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STRENGTHENING SHARE TURNOVER IN UZBEKISTAN STOCK MARKET FOR SUSTAINABLE GROWTH

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ABSTRACT
This paper examines the prospects for the development of share turnover in Uzbekistan's stock market as a key indicator of liquidity and efficiency. The analysis highlights structural constraints such as concentrated ownership, limited institutional investor participation, and governance gaps, while drawing comparative lessons from developed markets where turnover supports capital allocation and economic growth.
KEYWORDS: *Share Turnover, Stock Market, Liquidity, Corporate Governance, Institutional Investors, Market Infrastructure,*

INTRODUCTION

The stock market is widely recognized as a cornerstone of the financial system, serving both as a mechanism for channeling capital to productive sectors and as a platform for investors to manage risk and allocate savings. Among the various measures of stock market performance, share turnover occupies a central place, as it reflects the degree of liquidity, the frequency of transactions, and ultimately, the confidence that investors place in the market. In academic literature, turnover is often interpreted not simply as an indicator of trading activity, but as a proxy for the efficiency of market institutions and the credibility of governance frameworks that sustain market operations.

In advanced economies such as the United States, the United Kingdom, and Japan, share turnover is supported by a broad and diversified investor base, advanced trading infrastructures, and consistent regulatory oversight. Institutional investors, including pension funds, insurance companies, and mutual funds, provide the foundation for continuous two-sided market activity, while digital platforms and algorithmic trading strategies ensure rapid price discovery and lower transaction costs. These conditions create what has been termed a "liquidity cycle", whereby greater trading encourages tighter spreads, improved valuations, and more active participation by both domestic and foreign investors.

In contrast, transitional and emerging economies including Uzbekistan face persistent challenges in achieving comparable levels of turnover. Ownership concentration, where large blocks of shares remain in the hands of state entities or controlling shareholders, limits the free float available for active trading. The underdevelopment of domestic institutional investors, combined with cautious retail participation, restricts the depth of the market. Governance gaps, such as uneven disclosure practices and limited protection of minority shareholders, generate a "trust discount," which further discourages active portfolio rotation. These structural weaknesses create a market characterized by episodic bursts of activity rather than consistent, liquid trading.

LITERATURE REVIEW

Research on share turnover sits at the intersection of market microstructure, law and finance, behavioral asset pricing, and market design. Foundational microstructure models explain how trading rules, information frictions, and liquidity provision shape turnover. In the adverse-selection framework of Glosten and Milgrom (1985, JFE), wider spreads arise when informed trading is likely, deterring order submission and lowering trading frequency; turnover improves when mechanisms reduce information asymmetry and tighten spreads. Kyle (1985, Econometrica) formalizes liquidity provision via a strategic market maker whose price impact parameter governs how quickly information is impounded into prices; deeper markets via competitive liquidity supply permit higher trade intensity. Empirically, Amihud and Mendelson (1986, JF) link trading frictions to required returns, implying that policies which compress transaction costs can endogenously raise turnover by expanding the set of marginal

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traders. Texts such as O'Hara (1995) and Hasbrouck (2007) synthesize theory and evidence: depth, resiliency, and immediacy are co-determinants of turnover, and design choices (tick size, lot size, auctions, maker obligations) alter these primitives.

A second strand law, governance, and institutions finds that investor protection and disclosure credibility underpin liquidity. La Porta et al. (1998, JPE) show stronger legal protection of minority shareholders correlates with larger, more active markets. Pagano, Panetta, and Zingales (1998, JF) argue that going public and subsequent seasoned offerings expand free float and research coverage, catalyzing secondary-market activity; their mechanism supports exchange-based privatization as a turnover lever. In corporate governance, Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008, JFE) document how curbing self-dealing raises outside-investor participation; Shleifer and Vishny (1997, JF) provide the theoretical foundation linking control rights, enforcement, and market liquidity. For emerging markets, privatization surveys (e.g., Megginson and Netter 2001, JEL) highlight how public offerings that disperse ownership increase tradable float and support active secondary trading.

