

# Economic Modernization And Structural Reform Of Uzbekistan

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## Abstract

Uzbekistan's modernization agenda is anchored in a broad reform program initiated after President Mirziyoyev's 2016 election. Since 2017, the country has undertaken "wide-ranging political and economic reforms" to liberalize markets and improve the business climate. Modernizing and diversifying Uzbekistan's leading industries, while reducing state dominance is the aim. This marks a shift from prior emphasis on cotton cultivation and gold mining. The objective of this paper is to analyze the key obstacles to the modernization of Uzbekistan and to propose feasible and practical solutions across economic endeavors that correspond to Uzbekistan's national development goals and "New Uzbekistan Concept".

**Key words:** Uzbekistan; economic modernization; structural reform; privatization; state-owned enterprises (SOEs); banking sector dominance; small-medium enterprises (SMEs); export diversification; industrial policy; downstream processing; special economic zones (SEZs); WTO accession; global value chains (GVCs).

## Economic structural constraints

Despite market reforms since 2017, economic modernisation in Uzbekistan remains constrained by state dominance in the financial sector. As of October 1 2024, State-owned banks still controlled about 67% of total banking assets, limiting competition and weakening market-based credit allocation (CBU, 2024). As a result, In 2024 Domestic credit to the private sector indicator made up only 33.2% of GDP, restricting access to long-term finance for private firms, particularly SMEs, whereas in advanced and emerging economies this indicator makes up more than 100%.

## Diversification challenges

A second structural constraint is export concentration, which limits resilience and value-added growth. In 2024, Gold \$7.5bn, Services \$7.2bn (From which ICT Service Exports: \$0.6bn ~ only 9%), and Industrial goods (Basic metals like copper, zinc, aluminium products and etc.) \$4.2bn accounted for around 70% of total exports, signalling weak industrial upgrading (International Trade Administration, 2025). At the firm level, the constraint is sharper: despite trade openness rising, trade-to-GDP reached 61% in 2024, only about 6% of firms export, indicating limited participation in global value chains (World Bank, 2025). This weak GVC integration restricts technology transfer and productivity gains, leaving the economy exposed to commodity price volatility.

## SME development issues

By the end of 2024, small and medium-sized enterprises and private entrepreneurship entities accounted for 54.3% of Uzbekistan's GDP, with over 411,000 active firms, indicating a large entrepreneurial base (Statistics Agency of Uzbekistan, 2024). Uzbekistan's goal of building a modern, private-sector economy is currently held back by a major lack of access to long-term finance. This problem has created a substantial \$6 billion financing gap between the \$13 billion in credit that businesses actually need and the limited amount of money banks are willing to lend. The difficulty of getting a loan is clear: the cost of borrowing is incredibly high. With

interest rates averaging around 23.3% in 2025, it is nearly impossible for companies to invest in expensive machinery or long-term projects and still turn a profit.

***Proposed Solutions: Ways and Means of Economic Modernisation***

**Industrial policy**

**Upgrading Resource-Based Industries:** Rather than exporting cotton, gold, natural gas, and other commodities in raw form, Uzbekistan will promote downstream processing. Downstream processing refers to the building and scaling industrial plants that convert raw extractives into finished or semi-finished products with higher added value, for gas, this is done in gas-chemical facilities that turn feedstocks like naphtha/ethane into polymers and other chemicals, rather than exporting them cheaply. Practically, this requires siting these facilities near resource and logistics hubs, such as Kashkadarya for gas-chemicals (Shurtan area) and Almalyk/Ahangaran for copper-based manufacturing, to integrate “mine/gas field → processing plant → manufacturing → export” into a single domestic value chain. Implementation of such, will bring tangible results, natural gas processing will be increased from 8% to 20% of output by developing gas-chemical industries (plastics, fertilizers). Metals like copper will be refined and used in domestic manufacturing; a 2 times increase in copper and ferrous metal products output is targeted. The government will support new metallurgy projects and clusters (e.g. a copper industry cluster) to ensure more of Uzbekistan’s gold, copper, and rare metals are processed locally for higher value exports (Reuters, 2024).

