Results of ISI Implementation in Uzbekistan (in The Example of Uzbek Automotive Industry): Achievements and Negative Outcomes

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Abstract

Since independence, policymakers have tried to set trade restrictions. As a result, the Uzbek economy has gained some positive outcomes and experienced difficulties relating to this policy as well. In this regard, the article presents how ISI (Import-Substituting Industrialization) policy caused the appearance of at least one multinational enterprise for the production of cars and components in the Uzbek automobile industry, as well as a comfortable entrepreneur environment for local firms and other privileges of ISI policy to some extent. Moreover, the article shows negatives of ISI, as well. As advocated in many studies, ISI policy causes some negative results, such as restrictions on market access, weak competitive environment, consumer welfare problems, and so on.

Key words. *Import-Substituting Industrialization, Policy implementation, Negative outcomes, Positive outcomes, Uzbek automotive industry.*

1. Introduction

There are factors such as market size, location, resources, labour abundance, and others that make MNEs choose one economy between alternatives worldwide. The case of Uzbekistan is characterised by its specificities that it was the largest country with abundant natural resources, a low-price workforce, and a potential market size at the time of the auto industry's appearance in Central Asia. It is momentous to compare the case of free trade and the case, in which ISI policy dominates, to understand clearly the importance of ISI policy in attracting the DAEWOO Group in the Uzbek automobile industry.

As argued in the first chapter, country's market size plays an important role to implement tariffs as an instrument of ISI. However, investors try to use the privileges created by trade barriers in any country. Even so, they thoroughly assess the potential market size by investigating indicators such as the country's demography and the income per capita for a certain period in the future (Nurov Z.2017). In the case of free trade relations among countries, the factor of market size loses its importance in attracting foreign investors. In other words, if there were no trade barriers, the MNC (DAEWOO Group) would have decided to establish its affiliate in any country located in Central Asia without taking into account the country's market size. Since the markets of all countries are integrated, entrepreneurs operate as in a single market.

2. Literature review

By the time of the transition of power in Uzbekistan, the country enjoyed relative economic stability, with rich natural resources and strong demographic potential for the development of human capital. At the same time, overregulation, the large number of inefficiently managed state-owned enterprises, protectionism, and a prevailing distrust of unregulated foreign exchange markets were major visible sources of weakness (Tsereteli,2018)

Furthermore, using Johansen's co-integration framework, we test for the presence of unique co-integrating vectors linking series such as exports (imports), foreign (domestic) income, relative export (import) prices (proxied by real exchange rate) with the volatility of the real exchange rate in the long run. Results show that increases in the

volatility of the real exchange rate have significant negative effects on equations of exports and imports in the long-run dynamics. We also observe that improvements in the terms of trade, as represented by declines in the real exchange rate, positively affect exports. Overall, our findings suggest that trade can be further increased as a result of sound macroeconomic policies directed to achieve and maintain a stable real exchange rate (Bakhromov, N. 2011)

Assessment of whether various variants of GDP dynamics are realistic in short and medium term perspective; Analysis of link degree between different macroeconomic policy parameters and outcomes estimation of their implementation Elaboration of steps to achieve liberalization of the economy, decrease market distortions and disproportion in gaps between savings and investment, aggregated demand and supply; Study of specific forms and macroeconomic appropriateness in Uzbekistan during transition period General requirements to the model: Model is oriented at available statistical reports, that is, at short term time series and National Account System, which does not fully meet international standards; Model reflects major specifics of transitional economy of Uzbekistan (predominance of agriculture, inefficient usage of resources, low internal and external balancing, underdeveloped market institutions, etc.); Government and private sectors are separated in the economy of the country; new sector established in the years of independence and sector of traditional production are separated in the production structure (Muradova, K., Chepel, S., Gulyamov, R., Katanova, M., & Vakhidova, L. 2010).

