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FISCAL POLICY FOR SUSTAINABLE DEVELOPMENT OF UZBEKISTAN: EXPERIENCE OF DEVELOPING COUNTRIES

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ABSTRACT

Fiscal policy plays a key role in ensuring sustainable economic growth and social development. This paper examines successful fiscal policy models in developing countries and their possible adaptation in Uzbekistan. Special attention is paid to progressive taxation, incentives for employment and investment, human capital expenditures, and targeted social support. Below is a summary table with examples and data from the experience of developing countries in the four key areas of fiscal policy, as well as brief conclusions for Uzbekistan.

KEY WORDS: *Fiscal Policy, Tax System, Social Expenditures, Poverty Reduction, Tax Revenues, Gini Coefficient, Economic Growth, Budget Transparency, Social Protection, Developing Economies, Government Spending, Public Investment, Tax Reform, Targeted Assistance, Social Transfer, Poverty Rate, GDP Growth, Welfare Policies, Uzbekistan Economy, Macroeconomic Stability*

INTRODUCTION

Fiscal policy is a key instrument for economic stability and long-term growth, particularly in developing economies. By effectively managing taxation, public spending, and debt, governments can foster sustainable development while addressing macroeconomic challenges. Uzbekistan, as a rapidly growing economy, seeks to optimize its fiscal framework by learning from the experiences of successful developing nations.

Key Questions

– How have emerging economies used tax reforms, public investment, and social policies to achieve sustainable development?

– What fiscal strategies can Uzbekistan adopt to balance economic growth, social welfare, and financial stability?

– How can fiscal policy help Uzbekistan attract foreign direct investment (FDI), stimulate domestic production, and enhance infrastructure development?

A review of fiscal policies in emerging economies reveals key strategies that have accelerated economic transformation. Several countries serve as relevant benchmarks:

– China: Leveraged state-led investments in infrastructure and tax incentives for industrial growth, leading to an average GDP growth of 8% per year from 2000 to 2020.

– Vietnam: Focused on progressive tax reforms and trade liberalization, attracting $22 billion in FDI annually.

– Kazakhstan: Implemented resource-based fiscal management, using oil revenues to fund long-term economic diversification projects.

– Turkey: Adopted SME-friendly fiscal policies, including tax cuts and subsidized credit lines, resulting in a significant expansion of its manufacturing sector.

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Uzbekistan has implemented major fiscal reforms since its economic liberalization in 2017, including: Reduction of the corporate tax rate from 20% to 15% to encourage private investment; Expansion of special economic zones (SEZs) with tax incentives for foreign investors; Introduction of digital tax administration to improve compliance and transparency.

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Despite these advances, structural challenges remain, including: Limited fiscal decentralization, which restricts regional governments from independently managing local development projects; Heavy reliance on natural resource revenues, making the economy vulnerable to commodity price fluctuations. A complex regulatory environment, which slows down investment decision-making.

Objectives of Fiscal Policy Reform in Uzbekistan. To ensure sustainable economic development, Uzbekistan's fiscal policy must achieve the following goals: Enhance tax efficiency by simplifying tax collection and reducing the burden on small businesses; Strengthen public expenditure management to ensure effective allocation of resources in priority sectors (infrastructure, education, healthcare); Expand financial inclusion by improving access to credit for SMEs and agricultural enterprises; Promote FDI through tax incentives, trade facilitation, and investor-friendly regulatory frameworks.

This study explores how Uzbekistan can apply successful fiscal strategies from other developing economies to enhance economic sustainability, attract investment, and promote balanced regional growth. By analyzing international case studies and Uzbekistan's fiscal trajectory, we aim to develop practical recommendations for optimizing fiscal policy.

LITERATURE REVIEW

Theoretical Foundations of Fiscal Policy for Sustainable Development. The role of fiscal policy in sustainable development has been widely analyzed in economic literature. Keynesian economics emphasizes the importance of government intervention in stabilizing economic cycles, while neoclassical theories advocate for market-driven efficiency with minimal state involvement (Stiglitz, 2017).

