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## **COMPETITIVENESS OF ECONOMY OF UZBEKISTAN AND ITS IMPACT ON SUSTAINABLE ECONOMIC DEVELOPMENT**

*Мазкур мақолада Ўзбекистон миллий иқтисодиёти рақобатбардошлиги, унинг мамлакат барқарор иқтисодий ривожланиши, иқтисодий фаолият динамикасига таъсири тадқиқ этилган. Ўзбекистон саноатининг истиқболли рақобатбардош ва кучли рақобатбардош тармоқлари таҳлили келтирилган. Саноат тармоқларининг рақобатбардошлигини янада ошириш бўйича таклифлар келтирилган.*

*В данной статье рассматривается конкурентоспособность национальной экономики Узбекистана, его воздействие на экономическое устойчивое развитие, динамику внешнеэкономической деятельности страны. Приведен анализ потенциальных конкурентоспособных и сильных конкурентоспособных отраслей промышленности Узбекистана. Предложено ряд мер по дальнейшему развитию конкурентоспособности отраслей промышленности.*

**Key words:** *Globalization, competitive national economy, national competitive advantage, sustainable economic development, external trade turnover, macroeconomic environment, government institutions, human capital, small business, infrastructure.*

Globalization is the driving force behind the modern world process and like any complex phenomenon it has new opportunities and risks. For the present Uzbekistan is not in a position to significantly influence the global processes, and could only adapt to it by means of forming a competitive national economy. In this regard, followed by global processes of transition to sustainable development involves the formation of a new level of regulation of economic relations within the country, intercountry and global levels. A successful strategy of sustainable development of domestic economy depends primarily on the objective assessment of the actual conditions and the development of new methodological approaches to the understanding of the competitiveness of the economic system and its control mechanism. Systematic methodological approach, based on the recognition of the competitive market environment is adequate as the imperative of different economic systems. That is accounting for the effects of all the factors on the sustainable development of the economy to construct a complete system of modernization of the national economy. These trends against the backdrop of the changing world order bring to the fore issues of liberalization of economic systems and the use of national competitive advantage of the modernization of its economy.

Today, when the independence of the country has become increasingly visible, it is evident that there is a need for strict scientific analysis of unresolved scientific issues linkages the competitiveness of the economy in the face of market

transformation, with a combination of objective and subjective factors determining the competitive advantages of national economy, practical aspects of priority directions for the increase of the competitiveness of the economy of Uzbekistan. In view of the above, it should be noted the importance of examining the competitiveness of the economy of Uzbekistan, firstly, as a criterion for economic development; Secondly, as the dependent variable from the political and social environment and, thirdly, as the independent variable influences the nature and content of the process of economic modernization. To achieve this goal, we believe that it is necessary to consider the following issues: firstly, to understand the contours of theory of competitiveness in the new global economic order. The current international economic situation highlights the conceptual requirements for "sustainable economic development"; secondly, to identify the characteristics and peculiarities of the process of institutional transformation, especially the development of its institutional structure; thirdly, to describe the comparative macroeconomic parameters of competitiveness of the economy of Uzbekistan; fourthly, to explore the model of export-oriented economy development in the context of the conceptual problems of economic liberalization; fifthly, to identify priority areas for improving the competitiveness of the economy of Uzbekistan within the framework of the structural and infrastructural modernization, strengthening regional economic relations; sixthly, to justify State regulation mechanisms of competitiveness of the national economy, including the promotion and diversification of competitive production, management.

Competitiveness factors of the economy are divided into external and internal groups. External: a) Globalization of the world economy; b) Increased international competition; c) Transition to a new manufacturing system; d) ICT development. Internal: a) Macroeconomic environment; b) The balance of the economy; c) Innovation; d) Infrastructure; e) Institutions of human capital; f) Natural resources. Measures and mechanisms to create the necessary macroeconomic and institutional prerequisites: a moderate level of inflation, tax burden on economic activity, rate of national currency which is predictable and equitable to the interest of producers of export-oriented products, moderate business costs at all stages of its interaction with public authorities, available credit resources and developed financial markets, effective competition policy (guarantees the conditions for fair competition in goods markets), the level of infrastructure development, a competitive labour market, effective control of black economy and level of corruption [1].