Reducing the share of imports and reducing the cost of products, strengthening the competitive environment and foreign exchange in foreign markets by deepening the localization of the production of components and components of the automobile industry, expanding the development of inter-sectoral cooperation to develop and increase the production of basic raw materials and materials needed for the development of the automobile industry liberalization of the policy environment to ensure sustainable development of the industry, to increase the profitability of the company UzAutoMotors activities, through the introduction of international advanced standards UzAutoMotors Company article on the issues of localization of the main issues. On April 16, 2020, President of the Republic of Uzbekistan Sh. Mirziyoyev held a video conference on ensuring the pace of production and implementation of new projects in the chemical, agricultural and automobile industries. At the selector meeting, the President of the Republic of Uzbekistan noted that one of the sectors most affected by the pandemic in the world is the automobile industry, and in order to ensure the sustainable operation of enterprises in such conditions, it is necessary to take full advantage of domestic markets (Kodirov, N. 2020).

3. Methodology

To understand better, observing similar cases in the European Union (EU) and the North American (NAFTA) markets is helpful. In the case of the EU, although Luxemburg is one of the smallest countries in the EU, some MNCs have located in this country to use relatively favourable privileges and supply the whole of Europe. As well as Mexico, with the smallest market size comparing with the US and Canada, has attracted MNCs, especially car producers interested in benefiting from the cheap workforce and natural resources after co-signed North American Free Trade Agreement (NAFTA) and has supplied the biggest market of the world.

Similarly, following free trade policy at the initial point of its development, Uzbekistan could not have attracted the car manufacturer after achieving its independence. In other words, implementing protectionist policy increased the importance of market size as the most valuable factor for tempting the investors, as well as the car producer to invest Uzbekistan.

To check empirically the above statement, this paragraph tests to what extent country's market openness, interests of investors (including MNCs), and the market size correlate to each other according to the analysis of the related data.

4. Results and Discussion
4.1. Results

Before analysing the variables, it is crucial to determine the quantitative values of variables. As described in the first chapter, the country's GDP measures the size of the market much better than other measurements, and the share of the trade turnover in GDP shows the degree of the country's market openness. In our example, we select the share of Merchandise trade (% of GDP) as a measurement of the market openness.

Table 1 contains the data of Investments in fixed assets, market size (GDP (constant 2010 US$)), and the market openness (Merchandise trade (% of GDP)) in Uzbekistan during 2000-2016.

Table 1: Investment in fixed assets, GDP, and Merchandise trade in Uzbekistan, 2000-2016

	Investments in fixed assets (constant 2000 prices), billion sums*	GDP (constant 2010 US$), billion US$**	Merchandise trade (% of GDP)**
2000	744.5	20.046	40.072
2001	1036.813	20.888	48.433
2002	939.0855	21.723	50.971
2003	1103.196	22.636	57.77
2004	1443.116	24.379	63.774
2005	1632.94	26.085	58.815
2006	1917.911	27.989	57.683
2007	2640.789	30.766	64.401
2008	3987.502	33.535	66.245
2009	4850.958	36.251	58.648
2010	5518.066	39.333	51.826
2011	6019.29	42.597	51.674
2012	7129.962	46.09	44.855
2013	8387.262	49.778	43.574
2014	9679.027	53.657	38.848
2015	10850.62	57.949	32.883
2016	11856.44	62.469	30.566

Sources: *- State Committee of the Republic of Uzbekistan.
**- Worldbank data.

Empirical analyses show that Investments in fixed assets strongly correlate to the market size in a positive manner (r=0.996). That is, the larger the market size of Uzbekistan has been during 2000-2016, the more investment flows have been observed in the economy.

Conversely, the market openness negatively correlates with the volume of investments (r=-0.693) in the case of Uzbekistan. In other words, while the Uzbek economy was relatively open, the rate of investment flows in fixed assets were lower than the rest of the period under consideration, and vice versa.

Table 2. Econometric analysis of variables Investment, Market size, and Market openness

	Investments in fixed assets (cons. 2000 prices), billion sums	GDP (constant 2010 US$), billion US$	Merchandise Trade (% of GDP)
Investments in fixed assets (cons. 2000 prices), billion sums	1		
GDP (constant 2010 US$), billion US$	0,996	1	
MT (% of GDP)	-0,692	-0,655	1

MODEL

VARIABLES	Investments in fixed assets (constant 2000 prices)	t	P>|t|	[95% Conf. Interval]	
GDP (constant 2010 US$)	258.3*** (4.756)	54.31	0.000	248.097	268.498
Merchandise trade (% of GDP)	-24.4*** (7.908)	-3.09	0.008	-41.367	-7.444
Constant	-3,435.5*** (511.0)	-6.72	0.000	-4531.501	-2339.53
Observations	17				
F(2, 14)	3547.19				
Prob > F	0.0000				
R-squared	0.996				

