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## **ECONOMIC DEVELOPMENT OF UZBEKISTAN ON THE BASIS OF INNOVATIVE ACTIVITY**

*Ушбу мақолада Ўзбекистон иқтисодиётини институционал- инновацион салоҳият асосида барқарор ўсиш муаммолари кўриб чиқилган. Миллий иқтисодиётни рақобатбардошлигини ошириш, юқори ва барқарор иқтисодий ўсишни сақлаб қолиш учун билимларга асосланган иқтисодиётни ривожлантиришни таъминлаш муҳимдир. Реал секторни модернизацияси ва технологик қайта қуришни рағбатлантириш, фан сизими юқори бўлган саноатни ва бутун иқтисодиётни инновацион моделга ўтказишнинг молиявий-инвестицион ва қонуний жиҳатларига эътибор берилган.*

*В данной статье рассматриваются вопросы стабильного развития экономики Узбекистана на основе прочного структурно-инновационного потенциала. Для поддержания и повышения конкурентоспособности национальной экономики необходимо рассмотреть возможность развития экономики знаний в целях достижения более высокого и устойчивого экономического роста. Освещены вопросы совершенствования финансово-инвестиционной, нормативно-правовой политики стимулирующей модернизацию и технологическое перевооружение реального сектора, развития наукоемких производств и перевода экономики в целом на инновационную модель.*

***Key words:** innovation, economic development, investment activity, opportunities for innovations, efficiency of innovative activity.*

Nowadays, in the course of globalization of economy the reliance upon world's national economies and development factors is steadily increasing. The scientific and technical potentials are rapidly developing and the intellectualization of the primary production factors is growing. Innovative activity becomes a driving force in economic development, which resulted in enforcement of international competition in this area in many countries and increased the R&D spending, investment to new technologies and production promotion to secure leadership in the course of foundation of the global economy. The technological, intellectual, educational and production know-how data is averaging from 70 to 85% of GDP growth in developed countries[1]. The know-how introduction became a key factor in the market competition, allowing leading companies achieve a profit increase by distributing an intellectual rent which itself was founded through utilization of the efficient products and technologies in a more monopolistic approach. This does not only determine the

perspectives for economic growth, but also serves as an indicator of the level of economic independence and well being of the country and its national status.

The modern Uzbekistan is the part of the world economic community and therefore, a continued integration processes in the world's markets require foundation of the new ideas and perspectives to ensure a stable economic development, development of the structural and innovative potentials as one solid foundation of country's stability.

The Republic of Uzbekistan - one of the CIS countries, which ranks first in Central Asia by its population (more than 31 million people[2]) and economic growth indicators (more than 8% annually). Until recently Uzbekistan economy was primarily oriented to produce and export of the raw materials such as cotton, natural gas, gold, karakul lamb fur, silk, fruits and vegetables. Following its independence declaration in 1991 the Government of Uzbekistan identified its transition to a socially oriented market economy. During the years of independence the diversification of economy was noted in the following areas: cotton monopoly was eliminated, wheat and energy independence of the country was ensured, new sectors of the industry as car manufacturing, pharmaceutical, information technologies and etc. were developed, conditions for the development of the small business sectors and private entrepreneurs were created, as well as foreign investment opportunities were opened. In the country with concentration of more than 100 ethnical groups, all the reforms were implemented on the background of political stability of the state, consistent approach of the government to the selected reforms, gradual transition to the market economy these all resulted in economic development. Beginning 1996 the GDP growth has been reported in Uzbekistan's economy in comparison with previous years. The world's financial-economic crisis has become challenging for the economies of many states, including developed countries. However, during the years the world's economic crisis, the timely response of the Government with its Anti Crisis Program helped to uphold the economic growth in Uzbekistan between 8-9%[3]. According to 2008-2014 information of the State Committee for Statistics, Uzbekistan's GDP continued to maintain a relatively high level averaging 8.2 %, state budget has reported a profit since 2005, the inflation rate averaged 6.5%, and capital investments demonstrated a trend of a stable growth[4]. (Table #1)

**Table 1**

**Main macroeconomic indicators (% in compare to the previous year)\***

<b>Indicators</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
GDP	108,3	108,2	108,0	108,1
GDP, per capita	105,5	106,6	106,3	106,2
Consumer Price Index (to the December of previous year)	7,6	7,0	6,8	6,1
Industry production	106,3	107,7	108,8	108,3
Agriculture production	106,6	107,0	106,8	106,9
Capital investments	107,9	111,6	109,8	109,6
Construction	108,5	111,5	116,6	118,3