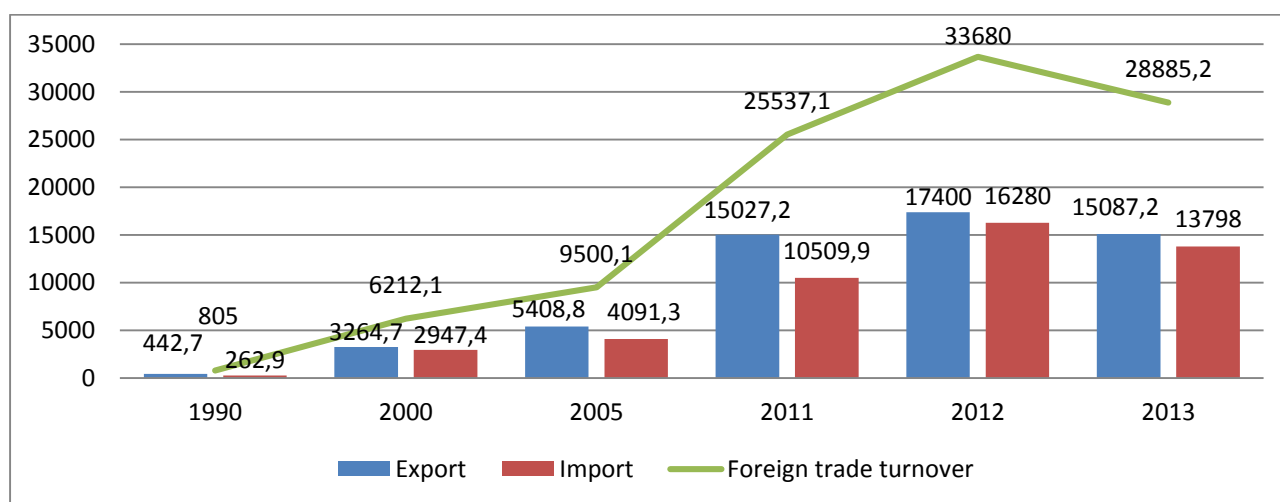
Evaluation of the competitiveness of the economy of Uzbekistan directly linked with macroeconomic trends of the economy.

Trends in the main macroeconomic indicators of Uzbekistan (improving the macroeconomic environment by directions):

- reduction of the inflation rate (CPI) from 28% in 2000 to less than 10% (in the last 2-3 years);
- the growth of foreign trade turnover for 2000-2011 at 3.6 times;
- increase in exports over the last 11 years almost 5 times;
- moderate pace of devaluation of the national currency;
- reduction of foreign debt and the growth of foreign exchange reserves;

- reducing the tax burden.

During 1991-2012 years gross domestic product grew nearly 4.1 times, the growth of industrial output is 3.4 times, the growth of global agricultural production is 2.1 times and exports in 32.2 times, while the trade surplus increased more than 56.5 times, ensuring the growth of gold and currency reserves and the stability of the national currency. Despite the complexity of the modern period, high rates of economic growth have led to a steady increase in revenue and increase the welfare of the people. Aggregate per capita income increased 8.2 times. As a result of profound structural change in the economy of the Uzbekistan was formed, due to the diversity of industrialization based on processing of local raw materials increased finished production, globally competitive, rapidly evolving services, expanding the small business sector and private enterprise [2].



**Figure 1. Dynamics of external trade turnover of Uzbekistan (USD mln), 1990-2013**

Source: Created based on the statistical reports of the State Committee of the Republic of Uzbekistan on Statistics for relevant years, [www.stat.uz](http://www.stat.uz)

