

**DIRECTIONS FOR INCREASING THE COMPETITIVENESS
OF UZBEKISTAN'S ECONOMY****Ismailov Toirjon**

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ABSTRACT

The economy of Uzbekistan has undergone significant reforms in recent years, aimed at transitioning to a market economy and increasing its competitiveness. Despite these efforts, the country still faces challenges in the areas of trade, investment, innovation, and human capital development. This article discusses the main directions for increasing the competitiveness of Uzbekistan's economy, including trade liberalization, investment climate improvement, innovation promotion, and human capital development. The implementation of these strategies can lead to sustainable economic growth and better living standards for the population.

Introduction

Uzbekistan, a landlocked country in Central Asia, has experienced substantial economic reforms since its independence from the Soviet Union in 1991. With a population of over 35 million, the nation boasts rich natural resources, such as oil, gas, and minerals, which have played a crucial role in its economic development (World Bank, 2021). The government has focused on transforming the centrally planned economy into a more market-oriented system, with the aim of enhancing competitiveness, diversifying the economy, and improving living standards. This transformation has involved a series of policy changes, including the liberalization of prices, currency reforms, and the privatization of state-owned enterprises (World Bank, 2021).

Despite these efforts, Uzbekistan's economy remains heavily reliant on commodity exports, particularly cotton, gold, and natural gas, making it vulnerable to fluctuations in global commodity prices (World Bank, 2021). Moreover, the country still faces challenges in terms of trade, investment, innovation, and human capital development. Addressing these challenges is essential for the long-term competitiveness and sustainable growth of Uzbekistan's economy. In this context, this article explores the main directions for increasing the competitiveness of Uzbekistan's economy, identifies the existing barriers to growth, and suggests strategies for overcoming these challenges.

The article is structured as follows: first, it examines the need for trade liberalization, highlighting the current obstacles to trade and outlining potential measures to promote



openness and diversification. Second, it discusses the importance of improving the investment climate, identifying the key areas in which Uzbekistan should focus its efforts to attract foreign direct investment and foster private sector development. Third, it delves into the role of innovation in enhancing competitiveness, analyzing the current state of innovation in Uzbekistan and offering recommendations for promoting a more innovative and dynamic economy. Finally, it addresses the crucial issue of human capital development, emphasizing the need to invest in education and skills development to create a workforce capable of driving economic growth and competitiveness.

Literature review

The importance of enhancing competitiveness in both developing and developed economies has been extensively discussed in the literature. Competitiveness is a multifaceted concept that encompasses various factors, such as productivity, trade, investment, innovation, and human capital development, which collectively contribute to a country's economic growth and development (Porter, 1990; Schwab & Sala-i-Martin, 2019).

Increasing productivity is one of the main drivers of competitiveness, as it allows for the efficient use of resources and promotes economic growth (Porter, 1990). Solow (1956) and Romer (1986) emphasize the role of technological progress and innovation in enhancing productivity, while Krugman (1994) highlights the importance of economies of scale and specialization. For developing countries, productivity improvements can be achieved through technology adoption, investment in infrastructure, and efficient allocation of resources (Rodrik, 2012). In developed countries, productivity growth often requires continuous innovation, investment in research and development (R&D), and the development of high-value-added industries (Aghion & Howitt, 1998).

Trade liberalization has been identified as a key factor in improving competitiveness, as it fosters economic growth, promotes specialization, and facilitates access to new markets (Anderson, 2019). The benefits of trade liberalization for both developing and developed countries have been extensively studied, with scholars such as Sachs and Warner (1995) and Frankel and Romer (1999) highlighting its positive impact on income levels and economic growth. However, some scholars argue that trade liberalization may have adverse effects on income distribution and environmental sustainability (Rodrik, 2018; Stiglitz, 2002). Therefore, it is essential to strike a balance between liberalization and appropriate regulations to mitigate potential negative consequences.

