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Ra'no Solijonovna Sobitova

Termez state University
Department of methods of preschool education
Termez, Uzbekistan

LOCALIZATION OF PRODUCTION AS A TOOL OF MODERNIZATION

Abstract: *In the context of import substitution, it is advisable to refer to the foreign experience of localization policy. It not only creates new jobs and production on its own territory, but also encourages the development of knowledge-intensive industries, fuels domestic companies, turning them into strong competitors at the global level, and guarantees national control over strategic industries. In the context of import substitution, it is advisable to refer to the foreign experience of localization policy. It not only creates new jobs and production on its own territory, but also encourages the development of knowledge-intensive industries, fuels domestic companies, turning them into strong competitors at the global level, and guarantees national control over strategic industries. In the context of import substitution, it is advisable to refer to the foreign experience of localization policy. It not only creates new jobs and production on its own territory, but also encourages the development of knowledge-intensive industries, fuels domestic companies, turning them into strong competitors at the global level, and guarantees national control over strategic industries.*

Key words: *Localization, industry, competition, oil and Gas industry, economically effective, economically efficient, economically viable.*

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Introduction

China's automotive industry. Localization requirements have been an integral part of China's policy of stimulating the development of the automotive industry for more than 30 years. Since the early 1980s, when China declared the automobile industry one of the most important drivers of economic growth, the state has subsidized the industry and encouraged joint ventures with foreign investors to increase production and acquire the necessary technologies. After the country joined the WTO in 2001 China has removed localization requirements from official documents and legislation; however, in terms of requirements for foreign ownership of property, financial instruments and government "recommendations", the localization policy remains alive and well. Requirements for increasing the share of national capital in the ownership structure are not regulated by WTO rules.

In 2009 China has overtaken the United States in total car production to become the world's largest

manufacturer. In 2011, production reached 18 million units, or 24% of global output. The increase in car production and production capacity is motivated by growing demand, especially in the inner regions of China.

Before the arrival of foreign companies in China, there were more than 100 car manufacturing firms in the country, each of which produced a small number of cars or trucks. In 2011, Chinese brands such as Cherry and FWA, accounted for 42% of the market, Japanese – 19%, Europe – 18%, U.S. – 11% Korean 8%. As in other sectors of the Chinese economy, state-owned companies have a dominant position in the automotive market.

China's rapid economic growth has created many problems, including increased oil consumption and environmental destruction. The demand for oil, which was also driven by the rapid growth of the automobile fleet, increased at a rapid pace. Dependence on imported oil increased from 8% in 1995 to 54% in

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2010. At the same time, environmental pollution has created serious health threats.

To solve these problems, the Chinese government has declared the development of high-tech industries a priority, which is recorded in the decisions of the 12th CPC Congress and the so-called foreign investment Catalog. In this Catalog, all industries are divided into four groups: stimulated, restricted, prohibited, and permitted. Foreign investment in stimulated industries is encouraged by the state to increase the share of foreign capital in the ownership structure, reduce government intervention, and reduce taxes. The catalog shows the Chinese government's desire to open up the market more and encourage foreign investment in knowledge-intensive manufacturing, new technologies, alternative energy and environmentally friendly production. At the same time, the government restricts foreign investment in industries with high levels of environmental pollution and energy consumption, as well as in the export of natural resources.

In the automotive industry, the Chinese government has shifted its focus to producing energy – efficient vehicles-powered by alternative fuels, hybrid, electric traction, and fuel cells. In 2012, the government announced an increase in production of electric and hybrid cars to 500,000 in 2015 and 5 million in 2020 [30 million...]. To achieve this goal, the Chinese government has included the production of such cars in the list of stimulated industries. Traditional Assembly production, on the contrary, was moved from the list of stimulated to the list of allowed. In addition, the list of incentives includes the production of critical components for new energy-efficient cars, including certain types of batteries.

Automobile joint ventures are subject to restrictions on foreign ownership (it should not exceed 50%). There are no such restrictions on manufacturers of spare parts, with the exception of some components of new energy-efficient cars, such as electric batteries.

A number of barriers and incentives, along with high tariffs on automotive components, have pushed foreign manufacturers to localize the production of such components in China, rather than exporting finished cars and spare parts from their own countries. As a result, one car produced in China contains an average of \$ 1,155 worth of imported parts. This is significantly less than in countries with a free market for automotive components. The total is higher in the UK at \$ 10,853 per car, followed by Canada (\$9,156), Mexico (\$6,638) and the US (\$5,897). Germany, France and Spain import components for \$ 4,737, \$ 6,285 and \$ 6,279 per car, respectively. Japan has the lowest figure (\$705 per car), while India (\$813) and South Korea (\$945) are close. The low level of imported components in cars produced in China, Japan, South Korea and India reflects the presence of clear and hidden barriers to international trade and investment in this industry.

