

Perspectives And The Role Of Industrial Potential In The Economy Of The Republic Of Uzbekistan

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Abstract – The development stages of diversified industry of the Republic of Uzbekistan, the results of implementation of government strategy and policy on modernization and diversification of production, as well as the outcome of deep structural changes in the economy, are considered in this article. Significant role of industry in country's economy and direct influence on important factors such as welfare and employment of population, providing people with needed goods, scientific and technical progress, investment inflow, entering world market, increase of export, and economic relationship between countries, was analyzed. Statistical data, which give opportunity to make objective appraisal of current production status were presented.

Keywords – Multibranch Industry, Economic Strategy, Diversification Of Production, Industrial Policy, Modernization Of Production, Productive Potential.

I. DEVELOPMENT OF INDUSTRY AND ITS ROLE IN THE COUNTRY'S ECONOMY

During the years of independence in the Republic of Uzbekistan, the industries that determine the development of scientific and technological progress have been intensively developed, namely: mining, fuel and energy, electrical, textile, ferrous and nonferrous metallurgy, chemical, metalworking and others, as well as completely new industries have emerged, such as automotive, motor, spare parts, modern televisions and computers and other household appliances. The measures taken by the country's leadership to improve the sectoral structure of industry made it possible not only to create a powerful industrial and production potential and at the same time eliminate the former one-sided, mainly raw-material orientation of the economy, but also to achieve high rates of its development.

In the modern economy of the country, industry occupies one of the leading places and consists of more than 10 spheres of industry, including specialized industries and sub-industries that produce homogeneous products, as well as industries that are technologically connected with each other by the extraction and processing of raw materials or the production of finished products.

Today Uzbekistan is one of the most dynamically developing, independent country in Central Asia. The unique natural and climatic conditions, rich mineral resources, developed agriculture and powerful labor potential served as the basis for the creation in the Republic of Uzbekistan of a diversified national economy with priority development of not only the agricultural sector, but also a powerful industry.

Since the independence, a new stage of development of the industry can be divided into 3 stages based on the microeconomic situation. Meaning by this the gradual formation of market relations, the improvement of the structure and industrial strategy.

- The first stage (1991-1995) is characterized by the implementation of measures to preserve the existing industrial potential, the extraction of strategically important raw materials and their primary processing, as well as the development of import-substituting industries. At this stage, attention was paid to the creation and development of basic industries, the protection of the domestic market through the use of protectionist instruments, ensuring the increase in the profitability of production by controlling energy prices and the privatization of small industrial enterprises.

- At the second stage (1995-2000), the development of industries constituting economic independence, the large-scale implementation of an industrial strategy aimed at import substitution and an increase in investment flow in the processing industries,

namely in mechanical engineering and light industry, the chemical industry and food production, were envisaged. In this period, budget funds served as the main factor in the development of industrial production.

- At the third stage (from 2000 to the present), attention is paid to the creation and development of industrial sectors in which export-oriented types of products are produced. This stage is characterized by the privatization of large enterprises, limiting the monopoly of state-owned companies, increasing the role of the private sector in industry, accelerating the process of liquidating unprofitable enterprises, introducing an organizational management system and increasing the pace of the localization process.

A logical continuation of the ongoing process of renewal of production and implementation of innovative technologies in the country was the Decree of the President of Uzbekistan dated on February 7, 2017 No.UP-4947 "About the strategy of actions for further development of the Republic of Uzbekistan"¹ and "About the approval of the Strategy for Innovative Development of the Republic of Uzbekistan for 2019-2021"². The main objectives of the Strategy are:

- Improvement of quality and scope education at all levels, development of system of life-long education, ensuring flexibility of system of training, proceeding from requirements of economy;

- Strengthening of scientific potential and efficiency of scientific research and developments, creation of efficient mechanisms of integration of education, science and entrepreneurship for widespread introduction of results of research, developmental and technological works;

- Increase in investment of the public and private funds in innovations, research, developmental and technological works, implementation of modern and effective forms of financing of actions in these spheres;

- Increase in efficiency of activities of public authorities by implementation of modern methods and management tools;

- Ensuring the protection of property rights, creating competitive markets and equal conditions for doing business, developing public-private partnerships;

- Creation of steadily functioning social and economic infrastructure.

Decrees were issued in order to consistently ensure structural transformations, modernization and diversification of production, further development of high-tech industries that can become locomotives of stable economic growth, the fullest use of available reserves in order to reduce the energy intensity of manufactured products, material and labor costs, as well as expand the production of competitive finished goods and semi-finished goods that are in steady demand on the world market, actively attracting foreign investments for this, including through the creation of joint ventures with leading foreign companies on a priority basis.