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1
Source: Calculated by the author using the software STATA

Moreover, according to the analyses above, the amount of investments to the fixed assets depends on two variables (market size and market openness) at about 99 %, and the linear regression model appears as follow:

$$Inv_{fa} = -3435.5 + 258.3*GDP - 24.4*MT$$

Where, Inv_{fa}, GDP, and MT are Investments in fixed assets (as an interest of investors), GDP (constant 2010 US$) (market size), and Merchandise trade (the market openness as a share in GDP) respectively.

The F-criteria shows that the model suits the real economic situation in Uzbekistan and the t-Statistics positively evaluates each parameter of the regression model.

Moreover, the appearance of the automotive industry in Uzbekistan has caused structural changes in the economy due to the demand for products from other sectors and the supply of its goods for the rest of the economy. In other words, as a sector with a high level of technological sophistication, the automotive industry has made a multiplier effect and contribution to economic growth more than other sectors of the economy have done.

Support the local suppliers

One of the other reasons why developing countries intend to implement ISI is that the strategy may encourage local producers of auto components through both increasing demands for spare parts and creating a comfortable business environment.

However, implementing ISI policy affects the industries of final goods and components in different ways. Generally, trade barriers stimulate local producers because they gain from selling at relatively high prices. In particular, *trade barriers to car imports have stimulated the industries of cars and components, directly and indirectly, respectively.* As a result, the industry of final goods may expand the activity. In turn, this extension leads to enlarging the market demand for components and the development of the components industry as well. Nevertheless, *tariffs on the component imports discourage the industry of cars and then the components industry* as well, although local producers of components may gain from such trade policy for a short-run period (Nurov (2017)).

For instance, changes in the Uzbek automotive industry as a result of trade barriers for final goods (cars) have caused the industry of auto components to move from the initial stage to its relatively advanced stage. Currently, more than 220 enterprises are producing spare parts for automobiles in Uzbekistan.

In turn, increasing the number of local producers and the volume of goods they produce has affected:
- creating new jobs;
- increasing the income level and living standards;
- enriching the experiences in doing business;
- developing the sector and others.

The role on prevention the economic dependency

Because of the growth of the population and their income, the sale of cars increased from 25 thousand in 1996 to more than 120 thousand (including imports) per year in 2017. If the total amount of consumed cars and other products of the automotive industry had been imported for 2009-2017, its amount would have been near 22.4 billion USD. The domestic automotive industry in the same period produced a marketable output of near 15 billion US dollars in equivalent. During the same period, the import of final goods and components amounted to near 11 billion US dollars in the equivalent, and their exports were 3.6 billion US dollars.

Thus, the positive impact of developing the automotive industry on the balance of payments was characterized by almost 70% of the country's self-sufficiency in terms of automotive products for 2009-2017. Although the automotive industry has caused an additional need for equipment and machinery, it has decreased the country's dependence on products of HS 87 to 33.2 percent. It is important to note that the highest level of dependence was 55.5 percent in 2016.

Taking into account the time and costs of the appearance of a new car manufacturer in the domestic market, it was time to attract investors and integrate into the world automotive market to become competitive.

To better understand the role of ISI policy in the Uzbek automotive industry, two cases are compared in this paragraph. The first case is about the current state of the Uzbek economy with the automotive industry, and the other is about the scenario in which the Uzbek economy is supposed without automotive industry.

In the first case, creating a new automotive industry in Uzbekistan has decreased the economic dependence on consumer goods by substituting for import cars and components to some extent. From 1994 through 2017, the Uzbek automotive industry has produced about 2810.2 thousand light vehicles, more than 17 thousand buses, and 24 thousand trucks.