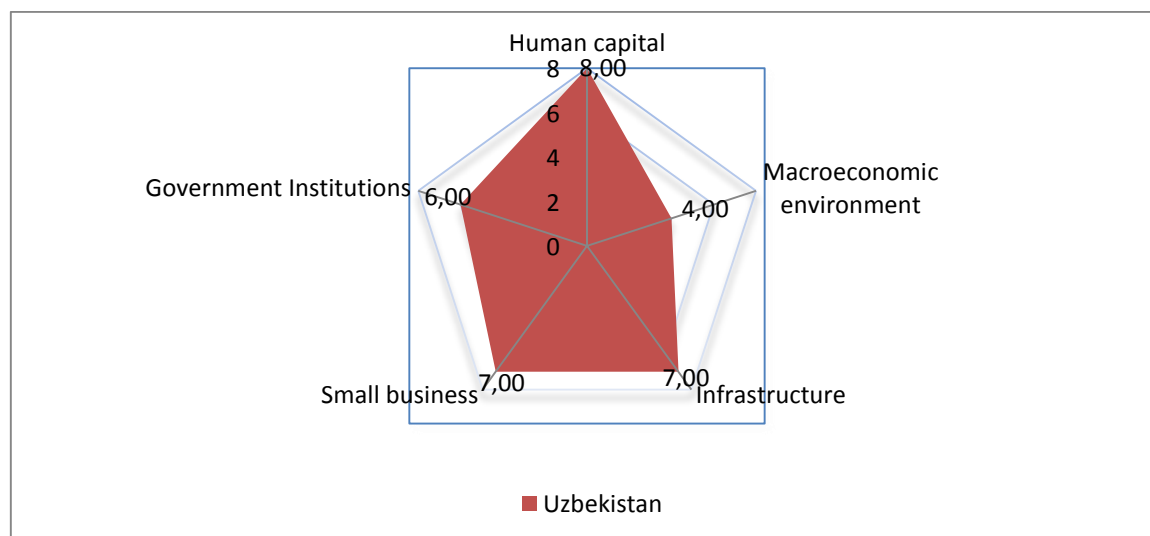
But it should be noted that there are various problems, imbalances and risks associated with sustainability of development:

- ✓ high level of GDP deflator (14-16%) with the negative effect on investment activity, costs of manufacturers, growth of real incomes of the population;
- ✓ currency market imbalances;
- ✓ conditions for fair competition in goods markets are not sufficient to provide a steady demand for innovative products and incentives to improve the quality (cost reduction) of domestic products;
- ✓ the adverse trends in the ratio between the growth of wages and productivity growth. Modernization of State institutions is essential to enhance the competitiveness of the national economy [1].

Increase of the quality of the educational system, growth of qualification of technicians and researchers, increase in the number of people employed in the R&D, general productivity growth factors would lead to increase of level of competitiveness of national economy. Improving the competitiveness of the national economy requires a concerted effort on the whole framework of improvement of government

institutions from the creation of a modern legal framework of economic regulation and mechanisms of executive discipline, ensuring unconditional guarantees for private property rights, a favourable investment climate and business environment, curb corruption and black economy.

As well as World Economic Forum Competitiveness Indicators is the assessment of the competitiveness of the economy as a whole as a combination of its constituent components institutions, markets and the macroeconomic environment, human capital, et cetera. The Aggregative Index composes: "The macroeconomic environment" subindex: GDP per capita, GDP deflator, the level of unemployment. "Government institutions" subindex includes: control of corruption index, the protection of private property, freedom of monetary policy and the quality of customs services, etc. "Human capital" subindex includes indicators: life expectancy, mortality, primary school enrolment, number of graduates, etc. Subindex "small business". The approach to assessment of the model of the economy of Uzbekistan through World Economic Forum Competitiveness Indicators: explanation of a set of model countries → score averages subindexes country-standards → formation of required reporting for Uzbekistan → calculation of Uzbekistan subindexes → calculate relations subindexes in Uzbekistan to the middle on measurement standards (= 10) Model (standard) Countries: Korea, Turkey, Chile, Malaysia, China, Hungary and some other countries.



**Figure 2. Participating Sub-indicators of the level of competitiveness of Uzbekistan economy regard to model countries (average value of 10 points)**

Source: Materials of the conference of IFMR on 14 December 2012. Tashkent. Forum of Economists.

