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## UZBEKISTAN'S PATH TO SUSTAINABLE DEVELOPMENT: ECONOMIC CHANGES IN A GLOBAL CONTEXT



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**Abstract:** This article examines Uzbekistan's way towards sustainable development through economic reforms and global integration. It discusses the nation's advancements in market liberalization, social inclusion, and environmental sustainability, setting these efforts against global economic trends. The analysis assesses the challenges and opportunities presented by these initiatives and their contribution to global sustainability goals, serving as a potential model for other transitioning economies.

**Keywords:** sustainable development, economic reforms, global economy, market liberalization, environmental sustainability.

**Аннотация:** В данной статье анализируется путь Узбекистана к устойчивому развитию через экономические реформы и интеграцию в мировую экономику. Обсуждаются достижения страны в области либерализации рынка, социального включения и экологической устойчивости на фоне глобальных экономических тенденций. Анализ оценивает вызовы и возможности, представляемые этими инициативами, и их вклад в глобальные цели устойчивого развития, предлагая потенциальную модель для других переходных экономик.

**Ключевые слова:** устойчивое развитие, экономические реформы, мировая экономика, либерализация рынка, экологическая устойчивость.

**Аннотация:** Ушбу мақола иқтисодий ислоҳотлар ва глобал интеграция орқали Ўзбекистоннинг барқарор ривожланиш йўлини кўриб чиқади. Унда мамлакатнинг бозор либерализацияси, ижтимоий инклюзия ва экологик барқарорлик соҳаларидаги ютуқлари, ушбу ҳаракатларни глобал иқтисодий трендларга қарши кўриб чиқилади. Таҳлил ушбу ташаббуслар тақдим этган қийинчиликлар ва имкониятларни, шунингдек, уларнинг глобал барқарорлик мақсадларига қўшган ҳиссасини баҳолайди ва бошқа ўтиш давридаги иқтисодиётлар учун потенциал модел сифатида хизмат қилади.

**Калит сўзлар:** барқарор ривожланиш, иқтисодий ислоҳотлар, глобал иқтисодиёт, бозор либерализацияси, экологик барқарорлик.

## Introduction

Since the early 1990s, Uzbekistan has been transitioning from an agrarian economy to a more diversified and industrialized one. This shift is evident in the changing contributions of various sectors to GDP, employment patterns, and the business environment. The agricultural sector's share of GDP has decreased, while manufacturing has doubled its contribution, reflecting a move towards higher value-added production.

Uzbekistan's economic reforms, including market liberalization and enhancements to legal and regulatory frameworks, aim to reduce reliance on traditional exports like cotton and gold by diversifying into tourism, manufacturing, and services. These reforms are designed to create a competitive market environment, attract foreign investment, and integrate the country more deeply into the global economy.

Recent leadership has accelerated these reforms, focusing on economic liberalization, increased transparency, and inclusive growth. These efforts are crucial for reducing dependency on sectors like cotton and natural gas and for positioning Uzbekistan as a central trading and investment hub in Central Asia. The country's economic policy transformation is a strategic response to both internal needs and global sustainability goals, aligning with international standards.

### **Literature review**

Structural transformation involves reallocating resources from traditional sectors like agriculture to modern, high-value sectors such as services and technology. Lewis (1954) describes it as essential for economic development, shifting labor from low to high productivity sectors. This is relevant to Uzbekistan as it moves towards a diversified economy.

Solow's (1956) neoclassical growth theory highlights the importance of technological progress and capital accumulation, suggesting that investments in human capital and innovation are crucial for Uzbekistan's economic growth.

Institutional economics, discussed by Acemoglu and Robinson (2012), underscores the significance of inclusive institutions that promote property rights and competition for economic development. Uzbekistan must improve transparency and legal frameworks to support economic transformation.

Sustainable development, since the Brundtland Report (1987), involves balancing economic growth with environmental and social equity. Challenges in balancing these aspects, as noted by Stiglitz (1997), require tailored policies in developing countries like Uzbekistan.

