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CURRENT STATE AND TRENDS OF CHANGES IN THE SECTORAL STRUCTURE OF THE ECONOMY OF UZBEKISTAN

В данной статье произведена оценка современного состояния отраслевой структуры экономики Узбекистана, рассматриваются структурные сдвиги и качественные движения, происходящие в отраслевой структуре экономики Узбекистана. Также проведен анализ факторов, вызывающих количественные и качественные движения структуры экономики. Вместе с тем, в ней раскрыты основные проблемы и существующие структурные диспропорции в отраслевой структуре экономики Узбекистана.

This paper evaluated the current state of the branch structure of the economy of Uzbekistan are considered structural changes and quality of movement taking place in the sectoral structure of the economy of Uzbekistan. Also, an analysis of the factors causing the quantitative and qualitative structure of the economy of motion. At the same time, it covers the main issues and existing structural imbalances in the sectoral structure of the economy of Uzbekistan.

Key words: national economy, sectoral structure, sectoral proportions, structural composition, modernization, technical and technological renewal of production, export orientation, real sector, deterioration, GDP, industry, resource and raw material industries, agriculture, services, traditional services, market services.

The formation of the national economy of Uzbekistan took place against the background of the processes of transformation of state institutions, the implementation of domestic and foreign policy of the country, as well as in close connection with the general laws of the cyclic movements of the economy. Economic reforms 1990s of the 20th century that were of radically unsystematic nature and at the same time were carried out with the errors of economic policy of Soviet times have led to a deep economic crisis caused by significant imbalances that emerged in the sectoral structure of the economy, the monopolization of economy, inefficiency of the administrative-command system of economic management, a high degree of deterioration of the basic production funds of the country, cuts in public investments, a deep crisis of the financial system, the rupture of production-consumption relations of the finished products, a gap between the development and implementation of radical economic and social reforms in the country.

However, the economic situation took a progressive tendency starting in the late 1990s. Due to an increase in exports, the acceleration of import substitution, a relative reduction in production costs and other factors, there has been a positive trend in industrial production and GDP, an improvement of financial condition of the real sector

of the economy. However, the positive changes in process have not yet taken a consistently irreversible and long-term character.

There has been a growth of GDP in recent years: whereas over 1996-2000 an average annual growth rate amounted to 1.6%, throughout 2005-2015 it accounted for 8% annually. [12]

The sectoral structure of the economy of Uzbekistan is still characterized by the presence of imbalances: a considerable role belongs to the resource and raw material industries; the priority lies in fuel industry, while the infrastructural and agro-industrial complexes are experiencing serious difficulties in their development; there is a high concentration and monopolization of production. [3]

Uzbekistan is an agrarian-industrial country, the economy of which is dominated by the services sector. Simultaneously, the role and proportion of industry in the structure of the economy is increasingly growing, while the share of agriculture is gradually declining. In particular, the share of industry in GDP has risen by about 10 percentage points over the past decade from 17.5% in 2004 to 24.1% in 2014. [12] The industrial potential of the country has acquired a new development for the past 20 years through the advancement of industries such as automobile manufacturing, agricultural engineering, biotechnology, pharmaceuticals and information technology. Agriculture, in contrast, is characterized by a reduction of its share in GDP, making up 17.2% of GDP in 2014 as against 26.4% in 2004. However, the predominant part of GDP falls on services, whose share reached 54.5% in 2015 compared to 39.5% in 2006. [1]