There is a similar pattern in the import of finished cars. For 18.5 million cars produced in the country in 2011, imports to China amounted to only 1 million, i.e. less than 6%. In contrast, imports in the UK account for 86%, in Australia for 85%, and in France for 82%. In most countries of the world, the share of imports reaches 50% or more, but in China, Japan, South Korea, India and Thailand, imports account for less than 10% of the automotive market. All this is the result of China's cautious but purposeful policy of stimulating its own production of cars and their main components.

Oil and gas industry in Nigeria

In Nigeria, localization policies focus primarily on supply and employment in the oil and gas industry, which is largely controlled by foreign companies. The immediate and obvious goals are to encourage the creation of a national oil and gas industry and to increase employment among Nigerian citizens. Since the oil and gas industry is not regulated by WTO rules, Nigeria does not have conflicts with this organization over localization policies.

The oil and gas industry plays a key role in the Nigerian economy. Proven oil reserves are 36 billion barrels. According to this indicator, the country ranks second in Africa after Libya, and in terms of daily production (2.45 million barrels) – the first place on the continent. Approximately 96% of the oil produced is exported and only 4% is processed domestically. Oil and gas account for 86% of the country's exports by value, including 70% for oil (\$61 billion). The largest consumer of Nigerian oil is the United States (38% of the export market), followed by India (11%), Brazil (7%) and the Netherlands (5%).

According to the IMF, the country's oil exports account for 60% of all government revenues. According to the Nigerian Constitution, all levels of government participate in the distribution of oil revenues. First, revenues go to the Federal budget. From there, the first tranche (13%) is sent to the oil-producing States as an operating grant. The remaining 87% is distributed between the Federal government (52.7%), state governments (26.7%), and local governments (20.6%).

There are various market players in the oil and gas industry. In 2010, joint ventures with international oil companies accounted for 84% of the total volume of oil produced; production sharing companies accounted for 14%; and independent players accounted for 2%. Foreign corporations wishing to start a business in Nigeria must either set up joint ventures or operate on a production sharing basis. The share of foreign capital in both companies cannot exceed 49%. The largest foreign company in Nigeria is Shell Petroleum Development Company (SPDC) – 29% of the country's oil production, followed by Mobil (28%) and Chevron (16%). The oil and gas industry is regulated by the Nigerian petroleum

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Corporation (NPCC), which is an active player in the market. For example, its share in SPDC is 55%.

The Nigerian oil and gas industry is highly dependent on imports of goods and services at all stages of the value chain. The country spends \$ 8 billion annually on imported services in the field of construction, engineering, equipment purchases, seismic exploration, and so on. More than half of these imports are from the United States. According to the Nigerian government, the oil and gas industry imports 95% of its industrial needs.

Relations between foreign companies and their Nigerian partners have a long history dating back to British colonial rule. Nigerian policy has tried to strike a delicate balance between maximizing rents from national natural resources and attracting foreign capital to extract and distribute these resources. The government's approach to finding this balance has changed over time. For a long time, the state tried to stimulate domestic production by restricting imports. Since the mid-1970s, Nigeria's trade policy has shifted from using tariffs to quantitative import restrictions.

In 2010, the country adopted the "Nigerian Oil and Gas Content Development Act" (CDA). This is the most stringent attempt to encourage the process of localization, or "nigerianization" [Nigerian content...]. The law covers all issues related to local "content" in the oil and gas industry. This is especially true for regulators, operators, contractors, subcontractors, Alliance partners, and other entities involved in engineering, production, and other transactions in the Nigerian oil and gas industry. In a broad sense, this legislation implements three main policy directions: it encourages the localization process, defines the reporting requirements of companies (or operators), and creates a special regulatory and Supervisory body. In addition, the CDA formulates a detailed set of obligations for oil and gas companies.

The Law explicitly States that the pre-emption right should apply to the domestic, Nigerian component in oil and gas operations. The principle of pre-emption applies to the recruitment of personnel, the procurement and delivery of goods and services, contract bidding and selection procedures.

In addition to the preferential right to hire local staff, the law requires that all Junior and mid-level management positions be held only by Nigerians. Companies can recruit foreigners for no more than 5% of all available positions. Moreover, a foreigner can stay in any position for no more than four years, after which his place must be taken by a Nigerian.

The conclusion of a contract cannot be based solely on the principle of minimum price. If a national Nigerian company is able to perform this work at a price that exceeds the minimum by no more than 10%, it has an advantage. In addition, preference is given to a company that has a 5% higher share of local Nigerian staff than a competitor, if the difference in the contract price does not exceed 1%.

