

ISSUES OF BALANCED DEVELOPMENT IN UZBEKISTAN ECONOMY

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Abstract: The article confers on the path and prospects of structural transformations in Uzbekistan. The author believes that successive policies implemented after gaining the country independence have allowed building up foundations of the balanced development in economy. However, much work should be done to improve the quality of achieved growth path.

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Theory of economic development assumes importance of balanced growth. The balanced growth theory assumes more even distribution of economic growth among sectors and industries. The balanced development suggests more fair distribution of economic and social benefits among market participants.

In development economics, balanced growth refers to the simultaneous, coordinated expansion of several sectors (Temple, 2005). Rosenstein-Rodan argued "... that expansion of different sectors is complementary, because an increase in the output of one sector increases the size of the market for others. A sector that expands on its own may make a loss, but if many sectors expand at once, they can each make a profit. This tends to imply the need for coordinated expansion, or a "Big Push", and potentially justifies a role for state intervention or development planning" (Temple, 2005, p.3). Nurkse showed that developing nations should sustain sufficient level of investments in long-run and sustainable investment path will assure the cumulative increase of labour productivity, growth of domestic savings and income (Cypher and Dietz, 2004). Both Nurkse and Rosenstein-Rodan suggested large-scale investments into an array of industries, supposing that supply expansion will follow simultaneously demand expansion (Cypher and Dietz, 2004).

Financial crisis has made more feasible the issue of balanced economy. Moreover to some extent the crisis was caused by aggravating disproportions among different but integrated goods, finance and service segments and sectors in major Western economies, in the global economy in general. Correspondingly, policy outcomes targeting more balanced global economy must be implemented and assured. In such global economy the national economies should feel themselves risk-balanced and possessing capacity to cope with external shocks. Therefore, national economies should strive to have sufficiently balanced domestic production and consumption markets that could neutralise or absorb negative fluctuations of global consumption.

Considering the concept of balanced growth can be served as rationale approach to analysis of economic reforms in Uzbekistan. From the initial set of transition reforms, the Uzbekistan government set the balanced development as one of the key priorities in the model of economic reforms and economic development. We can distinguish several stages how the government policy run the process of deep structural reforms after achieving macroeconomic stabilization in the beginning of 90s.

Initial economic transformations in the country started in environment when the priority given to stabilization,

handling with drastic production decline under collapse of centrally-planned economy, vanishing of savings and decreasing incomes of households. It became clear for policy-makers that country needs strong domestic production sector capable to basic needs of population. Therefore, in stabilization policy the importance was given to material production. The attention was focused on the sectors that determine the development trends of the economy not only in short term but also in the longer terms. These industries included textile, food, metallurgy, chemicals, and other ones that could utilize the potential of rich resources of local raw materials. Structural reforms were targeting tasks of import substitution, export encouragement, motor-car cluster development.

Already in mid 90s the pace of the decline is reduced considerably in key sectors, and some indicators showed growth. As a result of measures directed at reformation of two dominant sectors of economy - the industry and agriculture - the decline of production in industry was stopped in 1995, the decline in agriculture in - 1997. The first growth of GDP in 1997 by 5.2%. In the following three years this positive tendency was stable not only for material production sectors but also for service sectors. Particularly in 2000 the GDP growth was 4%, the industrial production - 6.4%, in agriculture - 3.2%. The higher rates of growth of production of consumer goods (7.7%), retail turnover (7.8%) and rendering services to population (14%) than the indicators stated above confirms the growth of social sphere.

After completing stabilization stage of reforms, the country proceeded to broader structural transformations, intensive modernization, active technical and technological modernization of production. During the period 2000-2009 the GDP structure of Uzbekistan become more progressive: the share of industry increased from 14% to 24%, the share of transport and communications from 7.7% to 12%, while the share of agriculture decreased from 30% to 18%.