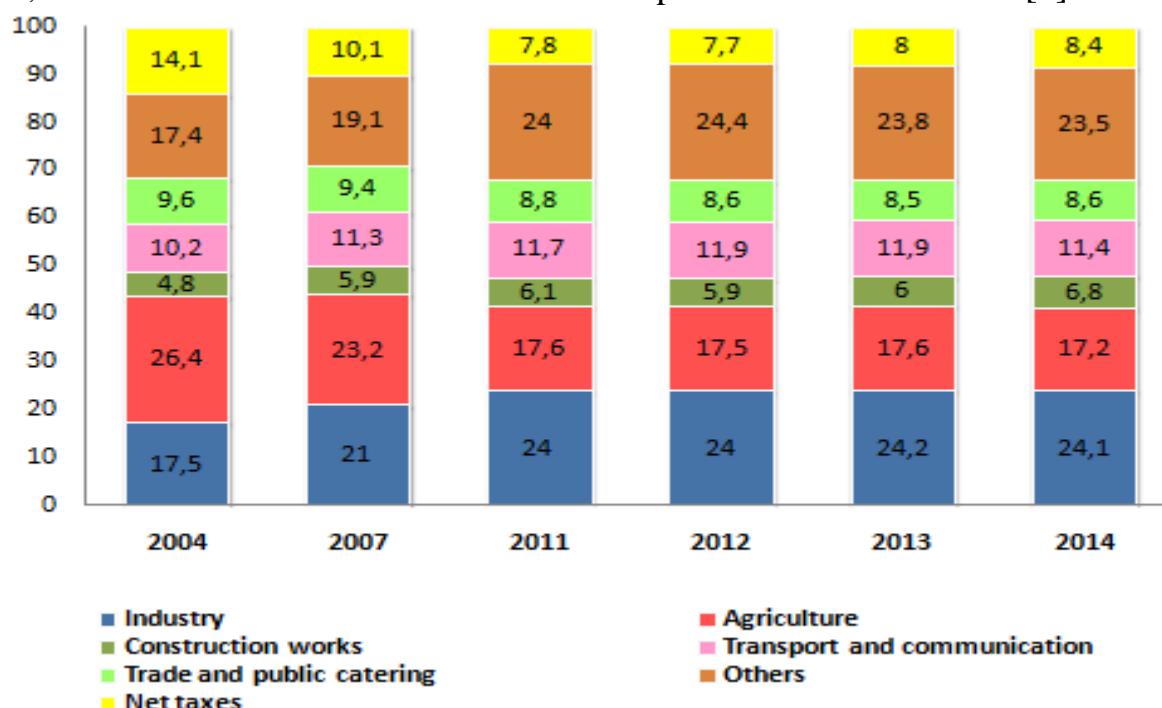


Figure 1. Dynamics of changes in the sectoral structure of GDP of Uzbekistan in the years 2004 - 2014.

Source: Compiled by the author based on the data of State Statistics Committee of Uzbekistan.

The sectoral structure of the industry is formed in such a way that the leading position is held by engineering and metal-processing industry that has become the most promising industry in the last 10 years as a result of structural changes in the economy and industrial modernization. This fact is demonstrated by the fact that 19.7% of total industrial production in 2014 accounted for machine building compared to 8.8% of 1995, which indicates a significant increase in the value of the industry in the economy. The second most important sectors of the industry are fuel, light industry, food industry and metallurgy, which are key sectors of industrial production of the country. In particular, fuel industry is engaged in the production of natural gas, oil, coal that the power energy runs on to fully meet domestic needs. Light industry is mainly specialized in the cleaning of raw cotton, the production of yarn, thread, as well as wool, cotton, natural silk fabrics and products from them. [12]

Overall, for the period of 1995-2014 the sector of industry has witnessed dramatic changes and qualitative shifts in its composition due to the implementation of structural reforms in the economy aimed primarily at modernization, technical and technological renewal of production, as well as provision of export orientation of industries and enhancement of the role of the real sector. Particularly, for the period under review there was a growth of the proportion of such industries as construction materials, food processing, chemical and petrochemical industries, forest, woodworking and pulp-and-paper industry. Despite a relative fall in the proportion of metallurgy, light industry, power industry in the overall structure of the industry, these industries are still dominant. (Table 1)

Table 1
The share of production of basic industries in the total industrial output (as %)

Sectors	1995	2001	2012	2013	2014
1	2	3	4	5	6
Total industry	100	100	100	100	100
<i>including:</i>					
power industry	7,5	9,1	7,9	7,5	7,1
fuel industry	10,8	15,0	18,3	15,8	13,1
non-ferrous industry	13,9	11,3	2,4	2,4	2,4
ferrous industry			10,0	9,5	8,8
chemical and petrochemical industry	5,2	5,5	5,3	5,4	5,5
mechanical engineering and metal working	8,8	9,2	17,0	19,8	19,7
forest, woodworking and pulp-and-paper industry	1,0	1,4	1,2	1,2	1,7
building material industry	4,5	5,3	5,4	6,4	6,1
light industry	18,6	19,5	12,9	13,0	14,0
food industry	9,8	14,1	14,0	13,2	16,0
others	19,9	9,6	5,6	5,9	5,7

Source: The figures of State Statistics Committee of Uzbekistan, "Industry of Uzbekistan".