Table 3. Trade and production of HS 87 goods and the dependency evaluation for 2009-2017

Year	Export	Import	Balance	Production volume	Domestic consumption*	Dependence, %**
2009	230.9	975.6	-744.7	1586.6	2331.3	31.9
2010	509.6	1101.1	-591.4	1604.4	2195.8	26.9
2011	713.2	1151.1	-437.9	1678.4	2116.3	20.7
2012	731.3	1496.8	-765.5	1901.2	2666.7	28.7
2013	673.4	1730.9	-1057.5	2307.6	3365.1	31.4
2014	473.5	1598.0	-1124.5	2260.7	3385.2	33.2
2015	55.0	1005.5	-950.6	1697.2	2647.8	35.9
2016	32.7	850.9	-818.2	655.4	1473.6	55.5
2017	142.8	1088.8	-945.9	1292.7	2238.6	42.3
Total	**3562.4**	**10998.7**	**-7436.3**	**14984.2**	**22420.5**	**33.2**

Notes: * - Domestic consumption is calculated as Production volume minus Exports plus Imports: **DC=Prod-Ex+Im.**

** - Dependence is evaluated as a share of the subtraction between Domestic consumption and the Production volume in the Domestic consumption of HS 87 goods: **Dep=(DC-Prod)/DC.**

Source: Data of the State Committee of the Republic of Uzbekistan on Statistics, www.stat.uz and the partner reported data (Mirror data), www.trademap.com

4.2. Discussion

Moreover, producing domestic cars positively affects the rise of value-added of goods produced in this sector regarding the usage of local infrastructure services, workforce, and resources.

However, although the newly appeared automobile industry has served to prevent the dependence on import cars and components to some extent, it caused the technological dependency of the national economy. Moreover, the International Fragmentation of Production may easily change the results of ISI policy.

In the second case, let us suppose that Uzbekistan choice the development path without focusing on the automotive industry. In contrast to the first case, Uzbekistan would have imported goods from abroad instead of what the Uzbek automotive industry has manufactured during 1994-2017. Additionally, the Uzbek economy would have been experienced product dependency respect to the goods produced in the automotive industry. However, the national economy might have specialised in other sectors that are, perhaps, more profitable.

As a conclusion, dependency problems appear in both cases. Since the automotive industry has relatively high technological complexity compared to other sectors, this industry, other things being equal, contributes more to the processes of structural transformation of the economy than other sectors do. The high technological level of the automotive industry had a

positive impact on the formation of a national highly skilled workforce, managers and engineers, most of which either did not exist or emigrated at that time for the industry. Intentions to produce components and spare parts locally for the assembly of cars were a good opportunity to create a large number of efficient jobs in the high-tech industry in Uzbekistan.

However, it requires further investigations to define whether being dependent technologically is preferable rather than product-specific dependence or not.

Multiplying effect on other sectors of the economy

While intentions for the development of the automotive industry in Uzbekistan started, most national specialists and policymakers criticized the decision because of some serious reasons such as the high capital intensity of the industry, the high level of competition in the world market of cars, and the lack of financial resources, traditions, skills, and trained labour for this industry at the initial stage. However, many arguments were justifying the need for the development of this industry.

These arguments are *the existing biased structure of the economy,* in which the agrarian sector and the mining industry prevailed, and *the lack of own automobile industry* with a growing population and the prospects for growth of its incomes, and so on. Additionally, an argument emerged that has represented *the importance of the development of the automotive industry for the structural and social transformation* in Uzbekistan.

Currently, more than 220 enterprises and organisations of various forms of ownership are working in the industry, providing more than 24 thousand jobs directly in the enterprises of the industry and about 50 thousand jobs through the enterprises of the 2nd and 3rd level in the processing and consumption procedures.

Simultaneously, the industry has formed professional specialists of secondary and higher qualification levels and promoted acceleration of the processes of social transformation.

According to the research, the automobile industry, along with machine-building, chemical industry, transportation services, electric-power industry, oil refining, oil production, construction, and non-ferrous metallurgy has a demand multiplier, and supply multiplier above the median value. Figure 2.6 shows the priority sectors, with the greatest multiplier effect on the economy, in the right yellow quadrant above and to the right of the medians (UNDP, Development Focus Survey 2013).

At the same time, the development of the automotive industry can become one of the main driving forces for the development of such priority sectors, as machine-building, transport services, oil refining, and chemical industry (Figure 2.7). In particular, the growth in production in the automotive industry by one unit may lead to an increase in demand for machine-building products by 35% of the additional one unit of the automotive industry, as well as 3%, -11%, and -2.5% for oil-refining sector products, transport services, and chemical industry goods respectively. Besides, the growth in production in the automotive industry by one unit provides an increase in an additional supply of its products for the machine-building industry by 37%, for the oil-refining sector by 3%, for transport services by 12%, and chemical industry by 6% of that one unit.

