



How Uzbekistan's Initiative on SMEs' Proliferation Reinforced Uzbekistan's Position on the Global Economic Arena and What Must Be Done for Further SME Internationalization

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Annotation.

The article is devoted to the initiative of Uzbekistan to spread SMEs in strengthening the position of Uzbekistan in the world economic arena. The article provides an analysis of the adopted legal documents that contribute to the development of small and medium-sized businesses. A comparative analysis of Uzbekistan with other foreign countries is made. 5 steps have been developed to further improve the business environment and develop small and medium-sized businesses. Proposals for further internationalization of SMEs are given.

Keywords: internationalization, small and medium businesses, trade, export, control, professional backgrounds, analysis, реформы, effectiveness maximization, production, progress, international market, international trade.

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Introduction

Over the period of independence, driven by political and economic reorganization, Uzbekistan managed to solidify its position on the global economic arena. While it was various complex legal, political and economic processes that made a significant contribution to the overall growth of Uzbekistan's economy, national experts as well as international agencies claim that it was possible due to a growing external trade and a changing export structure. A steady shift from being a country exporting raw materials to an economy with a developed production line of processed goods and end products and services was possible due to Small and Medium-sized Enterprises (SMEs). Organisation for Economic Co-operation and Development (OECD) in its report (2017) demonstrated that SMEs' contribution to Uzbekistan's GDP accounted for 56.9% on 2016, compared to 38,5% on 2005.

In the first place, as a starting point, this article will share the picture of SMEs in Uzbekistan, after which a parallel will be drawn between major reforms initiated by Uzbekistan and their effect on the wellbeing of SMEs. Next part will be responsible for the analysis of SMEs role in

international trade, discuss barriers SMEs in Uzbekistan face as well as compare it with the experience of other countries. In this context, the final part will discuss what goals Uzbekistan has already achieved, what is the room for improvement and what Uzbekistan has to amend, initiate and implement so that SMEs in Uzbekistan could become highly competitive players on the global arena.

Overview of SMEs in Uzbekistan

After a gradual series of reforms committed after obtaining independence, Uzbekistan became the first post-Soviet country to regain pre-independence level of GDP through gas and gold export as well as through maintaining self-sufficiency in oil, gas and food (World Bank, 2017). At the same time, the Uzbek government identified SMEs as a priority in the long term economic development.

Although the share of SMEs in GDP increased, SMEs' role in Uzbekistan's export is still relatively limited. In about twenty-four years after proclaiming independence, SMEs' contribution to Uzbekistan's export was responsible for 21% in 2015, whereas this number reaches 39% on average among EU



members states. Nevertheless, governmental strategies and decrees moved Uzbekistan 13 positions up to 74th rank and top ten in terms of reform progress, with most notable improvements coming from reforms related to business environment (World Bank, 2018).

One of the most notable laws related to the protection of entrepreneurs and SMEs was the Presidential order on the proliferation of SME in Uzbekistan dated 2019. This law provides a complex strategic approach to addressing the problems of barriers SMEs in Uzbekistan usually face. The Presidential order addresses red tape entrepreneurs face when trying to obtain land, connecting it to engineering and communication networks, applying for loans and other financial resources. Privatization or nationalization, unneeded demolition of property conducted by local and national authorities is named as another barriers affecting the wellbeing of SMEs in Uzbekistan.

Another law is the Presidential order on the Reforming Strategy of Banking System of the Republic of Uzbekistan for the period 2020-2025 dated May 12 2020 was aimed at the adjustment in the banking system that would allow SMEs to have a less bureaucratic access to the banking system in order to be able to apply for a loan for developing a business. This law also deals with the implementation of high-tech system into banking operations as well as learning from the experience of leading foreign countries in the area of international trade.

The Problem

Today virtually every state body or local authority is founder of one state enterprise or another: there are 2,541 state-owned enterprises in Uzbekistan, almost half of which (1,210) is a unitary enterprise. He also added that the state's presence in the economy is still high and stands at about 50%, whereas this number is significantly lower in South Korea (22%), Germany (18%), in the USA (11%) and Japan (5%).