Attracting foreign direct investment (FDI) and fostering domestic investment is critical for enhancing competitiveness, as it provides access to capital, technology, and management expertise (UNCTAD, 2021). The investment climate in both developing and developed countries can be improved by strengthening the legal framework, reducing bureaucratic obstacles, and enhancing transparency and governance (Dollar, Hallward-Driemeier, & Mengistae, 2006; Globerman & Shapiro, 2002). In addition, North (1990) and Acemoglu and Robinson (2012) emphasize the role of institutions in creating a favorable investment environment, as they influence property rights protection, contract enforcement, and political stability.

Innovation is a vital driver of economic growth and competitiveness in today's globalized economy (Fagerberg & Verspagen, 2019). For both developing and developed



countries, promoting innovation requires investment in R&D, fostering collaboration between academia and industry, and supporting start-ups and small and medium-sized enterprises (SMEs) (Etzkowitz & Leydesdorff, 2000; Lundvall, 1992). In addition, Freeman (1987) and Nelson (1993) argue that the development of national innovation systems, which encompass institutions, organizations, and policies that support innovation, is essential for enhancing competitiveness.

A skilled workforce is crucial for the competitiveness of an economy, as it enables the adoption of new technologies, enhances productivity, and supports innovation (Becker, 1993). For both developing and developed countries, human capital development can be achieved through aligning education with labor market needs, enhancing the quality of education, and promoting labor mobility (World Bank, 2021). In this context, Mincer (1974) and Schultz (1961) emphasize the importance of investing in education and training to improve workforce skills, while Goldin and Katz (2008) stress the need for continuous skill upgrading in response to technological advancements and shifting labor market demands.

Analysis and Results

Trade Liberalization

Trade liberalization is an essential component for increasing the competitiveness of an economy. By eliminating trade barriers and promoting exports, countries can foster economic growth and gain access to new markets (Anderson, 2019). Uzbekistan has made some progress in this regard, joining the World Trade Organization (WTO) in 2020. However, the country still faces significant obstacles in terms of trade, such as high tariffs and non-tariff barriers (World Bank, 2021).

To further liberalize trade, Uzbekistan should focus on:

1. Reducing trade barriers: Lowering tariffs and non-tariff barriers, such as quotas and import licensing requirements, can encourage trade and increase the country's export potential (Anderson, 2019).
2. Diversifying export products and markets: Focusing on high-value, non-traditional export products and expanding trade relationships with a variety of countries can increase competitiveness and reduce the reliance on a few trading partners (World Bank, 2021).
3. Improving trade facilitation: Streamlining customs procedures and investing in transportation infrastructure can reduce the costs of cross-border trade and attract foreign investment (World Bank, 2021).

Investment Climate Improvement

Attracting foreign direct investment (FDI) is crucial for economic growth, as it provides access to capital, technology, and management expertise (UNCTAD, 2021). Uzbekistan has made significant strides in improving its investment climate, with the establishment of special economic zones (SEZs) and the introduction of tax incentives for foreign investors (World Bank, 2021). However, more needs to be done to create a more favorable investment environment.

To further improve the investment climate, Uzbekistan should focus on:

1. Strengthening the legal framework: Protecting property rights and ensuring contract enforcement can increase investor confidence and attract more FDI (UNCTAD, 2021).

2. Reducing bureaucratic obstacles: Simplifying the procedures for business registration, licensing, and permits can lower the costs of doing business and promote investment (World Bank, 2021).

3. Enhancing transparency and governance: Addressing corruption and improving the quality of institutions can contribute to a more predictable and stable investment environment (UNCTAD, 2021).

Innovation Promotion

Innovation is a key driver of economic growth and competitiveness in today's globalized economy (Fagerberg & Verspagen, 2019). Uzbekistan has made some progress in promoting innovation through the establishment of the Committee for Science, Technology, and Innovation and the implementation of various research and development (R&D) programs (World Bank, 2021). However, the country still lags behind its peers in terms of innovation indicators, such as patent applications and R&D expenditure (World Intellectual Property Organization, 2021).