However, the impact of the auto industry on the development of other sectors in foreign countries with relatively advanced automotive industries is much higher than in Uzbekistan that has a potential multiplier effect of the automotive industry for other priority sectors. The experience of countries with developed automotive industry (EU) evidences that by the arrows in Figure 2.7. For example, the demand multiplier for machine-building goods may increase more than ten times; for oil-refining five times; for the chemical industry more than three times; for transport services by 20-25%. The supply multiplier may increase by 120% in oil refining, by 150% in transport services, and by nearly 3 times in the chemical industry (UNDP, Development Focus Survey 2013).

Therefore, although currently the effect of the development of the automobile industry is mostly direct and remains within the automotive industry, providing insufficient momentum

for the development of other sectors, as the full potential of the automotive industry is disclosed and realized, its multiplier effect on the economy will increase in the future.

Negative outcomes

This sub-paragraph analyses the negative outcomes of ISI in the Uzbek automotive industry and tests the findings that refer to the ISI failures in the first chapter.

Firstly, trade barriers on the import of automotive products have led to restrictions on market access for exporting the locally produced goods to foreign markets. In other words, implementing trade barriers by one country for imports from others entails them to set trade barriers for that country's products as well.

Moreover, implementing the instruments of ISI has negatively affected the competitive environment of doing business in Uzbekistan to some extent. Although foreign companies conduct quality control, consumers have experienced some difficulties relating to the quality and prices of products made in the Uzbek automotive industry. As a monopolist in the automotive market of Uzbekistan, GM Uzbekistan has had no reason to become competitive. Moreover, each supplier of local components, appeared in the Uzbek automotive industry, specialised in producing goods never produced before and without competition. The industrial and trade policy in Uzbekistan has supported them through the local content requirements that are commonly used by most countries worldwide.

As a result, serious negative trade balance occurred in 2018, especially it is noticeable after the recent change in the monetary system in Uzbekistan.

Changes in balances of trade on all types of goods belong to HS 87 (Vehicles other than railway or tramway rolling stock, and parts and accessories thereof) division are negative. In general, the total import of these products in 2018 is almost twice as much as in 2017. However, the export of these goods in this division relative to import is very low, and in 2018, it is triple as less as in 2017.

Table 4. Balance of trade on HS87 goods in Uzbekistan with selected countries (million USD), 2017-2018.

No.	Import			Export			Trade balance 2017	Trade balance 2018	Change
	Partners	**2017**	**2018**	**Partners**	**2017**	**2018**			
1.	World	1145.20	2032.76	World	150.13	54.16	-995.07	-1978.59	-983.53
2.	South Korea	647.39	1021.79	Russian Federation	74.62	17.24	-572.76	-1004.55	-431.78
3.	Belarus	85.90	292.11	Kazakhstan	33.92	13.73	-51.98	-278.38	-226.40
4.	China	93.73	188.57	Afghanistan	1.31	7.11	-92.42	-181.46	-89.04
5.	Russian Federation	32.15	105.04	Tajikistan	6.06	3.61	-26.10	-101.43	-75.33
6.	Japan	72.49	96.58	Ukraine	13.94	2.80	-58.55	-93.79	-35.24
7.	Germany	99.99	73.96	Turkey	0.98	2.72	-99.01	-71.24	27.77
8.	Others	113.56	254.71	Others	19.32	6.96	-94.24	-247.75	-153.51

Source: Official website of TRADEMAP, https://www.trademap.org/

Until 2017, there was another problem, the difference between the official rate and the rate of foreign currencies in the black market, caused by supportive instruments,

especially for the Uzbek automotive industry, in the monetary system. Fortunately for GM Uzbekistan, which had not been dealing with exports as intended, it was an opportunity to sell the most popular cars in the domestic market only in US dollars for individuals who, as labor migrants, annually transferred about 5-6 billion US dollars to Uzbekistan. As a result, consumers of domestic cars spent more than their real cost. The loss of national consumers was strongly related to the ratio between the official course and the course of foreign currencies in the black market, as depicted in figure 2.8.