Industrial production, as evidenced by the figures, is growing rapidly: in 2014, it rose by 8.3% compared to that of 2013. (Table 2) The most rapid growth rates are witnessed in such branches as non-ferrous industry, mechanical engineering and metal working, forest, woodworking and pulp-and-paper industry, building materials industry, light industry, microbiological industry, glass and porcelain-and-faience industry.

Table 2

Dynamics of production of industries

Indicators	1997		2007		2012		2014	
	bln soums	growt h rate, %	bln soums	growt h rate, %	bln soums	growth rate, %	bln soums	growt h rate, %
1	2	3	4	5	6	7	8	9
Total	607,8	104,1	18447,6	112,1	50730,6	107,7	75193,5	108,3
power industry	70,7	98,1	1738,9	101,8	4007,3	102,4	536805	102,2
fuel industry	99,7	104,3	3266,2	110,0	9294,8	106,2	9841,5	98,1
non-ferrous industry	7,2	83,5	450,8	111,9	1240,2	103,6	1800,5	116,5
ferrous industry	55,8	104,6	2895,1	101,4	5065,5	102,6	6580,1	101,7
chemical and petrochemical industry	25,7	99,5	875,0	118,3	2670,8	106,4	4107,7	108,9
mechanical engineering and metal working	46,4	102,2	2839,4	129,5	8627,9	112,4	14828,3	113,5
forest, woodworking and pulp-and-paper industry	6,4	105,4	168,4	132,7	8627,9	112,4	1261,0	112,3
building materials industry	36,3	95,0	962,6	108,9	2719,2	111,0	4553,8	110,7
light industry	129,8	102,6	2532,8	107,6	6529,0	112,0	10555,5	116,1
<i>including:</i>								
with cotton industry	n/a	n/a	n/a	n/a	3149,5	106,3	4114,5	107,0
without cotton industry	n/a	n/a	n/a	n/a	3379,5	117,7	6441,0	122,7
Feed industry	63,3	121	1715,7	117,6	7087,9	106,5	11993,9	107,6
Flour milling industry	n/a	n/a	n/a	n/a	1633,2	112,1	2100,5	108,1
Microbiological industry	n/a	n/a	n/a	n/a	4,3	128,2	12,5	129,9
Glass and porcelain-and-faience industry	n/a	n/a	n/a	n/a	212,4	100,0	439,8	119,7
Medical industry	n/a	n/a	n/a	n/a	358,3	120,7	564,5	112,6
Printing industry	n/a	n/a	n/a	n/a	431,1	103,0	745,0	109,5
others	66,5	112,6	1002,7	108,8	258,9	103,1	440,4	106,7

Source: The figures of State Statistics Committee of Uzbekistan.

A positive factor in improving the structural composition of the industry in the period of 2005-2014 was the rapid growth of manufacturing industries oriented to the

production of finished products. Accelerated development of processing industries (an average annual growth rate of 115.8%) was achieved, first of all, by the enterprises of mechanical engineering and metal working (120.4%).

Within the timeframe of 2005-2014, an appreciable growth was seen in the diversification rate of industry. The increase in the share of value added in industrial output over the same period amounted to 15.7 percentage points, rising up from 30.6% in 2005 to 46.3% in 2014. The growth of the diversification rate of industry was mainly determined by an increase of this indicator in the power industry, the fuel industry, ferrous and nonferrous metallurgy, machine building industry, building materials and food industry. [2]

The promotion of the level of diversification of industry was advanced by the expansion of the nomenclature of goods manufactured and the production of new finished products in a number of industries. For example, for the period of 2005-2014 the share of new products in the total industry output increased: in light industry – from 0.02% to 3.0%; food – from 0.6% to 1.7%; chemical and petrochemical industries – from 1.7% to 6.9%; in metallurgy – from 0.1% to 6.9%. Thanks to this, the proportion of new products in the industrial output climbed from 4.5% in 2008 to 8.1% in 2014.