According to preliminary data, enterprises produced industrial product in the sum of 256.7 trillion soums, volume index of industrial production by the same period in 2019 amounted to 97.3%. In the structure of production, the largest share falls on manufacturing enterprises (82.6%).

The main factors in declining the physical volume of production were the decrease at mining enterprises industry and quarrying - by 26.1%, in water supply, sewerage, collection and disposal of waste - by 7.3%. Meanwhile, it is noted an increase in the production of processing industry by 2.7%, in power supply, gas, steam and air conditioning enterprises - by 13.7%.

On other hand, as a result of the lockdown that brought coronavirus in the first half of the 2020, almost in all countries there was an abrupt increase in unemployment and a decline in production. All of this has led to economic hardships on a global scale. Uzbekistan was no exception. Increase in gold production of and growth in agriculture facilitated offset a sharp drop in industry. World Bank overview on the economy of Uzbekistan stated that the lifting of lockdowns in the third quarter of the year, robust agricultural production, and a partial recovery of remittances would result in stronger economic activity in the second half of 2020 than in the first half³.

Today, more than 900 industrial enterprises operate in the republic. Many of them have been merged into joint-stock companies in their areas.

II. STRUCTURAL ANALYSIS OF THE INDUSTRY

An integral part of the industry of Uzbekistan is the oil and gas industry, since it ensures the production of products without which it is impossible to imagine the functioning of not only various sectors of the economy, but also the arrangement of the entire

¹ About the strategy of actions for further development of the Republic of Uzbekistan. Decree of the President of Uzbekistan dated on 07.02.2017 No.UP-4947.- <https://lex.uz/docs/3107042>

² About the approval of the Strategy for Innovative Development of the Republic of Uzbekistan for 2019-2021. Decree of the President of Uzbekistan dated on 21.09.2018 No.UP-5544.- <https://lex.uz/docs/3913186>

³ <https://www.worldbank.org/en/country/uzbekistan/overview>

life of the population of Uzbekistan, and also provides the country's energy sector with primary fuel resources by 93%. The oil and gas industry is represented by the national holding company "Uzbekneftgaz". It includes 6 main joint stock companies, uniting more than 190 enterprises of the complex. They carry out geological exploration, exploratory and production drilling of oil and gas wells, development of oil and gas fields, etc. One of the major projects in this industry is the Shurtan Gas Chemical Complex, which was launched in 2001. This complex annually produces 125 thousand tons of polyethylene, 60% of which is exported to Europe, the CIS, and other countries. It was here that the first Uzbek polyethylene was obtained. Prior to this, polyethylene required for the production of various types of products in many industries was imported, in particular, from Russia, China, and the Republic of Korea. Foreign currency was spent on this, manufacturers heavily depended on supplies from outside, and the cost of the final product was naturally affected by the fact that the raw materials were imported. The development of polyethylene production in the republic has brought enormous benefits not only in terms of import substitution, but also in reducing the cost of products made from it. The oil and gas sector of Uzbekistan has been developing for many years. However, over the past 20 years, the growth of its potential has become one of the strategic priorities of the concept of economic and social development of the republic. As a result, Uzbekistan has been recognized as one of the largest producers of fuel and energy resources in the Central Asian region, having entered the top ten major gas producing countries in the world. Every year the republic produces about 65 billion cubic meters of gas, 5.9 million tons of liquid hydrocarbons⁴. The main partners of the republic in the implementation of the largest oil and gas projects are the Russian "Gazprom", "Lukoil", Malaysian "Petronas", the Chinese "CNPC international Ltd", the Korean "Korea National Oil Corporation

The chemical industry with significant production, raw materials and scientific and technical potential is one of the basic sectors of the economy. It includes enterprises producing mineral fertilizers, chemical plant protection products, chemical fibers and threads, synthetic resins, polymer products and other products. This branch of the country is represented by the joint-stock company Uzkimyosanoat, which includes 13 industrial enterprises, 13 territorial distribution organizations involved in the sale of mineral fertilizers to agriculture, research and design institutes, external economic transport and forwarding organizations Kimyotrans and Kimyotrans-logistics", as well as the brokerage company "Hamkor-kimyoservis".

