendation is closely related to two major policies to be enforced: (i) the privatization of lands[21] and other government and semi-governmental entities, (ii) the solution to the massive unemployment stemming from the privatization. On the other hand, the recommendation is currently inapplicable when considering the status quo of the contemporary policy directions.

Uzbekistan is now further consolidating the scheme of the cotton production and its export. It can be clear by mentioning the three factors: (i) the cotton production did not decline through

[20] As mentioned in Introductory Chapter, the other scholars did not research on cotton policy of Uzbekistan together with country's potential accession to the WTO. Rather, they discussed the domestic support structure of cotton production as part of the effective policy measures to attain economic and sustainable development in agricultural policy spectrum. And, we frequently recall them here in this subchapter in order to elaborate whether their policy recommendations could be consistent with international trade rules in agricultural products or not.

[21] Uzbekistan and Belarus are the only CIS countries which did not adopt the law on the private ownership of the land use. And, the post-independence transition policy of Uzbekistan necessitates step-by-step approach through five pillars in which the privatization is one of them.

a decade though the farm diversification has been repeatedly considered as policy agenda, (ii) the decline in the export of the cotton in the last decade is characterized by the domestic consumption and the considerable increase in the number of domestic and foreign textile companies in Uzbekistan, (iii) the government has recently established some Holding Companies to regulate the production of cotton as well as the trade of cotton and its by-products, as mentioned earlier.

In conclusion, while accession of Uzbekistan to the WTO is on progress, it needs necessary necessary steps to satisfy the conditions pertinent to provisions of the AoA. As mentioned above, the country can maintain its volume of the domestic support, but needs to change the structure of delivering them.

4.4.2. Export policy

With regard to the development of legislation on foreign trade, the three fundamental phases are considered to be crucial for the regulation of exports, especially cotton export. The first phase (1991-1995) favored the promotion of foreign trade characterized by liberalizing the prices and trade, negotiating the structural distortions in the trade of agricultural products, and liquidating the state monopoly on external trade on all products. The government eased to establish the stock and commodity exchanges, insurance and joint –stock companies. However, it lacked the implementation which postponed the market liberalization process to a later phases.

The second phase (1995-1997) favored the export-driven production in which the import tariff regulation was introduced, and export duties was reduced. But, commodity products including grain and cotton kept in the list of licensed goods for the export. At this stage, the export crediting system has started shaping, and privileges system from profit tax was introduced (1996) for the producers of exported goods. Though it was not executed for cotton fiber, cotton yarn and lint, the ease of exchange system on barter enabled the producers bargain their cotton products on other markets.

Finally, in the third phase, the export duties on borders was cancelled from 1997, and the licensing system of exportable products was abandoned on all types of products, along with cotton products (cotton yarn, fiber and lint). The entities was allowed to carry out exports using a hard currency, and the enterprises to export the goods to CIS countries was exempted from VAT and exercise taxes, and their earnings in a hard currency excluded from the deduction of income tax. And, the rate of property tax was also lowered for them. However, again it did not apply to the entities involved in the export of cotton yarn, fiber, and lint.

From 2000s, there have been numerous Presidential Decrees and the Resolutions of the Cabinet of Ministers which had effect on foreign trade of cotton production. Among those, the main two are: (i) the resolution of the Cabinet of Ministers (2004) on "the establishment of provisions on the order of sale of cotton fiber, and the founding of the foreign trade companies with the "Hlopkoprom" territorial joint-stock associations", (ii) the resolution of the Cabinet of Ministers (2016) on "the additional measures to establish the activities of the Holding Company "Uzpaxtasanoatexport", being part of the Joint-Stock Company "Uzbpaxtasanoat".[22] The latter has been one of the companies responsible for organizing Annual Cotton and Textile Fair in Uzbekistan.

By looking at the past policy reforms on the foreign trade of cotton, it is understandable that Uzbekistan is making considerable steps in liberalizing former centrally-planned regime of the cotton production and its export. And, it is assumed that, by liberalizing the standards on the institutional framework of the cotton export, Uzbekistan have long been seeking to come up

[22] The first Cabinet Resolution (2004) aimed at establishing three foreign trade companies to trade cotton production of Uzbekistan in foreign markets, as mentioned in previous subchapters. And, the second Resolution (2016) focused on establishing the single body/company ("Uzpaxtasanoatexkport") to trade the cotton and its by-products.

with policy agendas which could be tolerable pursuant to the provisions of the WTO law on export competition.

However, regarding the provision of the export subsidies to the agriculture, we cannot provide the information on export subsidies of Uzbekistan, as the country is in its accession process. Whether or not Uzbekistan notifies the WTO about its export subsidies in the base period depends on two things: (i) which period Uzbekistan selects it as its base period, and (ii) whether or not it would have export subsidies in its selected base period.

Regarding the export subsidies of other CIS countries, Tajikistan had reported its export subsidies in the base period. However, the country retains its export commitments of nil, as the other countries of the CIS. Only, Kazakhstan maintained its transportation subsidies in the period of 2009-2012, as an exception to the other member states (Brink, 2014; OECD, 2013a). Hence, again the country's commitments on export subsidies is nil.

To sum up aforementioned studies, concerning the institutional reform on the export policy of Uzbekistan, regardless whether Uzbekistan joins the WTO or not, it appears that it would maintain its main structure of the cotton export in the short period.