Outstripping growth rates in industries oriented to the production of goods with a high degree of readiness (engineering and metalworking, food industry) have had a positive impact on the change of sectoral proportions. As a result, the share of processing industries in total industry increased from 38.5% in 2005 to 57.1% in 2014. [2] (Figure 2)

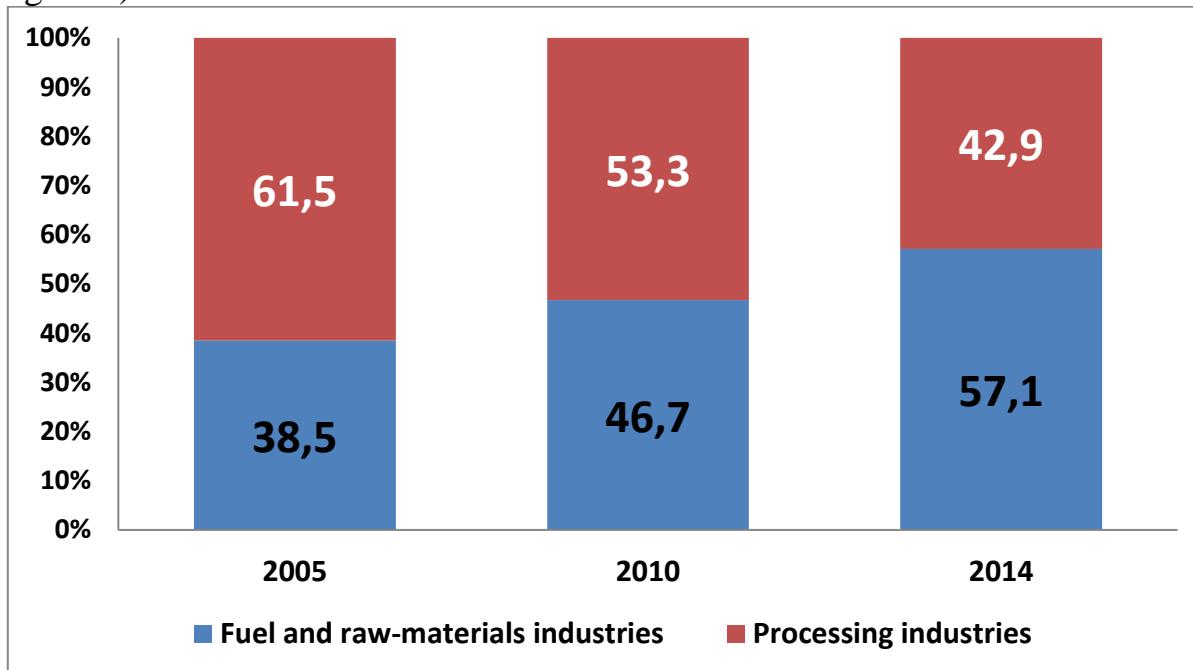


Figure 2. Structural changes of fuel and raw materials and processing industries

Source: IFMR calculations based on the figures of State Statistics Committee of Uzbekistan.

In the years 2005-2014 the tendency of gradual reduction of the share of agriculture in GDP (from 26.3% in 2005 to 17.2% in 2014) was maintained owing to the further expansion of the development of industries and services. In addition, a proportional moderation of agriculture was accompanied by positive annual growth rates of agricultural output that averaged at 6.3% and were sustained through structural reformations and the execution of measures on the preservation of sustainable development and modernization of agriculture. [14]

Over the years of independence, the sectoral structure of gross agricultural production has changed: crop production was observed to grow in its portion to make up 59.0% in 2014 against 55.6% in 2007, while the share of livestock output, in contrast, dropped to form 41.0% in 2014 compared to 44.4% of 2007. (Table 3)

Table 3
Dynamics of the major indicators of agriculture of the Republic of Uzbekistan

	1997		2007		2012		2013		2014	
	bln soums	% of the total								
1	2	3	4	5	6	7	8	9	10	11
Agricultural output, bln soums	399,9	100	9304,9	100	27164,2	100	34201,4	100	41261,4	100
Crop production, bln soums	197,7	49,4	5170,1	55,6	16506,8	60,8	21211,8	62,0	25152,6	59,0
Livestock output, bln soums	202,2	50,6	4134,8	44,4	10657,4	39,2	12989,6	38,0	16108,8	41

Source: The figures of State Statistics Committee of Uzbekistan.

