

## Uzbekistan's Integration into the International Financial System and its Role in Developing Entrepreneurship

Mamayusupova Shokhina Ulugbek kizi\*

Finance and Accounting Faculty, Tashkent State University of Economics

### ARTICLE HISTORY

Received : 24 Mei 2024

Accepted : 9 Juni 2024

Available Online : 10 Juni 2024

### KEYWORDS

International Integration Associations, Cooperative Relationships, Islamic Financial Assets, Entrepreneurial Entities, Production Infrastructure, Export, Import, Foreign Economic Activity.

### CORRESPONDENSI

Nama : Mamayusupova Shokhina Ulugbek kizi

Email: [shahinamamayusupova28@gmail.com](mailto:shahinamamayusupova28@gmail.com)



Copyright: © 2024 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

### ABSTRACT

*This article discusses the activities of international integration associations, the necessity of developing trade relations with the countries included in these associations, as well as the importance of enhancing cooperative relationships with international financial organizations. The article highlights the increasing connection of our independent republic with major global financial institutions and international Islamic financial funds. Consequently, this development enables Uzbek entrepreneurs to access the global market, produce goods that meet international standards, and ultimately contributes to the economic and social prosperity of the republic. It also explains how small and medium-sized enterprises in Uzbekistan can achieve significant success.*

## Introduction

International financial organizations play a significant role in the global economy. They are involved in allocating funds and providing credit to various countries, assisting in the development of global trade, and stabilizing the financial system. These organizations also play a crucial role in the development of entrepreneurship. Within the framework of the tasks set out in the Presidential decree "On the Development Strategy of New Uzbekistan for 2022-2026," significant simplification of business procedures, improvement of infrastructure, and expansion of financial resources are emphasized to ensure the consistent growth of entrepreneurship ([Mirziyoyev, 2022](#)).

Various programs are being implemented to financially support entrepreneurial initiatives for different segments of the population, including youth, low-income, and vulnerable citizens, as well as small enterprises. For instance, more than 7.2 trillion UZS have been allocated to implement the "Every Family - Entrepreneur" program. Uzbekistan has committed to a more environmentally sustainable development path by setting ambitious environmental targets, introducing a new pollution control system, and creating a national green taxonomy. The government is investing in green energy sources and

implementing measures to improve efficiency in electricity and water usage to adapt to climate change. To address the high population growth and the annual influx of young people into the job market, the country's economic strategy must prioritize robust job creation. Key to this is the continuation of the reform agenda, which includes further market liberalization and increased competition.

Strategic priorities include reducing the economic influence of state-owned enterprises, strengthening land rights, deregulating the telecommunications sector and raw materials trade, and lowering high trade costs by enhancing logistics and connectivity. Additionally, to accelerate job creation and boost productivity, there is a need for increased investment in workforce skill development (Ataniyazov & Alimardonov, 2014). Social and economic systems differ from each other based on their production relations. In turn, new production relations emerge from the level of development of productive forces. The state structure must also align with these new production relations. However, these changes may not occur in the same sequence and continuity in every country as described above. Despite this, the general laws governing this process are not dependent on specific cases. Each social formation and, correspondingly, the state in that system, has a particular financial structure that matches it.

Uzbekistan's economy, which was once characterized by a Soviet-style command system, has been gradually transitioning to a market economy. Since President Shavkat Mirziyoyev's election, the country has experienced rapid economic and social reforms aimed at fostering growth and modernizing its market economy. International Financial Institutions like the EBRD, Asian Development Bank, and the World Bank have actively supported Uzbekistan's reform process, significantly increasing their engagement and presence in the country. Historically, economic policy reforms in Uzbekistan were cautious. During Islam Karimov's administration, currency conversion was restricted, and several government measures to control economic activity, including strict import restrictions and periodic border closures with Kazakhstan, Kyrgyzstan, and Tajikistan, led international lenders to limit or halt their credits (Krasavina, 2007).

Uzbekistan is a leading producer and exporter of cotton. Import bans on Uzbek cotton were imposed in the early 2010s due to international human rights concerns. However, in 2022, the Cotton Campaign and other organizations, including the US Government, lifted all bans on importing Uzbek cotton. Reports from the Organized Crime and Corruption Reporting Project (OCCRP) indicated that, following February 24, 2022, Uzbekistan increased exports of cotton pulp and nitrocellulose, essential for explosives and gunpowder, to Russia. Documents from the Russian Federal Tax Service confirmed that these materials were sold to Russian military-industrial enterprises, which are under sanctions from the US and Ukraine.

