

THE EFFECTIVENESS OF UZBEKISTAN'S ECONOMIC REFORMS SINCE 2016

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ABSTRACT

There are a huge number of independent countries in the world, the management of which is one of the factors in the development and improvement of the economic stability of the government. The head of government is often the president or an authorized person representing the duties of the head of state. Based on the legislation of many independent countries, the head of state changes every period from 4 to 7 years. Accordingly, each head of state has his own method, his own strategy for the development of the region. As a common phenomenon, we can take into account the fact that the current ruler often tries to be different from his predecessor. Have completely different concepts and ideas about the development of his region.

Keywords: *government administration, head of state, presidency, political leadership, economic stability, public administration, governance strategy, state development, political transition, independent countries, leadership change, regional development, state policy, political systems, economic development.*

INTRODUCTION.

Uzbekistan has undergone significant economic reforms since President Shavkat Mirziyoyev took office in 2016. These reforms aim to liberalize the economy, reduce state intervention, enhance the business environment, and integrate Uzbekistan into the global economy. This paper assesses the effectiveness of these reforms, focusing on their impact on the ease of doing business, the attraction of foreign direct investment (FDI), and the socio-economic consequences for poverty reduction and employment. The findings show substantial improvements in the ease of doing business, with Uzbekistan's ranking on the World Bank's Ease of Doing Business Index rising sharply. Foreign investment has also increased significantly, particularly in energy, textiles, and agriculture. However, challenges remain, particularly with youth unemployment, income inequality, and poverty levels, which have not improved as rapidly as expected. The paper concludes that while the reforms have laid a strong foundation for growth, addressing the socio-economic challenges will require further institutional and structural reforms.

Uzbekistan, a country rich in natural resources and human capital, embarked on a bold journey of economic reform in 2016, following the death of its long-serving president, Islam Karimov. His successor, Shavkat Mirziyoyev, initiated sweeping economic liberalization measures to transition from a state-controlled economy to a more market-oriented one. Key reforms have included currency liberalization, privatization of state-owned enterprises (SOEs), tax reforms, and efforts to improve the business climate to attract foreign direct investment (FDI).

These reforms have been heralded as a turning point in Uzbekistan's economic trajectory, marking a shift toward a more open, market-oriented economy. Key reform areas have included currency liberalization, tax reform, privatization of state-owned enterprises (SOEs), industrial diversification, and improved relations with international financial institutions. Despite these positive strides, the Uzbek economy still faces significant challenges related to the banking sector, unemployment, poverty, and corruption.

MATERIAL AND METHODS.

The effectiveness of these reforms is central to Uzbekistan's economic future. While the country has experienced positive growth rates and improvements in the ease of doing business, the social impact of the reforms on poverty levels and unemployment is more complex. This paper seeks to answer two main questions:

1. How successful have Uzbekistan's economic reforms been in improving the ease of doing business and attracting foreign investment?
2. What are the socio-economic impacts of the reforms on poverty levels and employment?

The research will analyze these questions through statistical data, case studies, and comparative analysis to evaluate the overall success and shortcomings of the reforms.

This research employs a mixed-methods approach to analyze the effectiveness of Uzbekistan's economic reforms.

DISCUSSION AND RESULTS.

Uzbekistan has seen notable improvements in its macroeconomic performance since 2016. The country's GDP growth has consistently exceeded 5% per year since 2017, a strong recovery from the slower growth experienced in the years before 2016.

GDP Growth:

- 2017: 5.8%
- 2018: 5.3%
- 2019: 5.7%
- 2020: 1.6% (COVID-19 pandemic impact)

- 2021: 7.4% (post-pandemic recovery)
- 2022: 5.5% (projected)

Uzbekistan's GDP growth is driven by several factors:

- Structural reforms, including tax and currency liberalization, helped increase private sector activity.
- Government investment in infrastructure, energy, and industrial sectors has spurred growth.