Logistics	108,7	105,4	104,4	105,0
Passenger transportation	105,9	105,8	104,2	104,8
Services - total	113,2	114,2	114,3	115,4
Retail turnover	116,4	113,9	114,8	114,3
The resident population (mean for the period)	102,7	101,5	101,6	101,7
The number of employed	102,5	102,6	102,5	102,4

**\* Data from State Statistical Committee of the Republic of Uzbekistan.**

As evidenced by data in the table, for the period 2011-2014, the growth rate of Uzbekistan's GDP remained at a high level (average of 8.2%), the state budget was executed with a surplus (since 2005), the inflation rate is about 6.8%, while investments in fixed capital have had positive growth trend.

There is no doubt that these indicators are the results of the great achievement, but the economic policy must be focused in fostering a rapid economic growth in order to reduce a gap in development of industrialized countries. In the effort to maintain and increase a competitiveness of the national economy, Uzbekistan must focus on a more active use of innovations and new technologies, that remain to be a relatively passive area in the country, as well as it is essential to open an opportunity for economic knowledge improvement in order to achieve a higher and a more stable economic growth. A public product not only illustrates its material substrate, but already distinguishes its functional purpose and informative – cognitive contents. Production cost indicators are more prone to depend on non material investments: - scientific research and development cost, purchasing certifications and licenses, education and professional development of the specialists, software, engineering and consulting services, improvement of management structure and etc. These all, eventually, determine competitiveness of enterprises and their products on both local and foreign markets.

Innovative reforms require considerable material, financial and intellectual costs (from the project foundation stage, fundamental research and finalizing with commercial distribution of the results of the scientific developments), which can be afforded by the state only, especially in the conditions of economic crisis. Developed countries increase their innovation costs in GDP. The stabilization trend for these expenses average 2-4%. Whereas, the state share of the same expenses averages 45-55%. Uzbekistan's internal R&D spending averages 0.15% of GDP, hi-tech sector's share, which requires the highest intellectual investment, reserves 1% [5]. According to information of the Committee for Coordination of Scientific and Technological Development under the Cabinet of Ministers of the Republic of Uzbekistan the primary cost of technological innovations is state funded (about 60%), 20% received from foreign investments, 14% - by bank loans and 6% from other sources. Regretfully, investments from private businesses, banks, insurance companies and other sources in funding R&D, are extremely limited. Same picture is observed with the alternative sources of investments such as equity and long term financing, grants of international financial institutions, venture financing and other progressive forms of the financial support. The innovative activity sector's insufficient development

resulted in a slowed down disposal of physically and morally tired primary funds in the real sector of economy. Presently a production depreciation indicator averages 45,1%. A 46-year-old existing equipment and machinery are outdated[6]. This indicator is even higher in agro machinery, metal, chemical and oil and chemical manufacturing, in constructional production, light textile and food industries[7].

In order to avoid a technological retardation of the manufacturing the rehabilitation measures, which determine the conditions for renewal of production equipment, are being implemented within the framework of Investment and Sector Programs, adopted by the government on technical modernization,. Herewith, the priority is given to investment projects, which are directed to create the new highly technological productions that provide a detailed processing of the local raw material resources. Thus, in 2014, in the framework of these investment projects the leading sectors of local economy received a 4.2 billion USD worth 154 large enterprises, which are equipped with high-tech modern equipment[8].

The following projects are among them: “Damas” and “Orlando” vehicles production on the basis of “Khorezm automobile manufacturing association Ltd” with an annual turnover of 60 thousand vehicles; “Reconstruction of zinc factory” with 80 thousand tons processing capacity of zinc concentrate annually, “Construction of a new sulfuric acid manufacturing unit on the basis of copper melting factory”; “Large scale modernization of Syrdarya Thermal Power Plant” with 50 MW (megawatt) of electricity production annually; “Thread spinning manufacturing on the basis of “Mangit, Ltd” in the Republic of Karakalpakstan with capacity of 5 thousand tons and others. The creation of the specialized industrial zones (SIZ): SIZ “Angren”, SIZ “Djizak” and SIZ “Navoi” provided to the investors the packages of tax benefits and preferences, which are secured on government funds as well as necessary outsourced engineering and transport infrastructure, has become a powerful reason in fostering high-tech production development.

