

**IMPLEMENTATION OF INSTITUTIONAL REFORMS IN UZBEKISTAN AND
INFLUENCING FACTORS**

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<https://doi.org/10.5281/zenodo.20442434>

Abstract. This article analyzes the implementation of institutional reforms in Uzbekistan, their impact on economic and social processes, and development directions. Additionally, it examines the factors influencing the reforms and issues related to their effectiveness.

Keywords: institutional changes, economic reforms, legal framework, public administration, investment climate

Introduction. For the sustainable development of any state, the existence of effective institutional structures and legal foundations is essential. In recent years, the institutional reforms implemented in Uzbekistan have been aimed at modernizing public administration, strengthening the principles of a market economy, and supporting the private sector [1].

Under conditions of economic modernization, the introduction of innovative technologies into the activities of economic entities, the creation of favorable conditions for sustainable innovative activity, and the evaluation of organizational and economic mechanisms ensuring further development are of significant importance. The implementation of these measures contributes to stable socio-economic growth, increased competitiveness, and improvements in the quality of life of the population. President of the Republic of Uzbekistan Sh.M. Mirziyoyev has paid particular attention to this issue, emphasizing that: “The outdated management system in the economy and the lack of timely introduction of effective mechanisms for supporting innovative ideas remain serious problems. In addition, technological backwardness, insufficient implementation of resource- and energy-saving technologies, and the slow adoption of alternative energy sources are hindering economic development” [1].

Institutional changes represent a dynamic process that is continuously repeated and improved. First, they emerge due to the appearance of new social and economic necessities. For example, with the establishment of a new statehood system and the transition to market relations in Uzbekistan, the need for a number of new institutions arose. Second, institutional changes involve improving existing institutions and clarifying their specialization and functions.

According to calculations, institutional restructuring can save approximately 2.8 trillion Uzbek soums nationwide and reduce transportation costs. However, the benefits expected from institutional reforms extend far beyond these indicators. These savings represent only the visible part of a much larger process. The primary effect lies in creating equal “rules of the game” for all participants across socio-economic sectors, thereby making society more prosperous and attractive and improving the material well-being of the population. Institutions and institutional changes are of great importance because individuals do not enter workplaces or educational systems with their own rules; instead, they operate according to existing institutional norms.

Main Directions of Institutional Reforms

1. Legal and Public Administration Reforms

- Digitalization of public services and enhancement of transparency;
- Modernization of the legislative system;
- Strengthening the protection of entrepreneurship and private property rights.

2. Economic Reforms and Development of Market Relations

- Reforms aimed at strengthening the market economy;
 - Changes in the tax and financial systems;
 - Introduction of public-private partnership models.
3. Investment Environment and Foreign Economic Relations
- Establishment of legal guarantees for investors;
 - Expansion of foreign trade and export opportunities;
 - Strengthening cooperation with international financial institutions.
4. Institutional Changes in the Social Sphere
- Reforms in the education and healthcare systems;
 - Development of vocational training and the labor market;
 - Promotion of democratic institutions and civil society [2].

Scientific literature distinguishes three groups of institutional changes.

The first group consists of incremental institutional changes, in which informal rules and norms are strengthened within relatively small groups through family and kinship relations. In such cases, transaction costs for group members decrease.

The second group includes evolutionary institutional changes, where informal practices gradually become formalized into generally accepted institutions.

The third group encompasses revolutionary institutional changes, achieved through the external adoption or importation of institutions.

It is also necessary to distinguish between two types of institutional transformation. Endogenous institutional transformation of the economic system occurs through the evolutionary modification of existing rules and norms that form the basis of institutions.

In contrast, exogenous institutional changes are more radical by nature and often occur through institutional importation. Institutional importation is successful only when the developmental vector of domestic institutions corresponds to the requirements of the imported institutions, or at least when no significant contradictions exist between them. Examples of exogenous institutional changes include the new economic system formed after the October Revolution of 1917 and the economic transformations associated with the transition to market relations at the end of the twentieth century.

During the years of independence, institutional reforms under the influence of market relations passed through several stages, which may be conditionally divided into four phases.