Uzbekistan is also a significant gold producer, boasting the world's largest open-pit gold mine, and has substantial deposits of silver, strategic minerals, gas, and oil (Mikhailov, 2000). Significant economic reforms have taken place since Shavkat Mirziyoyev became president in 2016. The liberalization of currency in 2017 facilitated freer flows of foreign currency and the import and export of goods, paving the way for

foreign investment. Tax reforms in 2019 simplified the tax system, promoted company consolidation, and professionalized the private sector. The government is also committed to privatizing State-Owned Enterprises (SOEs), with the anticipated domestic IPO of UzAuto in 2022 ([Avdokushin, 2003](#)).

The Uzbekistan Economic Forum, organized by the Ministry of Finance, annually gathers International Financial Institutions, businesses, government officials, and other stakeholders. The first forum was held in Tashkent, and the second took place in Samarkand. In December 2022, the Uzbek Government secured a loan of nearly US\$1 billion from the World Bank to implement strategic reforms. Today, Uzbekistan's GDP has reached \$146 billion ([Slepov & Zvonova, 2009](#)).

### Literature view

Economist scholars and specialists have discussed their opinions and observations in their research on the activities of international financial institutions with our country and the issues of developing these relations. J.X. Ataniyazov and E.D. Alimardonov, in their textbook "International Financial Relations," emphasize that today, there are very consistent and active cooperation relations with major financial organizations such as the International Monetary Fund (IMF), the World Bank, the European Bank for Reconstruction and Development (EBRD), and the Asian Development Bank (ADB) ([Olimova, n.d.](#)).

The term "global financial market" is interpreted differently by various authors. The difference in the interpretation of the term "global financial market" lies in its broad or narrow definition. However, both broad and narrow interpretations are understood differently. For instance, renowned scholar L.N. Krasavina notes that "global financial markets in a broad sense are the market relations field that ensures the accumulation and redistribution of monetary capital among countries. In a narrow sense, the global financial market is the securities market, that is, the market for operations with securities" [8]. Krasavina classifies global financial markets based on several criteria and from the perspective of market structure:

- Currency markets (including the euro currency market);
- Loan capital markets, which are divided into the money market, capital market, and European market;
- Securities markets;
- Insurance markets;
- Gold markets.

D.M. Mikhailov describes the global financial market from the perspective of the instruments in circulation within it. In his opinion, the global loan capital market and the global financial market are "conceptually similar categories in practical use" ([Mikhailov, 2000](#)). In the global financial market, debt capital, debt instruments, and derivative contracts are traded objects. Furthermore, Mikhailov differentiates the global financial market based on its function (from a practical standpoint), noting that "the international financial market means the direction ensuring the redistribution and accumulation of monetary capital among subjects in the bank instruments market, as well as the interaction

and combination of international and local markets and other financial institutions to achieve the goal of reproducing and balancing demand and supply of capital" (Mikhailov, 2000). The primary function of the financial market (loan capital market) is the transformation of idle funds into loan capital (Yovqochev, 2019a).

It is also worth noting that several authors (particularly V.A. Slepov and E.A. Zvonova) focus on the concept of the financial system rather than the essence of the market in their definitions of the international financial market: "The international financial market is a form of the movement of international finance within certain circles of the international financial system". According to these authors, the concept of the global financial market is broader than the international financial market, including both international and national financial markets, each with its unique features, (singular) distinctions, and independence. The international financial market includes currency, credit, securities, investment, and insurance markets. However, the authors emphasize that this classification is quite conditional, as there is another phenomenon, such as the market for derivative instruments, which can be included in both the currency and credit markets and other markets. These authors' opinion that "a single classification of such a complex phenomenon as the global financial market is not appropriate" should be endorsed.

R.E. Olimova, in her research, discusses the issues of developing financial relations between Uzbekistan and international financial organizations, noting that our independent republic's relations with major financial institutions of the world are strengthening. This, in turn, allows Uzbek entrepreneurs to enter the global market and ultimately improves the economic and social prosperity in the republic (Yovqochev, 2018). R.X. Khojimatov believes that the global financial market (GFM) is a global market where various financial assets circulate, regardless of national borders. Essentially, it is a global financial environment. However, it is not merely a mechanical structure of national markets. The global financial market (GFM) is a combination of various financial instruments circulating in national and international: credit, currency, securities, derivatives, and precious metals markets (Yovqochev, 2019b).