Such opinion is backed with the analysis of the performance of Uzbekistan regarding SMEs that relies on European Bank for Reconstruction and

Development (EBRD) report dated 2021. This is worth mentioning that the analysis of the aforementioned report is dated 2021, and it can reasonably be found credible due to the fact two years had passed since the Presidential Order on SME infrastructure in Uzbekistan (2019) came into force.

In this context, it is worth referring to Business Environment and Enterprise Performance Survey (BEEPS), which provided valuable insights to the challenges SMEs were facing in Uzbekistan in 2021. Such barriers still include taxes, access to electricity, access to financial tools, informal competition and low quality of workforce skills, followed by access to land and corruption, among other barriers illustrated in Chart 1 (see in Appendices). Moreover, BEEPS differentiates between an initial grid access and having a reliable power supply. While initial connection speed is higher than average in Central Asia, which benefits SMEs in Uzbekistan, number of outages per month in Uzbekistan reaches the highest number (7.85) compared to 4.68 in Central Asia, and 3.75 in Kazakhstan, which is a rather serious issue that prevents SMEs from maintaining its production line and causes particular harm to online businesses that are heavily dependent on a stable internet connection and electricity, such as SMEs involved in IT (see Charts 2.1 and 2.2 in Appendices). In addition to that, besides the number of outages, EBRD does not share information about the amount of time SMEs stay without electricity per every outage, which leads to high economic damages for SMEs as usually last more than one hour per outage.

Achieved goals, international trade, and what is still to be done to reinforce Uzbekistan's role on global economic arena

Despite the barriers for SMEs' development in the country, Uzbekistan has made a significant progress that can be tracked through e-services for entrepreneurs, red tape, and licensing. To this end, the government introduced e-government services such as a portal of interactive services, which allows business to use the principle of one-stop shop and access



several governmental services in one go without the need to go from one head of department to another. This not only cut the number of required licenses, but also positively affected the percentage of time businesses spend on government regulations. Among Central Asian countries, Uzbekistan is on the second position (6.7%) after Kazakhstan where businesses spend 6.5% of their time for dealing with government services, whereas other Central Asian countries as well EBRD region have 12.7% and 13.9% respectively (see Chart 3 in Appendices). This contributed to a climb Uzbekistan has made to rank 69th of 190 economies in the annual Doing Business reports (World Bank, 2018).

International trade

As the main statistics regarding the place Uzbekistan occupies on the international trading arena was discussed before in this article, this part will focus on obstacles that prevent SMEs from a full-scale integration into international trade. According to the assessment of international economic analytics from OECD and EBRD as well as based on the results of BEEP survey, it can be summed up that Uzbekistan has a significant potential for producing and exporting goods. However, at the same time, the barriers associated with entering international markets go much deeper and usually involve compliance with numerous international instances and procedures, which would require additional efforts, time and financial inputs from the perspective of Uzbek government, not mentioning investments in marketing, targeting audience and identifying suppliers and consumers abroad (EBRD, 2021).

According to the EBRD report, regulations and especially the effectiveness of their execution remain one of the main barriers for SMEs that heavily affect taxes, overall stability of electricity supply across the country, access to finance, informal competition, bureaucracy, skill of workforce as well as corruption and access to land among others. Therefore, it is still right to mention that SMEs in Uzbekistan are immature, fragile and undeveloped.

Obviously, the solution must be the one able to help SMEs enhance competitiveness and reach their full potential from as many perspectives as possible. The following part of the article will discuss steps that can be undertaken by the government and SMEs so that the latter could become part of international trade and make significant contribution to the GDP of Uzbekistan.

For the purpose of this article, 5 steps will be discussed in the context of SMEs' effectiveness maximization.