Special measures apply to deliveries. The CDA specifies in detail the mandatory minimum localization for each project for each type of goods and services. For example, a 100% localization level is required for the supply of pipeline systems, hoists, steel pipes, and sheet steel. An exception is allowed only if the capacity of the respective companies is insufficient. In these cases, the government may authorize the import of the relevant parts, but not for more than three years.

In some sectors of the economy, the CDA sets exceptionally high barriers – for example, in the financial sector, where 100% of "General banking services" must be localized.

Aware of the complexity of achieving such goals, the legislator sets special plans for foreign investors to achieve certain levels of localization. The Law States that within 60 days from the beginning of each year, each operator must provide the Nigerian localization development and monitoring Board with an annual Nigerian Content Performance Report covering all of the operator's projects and activities during the reporting year. In addition to the annual report, each operator must provide: an employment and training plan, an R & d plan, a technology transfer plan, a legal services plan, a financial services plan, and an insurance services plan. These plans require the operator to report on the current level of localization in all relevant areas. If the required level of localization is not available, it is recommended to develop a time schedule for achieving it.

The Nigerian localization development and monitoring Council, established by law, has the authority to "direct, monitor, coordinate and implement the articles of the Law". This Council is funded by a 1% tax on the value of all industry contracts.

Two-thirds of Nigeria's oil reserves are located offshore. Offshore oil production requires high-tech design, construction, management, and repair. The CDA emphasizes and highlights the requirements for localization of all stages of deep-sea oil production. For example, legislation requires that in the process of technical design and engineering of deep-sea equipment, 60% of the personnel are Nigerian citizens. In addition, 60% of the construction of offshore structures (measured in tons) should be localized. Once a drilling well is operational, 75% of the management must be of Nigerian origin. If expertise is required, 45% of consulting services should also be localized. Finally, 75% of repairs should be provided by local companies.

The localization policy is also aimed at the supply of equipment necessary for underwater drilling. In 2012, ExxonMobil's subsidiary, Mobil Producing Nigeria, was the first to start manufacturing three platforms in Nigeria [NNPC...]. These platforms, however, are designed for drilling on land, not on the shelf, which is much more difficult in

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technical terms. However, the government of Nigeria believes that within 3-5 years, at least 25 leading foreign engineering companies will open production of equipment and its components in the country. Thus, in the medium and long term, Nigeria will be able to almost fully meet its needs for oil and gas equipment through local production.

The first success in localizing the production of oil and gas equipment stimulated Nigeria's intention to extend the ideas of the CDA law to other sectors of the economy – in particular, telecommunications (ICT), which generates annual revenues of \$ 8 billion. Similar ideas are gaining popularity in other African countries.

structural expenses;
- stimulating economic growth;
- protection of American companies from unfair competition from foreign companies receiving subsidies;
- strengthening national security by stimulating the development of the domestic metallurgical industry.

The ARRA incentive package includes \$ 62 billion in investments in the transport and water infrastructure system. Of this amount, it was planned to spend \$ 39 billion on land infrastructure (\$28 billion on high – speed highways), \$ 6 billion on water resources and \$ 8 billion on water supply and water treatment systems. Investment in transport and water infrastructure has long been seen as a means of stimulating immediate demand for labor and, in the long term, productivity growth [Copland...].

The localization policy has been raised to a new level. If earlier the use of foreign steel was allowed in cases where the use of domestic steel led to "unjustified costs", now this is allowed only when the

use of domestic steel leads to an increase in costs by more than 25%. In addition, domestic steel must be 100% American. In other words, it is prohibited to use imported cast iron billets for the final production of finished steel pipes.

Many critics claim that the "Buy American" program violates WTO rules and other international agreements of the United States. However, the relevant articles of the WTO and trade agreements are flexible. This includes the multilateral public procurement agreement (GPA), which entered into force on January 1, 1996. The current members of the Agreement are Canada, 27 EU member States, Hong Kong, Iceland, Singapore, Switzerland and the United States. The Central idea of the Agreement is to open the state supply market to international competition only for companies of the participating countries. This does not apply to Brazil, China, India, Mexico, and Russia, which account for half of American steel imports.

WTO rules significantly restrict the application of localization policies in cases where a country that has signed an Agreement on public procurement opens up public procurement to foreign competition for certain items or uses subsidies to encourage investment. However, the resolution of disputes on this issue in the WTO technically takes up to three years. Therefore, the number of cases where localization requirements have been used since 2007 is much higher than the number of resolved disputes (approximately in the ratio of 117:3). For those countries that are outside the framework of such agreements, there are broad prospects for using this tool to activate economic policy and the economy as a whole.

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