Cars sold in the domestic market for US dollars were relatively expensive for people who had income in UZS and for families without members who used to go to Russia for earnings.
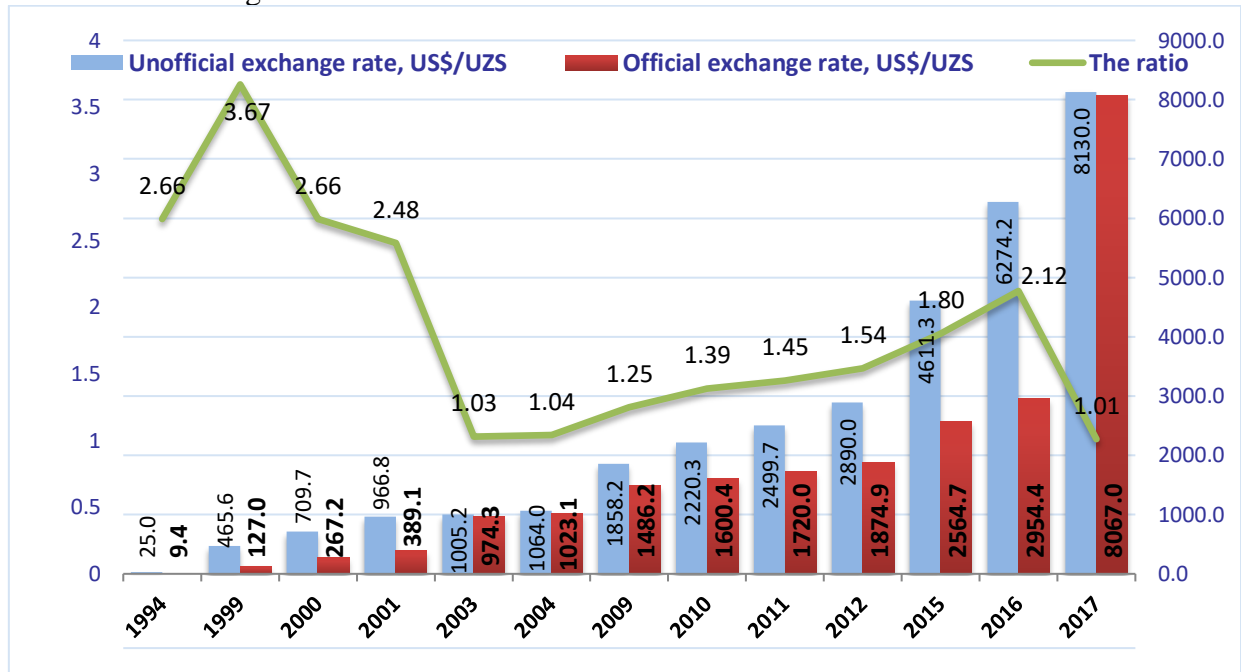
Source: The State Committee on Statistics and the Ministry of Economics and Industry of the Republic of Uzbekistan.

Figure 1. Unofficial and official exchange rates of US dollars against Uzbek sums and the ratio in Uzbekistan for 1994-2017

People obliged to buy the foreign currency from the black market costly and pay for a car, but the car prices in the pricelist of the company were indicated relatively cheap in the national currency UZS with the official courses. Figure 2.8 shows the unofficial and official rates and their ratio for 1994-2017. Affecting its negative influence on consumer welfare, the ration between unofficial and official courses has closed to one after the liberalization in the currency exchange market just in July 2017. Unfortunately, such reform has not helped consumers yet because GM Uzbekistan decided to sell cars in national currency but costly. Table 5 shows the prices of light vehicles supplied by GM Uzbekistan for 2015-2018.

According to the price list from the website of GM Uzbekistan, cars in the domestic market have been sold at the following prices:

Like many other countries in the world, Uzbekistan has tried to support local manufacturers, including the national automotive industry. These procedures and mechanisms have caused to appear a single monopolist in the domestic market.