There have been noticeable shifts in the structural constitution of crop production. The main branches of crop production are cotton, grain, vegetable, melon, fruit, grapes and potato production. Structural reforms in the agricultural sector eliminated the monopoly of cotton, which was attained mainly by reducing the acreage under cotton and the expansion of areas for other crops, such as grain-cereals crops. [7] In particular, whereas 31% of the cost structure of crops in 2005 belonged to cotton, it had fallen by 2014 to account for 14%. Moreover, the production of other crops aimed to fully provide the population with food was boosted. Specifically, the proportion of vegetables, potatoes, fruits and grapes witnessed significant rise growing from 13%, 7% and 7% in 2005 to 24%, 19% and 12% in 2014 respectively. (Figure 3)

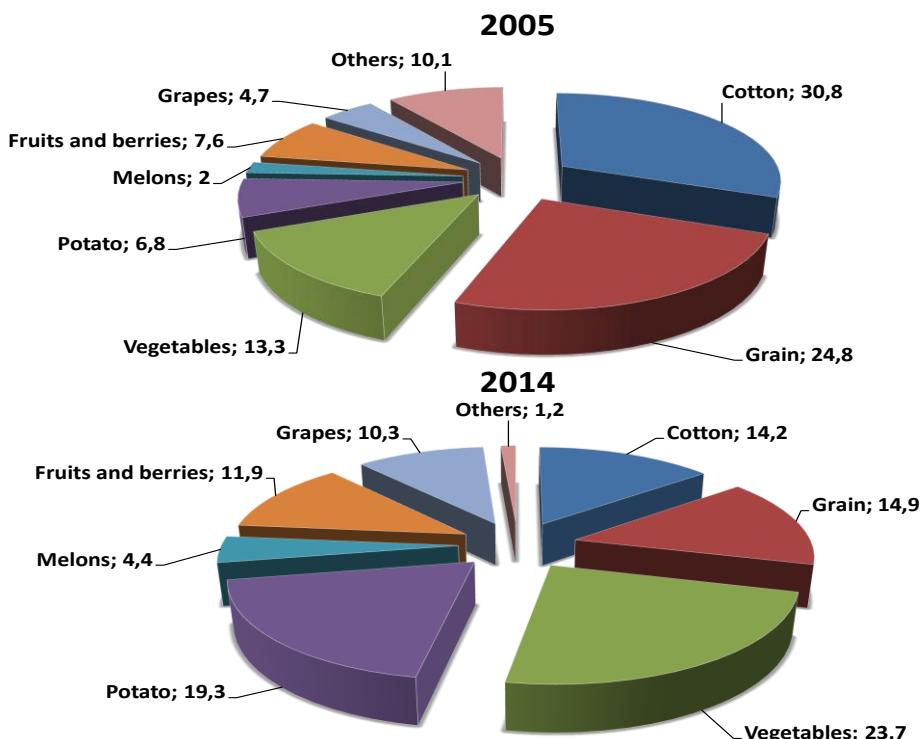


Figure 3. The structure of crop production

Source: compiled by the author on the basis of the figures of the State Statistics Committee of Uzbekistan.

Accordingly, the growth of the share of food crops amounted to 25.4 percentage points, escalating from 59.2% in 2005 to 84.6% in 2014. Furthermore, the proportion of potatoes expanded by 12.5 percentage points, vegetables – by 10.4 percentage points, grapes – by 5.7 percentage points, fruits – by 4.3 percentage points, melons – by 2.4 percentage points

The developing sector of services in Uzbekistan is gradually becoming an important economic activity with an impact on all aspects of life of society. The degree of satisfaction of the population's needs for services is one of the main indicators of the growing level and quality of life in a country. As a result of consistent measures to reform the service sector, this branch of economic activity during a short time has developed into the most dynamic sector of the economy. The share of services in GDP has increased from 38.4% in 2005 to 54.5% in 2015 [1].