The raw materials for this industry are gas, oil, coal, sulfur, table salt and various wastes from non-ferrous metallurgy, processing of raw cotton and kenaf. Before the republic acquired the independence, the chemical industry of our country was formed based on the role of the main cotton producer assigned to Uzbekistan. Therefore, the enterprises that were part of the chemical industry focused primarily on the production of mineral fertilizers for the intensification of agricultural production. In those days, the chemical industry was largely dependent on the import of raw materials, about 70% of which was imported, in particular phosphorites, caustic soda, hydrochloric acid, chlorine, while the republic had significant reserves for the production of nitrogen fertilizers. In 1996, the the government of the country decided to develop its own base of phosphate rock and a program for the phased commissioning of the Dzheroy-Syrdarya deposit. The launch of the Kyzylkum phosphorite complex in May 1998 with an annual capacity of 400 thousand tons of phosphate rock made it possible to gradually reduce the import of phosphorite raw materials, and since 2005, especially after the commissioning of the second stage of the complex and bringing its annual capacity to 716 tons of phosphate concentrate, it has completely eliminated imports and switch to processing own raw materials.⁵

According to statistical data provided by the state committee of the Republic of Uzbekistan on the statistics, in January - October 2020, chemical production enterprises produced products worth 17.6 trillion soums. The network's physical volume index compared to January-October 2019 was 104.5%. The largest share in the total volume of chemical products produced by enterprises in the Republic was 33.4% of the Republic of Karakalpakstan, 16.4% of the Tashkent region, 13.5% of the Kashkadarya region and 11.2% of the Navoi region.⁶

One of the most reliable reliance of independent development and economic prosperity of the Republic is diversified machine-building complex, which provides the basis for the technical re-equipping of all industries. This industry consists of several sectors such as automotive, tractor and agricultural, instrument making, tooling and others. Specialization in the cultivation and primary processing of raw cotton had a significant impact on the formation of the sectoral structure of mechanical engineering. Therefore, production facilities of equipment for cotton growing, technological equipment for the cotton ginning and textile industries were launched, as a result of which Uzbekistan became the only state in Central Asia producing equipment for sericulture and silk weaving. Currently, a unified system of machines has been formed for all stages of the cultivation, harvesting and industrial processing of cotton, silk cocoons, vegetable growing, horticulture and viticulture, small-scale mechanization tools adapted to foothill-mountainous and semi-desert territories⁷.

⁴ <http://ru.sputniknews-uz.com/economy/20170517/5423576/Uzbekistan-neft-gaz-dobicha.html>

⁵ <https://www.ngmk.uz/ru/contact/116-prods/fosfor/168-fosforitnyj-kompleks>

⁶ <https://stat.uz/en/press-center/news-of-committee/6844-o-zbekiston-respublikasida-kimyo-mahsulotlari-ishlab-chiqarish-sanoati-3>

⁷ <http://www.agro.uz/ru/information/reports/>

Before independence, the machine-building complex developed unilaterally and provided machinery and equipment mainly to agricultural production and cotton processing enterprises. As a result, the machine-building production was concentrated mainly in the Tashkent and Fergana economic regions, which accounted for 84% of production, 8% - in Samarkand-Karshi, in other economic regions, only 8% of production of the machine-building complex. But over time, it was possible to reduce the share of agriculture in the national economy, and to modernize the agricultural sector and overcome the monoculture of cotton. Since gaining independence, the Republic of Uzbekistan has chosen the path of modernization and diversification of the entire industry. And this gave a significant impetus to the expansion of the geography of the location of machine-building plants.

It should be noted that in this industry there is a sector for the processing of metals, which in turn includes the production of products and structures from metals, as well as the maintenance of machinery and equipment. The diversified machine-building complex of the republic is represented by more than 100 joint-stock enterprises united in large associations, holding companies and financial and industrial groups.

For January-September 2020, the republic produced 630 tractors (compared to January-September 2019, the production volume decreased by 42.7%). The largest volume of tractor production was recorded in April 2020, amounting to 234 pcs. For January-September 2020, the republic produced 573 pcs. rippers and cultivators (by the corresponding period of 2019, a decrease in production by 61.2% was recorded). In April 2020, the largest production volume of these products was noted, amounting to 144 units⁸.

