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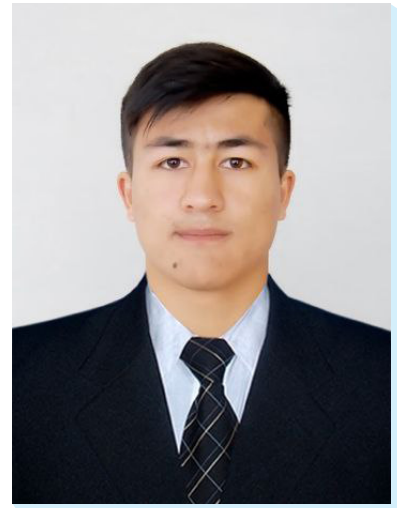


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# THE IMPORTANCE OF STATE SUPPORT FOR LOCALIZATION IN COMMODITY PRODUCTION AND THE MEASURES TAKEN IN THIS DIRECTION IN UZBEKISTAN



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**Abstract:** For any country that has chosen a market economy as its priority, comprehensive support for small business and entrepreneurship determines the bright future of this country. In achieving this goal, the government should pay special attention to the policy of localization of production of goods. Deeply realizing the importance of localization of production of goods, over the past 8 years, Uzbekistan has not only invested significantly in localization, but also implemented support measures such as subsidies, preferential loans and tax exemptions, and as a result, Uzbekistan's export potential increased by two and a half times in the period from 2016 to 2023, amounting to \$ 24.07 billion [1].

**Key words:** Localization, import, export, investment, GDP, tax breaks, soft loans.

## INTRODUCTION

As globalization progresses at a large scale, the strategic trade-off between importing and localizing products can pose a number of challenges for businesses trying to enter global markets [2]. It is recognized that localization provides a way to complement the nuances of the local market, and this process has the potential to foster strong consumer relationships and sustainable development [3,4]. This research study examines the strategic and imperative importance of localizing products and their ability to meet market demands, as opposed to import-first approaches, and their broader impact on economic development and sustainable long-term business growth.

While state support and promotion of the localization of goods is an effort that any country can make to ensure sustainable growth, it also requires an understanding of the potential opportunities and challenges of developing the capabilities of the local production process. Localization is considered a priority over imports in terms of content and essence, and it represents a strategic reorganization of the economic process aimed at self-sufficiency in the country's territory, sustainable development. Localization of goods and services involves the effective implementation of an ecosystem that promotes local technological expertise, the development of local supply chains, and the promotion of local enterprises[3].

## LITERATURE REVIEW ON THE TOPIC

According to economists and politicians state support to the localization of productions has potential to enhance economic progress, create jobs and reduce reliance on foreign manufacturers. Regarding to certain surveys, localization is bound to be backed up by the government and this is credited as important for the the economy. Furthermore, it ought to be stated that state support to measures taken to foster localization has tendency to reduce reliance on the products which are imported and it is fundamental to grant support to local production in a developing country. The core of this research – primary data have been gathered through deep approaches. In this research work, the importance of state support for localization in the production of goods was studied in detail, and methods such as data analysis and synthesis were used.

## RESEARCH METHODOLOGY

In this article analysis and results, comparative analysis, induction and deduction methods are used

## ANALYSIS AND RESULTS

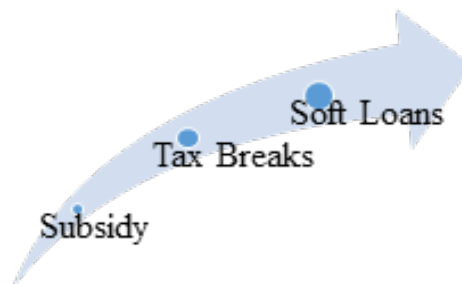
Providing an opportunity for local production of goods and services has the potential to promote economic stability by reducing dependence on global supply chains in a number of situations [5]:



Picture 1

It is worth noting that by supporting local production, the state has the potential to insulate itself from external influences, thereby ensuring a stable and predictable supply of essential goods and services [6]. In addition, local production of goods and services not only allows for the creation of local jobs in various areas, from research and development to logistics, but also promotes an inclusive distribution of wealth [7]. In addition, the process of localization creates the opportunity to ensure innovative and technological growth by providing local enterprises with the conditions to increase knowledge in a specific area, adapt technologies to local conditions, and participate in research initiatives.

