



# ECONOMY OF UZBEKISTAN: CURRENT STATE AND DEVELOPMENT PROSPECTS

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## ABSTRACT

*The current state of the economy of Uzbekistan, as well as, emerging negative phenomena in the foreign economic activity of the republic in recent years are analyzed in the article. In addition, possible economic problems are considered when Uzbekistan joins the Eurasian Economic Union and concrete measures are proposed to adapt the economy of the republic to the conditions of the customs union.*

**KEY WORDS.** *Integration, Eurasian Economic Union, foreign trade turnover, export, import, competitiveness of the economy, customs duties, refinancing rate, diversification.*

## INTRODUCTION

Almost thirty years have passed since the beginning of reforms to transfer the economy of Uzbekistan to market relations. This is a long time in order not only to create the necessary conditions for market development, but also to feel what happened, what results and consequences testify to the current economic transformations.

The reforms promised to have a beneficial effect on the economy, to ensure its high quality and efficient growth, a significant increase in the living standards of the population, but in reality, everything turned out the other way around. The economy found itself in a state of profound crisis, collapse and destruction, which led to a halt in entire sectors of the national economy, as a result, hundreds of thousands of people lost their jobs and lost their earnings, the standard of living of the population dropped sharply.

What is the matter? Why have good hopes for a market economy still not come true, and the desired improvement is not coming either in the economy or in the social situation of the population of the republic?

The experience of carrying out reforms and the real development of economic relations show that the conditions and mechanisms of a market nature introduced in the republic were half-hearted and thoughtless.

In our opinion, first of all, the course and results of economic reforms were negatively affected by the rupture of economic ties between the republics and regions of the former Soviet Union, the split of the single national economic complex of the USSR. For the economy of Uzbekistan, this factor was of great importance, since it strongly depended on external supplies of petroleum products, rolled metal products, timber, chemical products, various types of equipment and other material resources. The directly established ties of material and technical supplies were lost, and it became extremely difficult to establish them on a new commercial basis due to the lack of the necessary financial resources to pay for them. Previously, there was no problem in where and to whom to sell the manufactured products, for this was firmly established and clearly defined by the state all-Union plan. Today, old ties have already been lost, and new ones had to be looked for, found, established, mastered and conquered, which is not so easy in the current conditions of globalization.

In any case, the transition of Uzbekistan to full state sovereignty, from a centralized planned economy to a market economy, could not be painless. But the degree of pain would be much less if more correct guidelines for the movement towards a market economy were maintained during the implementation of reforms.



The earliest and most obvious mistake was the haste to reform. The state and cooperative-collective-farm forms of ownership were hastily liquidated, state and cooperative-collective farm enterprises were destroyed, large forms of production and economy were reorganized, enterprises were separated from state care about their condition and their financing, the internal market was opened for foreign producers and their goods, free pricing for almost all goods and services, etc. One can understand and to some extent justify this haste. The reformers wanted to quickly introduce and create all the necessary conditions for the market economy to work immediately, without any delay and give its positive results. But haste is always, as a rule, associated with thoughtlessness. And so it was this time. The reformers acted according to someone else's template and even tendentious, without thinking about whether this corresponded to the requirements of a market economy and the real conditions of the republic.

The main mistake is that the material and technical basis of the former planned economy was not preserved and was used as the basis for the development of a market economy. It was ditched, plundered and ruined as a result of a series of ill-considered measures.

First of all, this is due to the transformation of the forms of ownership. The modern market economy maintains and develops with a variety of forms of ownership, and the reformers, starting the transformations, declaratively advocated this diversity. But in fact, they purposefully and directly led to the establishment of the undivided domination of private property. This transition from state ownership to private ownership was accompanied by a painful breakdown of the existing economic structures, reorganization, replacement of competent management by incompetent, mismanagement, plundering of property, dismantling of enterprises with equipment and putting it out of order, leaving the production of skilled workers and specialists in the production, technological and economic profile. Whatever the economy may be - planned or market - it cannot develop without material, technical and professional personnel base. The loss of the former material-production and economic structure by half or more put the newly created market economy in difficult conditions.