Metallurgy occupies a stable position in the structure of the economy and is one of the basic branches of the national industry and one of the few branches that can make a significant contribution to the economic growth of our country. The metallurgical complex of Uzbekistan combines two industries: ferrous and non-ferrous metallurgy. Non-ferrous metallurgy of Uzbekistan stands slightly apart from all other industries. Its importance for the export of Uzbekistan is very high, therefore, the minor decline in production was occurred no more than 5% over the last 10 years⁹. This industry is concentrated mainly in the Angren-Almalyk mining and industrial region, where copper, refractory and heat-resistant metals, and gold are produced. The largest enterprises in the industry are Almalyk, Navoi Mining and Metallurgical Combine and Uzmetskombinat. On the basis of tungsten ores and molybdenum found in the republic operates the Uzbek plant of refractory and heat-resistant metals. JSC "Almalyk Mining and Metallurgical Combine" of Uzbekistan is a one of the leading global manufacturer, which production capacity is based on the reserves of a group of copper-molybdenum, lead-zinc and gold-silver deposits located in the territories of Tashkent, Jizzakh, Namangan, Surkhandarya regions of the Republic of Uzbekistan.

By fulfilling the most important priorities of the socio-economic development program of 2020, the Almalyk MMC ensured the output of marketable products at current prices by 123.8%, and the growth rate of commercial products in comparable prices to the corresponding period of 2019 amounted to 103.8%.¹⁰ The state-owned enterprise Navoi Mining and Metallurgical Combine is engaged in the extraction and development of the gold deposit.

Radical reorganization and development of the food industry was required after acquiring the independence of the Republic. This was required by the socio-economic situation in the country in 1989-1990, where there were interruptions in the provision of the population with essential products, and their needs for meat, dairy and confectionery products were satisfied only by 30-35 percent. And today, the food industry of the Republic of Uzbekistan is considered as a strategically important industry and occupies a leading position in the structure of industrial production. The share of the food industry in the republic's GDP is more than 18%¹¹. The food industry of the Republic is based mainly on the processing of local agricultural raw materials and is represented by enterprises of fat and oil, confectionery, processing enterprises, which provide the population of the country with a wide range of consumer food products, such as high-quality flour, cereals, bread, and pasta, confectionery, butter -fat products, meat and dairy products, food concentrates and others.

One of the important subsectors of the food industry is the oil mill, which develops mainly on the basis of processing cotton seeds. The oil is produced in many cities of the republic - Tashkent, Fergana, Kattakurgan, etc. Today, in terms of gross production of vegetable oil, the Republic of Uzbekistan is among the 20 world producers, producing mainly cottonseed oil. Uzbekistan is one of the world's largest producers of tomato paste and is in the top five in the world, and in the top ten producers of raisins, dried fruits, which have unique taste.

The development of the food industry is directly related to the system of production and processing of agricultural products. Currently, the bulk of agricultural products are provided by farmers and dekhkan farms. A radical restructuring of agriculture has

⁸ Source: Quaterly report 2020, the State Committee of the Republic of Uzbekistan on Statistic

⁹ <https://knigi.link/sotsialnaya-geografiya-ekonomicheskaya/promyshlennyiy-kompleks-44707.html>

¹⁰ <https://agmk.uz/en/about-us/indicators/7695-executive-summary-following-the-performance-results-of-jsc-ammc-for-the-year-2020>

¹¹ <http://oziq-ovqat.uz/files/attach/3d80d9d4ce9d4456807e8ebecbd7ab85.pdf>

been achieved thanks to the economic reforms carried out in the country. In this area, an agricultural policy has been developed, based on private property and new forms of management, taking into account the natural and climatic conditions of Uzbekistan and the mental characteristics of the population. It should be noted that much attention is paid to the development of farming. Today there are 67,804 farms in the country. The legislative base has been created and is being improved. In accordance with the norms of the Law "On Farming" and the provisions of the Presidential Decree "On measures to further improve the organization of activities and the development of farming in Uzbekistan", purposeful work is being carried out to reorganize farms as the main producers of agricultural products.

The second in importance and the first in terms of the number of employment of the population is the light industry, specialized in the cleaning of raw cotton, the production of yarn, cotton wool, threads, cotton, natural silk fabrics and products from them. This industry also includes the production of knitted goods, sewing and hosiery, the manufacture of shoes, haberdashery, porcelain, crockery and others. The dominant position in the light industry is occupied by the cotton-cleaning industry. The enterprises of this industry are built mainly in the immediate vicinity of cotton-growing regions.

Another important branch of light industry is textile industry, which today accounts one-fifth part of the gross social product. One-third part of the country's industrial workers are concentrated in it. The share of light industry in the production of consumer goods in Uzbekistan is about 60%, and the income part of the state budget in different years is 25-28%. According to macroeconomic indicators of socio-economic development, the production of textile products for the first half of 2020 amounted to 23769,2 billion soums.¹² In 2020, the export volume of products amounted to 1.9 billion US dollars. Today, textile products of Uzbekistan are supplied to more than 50 countries of the world, the main export countries are Russia (36.8%), Turkey (18.8%), China (16.2), the countries of the European Union (15.3%), South Korea (5%)¹³.

