

ROLE OF INTERNATIONAL TRADE LIBERALIZATION IN THE ECONOMIC DEVELOPMENT OF THE COUNTRY

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Abstract :

In this article, the impact of international trade liberalization on economic growth is considered based on various international trade theories, including the concepts of export subsidy and protectionism, explained with hypothetical examples. At the same time, it is explained why developing countries choose such a path. It also analyzes how current protectionism is justified and how free trade is advocated, and who wins and loses because of it, in indicators and arguments.

Keywords: GDP, free trade, Makhkum's dilemma, Nash equilibrium, infant industry, economic security, trade instruments, tariff, protectionism, Heckscher-Ohlin model.

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Protectionism undermines this multilateral cooperation, delaying further liberalization of international trade. Against this backdrop, this study assesses the impact of trade liberalization on economic growth using hypothetical examples.

The results show that trade liberalization has a positive effect on economic growth. Firstly, by increasing prosperity, secondly, by attracting direct investment, and thirdly, it can help diversify exports by helping to reduce trade costs and trade liberalization. In turn, export diversification can help economic growth. Fourth, multilateral level cooperation on trade issues between WTO (World Trade Organization) member states is also important for other financial issues, such as global financial and monetary cooperation, climate change issues, and international



terrorism. can help multilateral cooperation on international security issues such as war.

Review of literature

One of the most discussed topics is the relationship between international trade and economic development, particularly economic growth (Singh 2010, Salvatore 2011). Researchers have mainly studied the theoretical and empirical links between international trade and economic growth. Surprisingly, little attention has been given to the impact of multilateral trade liberalization. In theory, trade liberalization allows resources to be redistributed from areas of comparative disadvantage (when resources are in excess) to areas of comparative advantage, thereby increasing incomes and promoting a transition to a stable state. Trade liberalization initially puts national producers under stronger competitive pressure, reducing their share of the domestic market relatively. At the same time, in the process of this 'natural selection', if the national producers achieve an increase in competitiveness, the strongest among them will have the opportunity to enter international markets. Thus, while trade liberalization may have a short-term negative impact, it will have a positive impact on economic growth in the medium and long term.

Falvey (2012) used marginal regression techniques including a single log (i.e., a two-regime model) to test whether an economic crisis was a good time for countries to implement trade reforms. In particular, they examined whether there is a differential impact of growth in crisis and non-crisis regimes. Their findings show that trade liberalization increases economic growth in both the crisis and post-crisis periods, but domestic crisis leads to lower economic growth. A study by Kristianen (2013) ¹using the GMM econometric approach suggests that trade liberalization has a positive effect on economic growth. Egger et al. (2004) used numerical simulation models to examine the impact of multilateral and bilateral trade and investment liberalization on countries' welfare and convergence to GDP per capita. In general, they were convinced that net multilateral trade liberalization could help increase welfare.

The purpose of this study is to contribute to this field of literature by examining the impact of multiple trade liberalization on economic growth.

¹ Gaussian Mixture Model



Research Methodology

As a theoretical and methodological basis of this article, general economic literature and scientific articles, analysis of written and oral opinions of economists about the importance of raising international trade to a higher level, expert evaluation, observation of processes, conclusion based on a systematic approach to economic phenomena and processes, suggestions and recommendations are given.

Assessment of the multifaceted effects of trade liberalization on economic growth is based on the standard growth literature. In order to better and more fully understand the analysis that we will carry out below, we will first systematically touch on the theoretical and practical materials of trading. In particular, we consider the Nash equilibrium model, which includes trade instruments that influence economic growth of trade liberalization.

Analysis and discussion of results

We are talking about protectionism, which is legal for free trade, but restricts free trade. We need protectionism for two purposes. First, to reduce unemployment, and secondly, to improve the country's balance of payments deficit (the preponderance of the people's expenses from abroad over the income received from abroad). This can be done by replacing imports with domestic production in both cases. But this situation is considered a make-your-neighbor-poor protectionism, because the gains made through protectionism come at the expense of other nations' opportunities. Protectionism creates higher unemployment abroad and a larger worsening balance of payments. As a result, other nations may respond to us and turn to protectionism themselves, and in the end, all countries will lose. Another reason for the use of protectionism is the presence of primary industries. Assuming that a country has a comparative advantage in the production of a particular product, but due to lack of know-how and the ability to produce small quantities at the beginning or to create an industry, even if it has already started, well cannot compete with well-known and established foreign firms. Temporary trade protectionism can be understood as the application of domestic industry until it becomes competitive in its infancy and until full production reaches economic scale (full capacity) and long-term comparative advantage of the state. And finally, when this is achieved, protectionism should be removed. It is very difficult to determine which industry should be so protected, and experience shows that once protectionism is granted it is very difficult to remove it.