The greatest gaps in the indicators of the macroeconomic environment and the quality of public institutions between Uzbekistan and the model countries were founded. Key macroeconomic challenge is inflation in Uzbekistan. Inflation in China stood at 7% in recent years, Chile-3%, Korea-1.7%, while in Uzbekistan 14% or more (using the GDP deflator-index). Essential reserve strengthening anti-inflationary policy of Uzbekistan in the long run is to strengthen the capacity of the banking sector and the implementation of measures to reduce the energy intensity of the economy, including energy conservation. The high rate of increase of the money

supply so as to maintain the desired economic growth can be combined with low inflation, provided a sufficient level of national banking sector. Competitive advantages of Uzbekistan are concentrated in the level of infrastructure development (development of the railway network is 9.5 kilometers of fabric per 1,000 square kilometers in area, against the average of 9.3 in the standard countries, the level of water abstraction in 3.5 times higher than the average for model countries, but efficiency (water-retain in GDP) [1].

To enhance the contribution of science to the solution of the issue of competitiveness in Uzbekistan it should be focused on contriving new indicators for monitoring the efficiency of the ongoing reforms, which aimed at improving the quality of public institutions and human capital, the level of competition, commodity and financial markets, the quality of macro-adjustment, processing of new methodological approaches to the assessment of the contribution of these factors in strengthening the export capacity of the non-raw material sectors of the economy, to identify existing and new potential competitive advantages of the national economy.

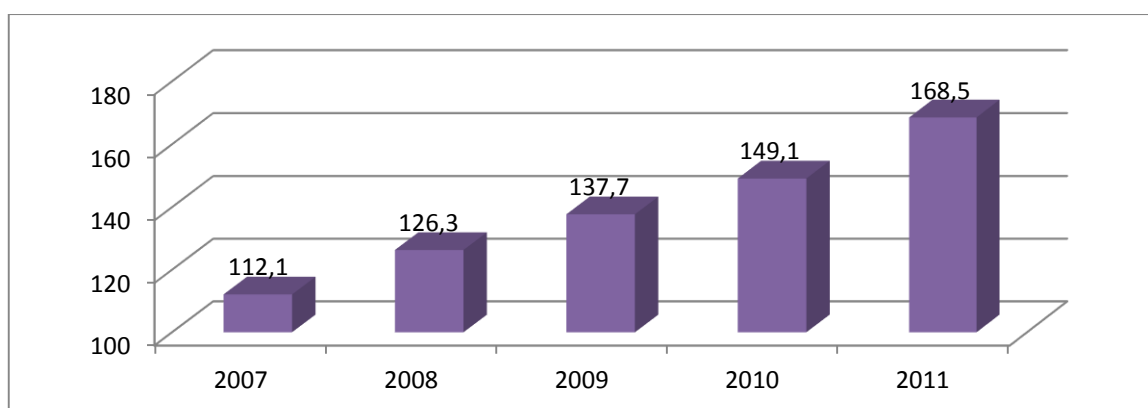
**Table 1**

**Separate sector and branches’ ratio in the structure of GDP (% of GDP), 2000-2013**

<b>Sectors and spheres of the economy</b>	<b>2000</b>	<b>2011</b>	<b>2013</b>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Industry	14,2	24,0	24,2
Agriculture	30,1	17,6	16,8
Services	37,0	44,5	53,0

Source: Created based on the statistical reports of the State Committee of the Republic of Uzbekistan on Statistics for relevant years, [www.stat.uz](http://www.stat.uz)

Results of the implementation of measures for structural transformation and improving competitiveness of the industry influenced the increase of the share of the industrial sector in GDP through further growth and the dynamic development of the service sector and ensuring the positive structural change.



**Figure 3. Growth of production value of industrial product (in percent to the level of 2006), 2007-2011**

Source: The State Committee of the Republic of Uzbekistan on Statistics, [www.stat.uz](http://www.stat.uz)



Influencing factor on the competitiveness of industries in Uzbekistan:

- high level of material costs on production;
- the level of energy intensity of production of industrial products is higher than the world average value;
- high level of wear of the main production funds, insufficient funding for research and the innovation provision of modernization processes, technic and technological updates for industrial production.

