
ECONOMIC REFORM IN UZBEKISTAN AND ITS IMPACT ON CAPITAL INFLOWS

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Abstract

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*liberalization,
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The article analyzes the results of the strategy "Further development and liberalization of the economy" implemented in Uzbekistan through state support of investments, analysis of market economy models, as well as the expected prospects in the future and its impact on capital flows.

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INTRODUCTION

Undoubtedly, the reforms being carried out in Uzbekistan will serve to develop the country's economy, increase the welfare of our people and make the country one of the most developed countries in the world. It is natural that the need for financial resources to carry out reforms will increase significantly. At the same time, not only domestic but also foreign capital serves as the main source of meeting the demand for these resources. Therefore, it is possible to serve customers in Uzbekistan as a task to restore the necessary capital investment in a liberal service facility, and the relevance of this budget.

The purpose of the study is to develop practical recommendations for strengthening capital inflows in Uzbekistan.

The study of the classical model of economic liberalization as a scientific problem of research and thus the development of the necessary directions for Uzbekistan.

The scientific essence of the research is to study the classical directions of strengthening capital flows in the liberalization of the economy in Uzbekistan.

As a research method, the article develops recommendations for increasing the effectiveness of the application in the context of Uzbekistan by comparing the specific features of the core models of a market economy.

As noted in the 5 year master plan of the country (on the development strategy of New Uzbekistan for 2022-2026) Liberalization of the economy through the policy aimed at "Effective measures to reform the national economy, liberalize foreign trade, tax and financial policies, support entrepreneurship and ensure the inviolability of private property, organize the deep processing of agricultural products and ensure the rapid development of the regions"

¹ implementation has been set in our country. Of course, the country's chosen path, its economic strategy, plays an important role in fulfilling these tasks. Therefore, what results and changes should we expect from the liberalization of the economy, and what changes should be made by business entities operating in Uzbekistan in these changes, and thus have the opportunity to increase the economic efficiency of their activities. Therefore, we will consider the specifics of the liberal economic model in order to understand the "Priorities for economic development and liberalization"², which is one of the two main core models (social and liberal) in which countries operating in the market mechanism approach the economy.

ANALYSIS AND RESULTS

In countries transitioning from a socially oriented market economy to a liberal economy, it is important to consider what aspects need to be addressed. That is, although a liberal economy is an economic model that is interpreted as economic freedom and is carried out by reducing (or significantly reducing) state intervention in the economy, a state moving to a liberal model (transforming its economy from a social to a liberal one) feels the need to reform not only the economic sphere but also social and legal systems and structures. Therefore, many reforms have been carried out in our country over the past two years, this is done in order to liberalize the system of self-liberalization and regulation of the economy and to accelerate economic development.

The liberal model of a market economy has several differences from the model of social development, in which the two models embody opposite principles. To better understand this, it will be necessary to compare the important (basic) criteria of the two models. With this in mind, we consider the classical features of the fact that both models of the economy reflect some of the necessary criteria.

First, in the liberal model, by maintaining the minimum amount of the budget deficit in the budget discipline (execution), the level of profitability in private capital is left to the owners who are satisfied with the level of profitability. The state should make social transfers only to the most needy and budget expenditures should be directed only to the most important ones, such as first aid, primary education, infrastructure, and peacekeeping

¹ *Decree of the President of the Republic of Uzbekistan No. PF-60 of January 28, 2022 "New Uzbekistan's Development Strategy for 2022-2026 Decree"*

² Decree of the President of the Republic of Uzbekistan No. P-4947 of February 7, 2017 "On the Strategy for the Further Development of the Republic of Uzbekistan"

expenditures. In the social model, the permanent budget surplus and the expenditure of the budget are directed to all the needy, ensures that the costs are carried out free of charge by financing all stages of education, medical services and many other areas, and feels the need to form a large budget.

Second, in the liberal model, tax policy is implemented by expanding the tax base and minimizing tax rates. Selective benefits will be reduced, and the tax burden will be the same for all. In the social model, the tax rates will be high, and in this case it will be necessary to introduce preferential rates in some areas, which will lead to the loss of equality of the tax burden. Third, in the liberal model, interest rates are set based on market demand, and capital turnover falls mainly on private financial institutions, reducing government intervention.

This will increase the efficiency of capital owners' accumulation of funds in banks and reduce the outflow of funds to other areas. In the social model, the state plays a key role in setting interest rates, thereby limiting the free competition of financial institutions.

Fourth, in the Liberal model of trade activities, the import quota will be abolished and replaced by minimum customs tariffs. Customs tariffs should ensure that imported goods imported for future export are competitive in exports. It is also necessary to strengthen domestic competition by lowering tariff rates and strengthen the immunity of domestic producers in the face of competition. In the social model, import quotas are set taking into account domestic needs and protectionist policies are used to protect domestic producers.

Fifth, investment policy in the liberal model directly attracts foreign investors to the introduction of modern technologies and advanced achievements in business management, while at the same time putting the need to unify the competitive environment of domestic and foreign investors. In the social model, there are benefits in attracting foreign investors and attracting foreign investment under state guarantees.