The first stage (1991–1994) was characterized by the formation of the foundations of statehood, implementation of small-scale privatization, and establishment of new production relations.

The second stage (1995–early 2000s) involved medium-scale privatization and the emergence of new forms of state and economic management. During this period, structures such as holdings, associations, concerns, and companies were established and reorganized.

The third stage (2005–2016) witnessed the privatization and denationalization of large enterprises, banks, insurance companies, and similar institutions, while the private sector continued to expand [4].

The fourth stage, beginning in 2017, opened broader opportunities for the privatization of relatively large and successful enterprises. The state began selling its shares, and state-owned shares in several commercial banks were also auctioned. These measures were necessary to deepen market relations.

Naturally, such institutional transformations produced significant results. However, the pace of institutional restructuring should not lag behind the dynamics of changes occurring within society and the economy. The changing role and significance of the state in socio-economic and political life, the transition from administrative-command management to market relations, and

the development of public-private partnerships all necessitated further reforms. Harmonizing central and regional (horizontal) governance relations also became one of the pressing issues. All these factors ultimately led to the launch of major institutional reforms at the end of 2022.

The Ministry of Innovative Development was established in response to such an urgent and strategically important process. The reason was that the gap between Uzbekistan and developed countries in the field of innovation and high-tech production had been widening, and many initial opportunities in this sphere had already been missed. Assessing the situation, the President of the Republic of Uzbekistan emphasized: “In order to revive sectors that had previously been neglected and were on the verge of disappearing, it became necessary to establish new ministries and agencies over the course of six years. We were compelled to do so; otherwise, our current achievements would not have been possible.” Only in recent years, owing to serious measures implemented in the field of innovation, has the situation started to improve to some extent, although not completely. For example, the contribution of information technologies — one of the most important segments of innovative development — to the gross domestic product remains at least two times lower than the global average.

Uzbekistan significantly lags behind post-industrial countries in terms of technical and technological development, and without rapid measures this gap is likely to widen even further. According to data from the Organisation for Economic Co-operation and Development (OECD), approximately 5 percent of expenditures on research and experimental design are allocated to high-technology sectors, 2.5–5 percent to medium-high technology industries, 1–2.5 percent to medium-technology industries, and less than 1 percent to low-technology sectors. These are considerable indicators for any country. In the total value of products, expenditures on research and experimental design account for 8.5 percent in science-intensive high-technology industries.

The market capitalization of companies engaged in the production of computers, electronics, information technologies, software, and consumer electronics is exceptionally high. For example, Apple’s capitalization amounts to USD 2.4 trillion, Microsoft’s to USD 1.9 trillion, Alphabet’s to USD 1.5 trillion, and Amazon’s to USD 1.2 trillion. These figures exceed the gross domestic product of many medium-sized countries. Similarly, companies such as Meta, TSMC, NVIDIA, Tencent, Samsung, and Alibaba — specializing in semiconductors, internet advertising, e-commerce, search systems, memory chips, mobile phones, and telecommunications equipment — also demonstrate outstanding performance in this regard. More than 60 percent of global exports of high-technology products are accounted for by China, Hong Kong, and South Korea.

China’s particularly high share in the export of high-technology products (28 percent) is mainly ensured through the production and export of mobile phones, data-processing equipment, memory cards, electronic integrated circuits, audio and graphic signal transmission devices, processors, monitoring equipment, semiconductors, light-emitting diodes, optical instruments, and data storage and processing devices.

Admittedly, Uzbekistan does not yet possess transnational corporations located in innovation hubs comparable to Silicon Valley in California (USA), nor does it have export-oriented free economic zones specialized in the production of high-technology innovative products, similar to those operating in China. Likewise, the country cannot yet take pride in universities comparable to Stanford University in training innovative specialists. Small enterprises and private entrepreneurship alone are insufficient for solving such large-scale challenges. Although they contribute significantly to employment generation, the creation of a competitive environment, and the supply of consumer goods to the market, innovation itself requires substantial financial resources, scientific and technological potential, and a developed research and experimental design base.