The wrong stereotyped approach was adopted in relation to large enterprises. They considered that they are monopolists and they should be split into a number of small enterprises. But it was necessary to think over how to do it. In a modern market economy, despite the large proportion of small and medium-sized enterprises, large enterprises still dominate, leading in terms of labor productivity,

production costs, product quality, the use of the achievements of scientific and technological progress of all manufacturers and business executives, the entire economy as a whole. They have quite naturally come to the fore and set the tone for the entire world economy. Eliminating them means condemning the economy to the loss of the basis for its effective development. In our republic, they did it for the sake of preventing monopoly. But what kind of monopoly can we talk about if the products of these enterprises are doomed to compete with similar types of products from the CIS countries and far abroad? It was necessary not to destroy these enterprises, but on the contrary, to help them, to adapt to the new environment, to the harsh conditions of competition in the domestic and foreign markets.

Looking back, it can be said that the reforms carried out have led the economy of Uzbekistan not forward, but back to wild capitalism. Instead of a modern market economy based on the dominance of large, highly efficient production, we have returned to the era of initial capital accumulation, when large fortunes and capitals were amassed in a short time through deception, fraud, the use of official position and other dirty dishonest methods, through the privatization of state property. The antediluvian "wild capitalism" was also marked by the fact that domestic production was purposefully destroyed under high tax burdens, and the entire economy in the republic was focused on the "buy-sell" relationship, and this was mainly based on the sale and purchase of imported goods imported into the republic.

The decision to remove the state from taking care of enterprises and from supporting their economic activities was a mistake. They proceeded from the template that, they say, the market economy is governed by itself, by the so-called "invisible hand", about which A. Smith spoke, and therefore there should be no interference and no tutelage on the part of the state in relation to the economic and entrepreneurial activities of enterprises. The state left enterprises to fend for themselves at the moment when they found themselves in incredibly difficult and harsh conditions, having lost well-functioning economic ties, markets, guaranteed financing, and due to inflation, they lost all their savings and working capital. Enterprises more than ever needed government assistance in the transition to market relations, and this was denied them on principle - because it was allegedly incompatible with a market economy. True, after some time the leadership of the republic realized its mistake and remembered that even in developed countries the state is meeting halfway, helping enterprises, trying to create more favorable conditions for them. It began to allocate state loans to enterprises, organizations, individual entrepreneurs, agricultural enterprises, farmers, but



again ill-considered, without taking care of strict control over their intended use and repayment. As a result, huge amounts of state loans were misused, devoured and plundered.

From the very beginning, the reforms focused on the development of private entrepreneurship. The government seemed to understand, introducing the freedom of education and activity of private - entrepreneurial enterprises and farms, that small and private entrepreneurship can become the most important support for the development of market relations in the economy and give impetus for the deployment of economic and entrepreneurial initiative and entrepreneurship in all sectors and spheres of the national economy. Much has been said and said that the private business sector will be provided with all-round support. However, basically it all came down to empty declarations, but in fact ordinary entrepreneurs, having decided to start and run their own business, faced and continue to face enormous difficulties (lack of production facilities, lack of working capital and raw materials, inaccessible loans, complex system of licensing and licensing registration, extortion and bribes of officials), etc. At this time, the bulk of private entrepreneurial business in the republic is concentrated not in production, but in the service sector - trade, public catering and transport.

Monetary and financial policy during the period of reforms is aimed at ensuring a firm stable exchange rate of the national currency against other currencies, preventing price increases and inflation, reducing the budget deficit, in general, for everything that is generally called monetary financial stabilization. This is, of course, the right direction. But the whole question is how this policy is enforced.

In the republic over the past period, they tried to ensure that monetary and financial policies were aimed at ensuring a solid stable exchange rate of the soum against other foreign currencies, primarily against the dollar, to prevent price increases and inflation, to reduce the state budget deficit, in general to everything that is generally called monetary stabilization. This is kind of the right direction. But on the other hand, how is this policy ensured? Despite the grandiose slogans from the tribunes about the advantages of the socially oriented "Uzbek model", consumer prices in the republic have been growing and growing, inflation is high, the state budget, trade and balance of payments deficit is allowed, the purchasing power and the exchange rate of the national currency are constantly decreasing.

