

THE ROLE OF SMALL BUSINESS AND INDUSTRY IN THE ECONOMY OF UZBEKISTAN

Butayev Dovlatali Inomovich

researcher at National University of Uzbekistan named after Mirzo Ulugbek,

Tashkent, Uzbekistan

Abstract. *The article discusses the role of small business and industry in the economy of Uzbekistan. The share of small business entities in GDP and employment is analyzed, and the growth rate of the share of small business entities in sectors of the economy is studied.*

Keywords: *small business, GDP, industry, development of private entrepreneurship, sectors of the economy, economic potential.*

1.Introduction

In the context of modern economic development, small business and private entrepreneurship have emerged as vital drivers of sustainable growth, employment generation, and innovation. For countries undergoing economic transition, such as Uzbekistan, the development of small business and industry plays a crucial role in ensuring structural transformation, increasing competitiveness, and achieving inclusive socio-economic progress.

Since gaining independence, Uzbekistan has consistently prioritized the promotion of small and medium-sized enterprises (SMEs) as a key pillar of its national economic policy. The government has implemented a wide range of reforms aimed at liberalizing the economy, improving the business climate, and fostering private sector participation. As a result, the share of small business in GDP, employment, and industrial output has steadily increased, making it a cornerstone of the national economy.

The relevance of this topic is underscored by ongoing efforts to diversify the economy, reduce dependency on raw material exports, and enhance regional development. Small business and industry are not only instrumental in creating new jobs and increasing household incomes but also in stimulating innovation, promoting local production, and contributing to the development of competitive value chains.

This paper explores the current state, dynamics, and economic significance of small business and industry in Uzbekistan, while identifying key challenges and opportunities for further development in the context of national and global economic trends.

2. Literature Review

The theoretical and methodological foundations of the development of small business and private entrepreneurship and ensuring their stability, as well as issues of improving their management mechanism, are widely covered in the works of foreign economists J.B.Sey, A.Smith [2], R.Cantillon [3], J.Schumpeter [4], R.Hizrich [5], M.Peters, A.Hosking, R.Akoff [6], L.Vodacek, P.Drucker, L.Mizes, F.Hayek, E.Hargadon, and others.

Scientists from the CIS countries L.I.Abalkin [7], D.V.Khodos [8], G.S.Seyalova, [9] V.V.Radaev [10], L.G.Sharshukova and A.V.Busygin conducted research on the essence, theoretical foundations, and territorial features of small business and private entrepreneurship.

Theoretical aspects of the development of small business and private entrepreneurship in Uzbekistan have been studied in the scientific works of domestic economists M.Sharifkhodzhaev [11], S.S.Gulyamov [12], Yo.Abdullaev [13], B.Yu.Khodiyev [14], M.S.Kasimova, Sh.N.Zaynutdinov, N.K.Yuldashev, M.R.Boltabaev [15], N.M.Makhmudov, S.K.Salaev, [16], Sh.Ergashkhodzhaeva, U.V.Gafurov, O.Kazakov, K.Kurpayanidi, M.Ashurov.

3. Analysis and results

A number of countries around the world are taking the necessary measures to reduce the generation of solid household waste and the reuse or recycling of products. For example, the Netherlands aims to reduce resource use by 50% by 2030 and fully transition to a closed-cycle economy without waste by 2050. In France, a roadmap for a closed-loop economy has been developed, which includes 50 measures for the transition to a 100% closed-loop economy.

Comprehensive and targeted program measures are being implemented for the qualitative accelerated development of the textile industry as an important sector of the country's economy. In this regard, the Development Strategy of New Uzbekistan for 2022-2026 sets as the 29th goal such tasks as "Creating conditions for organizing entrepreneurial activity and forming permanent sources of income, increasing the share of the private sector in the gross domestic product to 80 percent and in exports to 60 percent." The effective implementation of these tasks requires improving the implementation of the concept of cost-effective production at small business enterprises in our country. [1]

A promising direction of development is the digitalization of small businesses. The plans for the digital transformation of small businesses for 2025 are aimed at significantly increasing their operational efficiency and competitiveness in the market.

The data in the table below, if they reflect the share (%) of small business in the country's gross domestic product (GDP), then the analysis of the positive trend clearly shows that the small business sector is growing in the country and in some regions.