However, whether or not Uzbekistan exercises export subsidies, which is mentioned in the AoA Art 9.1, is deeply related to the possible accession to the WTO by Uzbekistan. Whenever the country makes remarkable progress in the accession process, it is more predictable that the country could have nil commitment on export subsidies for the plausible reason: the landlocked-ness is making the Central Asian countries land-linked. In other words, there have been an increasing trend in the cross-territorial trade of agricultural primary and processed products among neighboring countries (Pomfret, 2016). To sum up the arguments mentioned, it is unnatural that Uzbekistan negotiates on the export subsidies in cotton export.

CHAPTER 5. CONCLUSIONS AND POLICY IMPLICATIONS

5.1. Overview of the study

The study consists of the five chapters. The first chapter offered the general overview of the study. It starts from outlining the problem statement, the objective of the study, and the research questions followed by the methodology to conduct a research. The second chapter, started with introducing the WTO system and accession process, discussed the extent of the relevant provisions of the AoA and SCM Agreement. In order to understand the context and the elements of agricultural support policies of incumbent WTO members and non-member Uzbekistan, it further elaborated the agricultural support provisions on trade in agricultural products: the three pillars of market access, export competition and domestic support. The third chapter explored the pre- and post-accession policies of the existing WTO member-states on their export and domestic subsidies. The case studies included three Central Asian countries of the Kyrgyz Republic, Tajikistan and Kazakhstan, and India and China. The chapter four examined the cotton policy of Uzbekistan, focusing mainly on domestic support and export policy. And, it further explored whether current policy agenda for the cotton production and its export is applicable by and consistent with the AoA and other relevant provisions of the WTO law. Chapter five dedicated to indicate the main findings and conclusions.

5.2. Main findings

The study explored numerous findings through offering literature review on this specific field, and through examining the experiences of the six countries on domestic and export support of their agricultural production in the context of WTO law.

In general, the academic literature concludes that, regarding policy framework for agricultural industry, the developed countries favor and promote agricultural producers at the expense of urban consumers and the government bill programs. On the other hand, developing countries endeavor to, more or less, control or protect their agricultural producers in order to transfer the relevant amount of the income from rural areas (agricultural farmers, etc.) to urban areas. Therefore, the non-balances on and the inconsistencies with the international trade rules on the domestic policy measures stem mainly from this difference.

Regarding the WTO rules and their effect in domestic policies, it is important to acknowledge that the mismatch of WTO notifications by the acceding state and their national statistics on agricultural domestic support discloses the reality. For that reason, the WTO may ask for clarification on those domestic policy measures, or at least the other member states may sue the case against acceding state if the foreign domestic market severely harmed by subsidized low prices of the former.

From the cases of Chinese and Indian accession to the WTO, it has been clear that the countries hiring the highly skillful technical staff before and during the accession can benefit the comparative advantage from the WTO accession, than any other states. China and India had established WTO Trade Policy Centers. The approach proved the role of the experience in international trade

The widespread notion of subsidies prohibited under the WTO law is far from truth. The literature says that domestic subsidies on agricultural inputs and agricultural services are of reality and applicable policy measure. For example, while other member states provide their farmers with domestic subsidies, a WTO-member such as India is famous for its extensive subsidies for fertilizers and electricity. Meanwhile, Kazakhstan has subsidized its transportation in 2009-2012 period. In short, domestic subsidies can be justifiable regardless they are categorized as green box, blue box or amber box. The support is subject to the reduction commitments when they distort trade.

Uzbekistan, since it applied for the membership to the WTO, modified many laws and regulations pertinent to the transforming many government-affiliated agricultural entities and service providers into semi-governmental and private entities. And, it can still maintain many of the domestic subsidies to the agricultural sector. They will be reduced at the time of or after accession process, if not in transition period. Yet, the country is lagging behind institutional changes which requires considerable steps for Uzbekistan to meet the conditions of the WTO regulations on free market rules.

Depending on trade interests of the negotiating countries, the experiences and technical capacity of acceding states, the policy space of the member governments can be different. For example, acquiring the lessons from incumbent member states like the Kyrgyz Republic, the Russian Federation and Tajikistan could benefited by gaining much better of AMS Support.

5.2. Limitations of the study and Suggestions for further research

The scope of the study is limited to the relevant provisions of the WTO law on agriculture, the AoA and, partly SCM Agreement. As a result, the research does not cover the entire body of law pertaining to the whole accession package of the applicant's joining the WTO. However, the research could be the fruitful asset for understanding the law and the practice of the domestic support and export subsidies of developing countries, especially CIS countries. Another major limitation of the study is that, since the study was conducted from the legal and policy perspective, it does not provide quantitative assessment of the impacts by the WTO accession and its relevant provisions on the domestic support and export policy of the acceding states. Therefore, the study suggests that, for the developing country, it is prior necessity to calculate the possible costs of the accession to the WTO and its obligations to make applicant states implement institutional and structural changes on national level.

Currently, almost all the countries in the world are the members of the WTO. And, through decades, they have been enjoying free trade principles of the WTO law, such as MFN and NT. At present, there are very few studies whether the relevant provisions of the AoA on agricultural support would undermine the food security in the countries on global scale, or affect the real income of the poor farmers on domestic level. Because, while the amount of per capita income is increasing steadily during the last decades, the gap between the upper, the middle and the lower income classes has been widening at the same time, in general. In other words, the ease of international trade across borders has grown the GDP per capita many countries (World Trade Report, 2014; Busse & Königer, 2012). Yet, while favoring the large scale agricultural holdings and farmers in emerging and developed countries, the international trade in agricultural products affected the poor farmers negatively. It would be significant contrition if there are academic studies on whether the contemporary international-trade-rules-consistent subsidies would be one of the cause, and how the study could be of benefit to solve this issue.

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