Why did it happen? What factors influenced this? In our opinion, the main reason for this was that after the introduction of the national currency in 1994, the Central Bank operated two exchange rates in the republic: the fixed state exchange rate, to

which ordinary enterprises did not have any access, and the market "black" - the difference with which was threefold. This, in turn, led to the unreliability and instability of the soum, its extremely small connection with its own national economy. In addition to this, very high tax rates led to the fact that by 2000 the real sector of the economy in Uzbekistan ceased to exist.

In the current conditions, the course of integration of the economy of Uzbekistan into the world economy has revealed the limited possibilities of adapting to the world trends of the national economy of the republic. As the sad experience of the collapse of the Soviet Union showed, it led to the rupture of an integral economic and production space, the termination of cooperation, ties between enterprises, research and production associations, which entailed the emergence of numerous barriers to mutual trade and other economic relations. In the economy of the former Soviet republics, including Uzbekistan, due to a significant weakening of economic ties, a deep formation of the reproduction process took place towards the excessive development of raw materials industries for the needs of the rest of the world.

As can be seen from the history of the development of the world economy, countries specialized in the development of resource-producing sectors of the economy do not have a strong immunity against conjunctural fluctuations in the world market. For them, there is always an external threat of upsetting the internal economic equilibrium. Naturally, a strong future on such a basis, entailing an increase in financial and technological dependence, unstable budget revenues and many other negative consequences, cannot be built.

Comparison of the dynamics of the structure of foreign trade in goods and services of the republic with the data of world trade and exports clearly shows that in terms of its structure, the foreign trade turnover of Uzbekistan is fundamentally different from international economic exchange. In world trade, a significant proportion is accounted for by finished products and services, which embody the achievements of scientific and technological progress. And in the structure of republican exports, basic goods and the simplest types of services prevail, imports are dominated by goods and services related to satisfying consumer demand (Table 1).

As can be seen from the table, a negative trend has been observed in the republican foreign trade turnover in recent years: the excess of imports over exports. This shows that the bulk of the processing industries, the agricultural sector and the service sector are not able to satisfy the needs of the domestic market in terms of the range, quality or quantity of goods and services produced.



**Table 1**  
**Dynamics of the structure of external economic activity of the Republic of Uzbekistan for 2000-2020<sup>1</sup>**

Structure	2000	2005	2010	2015	2018	2019	2020
<b>EXPORT</b>							
Cotton-fiber	897,1	1033,3	1572,7	736,1	222,1	281,6	146,9
Foodstuffs	176,4	206,1	1260,5	1316,4	1097,7	1517,5	1443,8
Chemical products and products from them	93,4	285	661,3	613	904,6	876,9	873,2
Energy and oil products	335,2	623	2973,8	2685,2	2666,2	2524,9	659
Ferrous and non-ferrous metals	216,7	499,9	894,4	824,2	1167,1	1300,9	1241,9
Machinery and equipment	111,8	452,8	715,4	159,3	214,1	451,4	442
Gold	554,2	1164,7	2618,1	1920,6	2909,5	4918,3	5804,4
Textile products	235,6	203,5	637,2	883,7	1603,1	1626,6	1578
Services	449,1	659,3	1335,5	3061,3	3029,9	3560,3	2005
Other	195,2	281,2	354,5	307,8	438,6	843,5	908,1
<b>Total</b>	<b>3264,7</b>	<b>5408,8</b>	<b>13023,4</b>	<b>12507,6</b>	<b>14252,9</b>	<b>17901,7</b>	<b>15102,3</b>
<b>IMPORT</b>							
Foodstuffs	361,1	287,2	963,2	1585,3	1581,6	1885,1	2159,6
Chemical products and products from them	399,5	558,7	1265,7	2108,2	2554,8	3200,4	3436,7
Energy and oil products	112,7	103,7	654,6	725	879,5	928,1	1106,9
Ferrous and non-ferrous metals	253,5	419,4	742,1	919,4	1773,3	2116,9	1751,3
Machinery and equipment	1044,1	1770,4	4032,5	5026,7	8321,7	10635,2	8904,2
Services	251	424,7	490,4	954,1	2242,9	24241,8	1221,4
Other	525,5	527,2	1027,3	1097,9	2201,4	3088,7	2573,7
<b>Total</b>	<b>2947,4</b>	<b>4086,3</b>	<b>9175,8</b>	<b>12416,6</b>	<b>19555,2</b>	<b>24276,1</b>	<b>21153,8</b>