Table 5. Price ranges for cars of GM Uzbekistan during 2015-2018 (US dollars)

Model	Price ranges				
	2015 November	2016	June 2017	July 2018	December 2018
Damas	5684-5808	5384	5406-5690	5961-6891	7567-8345
Matiz	5326-6091*	4830.8-5695.71*	4742-5138	5229-6000	-
Spark	6058-7421	6005.35-7356.15*	6977-8441	7938-9099	7785-8923
Nexia	8119-9298*	6923.94-8099.23*	7872-9614	9056-10623	8881-10417
Cobalt	9378-11738	9399.68-10317.31*	8821-10820	10303-11939	10140-11744
Lacetti	10322-13570	10090.23-11895.53*	11381-13752	12711-15233	12926-15494
Malibu 2	19230-21630	17798.71-18332.02*	25783	30046	33226-36393
Captiva	20195	20167	25608	28238	31380

Notes: * - prices offered in USD.

In other cases, cars' prices are in national currency (UZS) with the value calculated according to unofficial USD's exchange rates of relevant period.

Source: GM Uzbekistan.

As a result, the chance of consumers to choose decreased. Because of the high prices caused by the protectionist policy, it has been difficult to buy cars produced abroad. Moreover, car prices have risen. For example, the cost of the model Nexia was about 5 million UZS in 2000. In 2016, its cost was about 45 million UZS. Of course, such a mismatch could be the cause of inflation in Uzbekistan. But if we analyse, the prices of other goods (except real estates) were not increased at the rate of car prices.

Moreover, as a crucial characteristic for customers, car model changes have not been as fast as it is in the world automotive industry. For example, there was no difference between the models Nexia-2009 and Nexia-2015. Over the last seven years, neither the interior nor the exterior of the model has changed. Meanwhile, the models of foreign companies competing in this category have changed much that differences between their two years past and present models exist. The Damas model has had changes just on its bumper and lamps since 1996. For the last 20 years, there is no change in this model. This has negatively affected the competitiveness of the national automobile industry in the world market.

At this point, it is necessary to mention some details on the deal with dealers to buy a car. Just a few years ago, if the buyers wanted to buy a particular model, they had to pay 85 per cent as an advance payment and 15 per cent of the total cost of a car when delivered over several months or more than a year.

Currently, the waiting period is only a month, and in some cases, six months. There are two types of contractual agreements between the manufacturer, the supplier, and the buyer. In the first instance, the buyer can repay the product's cost in advance and get the car soon. In the second, 15 per cent of the value of the product should be prepaid, and after the receipt of the item, the 85 per cent payment should be accomplished. Unfortunately, for consumers, this is not the case in reality.

5. Conclusion

The implementation of the ISI policy in the automotive industry primarily caused the creation of the purely renewed automotive sector. In turn, this change led to several other positive outcomes such as attracting FDI, additional workplaces, knowledge enhancement, and economic diversification, a decline in product-specific dependence (but increase in the

technology dependence), the structural and social transformation, positive effect on other sectors' outcomes, etc.

However, there are also side effects, which might not be compensated by its positive effects.

Generally speaking, the case of import substitution in the Uzbek automotive industry has caused several shortcomings that correspond to the findings of empirical and theoretical analyses of import substitution in the general case (Chapter I). The most significant ones are the following:

- Increasing negative trade balance – negative trade balance fell from -995.07 in 2017 to -1978.59 million USD in 2018;
- Exchange rate vulnerability – according to unofficial (quite high in the official rates) exchange rates, the value of the foreign currency (US dollars) increased by an average of 33% in nominal terms in 2015-2017. Although references argue that exchange rate depreciation and declining wages in foreign currency cause export increases, however, it has led to the problem of inhabitants' disbelief in national currency, thus individual savings in foreign currency in the case of Uzbekistan;
- Monopolistic market structure - no need to comment;
- High demand for import capital-incentive technologies – the share of equipment imports in total has been in the range of 40-50 per cent for 2000-2018 (https://stat.uz/: official website of State Committee on Statistics of the Republic of Uzbekistan);
- Severe capital outflows in the form of royalty payments and profit remittances – need a further analysis;
- Relatively high prices;
- A decrease in competitiveness and quality - the export of the sector (including heavy trucks and tractors) is very low relative to imports, and in 2018, it is three times less than in 2017;
- And other negative outcomes.

It is momentous to note that the abovementioned problems must be the result of the implementation of ISI instruments for a long time, during which other car manufacturers might have invested and created a competitive environment.

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