**Developing New High-Value Industries:** The government will identify and nurture emerging sectors that can become new growth drivers. One focus is the pharmaceuticals and medical equipment industry, targeted to grow 3x in output under the 2022–2026 strategy. Another is the electrical and electronics industry, which is planned to double output and triple exports by encouraging assembly of appliances and electronics for both domestic use and export. Uzbekistan will leverage its educated workforce and central location to attract electronics manufacturers and integrate local suppliers into these value chains (Eurasian Research Institute, 2025). Additionally, agribusiness and food processing will receive support, from fruit and vegetable canning to higher-end food products, building on the country’s agricultural strengths. Overall, by 2030 the aim is to raise the share of industrial and “industrial-technological” products in GDP from about 25% today to 32%, and to bring total industrial value-added share to \$45 billion, creating 2.5 million new high-paying industrial jobs in the process.

**Special Economic Zones (SEZs) and Industrial Parks:** Following the example of countries like China and Vietnam, Uzbekistan will establish or expand SEZs and industrial parks targeted at export-oriented manufacturing. These zones offer world-class infrastructure, streamlined regulations, and tax incentives to firms that produce for export. New zones are projected and will be created focusing on specific clusters. For instance, an “Electronics Park” near Tashkent to attract electronics assembly and component firms, or an expanded textile cluster in the Fergana Valley linking cotton growers to garment makers (NSCRU, 2025).

**Privatisation Policy**

Uzbekistan is executing an ambitious privatization agenda, over 2025 and beyond, the government will privatize 100s of enterprises and properties across sectors. This includes outright or partial sales of 115 state-owned companies (worth around \$2.4 billion) in areas such as automotive (UzAuto Motors), telecommunications (UMS mobile operator), oil & gas (Uzbekistan GTL plant), machinery, banking/insurance and others. Shares of 29 large enterprises are being offered via international auctions, using reputable advisers to ensure transparency. Crucially, a moratorium on establishing new State owned enterprises until 2030 (except for defense or special cases) is in place, signaling that the era of expanding state-owned companies is over. By 2030, the majority of economic activity should be in private hands, where 70–80% of GDP is generated by the private sector.

The share of banking assets in private banks is expected to rise from only 20% a few years ago to 60% by 2025. Several state banks (e.g. Ipoteka Bank, which was among top 5) have

already been privatized. With support from partners like EBRD, remaining large state banks (Asaka, Aloqabank, etc.) are being readied for sale or IPO. By 2030, a largely privately-owned, competitive banking system is expected, improving allocation of credit to SMEs and innovative projects (Presidential Decree No. УП-70, 2025). To ensure success and public trust, Uzbekistan is adopting international best practices in the sale of state assets. For instance, The State Assets Management Agency is collaborating with global financial institutions and consultants. The adoption of International Financial Reporting Standards for SOEs, along with independent audits, is improving financial transparency.

### **Investment and trade liberalisation**

Investment and trade liberalisation focuses on concrete levers, particularly on WTO accession. Uzbekistan's WTO accession has entered an advanced phase, with noticeable negotiation progress reported by the end of 2025, signalling movement toward rules-based trade integration (WTO, 2025). Domestic legislation has been aligned accordingly, improving predictability for exporters and investors (U.S. Department of State, 2025). Coherently, Uzbekistan is pursuing to expand its network of trade partners (increase the number of export destination countries from 115 currently to 150+ in the coming years), thereby ensuring its producers have access to larger markets and can source inputs at competitive prices.

### **Conclusion: Expected outcomes and implications**

Anticipated outcomes of Uzbekistan's modernization are concrete and measurable. Economically, success should show up in reducing the number of enterprises with state ownership sixfold by 2030, and a higher flow of market-based credit to firms, enabling SMEs to invest despite currently high borrowing costs. Industrial modernization should be reflected in value-chain upgrading: increasing gas processing from ~8% to 20% and expanding higher-value metallurgy output, targeted 2 times growth in copper and ferrous metal products, with export gains coming from processed goods rather than raw commodities.

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