<sup>1</sup> Source: State Statistics Committee of the Republic of Uzbekistan



Due to the imbalance in foreign trade, the dependence of the Uzbek economy on foreign markets remains high. From this we can conclude that the competitiveness of the national economy is still poor. This means that modern production structures and foreign trade turnover are not yet capable of ensuring sustainable economic development in an open economy. Taking this into account, we can say that it is impossible to change the nature of the republic's participation in the international division of labor without developing resource-consuming and processing industries, that is, without new industrialization. This is the only way to diversify exports through finished products, including products from high-tech industries that are competitive on the world market.

The increase in the share of exports remains one of the main factors in the strengthening and development of national economies. In modern conditions, not only high growth rates of exports, but also diversification and a qualitative structure are important. In the works of A. Guerson, D. Parks, M. Torrado, the dependence of the growth of gross domestic product on the specialization of exports and its structure was revealed. The studies of D. Sachs and E. Warner proved a direct relationship between low economic growth and the country's raw material export specialization. D. Hummels and P. Klinow revealed a high differentiation in exports of developed countries. The export of goods with high added value and the differentiated structure of exports allow developed countries to maintain economic stability and respond flexibly to global challenges.

Uzbekistan has significant potential for integration into the world economic system. In the context of globalization and the deepening of the international division of labor, the assessment of the export opportunities of the republic's economy, the study of its development trends, and implementation features are of particular importance. New challenges and limitations to the world economy require further improvement of the state economic policy of Uzbekistan, the main priority of which should be the formation of long-term factors for the growth of competitiveness, the development of an export promotion system, and financing activities to expand the geography of access of Uzbek products to foreign markets.

Under these conditions, the effectiveness of the implementation of the export-oriented strategy for the development of the republic's economy depends on the search for and formation of new competitive advantages - the introduction of resource-saving and innovative technologies, focusing on intensive

methods for developing imbalances in the development of industries, diversifying exports and forming markets for new types of products with high added value.

In the current conditions, in order to switch to an innovative path of development, to break out of the dependent position of donors of raw materials, to enter the world of developed countries with high-tech production and a diversified economy, joining the EAEU is an objective necessity for Uzbekistan. It should be noted here that the EAEU member states still possess considerable intellectual, scientific, technical and economic potential. There are large technological reserves in aircraft construction, special metallurgy, mechanical engineering, energy, machine-tool building, biotechnology and in other areas, thanks to which the economies of these republics could rise to the world level and integrate into the world economy. This, in turn, makes it possible for our economy to fit into transnational and global processes.

Historical experience shows that the creation of trade and economic associations occurs for the sake of achieving universally significant goals, and, as a rule, is accompanied by an intensification of interaction between the participating countries in all areas of economic activity. According to the well-known Russian economist S.Yu. Glazyev, the creation of the EAEU is part of the policy of economic development, focused on getting out of the raw material trap and getting on the path of an innovative economy. He believes that this policy presupposes the activation of the preserved scientific and production potential, the restoration and development of the existing reproduction circuits for the manufacture of high-tech products with high added value, wide cooperation and specialization in the field of industry and agriculture [1].

On the whole, we agree with the opinion of the famous scientist, but another problem arises. It should be noted that the positive effect of integration occurs when the levels of economic and technological development of countries are close enough.

And if there are significant gaps in living standards, incomes, technologies, problems are possible: for a less developed country, a situation of growing imports arises. At the same time, export opportunities are usually low due to technological barriers. Based on the foregoing, we will try to determine to what extent the internal capabilities of Uzbekistan correspond to the level of development of future partners in the EAEU. It should be noted here that we are far behind the Russian Federation and Kazakhstan in terms of economic development.