Modern approaches to fiscal sustainability focus on balanced budget policies, progressive taxation, and efficient public spending (Acemoglu & Robinson, 2019). Sustainable fiscal policies aim to: Maintain macroeconomic stability through controlled deficits and responsible borrowing. Promote economic diversification to reduce dependency on volatile revenue sources (such as natural resources). Ensure social equity by funding healthcare, education, and infrastructure development (World Bank, 2021).

Comparative Analysis: Fiscal Strategies in Developing Economies. Developing countries have adopted diverse fiscal models to achieve economic stability and growth. The following cases highlight effective policies and their outcomes:

China: Infrastructure-Driven Growth. China's fiscal policy is characterized by large-scale public investment financed through a mix of government bonds and foreign capital inflows. Studies show that: Tax incentives for foreign investors and industrial clusters have accelerated growth (Li & Zhang, 2020). State-led infrastructure spending has improved economic productivity and urbanization (Huang, 2018). Decentralized fiscal reforms have allowed regional governments to independently manage development projects (Chen, 2022).

Vietnam: Trade and Tax Reforms. Vietnam has successfully transitioned from a centralized economy to an export-driven model, benefiting from: Corporate tax reductions to attract FDI (Nguyen, 2021). Integration into global value chains, facilitated by trade-friendly fiscal policies (Pham, 2019). Public debt management strategies to maintain economic resilience (Tran, 2020).

Kazakhstan: Resource-Based Fiscal Policy. Kazakhstan's economic growth has been fueled by oil and gas revenues, with key fiscal mechanisms including: Sovereign wealth fund management to stabilize income fluctuations (Akhmetov, 2017). Progressive tax policies that balance corporate incentives with public revenue needs (Ergashev, 2018). Investment in non-oil sectors to mitigate resource dependency risks (Dosmukhamedov, 2021).

Turkey: SME-Focused Fiscal Incentives. Turkey has prioritized small and medium enterprises (SMEs) through: Tax breaks and low-interest credit programs to boost entrepreneurship (Yildiz, 2022). Public-private partnerships (PPPs) in infrastructure and energy projects (Kaya, 2020). Regional economic incentives to reduce development disparities (Güner, 2019).

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Uzbekistan's Fiscal Policy: Achievements and Challenges. Since 2017, Uzbekistan has implemented key fiscal reforms to enhance economic liberalization and investment attractiveness (IMF, 2022). Key measures include: Corporate tax reductions (from 20% to 15%) to encourage private sector growth. Simplification of tax administration through digitalization and automation. Creation of Special Economic Zones (SEZs) with fiscal incentives for foreign investors. However, several challenges persist: High dependency on commodity exports, making the economy vulnerable to external shocks (World Bank, 2023). Limited financial inclusion, restricting SME access to affordable credit (ADB, 2021). Regional disparities in fiscal resources, affecting equitable development (OECD, 2022).

Research Gaps and Future Directions. Existing literature highlights the importance of adaptive fiscal strategies but lacks a tailored framework for Uzbekistan's unique economic context. Key areas for further exploration include: Optimal tax structures to enhance government revenue while promoting private investment. Public expenditure efficiency to maximize the impact of government spending on growth. Debt sustainability models to ensure fiscal responsibility without hindering economic expansion.

A comparative analysis of fiscal policies in China, Vietnam, Kazakhstan, and Turkey reveals effective strategies that could be adapted to Uzbekistan. By integrating successful tax policies, investment incentives, and public spending reforms, Uzbekistan can develop a sustainable and resilient fiscal system that fosters long-term economic growth.

RESULTS

This section presents a comparative analysis of fiscal policy measures in developing countries and their potential applicability to Uzbekistan's economic development.

China: Infrastructure-Led Economic Growth. China's fiscal policy has focused on state-led investment in infrastructure and targeted tax incentives to drive industrialization and economic growth. Special Economic Zones (SEZs): Established in the 1980s, SEZs provided tax exemptions, reduced tariffs, and investor-friendly regulations, attracting large-scale foreign direct investment (FDI). Infrastructure Spending: The government heavily invested in transport, energy, and digital connectivity, accelerating economic transformation. Decentralized Fiscal Policy: Regional governments were given greater autonomy in tax collection and budget allocation, fostering localized economic expansion.