In the Republic of Uzbekistan, the share of small business in GDP was 60.8% in 2010, and by 2015 it increased to 64.6%. This shows the effectiveness of the economic reforms carried out at the country level to support small businesses and form their institutional and financial foundations. Although a certain decrease in the overall indicator has been observed in recent years, in some regions, a stable or growing trend in the small business sector has been maintained, which demonstrates positive economic changes.

Table 1
Share of small business entities in GDP, in percent

Territories	2010	2015	2020	2021	2022	2023
Republic of Uzbekistan	60,8	64,6	57,5	56,9	54,6	54,3
Republic of Karakalpakstan	60,7	69,7	62,3	61,4	61,8	64,6
Andijan region	69,1	78,5	72,7	74,6	69,6	68,6
Bukhara region	64,5	77,4	76,6	77,1	74,1	72,5
Jizzakh region	79,4	83	84,1	81	78,7	75,3
Kashkadarya region	61	63,2	74,1	71,8	70	70,5
Navoi region	40,6	51	27,8	29,2	27,9	28,1
Namangan Region	72,1	78,7	76,3	76,2	74,7	74,3
Samarkand region	80,5	80,2	75	74,3	70,8	72,3

Surkhandarya region	74	77,4	78	78,4	77,9	77,4
Syrdarya region	74,2	75,1	73	71,2	67,8	65,9
Tashkent region	64	66,5	52	48,2	49,4	52,2
Fergana region	64,9	69,7	73,3	72,4	71,6	72,2
Khorezm region	77,5	77,1	77,4	75,8	71,9	72,7
Tashkent city	64	66,7	53,6	51,1	51,2	51,7

In particular, in the Republic of Karakalpakstan, if in 2010 the share of small business in GDP was 60.7%, then by 2024 this indicator increased to 65.8%. This shows the effectiveness of infrastructure, tax, credit, and personnel policies aimed at developing small business entities in this region. This trend may be associated with the growth of regional economic activity in Karakalpakstan, the expansion of opportunities for self-employment of the population, and an increase in the share of local production.

Also, positive dynamics were observed in the Andijan region from 2010 to 2024. If in 2010 the share was 69.1%, then in 2024 it increased to 69.5%. Such stability is explained by the effective diversification of small businesses in this region by sectors, the introduction of business models aimed at meeting the demand of the local market, and the development of small industrial zones and clusters. The demographic density of the population in the Andijan region also provides high market potential for small businesses.

The trend in the Surkhandarya region deserves special attention. The indicator, which was 74% in 2010, grew to 77.8% in 2024, becoming one of the highest in the country. This indicates the activity of small businesses in the region, especially in the agro-industrial, trade, and service sectors. Tax incentives, support for the processing of agricultural products, and measures to expand export potential contributed to increasing the share of small businesses in GDP.

Also, in the Fergana region, the indicator grew from 64.9% in 2010 to 73.1% in 2024, which indicates the active processes of supplying the domestic market, creating value chains, and widely involving the population in micro-business through small businesses.