First step is the one used by OECD Eurasia Competitiveness Programme and includes identifying target sectors and markets through supply and demand analysis. Relying on the analysis on supply (through identifying domestic and international competitors, their market share by revenue or by units sold and strategies as well as analyzing locally manufactured products and comparing them to competitors') and demand (by analyzing local and international consumption trends, consumers' purchasing power and preferences) (OECD, 2017). With this data being ready, the Export Promotion Fund (EPF) should hire experts in targeted sectors and provide them with an access to this database, which would allow the whole system to have a more professional and structured approach to market analysis.

Second step suggests attracting more certification companies into Uzbekistan. Companies and especially SMEs are not mature enough to deal with the cost of certification. However, when this is exaggerated with a limited access to certification services, the real problem occurs. This is the case with SMEs in Uzbekistan as the country cooperates with very few companies, among which are Bureau Veritas, SGS or TÜV SÜD.

The challenges reported by certification agencies are related to general business environment, profit repatriation, currency convertibility, distance between international and local standards in Uzbekistan. The problem, nevertheless, may be solved by organizing study visits of business representatives to Uzbekistan as well as organize training workshops for SMEs



conducted by certification companies' representatives (CCIU, 2017).

Third step is aimed at expanding appearance of representation offices of EPF or Chamber of Commerce and Industry of Uzbekistan (CCIU) abroad and staff them with local experts. As OECD (2017) suggests, hiring professionals from another business environments and professional backgrounds would result in sharing experience, especially in case of hiring employees with an expertise in a particular sector, which is already partly practiced in South Korea, Switzerland and Russia. Besides that, the office must focus on hiring multilingual specialist that are familiar with Uzbekistan's export potential and the host country's demand.

Fourth step is related to the key performance indicator (KPI). In other words, implementing KPI will enable Uzbekistan not only to monitor the progress on a regular basis, but also modify activities depending on what the data shows.

Fifth step suggests that in terms of maintaining control over business environment, the government should consider a shift from state-owned enterprises to Corporations and SMEs, except for strategic sectors such as security, army and others. As it was claimed by the Director of the State Assets Management Agency (SAMA), until 2025, the number of state-owned enterprises in Uzbekistan will be reduced by 75%, which is a rather ambitious plan. The main point that has to be considered is the law and the way it is being implemented on all levels of authority from governmental to local, so that small and medium-sized enterprises could enjoy conducting their businesses under such conditions that promote fair competition, support entrepreneurs from the point of accessing land and registering their businesses to entering international market through obtaining necessary certification and constantly improving standards of manufactured products or services.

Conclusion

To sum up the points that have been discussed before in this article, first of all it must be admitted that it was Uzbekistan that firstly identified SMEs' proliferation as its main driving

force for economic development as a whole and a so-called bridge to developed countries through trading relationships for the purpose of mutual interest. This means that it is in the interest of Uzbekistan to follow regulations EBRD, OECD and other international economic organizations suggest. Moreover, recently, the vast majority of laws regulating economic sector directly or indirectly do positively affect the SME internationalization.

However, the main obstacles national laws were addressing years ago are still to be tackled today. They are red tape, instability of electricity supply, low qualified workforce due to a low quality of practical knowledge in educational institutions, reluctance to invest in inviting international licensing agencies.

Five steps discussed in the final part of this paper have potential to help SMEs in Uzbekistan enter international markets and, what is of utmost importance, strengthen their positions on domestic market.