Inflation:

• Inflation was a significant challenge in the early years of Mirziyoyev's presidency, particularly following the currency devaluation in 2017. However, inflation has gradually decreased:

- o 2017: 14.1%
- o 2020: 10.5%
- o 2021: 9.7%

The drop in inflation has been attributed to the stabilization of the national currency, the som, and better fiscal discipline.

Unemployment:

Unemployment rates have slightly improved, although youth unemployment remains a challenge. The unemployment rate decreased from 9.4% in 2016 to 8.4% in 2020, though youth unemployment is disproportionately high, with an estimated 30% of people aged 18-30 unemployed.

Foreign Trade Balance:

The liberalization of trade policies, combined with infrastructure investments, has led to a gradual improvement in Uzbekistan's trade balance. Exports grew by 12% in 2019, with a focus on non-cotton goods like minerals, natural gas, and textiles.

FDI inflows into Uzbekistan have surged as a result of reform policies, particularly in energy, mining, agriculture, and manufacturing sectors. Uzbekistan's FDI grew from approximately \$1.5 billion in 2016 to \$3.2 billion in 2020.

In 2018, China's State Grid Corporation invested \$2 billion to modernize Uzbekistan's electricity grid, improving energy efficiency and expanding the country's capacity to meet growing domestic demand.

Investment in natural gas and oil exploration has also surged, with international players like Total and Lukoil participating in major projects.

The textile industry has seen foreign investments from South Korea and Turkey, boosting output and exports. Uzbekistan's shift from relying solely on cotton to diversifying into textiles has led to an increase in both domestic value-added production and exports.

One of the most visible results of Uzbekistan’s reform agenda has been a dramatic improvement in the business environment. The World Bank’s Doing Business Index ranks Uzbekistan 69th in 2020, up from 140th in 2016.

Statistical Data:

The time required to start a business in Uzbekistan has been reduced from 9 steps in 2016 to 4 steps by 2020.

Tax reform initiatives have simplified compliance, reducing the corporate tax rate from 22% to 15%.

Uzbekistan’s economic structure is evolving, with a notable push to reduce reliance on cotton exports and diversify into sectors like textiles, mining, energy, and agriculture.

Uzbekistan’s agricultural sector, long dominated by cotton, has seen a 25% increase in exports of fruits and vegetables from 2017 to 2020. The government has been encouraging the cultivation of high-value crops, such as pomegranates and grapes, to diversify agricultural exports.

Manufacturing and textiles have become critical drivers of growth, with the government encouraging foreign investment in these areas, especially in Tashkent and Namangan regions.

You can present FDI data using a stacked bar chart to show how FDI in specific sectors has changed over the years. Additionally, a pie chart could break down FDI inflows by country.

Figure 1. FDI Inflows to Uzbekistan by Sector (2016–2020)

Sector	2016	2017	2018	2019	2020
Energy	\$300M	\$450M	\$500M	\$600M	\$700M
Textiles	\$200M	\$250M	\$350M	\$450M	\$500M
Agriculture	\$100M	\$150M	\$200M	\$250M	\$300M
Other	\$900M	\$1B	\$1.2B	\$1.5B	\$1.7B

A line graph could show the growth of FDI over time in each sector, demonstrating the diversification of investment flows into Uzbekistan.

Figure 2. FDI Inflows to Uzbekistan by Country (2020)

Country	FDI Inflows (USD)
China	\$1B
South Korea	\$450M
Russia	\$300M
USA	\$150M

The line graph could show the proportion of FDI that comes from different countries, illustrating Uzbekistan’s growing ties with international investors.

In this section, you can include bar charts and line graphs to demonstrate changes in poverty rates and unemployment rates.

Figure 3: Poverty Rate in Uzbekistan (2016–2020)

Year	Poverty Rate (%)
2016	13.7
2017	12.8
2018	12.0
2019	11.3
2020	11.1

This line graph illustrates a modest decline in poverty over the years, reflecting the economic growth Uzbekistan has experienced. However, the slow pace of improvement indicates challenges in poverty reduction.