To further promote innovation, Uzbekistan should focus on:

1. Increasing R&D investments: Allocating more resources to R&D can spur innovation and drive productivity gains across various sectors of the economy (Fagerberg & Verspagen, 2019).

2. Fostering collaboration between academia and industry: Encouraging partnerships between universities and private firms can facilitate knowledge transfer, commercialize research findings, and drive innovation (Etzkowitz & Leydesdorff, 2000).

3. Supporting start-ups and small and medium-sized enterprises (SMEs): Providing financial and non-financial support to start-ups and SMEs can foster entrepreneurship and facilitate the development of innovative products and services (World Bank, 2021).

Human Capital Development

A skilled workforce is essential for the competitiveness of an economy, as it enables the adoption of new technologies, enhances productivity, and supports innovation (Becker, 1993). Uzbekistan has a relatively young and educated population, with a high literacy rate and an increasing number of tertiary education enrolments (World Bank, 2021). However, the country faces challenges in terms of skills mismatch and the quality of education.

To further develop human capital, Uzbekistan should focus on:

1. Aligning education with labor market needs: Implementing demand-driven curricula, promoting vocational and technical education, and encouraging lifelong learning can better equip the workforce with relevant skills and improve employability (World Bank, 2021).

2. Enhancing the quality of education: Investing in teacher training, improving infrastructure, and adopting modern teaching methods can lead to better learning outcomes and a more skilled workforce (World Bank, 2021).

3. Promoting labor mobility: Facilitating the movement of workers across sectors and regions can help address skills mismatches and improve the allocation of human resources (World Bank, 2021).

Policy Recommendations and Future Directions

To ensure the sustainable growth and competitiveness of Uzbekistan's economy, policymakers must prioritize the implementation of the discussed strategies. In doing so, they



can address the current challenges and create an environment conducive to economic development. Below are key policy recommendations and future directions for each of the four areas:

Trade Liberalization:

1. Establish a comprehensive trade policy: This policy should outline the country's strategic objectives in international trade, including the reduction of trade barriers, export diversification, and regional integration efforts (World Bank, 2021).
2. Engage in trade negotiations and regional trade agreements: Pursuing negotiations with key trading partners and participating in regional trade agreements can further open markets and promote economic integration (Anderson, 2019).

Investment Climate Improvement:

1. Conduct regular assessments of the investment climate: This will help identify bottlenecks, monitor progress, and adjust policies accordingly (UNCTAD, 2021).
2. Establish investment promotion agencies: These agencies can serve as one-stop-shops for investors, providing information, assistance, and support to navigate the investment process (UNCTAD, 2021).

Innovation Promotion:

1. Create an innovation fund: This fund can provide financial support for innovative projects and start-ups, fostering a culture of entrepreneurship and risk-taking (World Bank, 2021).
2. Develop a national innovation strategy: This strategy should outline the country's vision for innovation, identify priority sectors, and establish targets for R&D expenditure and other innovation indicators (Fagerberg & Verspagen, 2019).

Human Capital Development:

1. Encourage public-private partnerships in education: These partnerships can support the development of demand-driven curricula, enhance teacher training, and improve education infrastructure (World Bank, 2021).
2. Implement targeted labor market policies: These policies can help address skills mismatches and promote labor mobility, including active labor market programs, unemployment benefits, and public employment services (World Bank, 2021).

The successful implementation of these strategies requires strong commitment and coordination among various stakeholders, including the government, private sector, and international partners. By working together, they can help foster a more competitive, diversified, and resilient economy, paving the way for a prosperous future for Uzbekistan and its citizens.

Conclusion

The competitiveness of Uzbekistan's economy can be enhanced by pursuing strategies in trade liberalization, investment climate improvement, innovation promotion, and human capital development. Implementing these directions can lead to sustainable economic growth, increased productivity, and better living standards for the population. While some progress has been made, continued efforts and commitment from the government, private sector, and other stakeholders are necessary to overcome the remaining challenges and ensure the long-term competitiveness of Uzbekistan's economy.



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