In recent years, neighboring Kazakhstan has entered the group of fifteen leading countries in terms of the share of high-technology goods in industrial exports. Approximately a decade ago, such achievements would have been difficult to imagine. Kazakhstan achieved this primarily through a sharp increase in exports of electronic products to Russia. Within a single year, exports of smartphones and processors to Russia increased many times over. In addition, exports of chip-based smart cards, flash drives, memory cards, video and photo cameras, washing machines, and dishwashers also expanded significantly.

There are two primary reasons behind Kazakhstan's anomalous growth in exports of high-technology goods to Russia. First, beginning in March of the previous year, many Western brands withdrew from the Russian market, while numerous European manufacturers voluntarily suspended their operations there. Consequently, the supply of their products to Russia through Kazakhstan assumed the form of parallel imports.

Second, Kazakhstan's membership in the Eurasian Economic Union enables the free movement of goods within the union's territory. Nevertheless, this experience demonstrates the importance of international business being flexible in adapting to market conditions, quickly assessing changing circumstances, and remaining prepared to fill emerging gaps in global markets [5]. Newly established and reorganized economic and social institutions must therefore be ready to respond to such challenges.

Institutions play a significant role in ensuring competitiveness and successful development. The evolution of institutions is an essential condition for balancing the reproduction process, as institutions enable both the state and entrepreneurs to reduce transaction costs and positively influence the economic interests of business entities.

Efficiency is commonly demanded from production enterprises — not merely covering expenditures, but also operating profitably. This requirement is justified, as production must be modernized, expanded, equipped with advanced technologies, and supplied with qualified personnel who receive appropriate incentives. However, similar standards of efficiency should also be applied to institutions.

The concept of efficiency must therefore be characteristic of institutions as well. At the same time, institutional chaos or a vacuum must never be permitted. Decisions adopted in the past cannot easily be abolished overnight, and societies often become accustomed to existing institutional arrangements. This may create an institutional “trap,” which can hinder long-term economic growth.

The question therefore arises: how can the effectiveness or inefficiency of institutions be measured and evaluated? Under market conditions, institutions should be assessed from the perspective of performance outcomes. Institutions function as coordination mechanisms, and their efficiency or inefficiency is determined through institutional meta-competition. If a particular form of economic organization remains stable, it may be considered effective, since stronger and more efficient institutions survive under competitive conditions. Institutions maximize their effectiveness by establishing efficient “rules of the game,” thereby contributing to the welfare of society. Otherwise, they are restructured, modified, or, in some cases, completely abolished. Consequently, it is not difficult to determine which sectors of the national economy operate effectively and which do not.

Since information and communication technologies are among the principal drivers of the new economy, the Ministry of Digital Technologies serves as the leading institutional structure in this field. Naturally, other interested ministries and agencies are also expected to participate actively in this process. One of the institution's key tasks is the implementation of the “Digital Uzbekistan – 2030” program, the development of the e-government system, the expansion of the IT market potential, and the creation of an effective information management system overall.

Therefore, the effectiveness of this institution depends on the extent to which these objectives are successfully achieved. Similar responsibilities naturally exist for other institutions as well.

Conclusion. The institutional transformations being implemented in Uzbekistan represent one of the principal and most significant factors of economic growth and social development. These reforms contribute to improving the business environment through increasing the efficiency of public administration and modernizing legal and administrative systems. At the same time, they strengthen the competitiveness of the national economy by stabilizing the investment climate and creating favorable conditions for investors.

Institutional changes are also aimed at improving the quality of life of citizens by modernizing social services, healthcare, education, and social protection systems, thereby enhancing public welfare. The introduction of digital technologies and innovations, together with increasing transparency and accountability, improves the efficiency of public services and serves as an important instrument in combating corruption.

Thus, institutional reforms directly influence not only economic growth indicators but also social stability, living standards, and the quality of governance. Their success largely depends on strengthening the legislative framework, ensuring the effective functioning of state institutions, encouraging the active participation of the private sector and citizens, and successfully implementing innovative and digital transformations.

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