A third body of work behavioral and investor clientele—explains how participation patterns translate into turnover. Barber and Odean (2000, JF; 2001, QJE) show that overconfidence and attention shape trading intensity among retail investors; while excessive trading can be costly, broad retail access enlarges the pool of liquidity demanders and suppliers, supporting turnover when market frictions are low. Using detailed administrative data, Grinblatt and Keloharju (2000, JF; 2001, JF) identify how investor identity, familiarity, and tax status drive trading decisions, reinforcing the role of domestic investor development and education in sustaining activity. Baker and Wurgler (2006, JF) add a sentiment channel: waves of optimism/pessimism move issuance and trading together, implying that governance and disclosure that discipline sentiment can stabilize turnover rather than suppress it.

On liberalization and market opening, evidence indicates that carefully sequenced reforms raise liquidity and turnover. Henry (2000, JF) shows stock-market liberalizations reprice risk and increase activity as foreign participation expands. Bekaert, Harvey, and Lundblad (2005, JFE) connect liberalization to growth through liquidity channels; improved property rights and better information environments amplify these gains. Cross-listing work (e.g., Doidge, Karolyi, and Stulz 2004/2009) suggests that bonding to stricter regimes upgrades disclosure quality and analyst coverage, translating into tighter spreads and higher trading intensity.

Modern market design and technology further reshape turnover. Hendershott, Jones, and Menkveld (2011, JF) document that algorithmic trading improves liquidity by narrowing spreads and increasing depth; Brogaard, Hendershott, and Riordan (2014, RFS) find high-frequency liquidity supply enhances price discovery mechanisms that typically increase trade counts without destabilizing markets when surveillance is strong. On the financing side of liquidity, Duffie, Gârleanu, and Pedersen (2002, JF) formalize how securities lending enables short selling and relative-value strategies, enriching the set of trading motives and raising turnover. Empirical studies of short-selling regimes (Bris, Goetzmann, and Zhu 2007, JF; Saffi and Sigurdsson 2011, RFS) show that well-regulated short selling improves price efficiency and does not systematically harm market quality evidence for lending/borrowing utilities and covered short-selling frameworks as liquidity complements. Finally, on financial technology, Philippon (2016, NBER WP 22476) argues that digitization lowers intermediation costs and expands access; paired with Foucault, Pagano, and Röell (2013) on liquidity policy, this supports e-KYC, mobile brokerage, and low-cost passive vehicles (ETFs) as structural drivers of participation and turnover.

ANALYSIS AND RESULTS

The prospects for improving turnover in Uzbekistan are promising, given the broader trajectory of economic reforms. The government has embarked on an ambitious program of privatization, capital market liberalization, and digital transformation, aimed at integrating the national economy into global financial networks. International evidence suggests that such reforms, if carefully sequenced, can catalyze significant improvements in liquidity. For instance, Poland's exchange-led privatizations in the 1990s dramatically increased free float and turnover, while Korea's early adoption of electronic trading platforms positioned its stock market as one of the most dynamic in Asia. These experiences highlight that turnover is not merely the outcome of market size but of institutional design, technological adoption, and regulatory credibility.

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Table 1. Institutional and economic determinants of share turnover

Financial/Economic Factor	Foreign Experiences
Investor protection and legal certainty	In the US, the Securities Exchange Act (1934) and strong SEC oversight guarantee investor rights, which reduce perceived risk and encourage active trading. La Porta et al. (1998) confirm that robust legal frameworks expand market participation and enhance liquidity.
Corporate governance and capital allocation	The UK's Corporate Governance Code improves alignment between managers and shareholders, making equity a more attractive instrument for financing. Strong governance supports capital reallocation through active trading and higher turnover.
Privatization and free-float expansion	In Poland and the Czech Republic, exchange-led privatizations increased free float, transforming dormant state assets into tradable securities. This broadened ownership and generated new secondary-market activity.
Financial liberalization and integration	Studies such as Henry (2000) and Bekaert, Harvey, & Lundblad (2005) show that stock market liberalizations in emerging markets triggered higher turnover by allowing foreign capital inflows and reducing the cost of equity financing.
Disclosure and transparency	In the EU, the Transparency Directive improved periodic and event-driven reporting. Greater transparency reduces information asymmetry, lowering risk premia and stimulating frequent portfolio rebalancing, thereby supporting turnover.