Schedule # 1. GDP per capita PPP (thousand dollars)<sup>2</sup>

As shown in Graph 1, where the level of GDP per capita in Uzbekistan is on average four times lower than in the above countries. And this, in turn, affected the foreign trade turnover. As can be seen from Table 2, in recent years, the mutual trade of Uzbekistan with the Russian Federation has been showing a steady trend in excess of imports over exports. A similar situation is observed in the trade

balance with Kazakhstan and Belarus due to the low competitiveness of domestic goods, not only in the EAEU markets, but also in the domestic market of the republic. Taking this into account, we can say that the entry of the republic into the EAEU in its current state can destabilize the already weak national economy.

**Table 2**  
Dynamics of the EAEU member countries in the foreign trade turnover of the Republic of Uzbekistan (for 2014-2019) (million USD)<sup>3</sup>

Country	2014	2015	2016	2017	2018	2019	2020
<b>Russian Federation</b>	5858,5	4455,8	4182,7	4728,7	5729,8	6626,9	5659,6
Export	2545,8	1821,1	1794,9	2019,2	2192,9	2492,5	1485,8
Import	3312,7	2634,7	2397,8	2709,5	3536,9	4134,4	4173,8
Balance	-766,9	-813,6	-602,9	-690,3	-1344,0	-1641,9	-2688
<b>Kazakhstan</b>	3496,4	2697,1	1898,9	2055,7	3022,2	3367,7	3005,7
Export	2487,7	1849,4	945,0	1057,6	1457,7	1429,7	908,4
Import	1008,7	847,7	953,9	988,2	1564,5	1938,0	2097,3
Balance	1479,0	1001,7	-8,9	59,4	-106,9	-508,3	-1188,9
<b>Belarus</b>	177,8	109,1	112,6	182,4	420,0	330,8	304,3
Export	24,7	20,1	18,2	27,4	43,2	47,6	42,6
Import	153,0	89,6	94,4	155,0	376,8	283,2	261,7
Balance	-128,3	-68,9	-76,1	-127,6	-333,6	-235,6	-219,1
<b>Kyrgyzstan</b>	225,9	136,0	167,4	253,7	481,0	829	907,2
Export	164,1	99,9	121,5	178,3	348,2	676	760,5
Import	61,8	36,1	46,0	75,4	132,8	150	146,7
Balance	102,2	63,9	75,5	102,9	215,4	529	613,8

<sup>2</sup> Link: <https://konews.co/lists/co>.

<sup>3</sup>Source: State Statistics Committee of the Republic of Uzbekistan



Does this mean that we are not allowed to join the EAEU? In our opinion, joining this economic union is in the interests of the republic. But before entering it is necessary to solve certain problems in order to adapt the possibilities of the economy of Uzbekistan to the conditions of the customs union. For this, we propose specific measures:

- In order to help domestic producers to get on their feet, especially for those industries that create products with high added value, we propose to reduce VAT to 10% for all enterprises, regardless of their form of ownership;

- At present, high customs duties on imported products are applied in the republic to protect their own producers, but, unfortunately, these measures did not bring the expected results. With this in mind, we propose other ways to weaken consumers' import orientation and strengthen the position of domestic producers in the domestic market. In our opinion, in conditions when foreign trade turnover is negative, it is advisable to use effective tariff protection, that is, zeroing duties on imported raw materials and materials that are necessary to stimulate and maintain their own production and cannot be provided by domestic suppliers.

- In the current environment, the central bank refinancing rate remains very high at 14%. And this, in turn, leads to an increase in the cost of loans from commercial banks both for business and the population. For comparison, the refinancing rate of the Russian Central Bank, the future main partner in the EAEU, is 4.25% per year, which allows Russian commercial banks to issue loans at 7-8%. This means that if we do not reduce the refinancing rate to the Russian level, the consequences could be negative for the entire banking system of the republic.

- At this time, tariffs for energy carriers (electricity, gas) are very high for business, which, in turn, lead to higher prices for goods and services, thereby reducing the competitiveness of domestic producers in the domestic and foreign markets. Based on this, we propose to revise energy tariffs downward (at least by 25% from the current level).

***The introduction of the above measures would allow our republic to join the EAZS painlessly for the national economy and solve the following tasks:***

- switch to an innovative development path;
- enter the world of developed countries with high-tech industries and diversified economies;
- to increase the stability of the national economy in the face of increasing global competition.

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