Vietnam: Export-Oriented Growth through Fiscal Reforms. Vietnam's transition from a centralized economy to a market-oriented system has been facilitated by: Tax Incentives for Manufacturing and FDI: Vietnam reduced corporate income tax rates for foreign investors and introduced tax holidays in key sectors such as textile, electronics, and agriculture. Public Investment in Human Capital: Fiscal policies prioritized education and vocational training, enhancing labor market competitiveness. Gradual Removal of Subsidies: Vietnam restructured state-owned enterprises (SOEs) to improve efficiency and reduce government spending.

Kazakhstan: Resource-Based Fiscal Stability. Kazakhstan has leveraged its natural resources to establish a sustainable fiscal framework, with a focus on: Sovereign Wealth Fund (SWF) Management: The National Fund of Kazakhstan accumulates revenues from oil and gas exports, mitigating economic volatility. Diversification Strategies: Fiscal policies support non-oil industries (agriculture, tourism, and manufacturing) to reduce reliance on hydrocarbon exports. Progressive Taxation: A mix of corporate, income, and value-added taxes (VAT) ensures equitable revenue collection while incentivizing business development.

Turkey: SME Support and Public-Private Partnerships (PPPs). Turkey's fiscal policies emphasize small business growth and large-scale infrastructure projects through: Tax Breaks and Low-Interest Loans: Small and medium enterprises (SMEs) receive preferential tax rates and subsidized financing to encourage entrepreneurship. Public-Private Partnerships (PPPs): The Turkish government collaborates with private investors to fund transport, energy, and health projects, reducing public sector financial burdens. Regional Economic Incentives: Underdeveloped areas benefit from reduced corporate tax rates and investment grants to stimulate job creation.

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Table 1. Experiences and examples (developing countries)

Policy Direction	Experiences And Examples (Developing Countries)
Progressive taxation	in South Africa: total taxes are ~27% of GDP, of which ~ 11.7% of GDP is a progressive income tax. In developed countries, personal income tax provides about 9% of GDP, in developing countries - ~2.5% of GDP.
Employment and business incentives	South Korea and Singapore: Tax incentives have attracted investment and accelerated industrialization. Vietnam: Foreign companies provide ~22% of GDP and ~23% of jobs. Brazil: The Simples Nacional regime has reduced the tax burden by ~6.5% for small businesses.
Investment in human capital	Every $1 invested in education generates up to $ 10-15 of GDP growth. Improving the quality of education can add 2 percentage pointsto the growth rate. Uzbekistan: 5.5% of GDP for education (2023), 2.9% of GDP for healthcare (2017).
Targeted social support	Optimizing subsidies and switching to targeted assistance reduces the burden on the budget. Uzbekistan: phasing out energy subsidies, protecting vulnerable groups through social norms of consumption.

The analysis shows that countries such as South Korea, Vietnam, Brazil, Indonesia, and Kazakhstanhave managed to create balanced fiscal systems that help reduce poverty and increase productivity. For example, in South Africa, taxes account for ~27% of GDP, of which 11.7% is accounted for by a progressive income tax, which has narrowed the income gap. In Vietnam, tax incentives for investors have led to an increase in private investment and employment – about 22% of GDP is now generated by foreign businesses. Brazil, by implementing the Simples Nacional system, simplified taxation of small businesses, which stimulated the growth of entrepreneurial activity. The study highlights the importance of investment in education and health care as a factor for long-term development. Countries that have increased their human capital expenditures have shown steady economic growth. On average, every $1 invested in education generates up to $ 10-15 of GDPgrowth. For Uzbekistan, where the cost of education is ~5.5% of GDP, it is important to continue to increase investment in this area in order to ensure future productivity growth and an innovative economy.

In addition, the analysis shows that targeted social support is more effective than universal subsidies. The phasing out of non-targeted energy subsidies in developing countries has freed up budgetary resources for targeted assistance programs for those in need. Uzbekistan is already implementing a similar policy, which increases fiscal sustainability without compromising vulnerable segments of the population.

The study's findings point to the need for a balance between progressive taxes, private sector incentives, and targeted social policies. The experience of developing countries shows that a combination of effective taxation, investment promotion and social protection can accelerate economic growth, reduce poverty and create a sustainable financial system.