Sh. Yovkochev, in his article "Analysis of the Investment Activity of International Financial Institutions in the Republic of Uzbekistan," discusses the investment activity of international financial institutions in Uzbekistan. He particularly focuses on the investment activity characteristics of international financial institutions. The article analyzes the credit lines provided by the World Bank Group, the Asian Development Bank, and the Islamic Development Bank (Yovqochev, 2019a). The author also analyzes the loans provided by the International Monetary Fund and the International Bank for Reconstruction and Development to member countries. The analysis concludes with a detailed assessment of the current role of international financial institutions in the development of world countries (*Report of the Islamic Corporation for the Development of the Private Sector*, 2020). Additionally, the author discusses economic-mathematical models and the investment characteristics of international financial institutions in his research.

We agree with other authors' opinions that it is appropriate to distinguish between different segments of the global financial market. However, the classification should be multi-level, using various criteria depending on the purpose.

It is known that the Islamic Development Bank Group includes the following organizations: The Islamic Corporation for the Development of the Private Sector (ICD), established in 1999, provides financial services to the private sector. It ensures strategic cooperation for implementing credit lines, consulting, asset management, investment agreements, and other operations on a global cooperation platform. Financing methods include participation in capital and profit, leasing, partial repurchase, and others.

The International Islamic Trade Finance Corporation (ITFC), established in 1999, is an autonomous entity of the Islamic Development Bank. Its main objective is to promote trade to improve the economic conditions and living standards of people throughout the Islamic world. The International Fund for Agricultural Development (IFAD), established in 1977, aims to increase food production and improve the nutrition of the underprivileged in developing countries by mobilizing financial resources. The fund mobilizes funds to improve nutrition, increase production, and incomes in agriculture in low-income rural households.

## **Methodology**

The research design for this article employs a mixed-methods approach, combining both qualitative and quantitative research techniques. This methodology allows for a comprehensive analysis of Uzbekistan's integration into the international financial system and its impact on entrepreneurship development. The qualitative component includes a review of relevant literature, policy documents, and reports from international financial institutions. The quantitative component involves the analysis of economic indicators, financial data, and statistical information relevant to Uzbekistan's economic reforms and performance.

In substantiating the ways of utilizing Islamic finance in the development of entrepreneurship in our country, as well as in the process of justifying strategies aimed at expanding exports, methods such as comparative analysis, studying statistical data, economic comparison and analysis, logical reasoning, scientific abstraction, data grouping, analysis and synthesis, and induction and deduction have been widely used.

## **Result and Discussion**

Along with the successes achieved, a number of unresolved issues remain. Entrepreneurs face difficulties in ensuring access to production infrastructure, credit, and other financial resources. To address these shortcomings comprehensively and swiftly, coordinated cooperation under unified methodological leadership of all levels of state bodies is required. This includes ensuring the operation of private property, financial support for entrepreneurship, and active involvement of broad segments of the population in business activities. The role of international financial institutions in the development of entrepreneurship is very significant.



In the current context, the expansion of mutual relations between countries affects the development of each country's national economy. Considering these relations has become a necessary condition for every state to conduct an effective foreign economic policy. The socio-economic development of countries today is significantly different in nature and content from previous stages. The peculiarity of international financial relations is that these relations embody both national and global economic issues. As a result of the globalization and internationalization of the world economy, the international circulation of goods, services, and especially capital flows is expanding.

The international experience of economic integration provides several conclusions that can be used in the integration processes within the Central Asian Commonwealth. Every entity of foreign economic activity, including small businesses and private enterprises, has the right to own, use, and dispose of the results of foreign economic activity, including income in foreign currency, in accordance with the legislation of the Republic of Uzbekistan.

**Table 1.** The trajectory of Uzbekistan's gross domestic product (GDP) in constant prices

Year	GDP (constant prices)	US Dollar Exchange	CPI (2000=100)
1992	330,042	1 soum	0.07
1995	302,790	36 soum	20
2000	356,325	325 soum	100
2003	402,361	980 soum	166
2006	497,525	1,240 soum	226

This chart illustrates the trajectory of Uzbekistan's gross domestic product (GDP) in constant prices of 1995, as estimated by the International Monetary Fund, with figures presented in millions of soum. Additionally, the chart includes the consumer price index (CPI) as a metric for inflation, also sourced from the International Monetary Fund. Furthermore, it features the end-of-year U.S. dollar exchange rate, sourced from the Central Bank of Uzbekistan's database. For comparisons based on purchasing power parity (PPP) in 2006, the exchange rate of the U.S. dollar is set at 340 soum (Shadybekova, 2018).