In order to transit the economy to a new innovative development model the modern high-tech structure as well as sufficient financial resources are not the only required factors, whereas budget funds efficiency, out-of-budget financing, which is aimed to foster the area of science and technology, improvement of legislative systems in order to attract various sources of financing, promoting technical refurbishment of scientific based productions, realization of state owned important structural innovative projects.

In this regard only those directions, which provide a strong incentive of the long term innovative activity perspectives, must be strengthened in the strategy of the state policies. The world’s experience proves that the stable development and economical growth are not secured by mechanisms of market management, where the importance of the government with its direct and indirect influence on national economy is outlined. In this respect a wide spectrum of economic, legislative and administrative measures are being implemented (Table 2).

**Table 2**

**State regulation of investment- innovative activities<sup>1</sup>**

	Financial		Stimulating		Legal	Organizational
	Direct	Indirect	Direct	Indirect		
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
Actions	Funding of innovative activity out of the state budget and specialized extra-budgetary funds; partial compensation of interest rates on credits of commercial banks	The provision of tax incentives and preferences; partial or full exemption from payment of taxes; granting the right to use state-owned property	The increase in social status of innovation activities; public order; the provision of guaranteed markets for innovation; provision of state guarantees to secure repayment of funds raised for the implementation of innovation	The innovation-oriented activities contained in the target programs	The definition of priorities of innovative development; development of innovative programs; creation of legal base of innovative processes, the systems of copyright protection, innovators and intellectual property protection	The creation of development institutions (funds, programmes, associations); the formation of innovation infrastructure; support and development of innovative potential; scientific and methodological support and staffing innovation; creation of conditions for attraction of investments; providing of innovative activity information base

It is recommended that the efforts of the state policy in pursuing innovative activity development on a macro level must be concentrated towards the healthy environment for refurbishment and future increase of production, structural, entrepreneurial and investment activity, securing stable guarantees that warrant investments into a real sector of economy. As for the macro level, it is important to provide clear and determinative steps as to improve the production efficiency on the basis technical and technological refurbishment, introduction of the progressive production and managerial decisions. This requires an improvement of state policy on development of science, technology, investments and innovations through the following measures:

- Development and improvement of the legislative ground for innovative activity, its promotional mechanisms, institutional transformations’ systems, intellectual property protection in the innovative area and its introduction to the economic turnover;
- Creation of complex support systems for innovative activities;
- Production development, increasing competitiveness and scientific production exports;
- Development of the innovative process’s infrastructure, as well as the systems of informational support, expertise, financial-economic system, production-

<sup>1</sup> The table created by the author

technological support, a system of certification and promotion of innovations, specialists' professional development systems;

- development of small innovative entrepreneurship by providing a healthy environment for establishment and a successful functioning of the small high-tech companies and providing them a state support at the early stage of activity;

- improving a competitive system of selection of innovative projects and programs;

- implementation of the relatively quick repayment small innovative projects with the assistance of the private investors and support of the government in the field of economy;

- implementation of the critical technologies and prioritizing the directions that can facilitate transformation of the appropriate sectors of the country's economy and its regions;

- a selection of a relatively small number of essential technologies that influence over final processes of production efficiency determination and competitiveness in the sector of economy and promoting a transition to a new technological structure;

- a quick adaptation to the local and foreign scientific technical and technological achievement of international importance, regeneration of the natural resources.

In our opinion an improvement of the systems for promotion of private investments remains to be effective in fostering internal sources of financing which are the indicators of reliance on the reform policies. An increase of such savings allows reducing state's external debts and promotes an advanced technological progress more than direct control over the monetary supply.

In the course of establishment of the state's state social-economic policy and stimulating of innovative activities the following appropriate measures must be considered: providing an interconnection between economic, social and scientific – technological development aspects in the framework of the unified innovative policy; consideration of the innovative processes unspecified levels; ensuring a freedom of scientific and scientific-technological works, legal protection of the intellectual property; assisting in development of the competitiveness in the fields of science and technology; stabilizing the prioritized directions of the resources in science and technology development; flexibility of the policy of innovations; integration of education, science and entrepreneurship; promoting international cooperation.

In summarizing our research, we highlight, that the implementation of the listed measures yields new investments, new technologies, employment opportunities, as well as contribute to the development of scientific-technological potential, sustainable growth, increased competitiveness of the national economy and create guarantees of economic security of the country.

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