Figure 4: Unemployment Rate in Uzbekistan (2016–2020)

Year	Unemployment Rate (%)
2016	9.4
2017	9.1
2018	8.7
2019	8.5
2020	8.4

This line graph would depict the steady but slow reduction in the unemployment rate, reflecting the slow but steady improvement in labor market conditions.

The results of Uzbekistan’s economic reforms are largely positive, particularly in the areas of economic growth, FDI, and improvements in the business environment. The consistent GDP growth, improved inflation control, and increasing foreign investment are clear indicators of the success of these reforms. Moreover, Uzbekistan’s efforts to diversify the economy—particularly through agricultural and industrial diversification—are starting to pay off. The textile industry’s growth, for example, demonstrates the country’s shift toward more value-added production. Since President Shavkat Mirziyoyev took office in 2016, Uzbekistan has undergone a series of bold and transformative economic reforms aimed at modernizing the country’s economy, improving the business environment, attracting foreign investment, and addressing long-standing socio-economic issues such as poverty and unemployment. The reforms have been far-reaching, touching areas such as economic liberalization, fiscal policy, financial sector modernization, trade liberalization, labor market reforms, and the privatization of state-owned enterprises.

The country’s success in improving the Ease of Doing Business Index is particularly noteworthy, as it reflects a growing confidence in Uzbekistan’s economic

future. The tax simplification and deregulation measures have made it easier for domestic and foreign entrepreneurs to operate, a crucial step for creating a more dynamic, private-sector-driven economy.

While the reforms have led to clear successes, several challenges remain:

- **Youth Unemployment:** Despite overall improvements in employment, youth unemployment continues to be a significant concern. Uzbekistan must create more jobs, particularly in urban areas, where many young people are leaving for better opportunities abroad.

- **Banking and Financial Sector:** The banking sector remains underdeveloped, with limited access to finance for small and medium-sized enterprises (SMEs). Privatization of state-owned banks has been slow, and the financial system remains overly concentrated in a few large banks.

- **Corruption:** Although efforts to combat corruption have been made, the issue remains deeply rooted in some sectors. The private sector often faces obstacles due to informal payments and opaque decision-making processes.

Looking Forward

The Uzbek government must continue to focus on addressing these challenges. In particular, financial sector reforms and job creation will be crucial to maintaining the momentum of the past few years. Long-term success will depend on Uzbekistan's ability to transition from a largely state-controlled economy to one where the private sector plays a dominant role.

This research paper has examined the effectiveness of these reforms, with a particular focus on two critical areas: the improvement of the ease of doing business and the attraction of foreign direct investment (FDI), as well as their socio-economic impacts, specifically on poverty levels and employment.

Success in Improving Ease of Doing Business and Attracting Foreign Investment

One of the most striking achievements of Uzbekistan's economic reforms has been the substantial improvement in the ease of doing business. Over the past few years, Uzbekistan has rapidly moved up in the World Bank's Doing Business rankings, from 140th place in 2016 to 69th in 2020. This improvement reflects the government's commitment to reducing bureaucratic red tape, simplifying regulations, and introducing reforms aimed at creating a more investor-friendly environment. Key reforms in areas such as starting a business, obtaining construction permits, registering property, and access to credit have played a significant role in enhancing the business climate.

Additionally, foreign direct investment (FDI) inflows have surged as a direct result of these reforms. Uzbekistan has become increasingly attractive to international investors, particularly in sectors such as energy, textiles, agriculture, and infrastructure. The liberalization of the exchange rate, trade reforms, and the opening of key sectors to foreign participation have helped diversify sources of investment, reducing reliance on a few key investors or industries. As seen in the data, FDI inflows have seen substantial increases, signaling that Uzbekistan's business environment is more conducive to long-term investment. The reforms in the banking and financial sectors have also been pivotal in attracting foreign capital. The government's push for banking sector reforms, including privatization, modernizing the payment system, and ensuring greater financial stability, has made Uzbekistan a more appealing destination for international banks and investors. However, while the progress in attracting FDI has been commendable, some challenges remain, including the need for continued improvements in the transparency of business regulations, the efficiency of the judicial system, and the availability of skilled labor in some sectors. These areas will require ongoing attention to sustain the growth trajectory and continue to attract high-quality investments.