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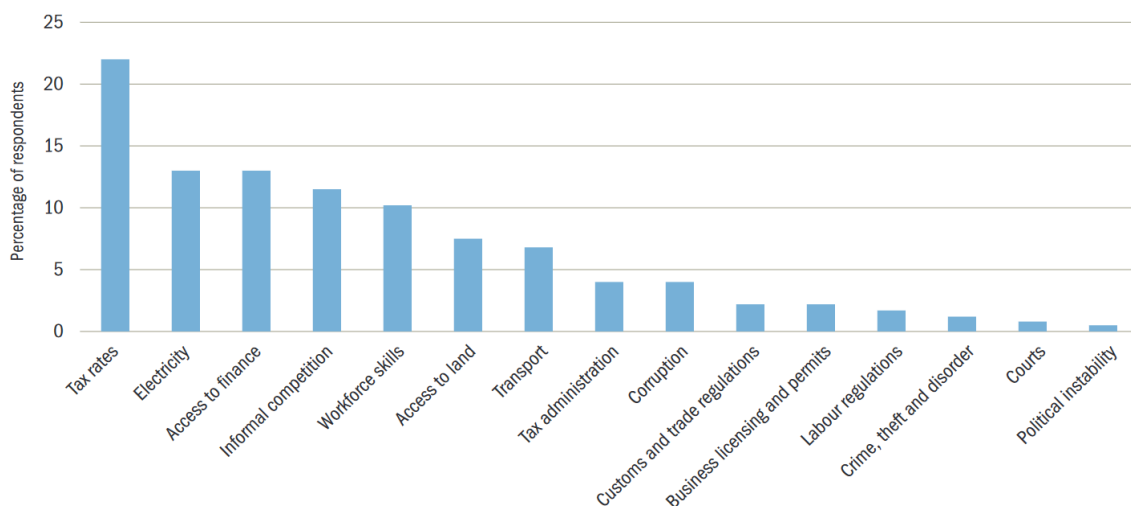
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Appendices

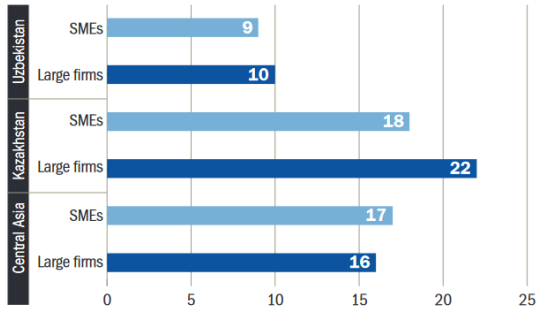
Chart 1: Most pressing challenge SMEs face in Uzbekistan (share of respondents)



Source: BEEPS VI.

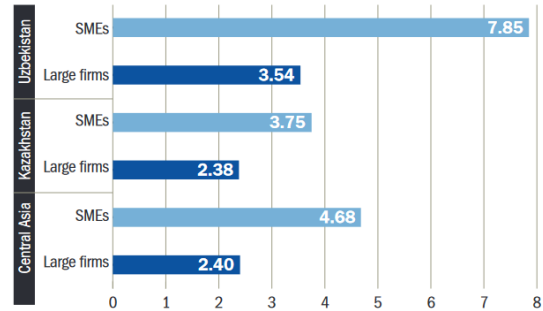


Chart 2.1: Days to connect to grid



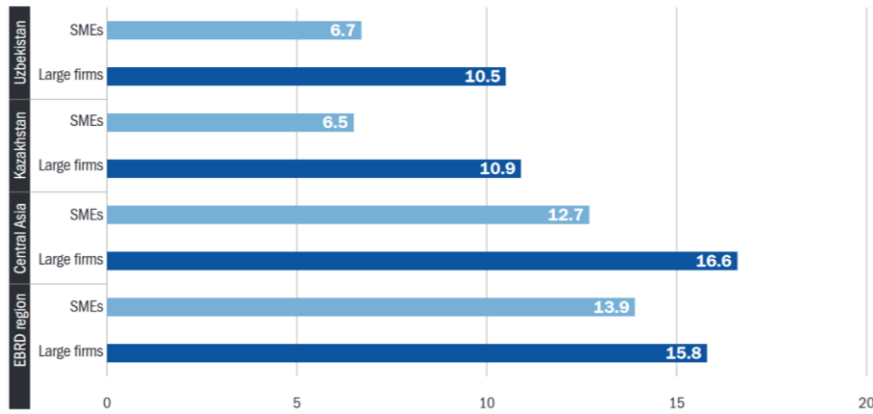
Source: BEEPS VI.

Chart 2.2: Number of outages per month



Source: BEEPS VI.

Chart 3: Percentage of time spent by senior management to deal with government regulation



Source: BEEPS VI.