Currently, Uzbekistan's prestige and position in the international community and the economic arena are increasing. This is due to the well-developed social and economic development strategy of our country, the clear and correct indication of the goals and objectives of economic reforms, and the ways to implement them, which create opportunities for significant achievements in this direction.

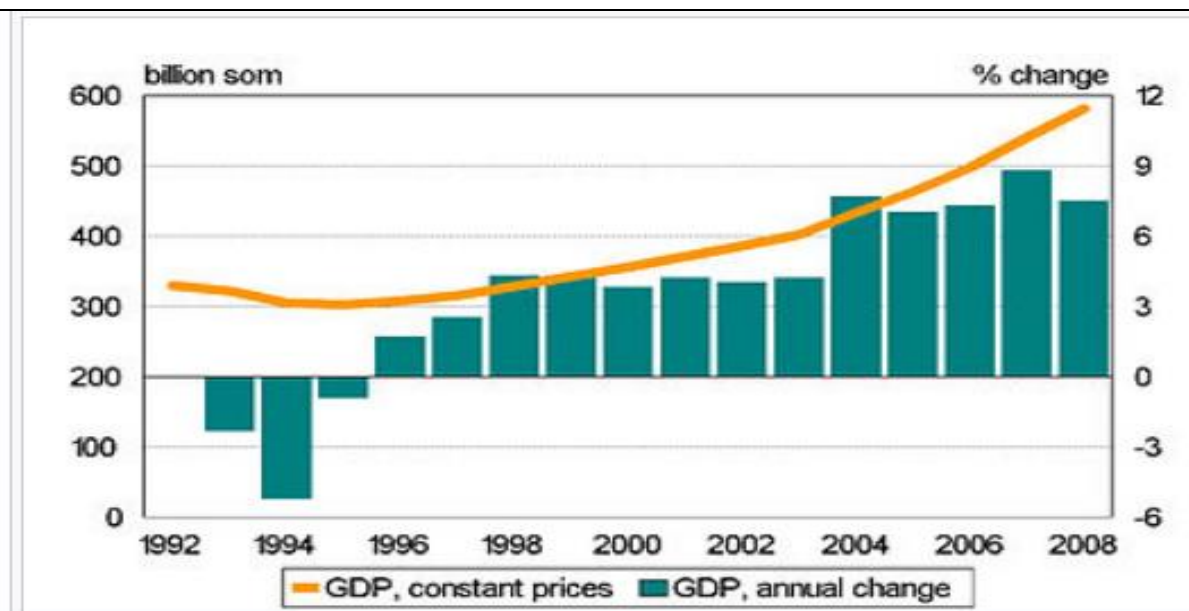


Figure 1. GDP

The minimum wage, public-sector wages, and old-age pensions in Uzbekistan are regularly increased twice a year to prevent inflation from diminishing the base income. Although average wage statistics are not published, pensions serve as a proxy for average wages and have shown significant growth from 1995 to 2006, both in real terms and in U.S. dollars. During this period, the monthly old-age pension increased nearly fivefold in CPI-adjusted soums. In terms of U.S. dollars, the monthly pension was around \$20–\$25 until 2000, then declined to \$15–\$20 between 2001 and 2004, and has now risen to \$64. The minimum wage was set at \$34.31 in November 2011. Based on the assumption that average wages are approximately 3-4 times the monthly pension, it is estimated that in 2006, wages ranged from \$100 to \$250 per month, or \$3 to \$8 per day (Shadibekova & Ismoilov, 2021).

As we know, foreign economic activity is an important tool for the development of the national economy. It represents the country's connections with the world community and determines its prospects. The Commonwealth of Independent States (CIS) countries have accounted for a large portion of foreign trade turnover in recent years. The overall indicators of foreign trade turnover in the past few years were 34.2% in 2017, 36.3% in 2018, 34.6% in 2019, 32.2% in 2020, and 37.7% in 2021, remaining as a major group of trade partners. Within the framework of measures to support foreign economic activity and further strengthen cooperation in this area with CIS countries, the total foreign trade turnover with CIS countries over the past year amounted to \$15.86 billion USD, with exports of \$5.4 billion USD and imports of \$10.46 billion USD, resulting in a passive foreign trade turnover of \$5.05 billion USD (National Statistics).