III. PRECONDITIONS, KEY PROBLEMS AND RISKS OF MEDIUM-TERM DEVELOPMENT OF THE REPUBLIC'S INDUSTRY

The implementation of reforms and comprehensive measures on diversification and modernization of industry sectors in recent years has contributed to the provision of effective structural changes in the development of this sector of the economy. Thus, the increase in industrial production for the period 2018-2020 amounted to 129.3%. This contributed to an increase in the share of industry in GDP from 26.3 to 32.8%. The increase in the output of consumer goods in 2020 was 39.9%.¹⁴

At the same time, there still remain problems in the development of industry that affect the stability of the dynamics growth of production and the competitiveness of products. Thus, maintaining a low level of efficiency in the use of fuel and energy resources in almost all sectors and spheres of the economy makes in demand the implementation of an active policy of resource efficiency. The low level of processing of raw materials remains due to the absence of an associated technological chain for the production of finished products with high added value.

The problem of a high level of wear and tear of machinery and equipment negatively affects the growth of production competitiveness. Thus, in industry, the wear rate is 45.9%. A negative upward trend and the highest degree of wear and tear of machinery and equipment developed at manufacturing enterprises - 50.5%. The high level of wear and tear of machinery and equipment causes the problem of a low level of labor productivity. Labor productivity in the industries of Uzbekistan is 3-4 times lower than in rapidly developing countries such as China, India, Brazil, etc.

The low level of inter-sectoral cooperation does not allow the maximum involvement of internal resources for the development of industry. This leads to an extremely high level of consumption of imported goods.

There is a problem of high disbursements for entering the foreign markets due to high transport and logistics costs. In turn, this is due to the underdevelopment of the logistics infrastructure, which requires the construction of a unified logistics system, logistics centers in each region of the country.

The problem of ensuring the quality of many types of manufactured goods also prevails. This is mainly due to the lack of unified strict requirements and national quality standards. The non-compliance of many goods with the quality requirements imposed on foreign markets negatively affects the competitiveness of domestic goods and restricts their export.

Practically in all branches of industry there is no base for their own engineering and R&D, respectively, for their own scientific developments and technologies. This is a limitation in the development of innovations in the industry. The share of low-tech industries prevails in the structure of industry (29.8%). Accordingly, the share of high-tech industries remains at a low level (1.2%).

¹² Source: Quaterly report 2020, the State Committee of the Republic of Uzbekistan on Statistics

¹³ <https://stat.uz/en/press-center/news-of-committee/7589-2020-yilda-to-qimachilik-mahsulotlari-eksport-hajmi-295-3-mln-aqsh-dollariga-oshgan-3>

¹⁴ Source: Quaterly report 2020, the State Committee of the Republic of Uzbekistan on Statistics

The export-raw material model of industrial development based on the accelerated increase in fuel and raw materials exports is losing its potential.

The persistence of these problems in the long term may pose a threat to the sustainable and balanced development of the industry. In addition, these problems will intensify under the influence of external risks that can weaken the factors and sources of industrial growth.

In particular, there is an increase in global competition, which encompasses not only the traditional markets for goods, capital, technology and labor, but also the system of public administration, support for innovation and human development.

A new wave of technological changes is expected, which will strengthen the role of innovation in the development of all sectors of the economy and reduce the impact of many traditional growth factors. The lag in the development of new technologies of the last generation can reduce the competitiveness of the national economy, as well as increase its vulnerability in the face of growing geopolitical rivalry.

IV. CONCLUSION

It is not surprising that today the industry has begun to occupy one of the leading places in the domestic real sector of the economy. The introduction of new production technologies, the use of high-performance modern equipment in combination with effective management provide high labor productivity at the enterprises of the industry, an increase in industrial production and the quality of products. At the same time, there is an annual increase in absolute indicators, and more than 60 types of new light industry goods have been added to the total assortment.

In conclusion, it should be emphasized that over the years of independence, Uzbekistan has achieved tremendous success, in which industry played an important role. The industrial policy implemented in the country is aimed primarily at liberalizing the economy, strengthening the private sector, eliminating the former raw materials orientation, efficient use of existing natural and labor resources and leveling the economic level of regional development. As a result of a correct and clear policy, progressive science-intensive industries such as the automotive industry, agricultural engineering, the electrical industry, machine building and metalworking, as well as the leading light and food industries, producing consumer goods, received further development.

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