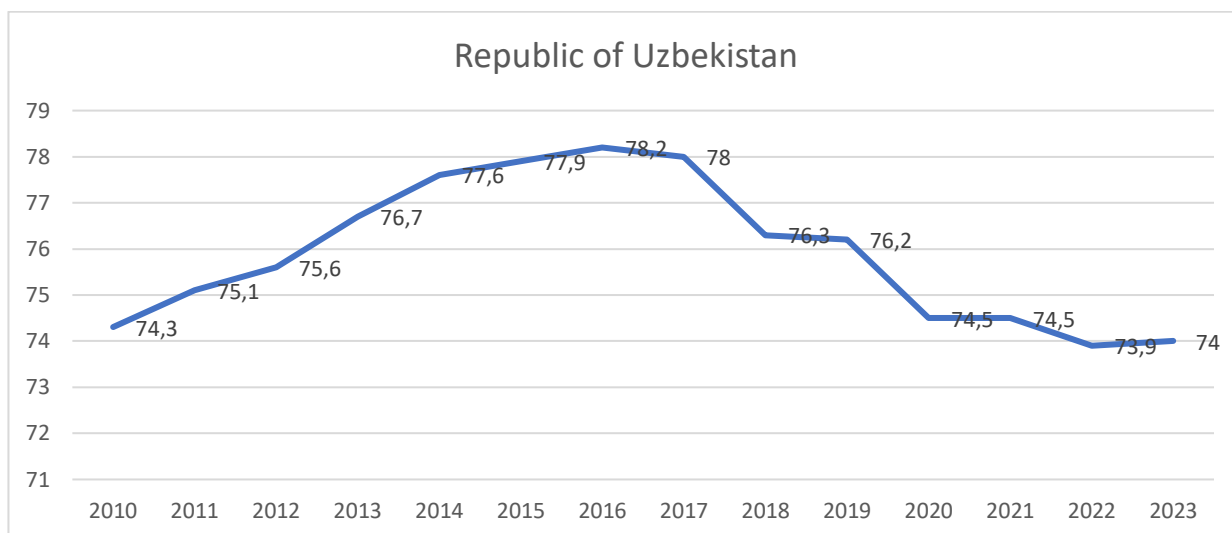


Figure 1. Share of small business entities in the total volume of employment, in percent

As can be seen from the figure, the share of small business entities in total employment in our country is dynamic. If the average growth rate was high in the range of 60-64 percent in 2010-2015 and 75-76 percent in 2014-2018, then in 2023 this indicator was 74.0 percent. Of course, the complex situation in the world should not be overlooked, which has a negative impact on the economies of all countries of the world, including Uzbekistan.

It is noteworthy that, despite difficult external economic conditions, the country managed to maintain stable growth dynamics of key macroeconomic indicators, including GDP, as well as to maintain a significant and steadily growing share of the small business sector in the economy. This result was achieved thanks to a balanced and systematic approach to implementing economic policy, taking into account both current threats and long-term development priorities. It is especially noteworthy that small businesses not only did not lose their position during the crisis, but also continued to increase their contribution to the economy, thereby demonstrating their stability and having great potential for further development. This testifies to the correctness of the chosen path of supporting entrepreneurship and creating favorable conditions for its activity even in the most difficult periods of economic instability. The significance of small business and private entrepreneurship in the main sectors of the national economy can be analyzed using the data of the following table (Table 2).

Table 2

Growth rates of the share of small business entities in sectors of the economy of the Republic of Uzbekistan, in percent

Network	2010	2015	2016	2017	2018	2019	
Industry	26,6	40,6	45,3	41,2	37,4	25,8	
Agriculture	97,4	98,0	98,6	98,5	98,3	97,9	
Construction	52,5	66,7	66,9	64,8	73,2	75,8	
Trade	85,1	87,1	89,6	88,4	86,3	83,6	
Occupancy	74,3	77,9	78,2	78,0	76,3	76,2	

As a result of the expansion of small business and private entrepreneurship, an increase in production volumes is also observed in other sectors of the economy. In particular, the share of this sector in industry was 26.6% in 2010 and reached 27.0% in 2021. Growth was observed in agriculture from 97.4% to 96.9%, in trade from 85.1% to 81.2%, and in construction from 52.5% to 72.4%. The share of small businesses in the employment sector also increased from 74.3% to 74.4%.

The conducted research shows that there are natural limits for the share of small enterprises in the total volume of production. Although small businesses are able to demonstrate rapid growth when favorable conditions are created, after reaching a certain level, this process inevitably transitions to a stage of uniform progressive development. In this case, the dynamics of changes in the share of small businesses is largely determined by the production indicators of large industrial entities.

According to statistics, agriculture remains the leader in the representation of small business and private entrepreneurship. This is explained by the peculiarities of the agricultural sector, where small-scale production is often economically feasible. The trade sector takes second place - here small enterprises face limited access to resources and unequal competitive conditions compared to large companies, forcing them to focus mainly on trade and intermediary operations. According to experts Konshina and Dudina, the lack of a well-thought-out system of state support, chronic funding shortages, and difficulties in accessing the necessary resources significantly reduce the competitiveness of small businesses.

In the construction industry, small businesses occupy a stable position with a share of 66-75%, which is largely due to the active construction of small industrial facilities and the housing

stock. The steady growth of the share of small enterprises in the industrial sector by 2016 was 45.3%, however, starting from 2017, this indicator began to gradually decrease to 27% by 2021. Such a trend is probably the result of structural changes in industry, the strengthening of the position of large manufacturers, and an increase in the efficiency of production processes as a whole.

Improving the mechanisms for using the economic potential of small business enterprises in Uzbekistan requires, first of all, an analysis of the current situation and opportunities in this area.

Development of a development strategy for small business entities during an economic crisis is the most important requirement of the current economic period. Usually, the economic and financial indicators of an enterprise are reflected through the performance indicators of enterprises by industry and sphere. When conducting this analysis, it is advisable to consider the level of activity of enterprises registered in our country as one of the necessary indicators (Table 3).