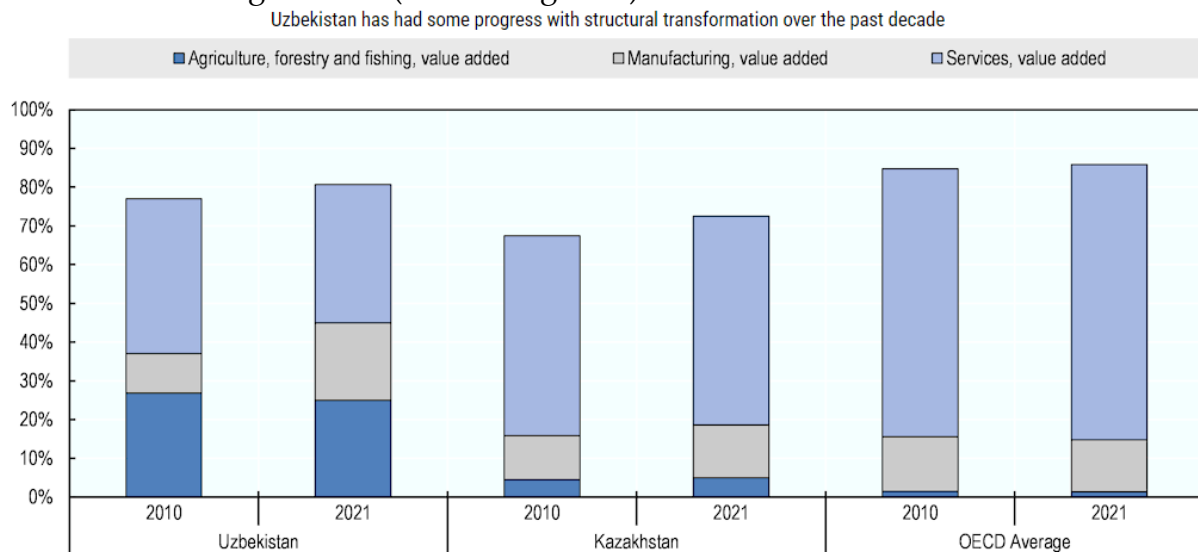
Globalization presents both opportunities and challenges for sustainable development. Bhagwati (2004) and Frankel (2005) discuss how economic integration can foster growth but also lead to environmental and social issues.

The transition experiences of Eastern Europe and Central Asia, analyzed by Aslund (2007) and Havrylyshyn (2006), offer insights into the impacts of market reforms, emphasizing the need for gradual and inclusive reforms that consider social and environmental sustainability in contexts similar to Uzbekistan.

### **Analysis and Results**

The ongoing process of reshaping Uzbekistan's economy, which commenced in 1991, is still in its early stages. This is largely due to the limited success in redirecting both human and capital resources from historically dominant sectors characterized by low

levels of job creation and productivity towards newer, more efficient ventures. Despite a decline in the contribution of agriculture to GDP from 27% in 2010 to 25% in 2021, it remains the most significant sector in Central Asia, significantly surpassing Kazakhstan's 5% and the OECD average of 1%. Conversely, the contribution of manufacturing to GDP has doubled from 10% to 20% during the same period, surpassing both Kazakhstan's 14% and the OECD average of 13% (refer to Figure 1).