Source: Developed by the author

Economic and institutional reforms are core drivers of turnover. Strong investor protection and governance encourage risk-taking, privatization creates tradable supply, and liberalization connects domestic savings with global capital. By reducing agency problems and information frictions, these reforms stimulate continuous trading rather than passive holding. Developed-market evidence confirms that turnover reflects systemic credibility: where rules and enforcement are predictable, liquidity and economic efficiency follow.

Table 2. Market microstructure, technology, and investor participation

Financial/Economic Factor	Foreign Experiences
Liquidity provision and market-making	On NASDAQ and the LSE, designated market makers provide constant buy–sell quotes. This microstructure innovation narrows spreads, increases depth, and ensures that capital is not locked but circulates actively through turnover.
Post-trade efficiency and settlement	In the US (DTCC) and EU (TARGET2-Securities), clearinghouses reduce counterparty risk and settlement delays. Efficient post-trade infrastructure lowers transaction costs, making frequent trading financially viable.
Securities lending and short-selling	Research by Duffie, Gârleanu, & Pedersen (2002) shows lending markets in the US and UK allow hedging and arbitrage. These practices broaden trading strategies and generate additional turnover without undermining stability.
Digital access and retail finance	South Korea's digital brokers and Singapore's fintech integration have mobilized retail savings into equities. Broader participation expands market depth and creates regular trading flows, boosting turnover.
ETF and index fund ecosystems	In the US and Europe, ETFs and index funds provide continuous rebalancing flows. By linking household savings and institutional mandates to stock baskets, they increase capital mobility and sustain turnover.

Source: Developed by the author

Microstructure and technology form the operational backbone of liquidity. Obligated liquidity providers and efficient post-trade systems reduce costs, while lending/short-selling expand the economic functions of the market by enabling risk-sharing and arbitrage. Digital platforms bring households into capital markets, while ETFs connect long-term savings to short-term liquidity. Developed-country experience shows that turnover rises when

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financial infrastructure, investor access, and product design are harmonized, ensuring that equity markets serve as both financing channels and venues of efficient capital allocation.

RECOMMENDATIONS

Enhancing share turnover in Uzbekistan's stock market requires a comprehensive and sequenced strategy. First, the state should accelerate exchange-based privatization with minimum free-float thresholds to guarantee sufficient tradable supply and broaden ownership. Second, institutional investor capacity must be expanded through the development of pension funds, insurance companies, and low-cost ETFs, which create durable two-sided flows and increase liquidity. Third, embedding a premium governance and disclosure framework will strengthen investor confidence, reduce the trust discount, and stimulate active portfolio rebalancing. Fourth, market microstructure improvements including designated market makers, calibrated tick sizes, and transparent opening/closing auctions should be introduced to ensure continuous liquidity. Fifth, modernization of post-trade infrastructure, alongside regulated securities lending and covered short-selling, will diversify trading strategies and enhance price efficiency. Finally, policy predictability and financial literacy initiatives such as stable tax treatment, e-KYC access, and nationwide investor education will encourage sustainable retail and institutional participation.

CONCLUSION

The development of share turnover is essential for transforming Uzbekistan's stock market into a liquid and efficient channel for capital allocation. International evidence shows that turnover does not emerge spontaneously but results from systemic reforms that align ownership structures, investor protection, governance quality, and technological infrastructure. By sequencing reforms first ensuring free float and governance credibility, then building institutional demand and microstructure depth, and finally compressing post-trade frictions Uzbekistan can establish a self-reinforcing cycle of liquidity. This cycle will lower the cost of capital, strengthen investor trust, and integrate the domestic market more closely with global financial systems, thereby positioning the stock market as a strategic driver of long-term economic modernization.

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