Enhancing export potential leads to the development of specialized production within the country. The difference between the value of a country's exports and imports, known as the trade balance, is a crucial economic indicator of the effectiveness of foreign

economic activity. This indicator significantly impacts national income levels, as substantial changes in import and export volumes can cause notable fluctuations in income, employment, and price levels within the country.

In recent years, various measures have been implemented to ensure that domestically produced goods are competitive and maintain a strong presence in global and regional markets despite intense competition. These measures include establishing special economic zones and attracting direct foreign investments to create an attractive investment environment in the country's economic sectors.

Significant changes in Uzbekistan's foreign economic activity were observed in 2022 compared to 2021. The foreign trade turnover in 2021 was 7,525.8 million USD. By 2022, the total volume of foreign trade turnover increased to 13,155.8 million USD, marking a 174.8% growth compared to 2021. The trade balance deficit was -2,688.6 million USD in 2021 and improved by 59.9% to -1,610.4 million USD in 2022. In terms of exports, the value of goods sold was 2,418.6 million USD in 2021. By 2022, this figure had increased to 5,772.7 million USD, representing a 238.7% rise. The value of imported goods was 5,107.2 million USD in 2021, which grew by 144.6% to 7,383.1 million USD in 2022.

From the analysis, it can be observed that foreign trade turnover nearly doubled in 2022 compared to 2021. It is noteworthy that despite a negative trade balance of -1,610.4 million USD in 2022, this figure had improved by 1.6 times compared to 2021 (Mirziyoyev, n.d.-a). Consistently implementing these directions in foreign economic activity will enhance the competitiveness of products from small businesses and private enterprises, enabling our country's economy to secure a worthy position in the global economic community.

## Conclusion

Thus, it is necessary to develop our country's activities within international integration associations, mutual trade relations with the countries included in these associations, as well as cooperation with international financial organizations. Currently, our independent republic's connections with major global financial organizations and international funds are strengthening. This, in turn, allows Uzbek entrepreneurs to enter the global market and produce goods that meet international standards. As a result, economic and social prosperity in the Republic will further develop, and our small and medium-sized businesses will achieve significant successes.

## Reference

- Ataniyazov, J. X., & Alimardonov, E. D. (2014). *International Financial Relations*. National Society of Philosophers of Uzbekistan Publishing House.
- Avdokushin, E. F. (2003). *International Economic Relations*. Marketing.
- Krasavina, L. N. (Ed.). (2007). *International Monetary and Financial Relations*. Finance and Statistics.
- Mikhailov, D. M. (2000). *The Global Financial Market: Trends and Instruments*. Exam



Publishing House.

- Mirziyoyev, S. (n.d.-a). *Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Oliy Majlis*.
- Mirziyoyev, S. (n.d.-b). *The Development Strategy of New Uzbekistan for 2022-2026*. National Statistics. (n.d.).
- Olimova, R. E. (n.d.). *Issues of Developing Financial Relations between Uzbekistan and International Financial Organizations*.
- Report of the Islamic Corporation for the Development of the Private Sector, 2020*. (n.d.).
- Shadibekova, D., & Ismoilov, N. (2021). Foreign Investments and Innovative Development is the Most Important Factor in Expanding Uzbekistan's Production Capacities. *ACM International Conference Proceeding Series*.
- Shadybekova, D. (2018). Foreign Investments and Innovative Development is the Most Important Factor in Expanding Uzbekistan's Production Capacities. *Theoretical & Applied Science*, 9, 65.
- Slepov, V. A., & Zvonova, E. A. (Eds.). (2009). *International Financial Market*. Magistr. <http://www.iqtisodiyot.uz>
- Yovqochev, S. (2018). The Role of International Financial Institutions in the Architecture of the Global Economy. *Economics and Business*, 6 (114).
- Yovqochev, S. (2019a). Analysis of the Investment Activities of International Financial Institutions in the Republic of Uzbekistan. *Economics and Business*, 1 (121).
- Yovqochev, S. (2019b). Theoretical Foundations of Economic-Mathematical Models Organizing the Activities of International Financial Institutions. *Economics and Business*, 10 (130).