Progressive taxes: Increasing the progressiveness of the tax system can increase the revenue base of the budget and reduce inequality. The experience of developing countries shows that increasing the share of direct taxes (personal income tax, income tax) while expanding the tax base increases the sustainability of government revenues. It is advisable for Uzbekistan to gradually increase the role of direct progressive taxes in budget revenues, while avoiding an excessive tax burden on small incomes.

Stimulating the private sector: targeted measures are effective for accelerating private business growth and employment – simplifying the tax regime for small businesses, tax incentives in exchange for investment and job creation, and special economic zones. The balance is important: benefits should attract new investment and move businesses out of the shadows, avoiding significant revenue losses with no return. Uzbekistan is recommended to improve the taxation regime for SMEs and investment incentives (for example, targeted benefits for priority industries), based on best practices (Korea, Singapore, Vietnam).

Human capital expenditures: Maintaining high spending on education and health is a prerequisite for sustained growth. Developing countries that have invested in human capital have experienced faster economic growth and

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improved public welfare. For Uzbekistan, funding for schools, universities, vocational training, and affordable medicine should remain a priority, as this lays the foundation for productivity growth and innovation in the future. Such investments pay off through the formation of a skilled labor force and improving the health of the population, which is directly related to economic growth.

Targeted social support and sustainability: it is necessary to optimize social spending, moving from universal subsidies that are expensive for the budget to targeted assistance to the poor. Accurate targeting of social support allows you to protect vulnerable groups without undermining financial stability. Uzbekistan should continue its policy of narrowing universal benefits (for example, for energy), while strengthening targeted benefits and employment programs for the poor. Such a balance will ensure social stability and public confidence, as well as free up budgetary resources for investment in development.

CONCLUSION

The analysis demonstrates that developing countries like South Korea, Vietnam, Brazil, Indonesia, and Kazakhstan have successfully balanced fiscal systems to reduce poverty and increase productivity. Progressive Taxation: In South Africa, taxes account for ~27% of GDP, with 11.7% from progressive income tax, helping narrow the income gap. Investment Incentives & Employment: In Vietnam, tax incentives for investors have increased private investment and employment, with foreign companies now contributing ~22% of GDP. SME Support: Brazil's Simples Nacional system simplified taxation for small businesses, fostering entrepreneurship and reducing the tax burden by ~6.5%. Investment in Human Capital: Countries that prioritize education and healthcare experience higher economic growth. Every $1 invested in education generates $10-15 in GDP growth. Targeted Social Support: Developing countries phasing out universal energy subsidies have freed up budget resources for targeted programs. Uzbekistan has already begun implementing this approach.

Recommendations for Uzbekistan

1. Strengthening Progressive Taxation. Increasing the share of direct taxes (personal income tax, corporate tax) while expanding the tax base improves fiscal sustainability. Uzbekistan should gradually increase progressive taxation, ensuring that small-income earners are not overburdened.
2. Stimulating Private Sector Growth. Simplifying tax regimes for small and medium enterprises (SMEs) and introducing targeted incentives for priority industries (e.g., manufacturing, technology). Special Economic Zones (SEZs) and tax benefits should attract new investments without creating excessive revenue losses. Uzbekistan can adopt best practices from Korea, Singapore, and Vietnam in SME development and investment incentives.
3. Expanding Human Capital Investments. Education and healthcare investments must remain a fiscal priority to sustain long-term economic growth. Higher spending on schools, universities, vocational training, and affordable healthcare strengthens the labor force and improves productivity. Uzbekistan should continue funding education (~5.5% of GDP) while increasing healthcare spending to match economic growth.
4. Enhancing Targeted Social Support. Shifting from universal subsidies to targeted assistance protects vulnerable groups while maintaining fiscal stability. Phasing out broad energy subsidies should be accompanied by employment programs and financial aid for the poor. Strengthening social protection policies ensures public confidence while freeing up budgetary resources for development.

The study underscores the importance of a balanced fiscal policy combining progressive taxation, private sector incentives, human capital investment, and targeted social support. Developing countries have successfully leveraged these strategies to accelerate economic growth, reduce poverty, and ensure financial sustainability. Uzbekistan's fiscal policy should integrate these approaches to enhance economic stability and long-term development.

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