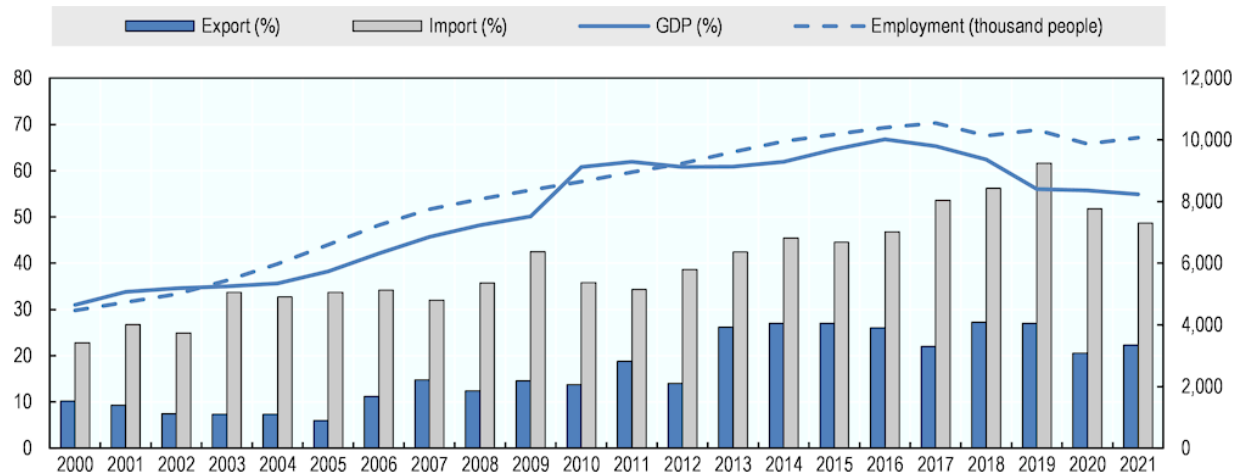


**Figure 1. Value added of the agricultural, manufacturing and service sectors (% GDP)**

*Source: (UN, 2023[1]) (World Bank, 2023)*

In 2021, the services sector in Uzbekistan contributed 35.7% to the national value added, one of the lowest in Central Asia and well below the OECD average of 71%. This marked a decline from 40% in 2010, contrasting with Kazakhstan's increase from 52% to 54% during the same period. The data highlight the urgent need for economic liberalization and structural transformation towards more productive sectors.

Employment trends also reflect the challenges of structural change, with over 80% of the workforce engaged in low-productivity sectors. The agricultural sector employs 27% of the workforce, significantly higher than the OECD average of 5%. High-productivity sectors like finance and ICT, however, employ only a small fraction of the workforce, emphasizing the need for inclusive growth and better distribution of economic gains. Since the launch of a market liberalization program in 2016/17, there has been increased business dynamism in Uzbekistan, with a surge in new firm creation from 2016 and a notable acceleration from 2018. Despite the pandemic-induced disruptions in 2020-21, new firm formation continued to rise. The primary sectors driving new firm creation include retail trade, industry, and agriculture.



**Figure 2. SME share in trade, GDP and employment (2000-2021)**

*Source: OECD calculations*

The role of small and medium-sized enterprises (SMEs) in Uzbekistan's trade has grown, with their share in imports and exports increasing significantly from 2000 to 2021. Despite this, SMEs face productivity constraints, particularly as many are concentrated in low-productivity sectors which affects their trade performance. The import of capital goods to modernize capacities has also contributed to a widening trade deficit.

State-owned enterprises (SOEs) dominate critical sectors like agriculture and minerals, accounting for about 50% of GDP, and pose challenges to private sector development and economic diversification. The government's efforts to shift from a primary producer to facilitating economic output through privatization and improving conditions for private investment have been gradual. However, the significant presence of SOEs continues to skew the competitive landscape, hindering structural transformation and efficient market functioning.

### Recommendations

Uzbekistan is pursuing comprehensive economic transformation with several strategic steps to ensure sustainable growth and diversification. Key recommendations include:

1. Accelerate economic liberalization and structural reform: Focus on enhancing productivity and job creation in high-value sectors like ICT, financial services, and manufacturing, moving away from low-productivity areas such as agriculture and trade.
2. Promote SME and private sector development: Foster a supportive environment for SME growth and private entrepreneurship by improving access to finance, simplifying regulatory frameworks, and enhancing skills development to reduce the dominance of state-owned enterprises.
3. Enhance urbanization and labor mobility: Support urbanization and improve labor mobility through reforms in internal migration policies and investments in urban infrastructure to accommodate a growing labor force and skilled migrants.
4. Invest in human capital and job creation: Address demographic and labor force growth by investing in education, vocational training, and job creation initiatives tailored to a modernizing economy.
5. Strengthen the role of high-value services: Develop high-value service sectors through innovation, digital infrastructure investments, and support for startups and high-

growth firms in these areas.

6. Diversify trade and enhance internationalization of SMEs: Help SMEs diversify their trade activities and enhance their role in the global value chain by supporting efforts to overcome productivity constraints and access international markets.

### Conclusion

Uzbekistan's economy is at a pivotal juncture, requiring strategic reforms to foster sustainable growth and structural transformation. The country's efforts towards economic liberalization, enhancing SME development, and promoting private sector growth have shown positive signs, but significant challenges remain. Addressing these through targeted policies aimed at improving productivity, fostering innovation, and ensuring inclusive growth is essential for achieving a resilient and diversified economy. By focusing on sectors with the potential for high value-added and employment generation, Uzbekistan can secure its path towards sustained economic development and improved social cohesion.

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