Sixth, the liberal model requires a reduction in the public sector and an increase in the private sector, and it is necessary to reduce government intervention in the economy, given the inefficient operation of state-owned enterprises and the potential for corruption and bureaucracy in state-owned enterprises. In the social model, the state is forced to intervene deeply in the economy, so the public sector plays a major role in the economy.

Seventh, in the liberal model, the guarantee and protection of private property is carried out at a high level. In the social model, social protection and public needs may be one step higher than private property.

Of course, the above are features of the classical models, but now, when choosing a model of economic development of a state, of course, it does not choose exactly one of these two models, but selects specific and relevant aspects. At the same time, the same state relies more on one of the two models, which determines its path of development depending on which model is preferred.

In the transition to a market economy in Uzbekistan from the first years of independence, the fourth of the five principles set out in the Uzbek model of development, founded by the first President I.A.Karimov, is "Strong social policy"³ testifies to the fact

³ A.Karimov. A unique way to move to Uzbek-market relations. - Tashkent: Uzbekistan, 1993. - 114 p.

that Uzbekistan is based on the social model of market production. The transition to a liberal model of the market enterprise of Uzbekistan from 2017 has determined the next major strategy for the development of our country.

Taking into account these aspects, the liberalization of the economy has a direct impact on capital flows in Uzbekistan, as a clear example of which we refer to the data in Table 1.1.

Table 1.1

Distribution of fixed capital investments by sources of financing in 2019-2021

Indicator	2019 йил		2020 йил		2021 йил ⁴		In 2019-2021 in% difference
	billion in soums	% of the total	billion in soums	% of the total	billion in soums	% of the total	
Fixed capital investments	195927,3	100	210195,1	100	244962,6	100	125,0
Including:							
Centralized investments	26058,4	13,3	18707,4	8,9	27435,8	11,2	105,3
Budget funds	17633,5	9,0	14293,3	6,8	21556,7	8,8	122,2
Other funds	8427,9	4,3	4414,1	2,1	5879,1	2,4	69,7
Decentralized investments	169868,9	86,7	195487,7	91,1	217526,7	88,8	128,1
Enterprise and population funds	57406,7	29,3	85759,6	40,8	93330,7	38,1	162,3
Foreign direct investment and loans	85424,3	43,6	89753,3	42,7	104599,0	42,7	122,4
Loans and other borrowings from commercial banks	27037,9	13,8	15974,8	7,6	19597,0	8,0	72,5

The table shows the volume of investments in fixed assets in 2021 compared to 2019. We are witnessing an increase of more than 1.25 times, which testifies to the increase in investment activity in our country, which is a characteristic feature of the liberalization of the economy. But if we compare the two periods in terms of sources of investment financing, we can see that in fact this high growth trend was mainly due to the investment activity of the state, that is, if we analyze the table data on centralized and decentralized sources of funding in 2021 compared to 2019, we will see that the high growth trend was achieved through decentralized financing, or more than 1.25 times, while funding from centralized sources has a growth rate of 1.05 times. In fact, a centralized 1.05-fold increase in the absence of investment activity in the country may also lead to a

⁴ <https://stat.uz/uz/rasmiy-statistika/investments>

positive assessment of private investment activity, but this growth trend is more than 1.22 times the "budget opportunities" of the growing country. investment in state-owned manufacturing, which has grown by more than 1.22 times its output, is currently growing. In fact, in our opinion, the achievement of new "net"⁵ capital inflows into the economy of our country would have affected the growth of foreign direct investment, based on high growth trends.

Instead of a conclusion, we give the following. At a time when Uzbekistan's economy is liberalizing, a legitimate question arises as to why the state has a strong influence on increasing capital inflows? That's why we're paying attention, the increase in the share of the state in investment activity is, of course, in a country transitioning to a liberal economy, that is, in order to accelerate the reforms, to minimize the transition period and we can also recognize foreign partners (those who have joined and watched the flow of capital) as an increase in interest in the economy of our country and a guarantee of a positive investment climate by the state. This, of course, will contribute to the growth of capital inflows in the future and the rapid development of the economy.

CONCLUSION

Based on the above analysis, we propose the following to increase capital inflows and accelerate the liberalization of the economy in our country:

- Minimize the share of the state in the economy to possible;
- Creating a uniform investment climate for investors, i.e., eliminating selective additions;
- Abandonment of protectionist policies to support local producers;
- Elimination of monopoly in increasing capital flows;
- Reducing customs duties to accelerate competition and increase investment activity and immunity of domestic producers.

By implementing the above proposals, it is clear that the flow of private capital in our economy will increase only if we create opportunities and conditions for investors to attract investment and motivate them to direct their capital into our economy, otherwise the economy could be surrounded by lobbyists and monopolists and cause huge losses, because the Liberal economy demands its liberalization in its own name. We believe that the ongoing reforms in our country will be an important factor in ensuring the rapid development of our economy and increasing the welfare of our people.

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⁵ Note "Net" capital means the inflow of capital that is not available in the domestic economy. Because other capital flows are available in the country or are directed at the expense of additional emissions

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