It is important to note that trade protectionism (for example, import tariffs) works for primary industries, but the same amount of production subsidy works better. A production subsidy is direct aid and is considered an easier method to eliminate than an import tariff.

Raising product prices through tariffs, i.e. trade protectionism, is good for producers but puts consumers at a disadvantage. But producers are few and support protectionism very well. On the other hand, through protectionism, the losses due to high prices are distributed among many consumers and become small and imperceptible, and since each consumer loses little from this protectionism, it is difficult for them to effectively integrate with each other and resist it. . As a result of some studies, Hillman (1989) notes that highly organized industries (for example, Automotive) enjoy higher protection than less organized industries. Only an industry with fewer campaigns can organize well. In addition, more protectionism occurs in industries that are geographically dispersed and employ large numbers of people than in industries operating in smaller regions. Large numbers of workers will have a strong voice in electing government officials who support protectionism for industry. Decentralization means that elected government members from many regions support protectionism. Another theory suggests that an industry that is protected first is more likely to be protected later. It becomes clear that, regardless of who wins and who loses, the government does not want the wages of industries to decrease due to redistribution of wages, that is, the removal of protectionism, but as a result, prices will fall and consumers' money will start to be spent more. Finally, industries that compete with developing countries are more easily protected because developing countries have less economic and political power than industrialized countries, which can effectively counter trade barriers to their exports.

Now we will analyze the cases that can be achieved by full liberalization of international trade. Below are the economic gains for developing countries from full liberalization of international trade in agriculture, textiles, and other manufactured goods, in billions of dollars, per capita dollars, and percentages of GDP (Gross Domestic Product). All in 2015 accounts. In the first line, the gain from full liberalization of international trade to agriculture (inclusive), 56 billion. Textiles and other manufactured goods may benefit somewhat less after full liberalization of international trade. In this case, the total income of the developing countries will be 90 billion and it will increase the GDP by 17.59 dollars per person, or 0.80 percent.



Liberalized sector	Developing countries
	Total accounts, in billions of dollars
Agriculture	56
Textile	24
Other manufactured goods	10
In general	90
	Per capita, in dollars
Agriculture	10.95
Textile	4.69
Other manufactured goods	1.95
In general	17.59
	Percentage of GDP
Agriculture	0.50
Textile	0.21
Other manufactured goods	0.09
In general	0.80

Source: K. Anderson and W. Martin, ed., *Agricultural Reform and the Doha Development Agenda* (Washington, DC.: World Bank, 2015), Ch. 12.

We know that the two countries, Uzbekistan and Kazakhstan, have only two political choices in trade relations with each other: free trade or protectionism. Two countries can work together and trade freely and both have billions of dollars (Kazakhstan 1.47 billion dollars and Uzbekistan 0.65 billion dollars) or work separately and protect themselves as a result billions of dollars (Kazakhstan 0.36 and 0.36 billion dollars Uzbekistan may lose 0.16 billion). As in the Nash equation, the so-called Prisoner's Dilemma states that if countries act individually without agreeing internationally to eliminate restrictions and restrict their free options, they both lose (according to the Nash equilibrium, both countries are protectionist it is obvious that they will go to politics) we see. The involvement of presidents is so important that this bad outcome can be avoided if the states come to an agreement.

Many developing countries in the world have moved from their traditional role as mere suppliers of raw materials to their new status as industrialized countries to protect manufactured goods through import tariffs and quotas. In theory, the argument for protecting start-up industries, especially for high-tech industries that increase a country's ability level, can be convincing. The reality is more complicated: often only sectors with political influence are protected. Also, local entrepreneurs tend to be poor forecasters when it comes to predicting the best emerging



technologies. Using the Heckscher-Ohlin theory, we will try to imagine what kind of goods and products we should export and import in the future. At the same time, as a result of research, we will theoretically prove which areas should be invested.

	Absolute advantage:	Comparative advantage	Heckscher-Ohlin-Samuelson (HOS) model
Technology	The same	The same	The same
The movement of factors of production within the country:	There is	There is	There is
Movement of factors of production between countries:	Not available	Not available	Not available
Factors of production:	Labor force	Labor force	Manpower & Funding
The result:	X	x	√

Absolute advantage: countries specialize in producing the best. There should be absolute competition with zero transportation costs. Countries trade the same goods. At the same time, there should be a situation of "constant returns to scale".

Information on export-import composition of Uzbekistan (Uzbekistan Almanac, 2016) presents export-import goods of Uzbekistan. The Heckscher-Ohlin model shows that Uzbekistan has a relatively medium-skilled labor force. Uzbekistan buys products that require low-skilled labor, such as non-ferrous and ferrous metals. Automobiles and chemical products and products related to chemical products actively use capital as factors of production. Imports of capital intensive goods support the HO model. The Heckscher-Olin theorem - the country exports goods that use relatively abundant and cheap factors in production, and imports goods that require relatively active use of scarce resources in the production process (Samuelson). Imports of ferrous and non-ferrous metals support the Heckscher-Ohlin model because these metals require lower-skilled labor. Also, exporting cotton fibers favors the Heckscher-Ohlin model, as Uzbekistan is relatively land-rich for crop production, with more irrigated land available. And finally, for us, the Heckscher-Ohlin theory served as a good mechanism for measuring the labor of Uzbekistan's exports and imports based on the skills of workers.