The service sector in Uzbekistan possesses a range of characteristics: high growth rates, high capital turnover rate due to the short production cycle, the predominance of small and medium-sized enterprises in the service sector, territorial segmentation and local character.

The quality parameters and the structural composition of this sector are marked by the prevalence of such traditional sectors as trade and catering, transport, public utilities and personal services. So, in 2014 the services demonstrated a considerable growth

largely at the expense of traditional industries, which accounted for 75.8% of the total increase.

The natural tendency has been a decline in the share of traditional services in the proportional distribution of market services: transport services dropped in proportional terms (from 39.3% in 2006 to 26.9% in 2014) with a simultaneous increase in the share of the current market services, such as financial (from 4, 0% in 2006 to 8.3% in 2014). [1] The main factors that contributed to accelerating the market services were represented by the introduction of new technologies, an increase in investments and the development of small business, the growth of employment, incomes and consumer demand. In recent years, consistent measures have been undertaken to foster the development of services. The improvement of the structure of the service sector is happening as a result of the advancement of new promising types – banking and finance, insurance, information and communication services and others.

The introduction of the new information and communication technologies in the servicing has stimulated positive qualitative structural changes manifested in the dynamic development of new innovative industries: since 2006 – financial and banking services, communication and information, travel services; since 2010 – repair and maintenance of production equipment, healthcare, education, computer programming. (Table 4)

Table 4
The structure of market services (%)

Indicators	Years							
	2007	2008	2009	2010	2011	2012	2013	2014
<i>I</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>
Market services	100							
Communication and IT	6,4	6,9	7,2	6,4	6,4	5,9	5,5	5,1
Computer programming	n/a	n/a	n/a	0,08	0,14	0,14	0,18	0,23
Financial services	5,5	7,1	8	8,5	8,5	8,4	8,5	8,3
Transport services	35,5	33,3	31,7	32,5	30,1	29,4	27,7	26,9
Construction services	n/a	n/a	n/a	4,5	4,4	4,2	4,5	4,8
Repair and technical service of technological equipment	n/a	n/a	n/a	0,02	0,03	0,62	0,50	0,51
Repair and technical service of agricultural machinery	n/a	n/a	n/a	0,09	0,09	0,13	0,12	0,13
Tourism (including hotel services)	0,47	0,5	0,5	0,4	0,4	0,5	0,5	0,5
Trade and public	18,3	17,3	17,2	18,9	21,0	22,0	22,4	22,9

catering								
Personal services	2	1,8	1,6	1,7	1,3	2,1	3,4	3,6
Education services	n/a	n/a	n/a	2,4	2,4	2,7	2,8	2,6
Healthcare services	n/a	n/a	n/a	0,72	0,74	0,93	0,97	1,03
Agricultural services	n/a	n/a	n/a	n/a	n/a	n/a	0,73	0,62
Others	32,03	33,1	33,8	23,7	24,5	23,0	22,2	22,7

Source: IFMR Calculations on the basis of the figures of the State Statistics Committee, the Trends of socio-economic development of Uzbekistan (2005-2014), Tashkent: IFMR, 2015 - 112 p.

As a result, the structure of market services has shifted to decrease the proportion of traditional services, such as transportation (from 39.3% in 2006 to 25.4% in 2014), and to boost the share of modern services, for example communication and IT services (from 5.4% in 2006 to 15.6 in 2014). Innovative branches occupy a small portion in the GDP (an average of 1 – 2% of GDP), but have a great potential of economic growth in the long term.[1]

Thus, the sectoral structure of the economy of Uzbekistan showed certain patterns that allow it to bring to the level of the developed countries. In particular, the sectoral structure is characterized by the increased share of services and the reduced share of the production of means of production in the sectoral structure of the economy.

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