The analysis of structural changes confirms that they are directed at development of sectors and productions which support the consumer and energy independence of the country, import replacement, prevention of one-sided raw material based economy, expansion of its export capacity, prevention of inter-industrial and regional disproportions. The priority is given to development of important base industries - oil and gas industry, energy, nonferrous metals, motor-car industry, chemicals, agriculture and other sectors of agro-industrial complex that work on the basis of domestic raw materials.

As an important priority of 2010 economic program is the extension of deepening of structural transformations and

diversification of economy in order to increase its competitiveness. Particular efforts are given to development of gas processing, oil-chemicals, motor-car industry, electro technology, pharmaceuticals, as well as traditional to the economy of the country light, food and construction materials industries.

Another important direction of structural reform policy and achievement on this basis the balanced development of national economy is the elimination of regional disproportions. Through promotion of use of local resources and production capacities in regions, there were provided increase of produced goods assortment, improvement of their quality, reduction of unit costs in goods production.

Government policy also puts importance development of infrastructure. As investment push in targeted sectors have induced demands for relevant infrastructure services. In medium and long-term perspective, significant focus, in our opinion, must be given to development of transport infrastructure, further expansion of quantity, improving mobility and quality of cargo and passenger transportation services. This conclusion is based on the recognition that transport is the leading industry of service sector. The industry has accounted for almost one third (31.6%) of the whole revenue of the service sector in national economy in 2009. Transport services has taken the first place in the structure of services, almost twice more than the following service sector - trade and catering services, 2.5 more than the public utilities. Under conditions of technological progress when the competitiveness of the product depends not only on its quality, price but also on speed of distribution of it to customers, the transport is becoming more and more significant factor of efficiency of operations. This conclusion, in our opinion, must be adequately reflected in the structure of investments which in turn will lead to more balanced development of national economy.

Particularly, the key priorities of economic program for 2010 stipulates the necessity of growth of the share of service sector in GDP to 49% (in comparison to 47% in 2009), the share of small business to 52.5% (in comparison to 50% in 2009), priority development of informational technologies and communications, energy infrastructures, diversification of structure and transport logistics of exports, improvement of marketing in foreign markets as well as accelerated development and construction of houses and other objects of social infrastructure.

In general, balanced development theory accepts contributions of both private and state-led sectors to balanced growth processes. Though the role of state involvement is quite high in Uzbekistan economy, the SME sector is successively increasing its role in leading investments in different production and service industries. Further accelerated development of service sector and increasing involvement of small business into this sector are substantially important conditions to provision of employment growth and promotion of living standards. SME sector has created 390 000 new jobs in 2009 (or 2/5 of all new vacancies in the economy of the country). The current anti-crisis program provides special attention to effective stimulation and support of small business development. Particularly, tax and loan privileges aims to provide further expansion of SME sector.

Important criteria for balanced development are levels of incomes and savings that should be increased substantially. Balanced development growth theory assumes that broad

supply and demand push should ultimately aggravate saving ratio in economy that in turn will leverage and condition sustainable high investment ratio. Regardless the chosen in the mid of 90s the investment push scenario and results achieved, the economy of the country still remains "...resource-based, making it susceptible to global commodity price fluctuations" (ADB, 2010). Also, there one can find some cases of overcapacities that did not follow by sufficient cross-industry pulling effects. Another concern is providing better distribution of the growth benefits: still unemployment is high in some regions where disproportions among labour supply and demand are more manifested. Thus, it is believed that much thing is hidden in ICOR background. Therefore, many institutional and innovation-promotion policies are demanded to improve quality of investments, provide deep and broad social effects, reach efficiency of growth. Hirschman's backward and forward industrial linkages (Cypher and Dietz, 2004) seem to be very useful in further designing balanced developmental model for Uzbekistan.

The country has succeeded in state-led industrialization and has provided shifts if industrial structure. Successive building domestic production sector and achieved savings ratio assured better coping with pressure of world financial crisis. The production, finance and service sectors of the country have avoided considerable recession negative effects of world financial crisis. However, remaining disproportions and deficiencies require deeper insight into modelling balanced growth model.

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