Statistical data show that not all officially registered enterprises continue their activities in full. This is especially true in the sphere of small business, where a large number of companies cease their activities for various objective and subjective reasons.

Nevertheless, a thorough analysis of these factors and the development of targeted measures will allow for a significant impact on the situation. The dynamics of registration of small enterprises shows stable growth during the analyzed period - at the beginning it was 309.2 thousand (average annual growth was 23.8 thousand), but this process developed unevenly. This can be clearly seen in the annual growth rates: 108.7% (2010), 103.5% (2015), 102.2% (2016), 99.8% (2017), 107.5% (2018), 114.0% (2019), 128.1% (2020), 123.5% (2021), 111.9% (2022). However, the increase in the number of inactive small businesses in 2023 led to a decrease in their level of activity.

Table 3

**Level of activity of small business enterprises registered at the republican level
(excluding farms and dehkan farms)**

Indicato	2010	2015	2016	2017	2018	2019	2020

To the	179693	221140	225998	225560	242379	276237	
Activity	152246	196014	207104	210594	229666	262930	
Activity	27447	25126	18894	14966	12713	13307	
Activity	84,7	88,6	91,6	93,4	94,8	95,2	

Also, the results of the analysis show that the share of enterprises operating in our country in relation to the total number of registered enterprises is increasing every year. In particular, while this indicator maintained stability during 2010-2019, after 2019 it was around 94.0 percent. This, on the one hand, indicates the effectiveness of measures aimed at stimulating the reopening of newly created enterprises, and on the other hand, means the reopening of previously registered, but inactive enterprises. If in 2010 there were 27.4 thousand or 15.3 percent of inactive enterprises, then by 2022 this figure decreased by 5.3 percent and amounted to 26.1 thousand.

Studying the territorial distribution of inactive small businesses reveals an interesting geographical feature. The largest concentration of such enterprises is observed in the capital (Tashkent - 4,138), as well as in Khorezm (3,719), Fergana (3,058), Tashkent (2,406), and Syrdarya regions. At the beginning of 2022, the total number of inactive small business entities in the republic amounted to 26,102, which requires special attention from regulatory bodies.

Small businesses and private entrepreneurship are integral to Uzbekistan's economic development, significantly contributing to GDP, employment, and sectoral diversification. As of April 1, 2025, the country hosted 372,887 small business entities, marking a 4.1% increase since the beginning of the year .

GDP Contribution: In 2024, small enterprises accounted for 54.3% of Uzbekistan's GDP, maintaining their substantial role in the national economy .

Employment: Small businesses provided employment for approximately 73.9% to 76.2% of the workforce between 2019 and 2023, underscoring their significance in job creation .

Sectoral Impact: These enterprises were responsible for 84% of retail trade turnover, 76.5% of construction work volume, and 95.2% of agricultural production in 2024 .

Exports: Small businesses contributed between 20% and 33.3% to the country's exports, particularly in textiles and agriculture, reflecting their growing integration into global markets.[18]

Despite their pivotal role, small businesses in Uzbekistan face challenges such as limited access to finance, regulatory complexities, and the need for technological advancement. Addressing these issues through enhanced state support, financial accessibility, and regulatory reforms is crucial for sustaining and expanding the sector's contribution to the economy.[17]

Small businesses and private entrepreneurship are vital to Uzbekistan's economic structure, driving growth, employment, and diversification. Continued support and strategic reforms are essential to harness their full potential and ensure inclusive economic development.

4.Conclussions

Statistical studies confirm a direct link between state support measures for entrepreneurship and the quantitative growth of small businesses in the country. Of particular interest is the analysis of the effectiveness of using the economic potential of this sector, where the main indicators are investment and innovation activity indicators. At the same time, it is necessary to consider the dynamics of investments in fixed assets - a stable positive trend is observed in the period under study: from 4745.8 billion soums in 2010 to 6622.4 billion soums in 2015 to a record 78960.2 billion soums in 2021. Such a multiple increase in investment investments testifies to the growing role of small business in the economy and confirms the effectiveness of measures taken by the state to stimulate entrepreneurial activity. At the same time, the qualitative component of these investments - their sectoral distribution and innovative orientation - deserves special attention, which ultimately determines the real contribution of small businesses to the economic development of the country.

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