After looking at the HO model, we will discuss what products we should produce for export and what products we should reduce existing tariffs to import more. As Uzbekistan has enough resources, we can produce raw fertilizers, organic chemicals,



inorganic chemicals, dyes, fertilizers, primary forms of plastics, non-primary forms of plastics, chemical materials. and we can use more exports of products such as products. As we said, since the population of the country has a relatively medium-skilled labor force, in the future we should emphasize the export of the following goods: raw fertilizers and minerals, perfumes, cosmetics and cleaning products, products that generate electricity, telecommunications. and sound equipment, electrical equipment, road vehicles, other transport equipment, furniture and spare parts, professional and scientific instruments, photographic equipment, watches.

Summary

In general, the results obtained for all samples show that trade liberalization has a very strong positive effect on the economic growth rates of countries. Liberalization of international trade brings high income to the state. It helps governments provide the basic infrastructure needed to stimulate economic growth. Proposals at the government level suggest that the adoption of trade protection measures will trigger a trade war, reducing the possibility of greater cooperation between countries to move forward with trade liberalization. As a result, countries' economic growth and development prospects may be negatively affected.

We have seen with examples that crop trade is preferable to protectionism. Based on the theories of international trade, the analysis using hypothetical examples shows that trade liberalization has a positive effect on economic growth. It has been proven in trade theories that the removal of barriers to free trade leads to an efficient allocation of resources and ultimately brings economic gains for all countries. In this regard, their participation in free trade between the two countries, that is, Kazakhstan and Uzbekistan, is beneficial for both countries.

But there are other factors that must be taken into account that cannot be overlooked. It is a matter of creating jobs, increasing economic dependence, economic security, improving the country's balance of payments deficit, due to the lack of know-how and the possibility of production in small quantities at the beginning, competition with well-known and established foreign firms. Quantifying the primary industries' arguments because they can't (that is, quantifying the damage caused by them) shows that the scales don't always tip heavily in favor of free trade. There are conflicting opinions about the role of the state in the industrialization of Uzbekistan. Interestingly, Anglo-Saxon European economists were initially not interested in



industrial policy because they believed in the superiority of neoclassical precepts. We can recognize industrial policy as a new approach to economic development. Neoclassical economists center the market and limit the role of government in maintaining macroeconomic stability, providing infrastructure and public goods, and redistributing the common wealth. From the neoclassical point of view, the allocation of resources is carried out by the market itself.

A country's comparative advantage is determined by the country's resources, and the allocation of resources is based on this, that is, the resources of production are transferred to industries that produce goods in which the country has a comparative advantage. Finally, proponents of the neoclassical view argue that free trade leads to an efficient allocation of resources. This is because free trade determines the relative prices of traded goods. In short, according to neoclassicals, market forces, rather than government intervention, lead to efficient allocation of resources based on price signals. However, in a developing country like Uzbekistan, the government uses the introduction of incentives and subsidies as an effective means of resource allocation.

Suggestions

The welfare of national consumers and the competitiveness of our national manufacturers can be increased by liberalizing trade in areas of simple production such as daily consumption goods and products. As stated in Michael Porter's theory of organization of competitive advantages, in today's society, countries should create competitive advantages for their industries and firms. For example, creating a favorable economic environment for the development of the domestic market and entrepreneurship.

While the first post-independence generation is now industrializing in an era that tolerates protectionism for developing countries, the second generation may not face such a favorable global trading system. Industries whose development is considered necessary for industrialization (for example, steel, chemical, mechanical engineering, oil refining) should be supported by governments. This is because these sectors require large-scale investment and governments recognize that private firms cannot afford such a large scale and must take the initiative. Primary industries should be given lower tariff rates for raw materials. A number of tax incentives may also be granted, such as: accelerated depreciation, very low or zero import taxes on capital goods, and exemption from corporate taxes for a certain period of time.



The taxation policy in special economic zones is better than in other parts of the country. Foreign investors in other areas of the country outside of special economic zones may experience lower government effectiveness and greater losses. But the possibility of "social pollution" such as prostitution, pornography, drugs, gambling and crime in the special economic zones may be of concern to developing countries. Some progressives criticize the possibilities of an open-door policy. Because when the windows are opened, some flies and mosquitoes can fly in with the fresh air and they can be eliminated with the help of social stability, harmony and unity and harmony of the people of the country.

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