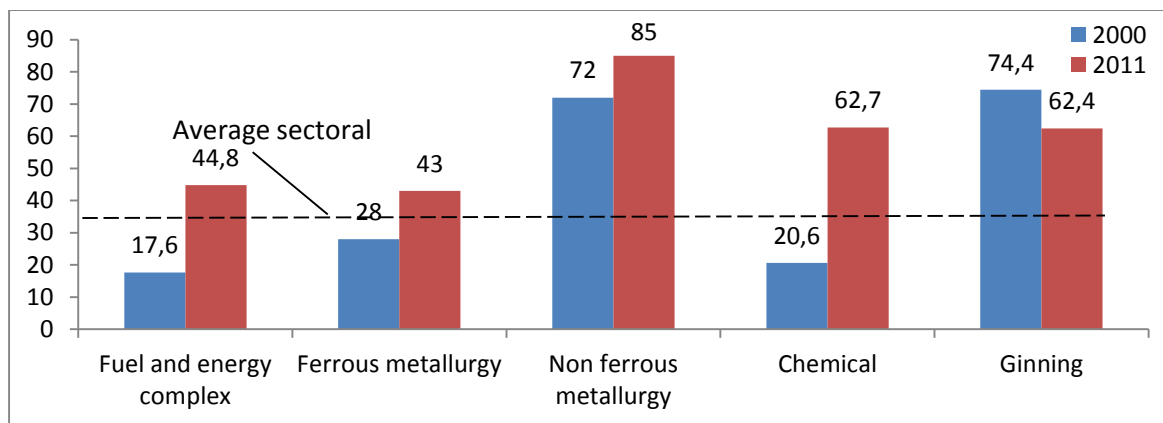
**Table 2**

**Dynamics of change in structure of exports (%), 1990 - 2012**

Structure of exports, in %	1990	2011	2012
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Cotton fibre	59,7	9,0	9,3
Food products	3,9	13,2	6,4
Chemical products	2,3	5,6	5,6
Energy and oil products	17,1	18,5	34,6
Ferrous and non ferrous metals	4,6	7,4	7,8
Machines and equipment	1,7	6,6	6,5
Transport and construction services	1,3	11,8	17,3
Others	9,4	27,8	12,5

Source: Data of the State Committee of the Republic of Uzbekistan on Statistics

In 2011 fuel and energy complex, ferrous metallurgy, non-ferrous metallurgy, chemical and ginning sectors have strong competitive position (Figure 4).

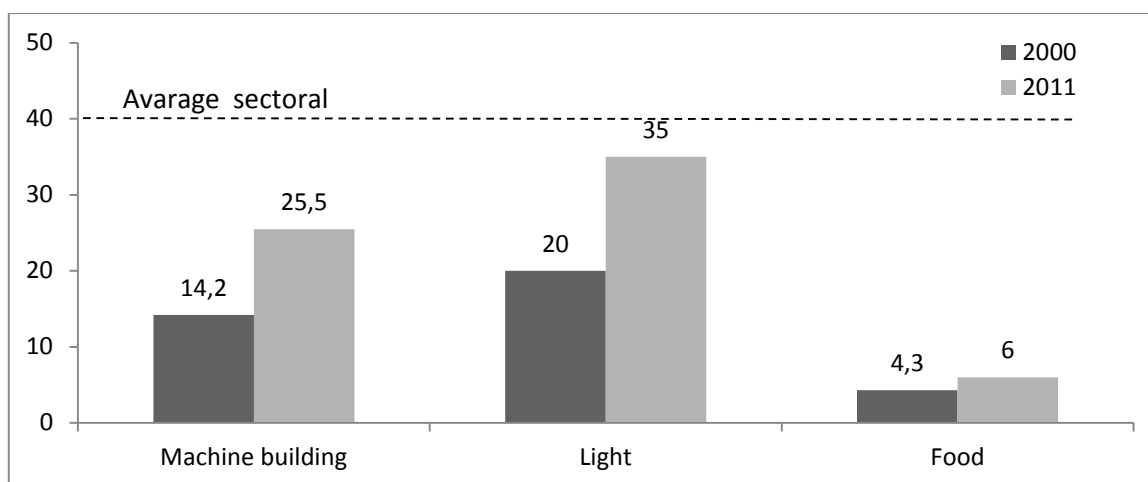


**Figure 4. Group of sectors with strong competitive position, 2000 - 2011**

Source: Institute of Forecasting and Macroeconomic Research (of the Republic of Uzbekistan), [www.ifmr.uz](http://www.ifmr.uz)

According to analyses of Institute of Forecasting and Macroeconomic Research machine building, light and food industries examined as sectors with potential competitive position in 2011 (Figure 5). Food, machine building, electric power, ferrous metallurgy, ginning and fuel were found as sectors of the industry with an above average value, and non-ferrous metallurgy, chemical, building materials, light (without ginning) industries as below the average.