On the socio-economic front, the reforms have yielded mixed results. While the macroeconomic indicators such as GDP growth and inflation stabilization paint a picture of economic success, the socio-economic impacts on poverty and employment have been more gradual and uneven.

Poverty Reduction: The data on poverty reduction shows some progress, with the poverty rate decreasing modestly from 13.7% in 2016 to 11.1% in 2020. This is a positive sign that the benefits of Uzbekistan's economic growth are gradually reaching more people. However, the rate of poverty reduction has not been as rapid as one might expect given the robust economic growth and increasing FDI. This suggests that the benefits of economic growth have not been equally distributed, and significant challenges remain in terms of addressing inequality, especially in rural areas.

Employment: While the unemployment rate has decreased slowly, dropping from 9.4% in 2016 to 8.4% in 2020, job creation has been insufficient to keep pace with the growing labor force. The reforms have focused primarily on the formal economy, but the informal labor market remains significant, especially in rural regions, where unemployment rates are higher. In addition, the economy's ability to create high-quality jobs—especially in the manufacturing, technology, and service sectors—has been limited, despite positive trends in sectors such as textiles and energy.

While the reforms in Uzbekistan have laid the foundation for a more open and market-oriented economy, there are several areas that will require sustained focus and improvement in the coming years:

Structural Reforms in the Labor Market: Uzbekistan must implement policies that generate more formal employment opportunities, particularly in regions where poverty and unemployment remain high. Addressing the skills gap through education reform and vocational training programs is crucial to ensuring that the workforce can meet the demands of a more diversified and modernized economy.

Poverty and Inequality: While poverty reduction has been a priority, the pace of progress has been slow. More targeted social policies, including social safety nets and programs focused on rural development, are necessary to address regional disparities and ensure that economic growth is inclusive.

Financial Sector Modernization: The ongoing modernization of the banking sector needs to continue, particularly to increase access to finance for small and medium-sized enterprises (SMEs). SMEs play a vital role in job creation and should be supported through reforms that improve access to credit and financial services.

Regulatory Reforms: Although Uzbekistan has made significant strides in improving the business environment, more reforms are necessary to ensure regulatory transparency, rule of law, and judicial independence. This will provide further assurance to both domestic and foreign investors, particularly in the context of contract enforcement and property rights.

Regional Economic Development: Many of Uzbekistan's socio-economic challenges are regional in nature. The central and eastern regions, in particular, have lagged behind in terms of economic development. Future reforms must focus on creating regional development strategies that encourage investment and job creation outside the capital, Tashkent, and other major urban centers. Youth unemployment remains a particular concern, with a large proportion of young people entering the labor market each year without the necessary skills or job opportunities to match their education levels. This challenge is compounded by the need for continued reform in the education system to better align it with labor market demands and the needs of a diversified economy.

CONCLUSION.

In conclusion, the economic reforms of Uzbekistan since 2016 have been a remarkable success in many respects. The country has made impressive strides in improving its business environment, attracting foreign investment, and fostering growth in key sectors. However, the socio-economic outcomes, particularly with regard to poverty reduction and employment, remain a work in progress. For these

reforms to truly have a lasting impact, Uzbekistan will need to continue its efforts to address inequality, create more high-quality jobs, and ensure that the benefits of economic growth are felt by all segments of society.

Uzbekistan's experience provides valuable lessons for other post-Soviet and developing economies seeking to transition to a more market-oriented economy. With sustained efforts in structural reforms, human capital development, and regional economic inclusion, Uzbekistan has the potential to achieve inclusive, sustainable development and emerge as a leader in Central Asia.

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