Uzbekistan is depended on exports of energy resources. Uzbekistan is high on the Country Risk Classification scale of OECD and rated 6 [3].



**Figure 6. Group of sectors with potential competitive position, 2000 – 2011**

Source: Institute of Forecasting and Macroeconomic Research (of the Republic of Uzbekistan), [www.ifmr.uz](http://www.ifmr.uz)

State reforms are required to retain the competitiveness of the economy of the country in fuel and energy complex, ferrous metallurgy, non-ferrous metallurgy, chemical and ginning sectors where it has strong competitive position.

However in countries with developed textile industry production factors directly influencing the production cost is minimized. Uzbekistan has potential comparative advantages in textile industry. In general Uzbekistan’s investment attractiveness of industries is due to relatively low cost factors of production (electricity, natural gas, labour), large internal market (more than 30.0 million permanent population), duty-free access to the markets of the CIS countries (280 million inhabitants) [3]. The main factors of the competitiveness of the industry: skilled workforce and low cost labour, a long tradition in the textile production; availability of high-quality raw materials (cotton, yarn); stability of energy (gas, electricity), the availability of infrastructure; support of the state, including privileges and preferences, investment environment; access to the major markets, CIS countries; high level of cooperation with other sectors of the economy, including agriculture, engineering, finance, and logistics; international character, participation in the global division of labor, foreign investment, foreign trade. However there are risks and threads of competitiveness of the industry, for instance, old-fashioned production, low level of credit rating and bank cooperation [4]. Flour, bread and bakery products, vodka and liqueur beverages have a specific weight in food industry of the Uzbekistan. Main products of agriculture include grains, veggies fruits and berries, milk, which would have high competitive level. Upwards of 20 thousand and 40 thousand employees are engaged in over 200 companies, enterprises-suppliers and dealers organizations of the motor vehicle industry of Uzbekistan. In the 2008-2011 more than 70 projects were implemented with attracting investment of amount more than 800 million USD. The relevance of the accelerated development of the automotive industry in Uzbekistan at this stage of socio-economic development is increasing, giving high multiplier effect on the economy [5].

In order to deregulate sectors of the industry - machine building, light, food, fuel and energy complex for retaining and improving the competitiveness of the

economy of country in these sectors in Uzbekistan a long-term strategy for socio-economic development should be created, the main objective of the Strategy should be ensuring the sustainable development and competitiveness of the country.

Globalization has led to the need to develop and implement economic policies that would maximize the benefits and minimize the risks. For this, the country should be able to: compete successfully in international trade and attract foreign capital; quickly and adequately respond to changes in the international environment; state with macro-economic and structural imbalances and vulnerabilities, risks losing the confidence of domestic and foreign investors, causing the rapid outflows of capital. Protect actively domestic and foreign investors' rights in the relevant bodies and mechanisms of the WTO and other international organizations [6].

The main directions and targets of structural transformation of industry to expand the competitiveness of the sectors of the economy are as follows:

- ensuring structural diversification of the industry on the basis of innovative technology development, the effective transfer of advanced foreign technologies;
- enhancing the competitive advantages of the industrial sector of Uzbekistan in traditional industries through product diversification and a shift from the export of primary commodities for MI export processed products;
- mobilization of internal reserves and opportunities for advanced development of manufacturing industries, production-oriented finished products by further enhancing the competitiveness of the automotive and textile sector, enhancing the capacity of knowledge-intensive industries, machine building and chemical industry, the creation of new high-tech industries to produce competitive and export-oriented products;
- diversification of export structures, ensuring export growth by increasing the share of finished products with high added value by strengthening the competitive advantages of light, textile and food industries;
- the system solution of tasks to create innovation-oriented, high-tech industry structure will significantly increase the competitive potential of the economy as a whole by establishing and developing its comparative advantages in science, education, the development of scientific and technological capacity-building and the development of high technology and tap into new sources of economic growth;
- accelerating the upgrading obsolete equipment of large enterprises, further advancing the modernization of production facilities, the introduction of modern successful proven technology on the world market.

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