The government can implement a number of policy-based strategic measures to effectively support the localization of goods and services for local producers, including:



Picture 2

In order to support the localization of goods and services, the state can implement measures to expand local production capacity and reduce the financial burden of organizing it, in addition to using financial incentives such as subsidies, tax breaks, and low-interest loans. It is worth noting that the above-mentioned tools may not be enough to localize goods and services, and the first factor for this is likely to be the shortage of skilled labor, in which case investment in education and training programs is very important. To further facilitate the localization process, the state can facilitate the efficient movement of goods and information by investing in infrastructure such as transport networks, energy networks, and communication systems [8]. The state should establish certification and quality standards to increase the competitiveness of locally produced goods and services and ensure their compliance with international requirements. Government prioritization of local goods and services can create sustainable demand for local producers, stimulate innovation and investment [9]. Improving linkages between research institutions, government agencies and industry associations can accelerate the transfer of knowledge and technology, bridging the gap between research and commercialization.

Higher labor costs, regulatory burdens, and limited access to specialized materials for domestic producers compared to foreign competitors can lead to higher prices for domestic goods and services for consumers, which in turn reduces consumers' purchasing power. To prevent this from happening, the government should introduce the aforementioned fiscal incentives and fiscal burden-reducing measures, otherwise local enterprises may fail to develop and face a crisis, which may ultimately have negative consequences for the country's economic situation. In order to prevent consumers from preferring imported goods as brands, the government should

invest in enterprises to promote the advantages of domestic goods and services and inform the public about their importance to the country's economy, environment, and society [10]. To prevent domestic manufacturers from being able to replicate the range and complexity offered by global suppliers, the government should invest in effective research and development in localization and improve the mechanism to encourage cooperation with international organizations with advanced manufacturing capabilities. The government should also avoid protectionist policies while implementing policies that are consistent with international trade requirements [11]. The implementation of the localization system is considered to be a factor in the negative environmental, economic, and health impacts of imported goods over a long period of time and consumers should support it by preferring domestic goods and services. Examples of this include countries such as Germany, China, and Japan, which are very keen on the development and promotion of their domestic goods and services. Because consumer preference for national goods and services drives the sustainable development of these goods and services.

Localization requires understanding the specifics of any market and adapting the product offering accordingly. This can be done by making changes to the specifics of the product, packaging, labeling, and advertising to suit the tastes and cultural norms of the local population [12]. That is, localization can be achieved by understanding and respecting the needs and values of consumers and establishing a good relationship with them.

Any country that has chosen the path of a market economy pays serious attention to the issue of localization, and Uzbekistan is no exception in this regard, namely, Uzbekistan has been implementing a number of strategic measures in recent years to localize goods and services in its national economy in order to reduce dependence on imports and develop a self-sufficient industrial system. Today, expanding the country's production capacity in a number of areas, including automotive, textile, pharmaceutical, and construction materials, is one of the state's important tasks. These efforts are determined by policy interventions aimed at directly attracting foreign investment, as well as measures to support the production capacity of local enterprises, stimulate investment processes, and improve infrastructure. Localization includes not only import substitution, but also increasing the competitiveness of goods produced in Uzbekistan in both the domestic and global markets and integrating the country into the global value chain [13]. In addition, in order to support localization in Uzbekistan, preferential loans, tax exemptions, and customs clearance are provided to enterprises that invest in local production and use local raw materials [14].

In recent years, industrial clusters have been introduced to ensure strategic development of agriculture, mainly in order to increase competitiveness and ensure food security. The automotive industry, established in Uzbekistan after independence, serves as a successful example of localization policy [15]. The government has not only focused on localization policy, but has also implemented a number of practical measures to improve the regulatory environment, eliminate red tape, and ensure fair competition by creating a level playing field for both domestic and foreign businesses. As evidence of this, a number of measures have been implemented to date to simplify customs procedures, simplify licensing procedures, and ensure the protection of intellectual property rights.

Uzbekistan, aiming for sustainable development and efficiency, prioritizes the modernization of the agricultural sector through the effective use of automated equipment and technological equipment, since the agricultural sector is still the main source of income for the country and ensures food security, and a deep focus on innovation and its application in the agricultural sector is considered an effective means of increasing production efficiency and reducing costs in this sector [16]. The country is also paying close attention to logistics infrastructure. Since solid logistics plays an important role in supporting the efficient movement of goods and the sustainable growth of local production ("Strategy for the operation of logistics companies in Uzbekistan", 2019).

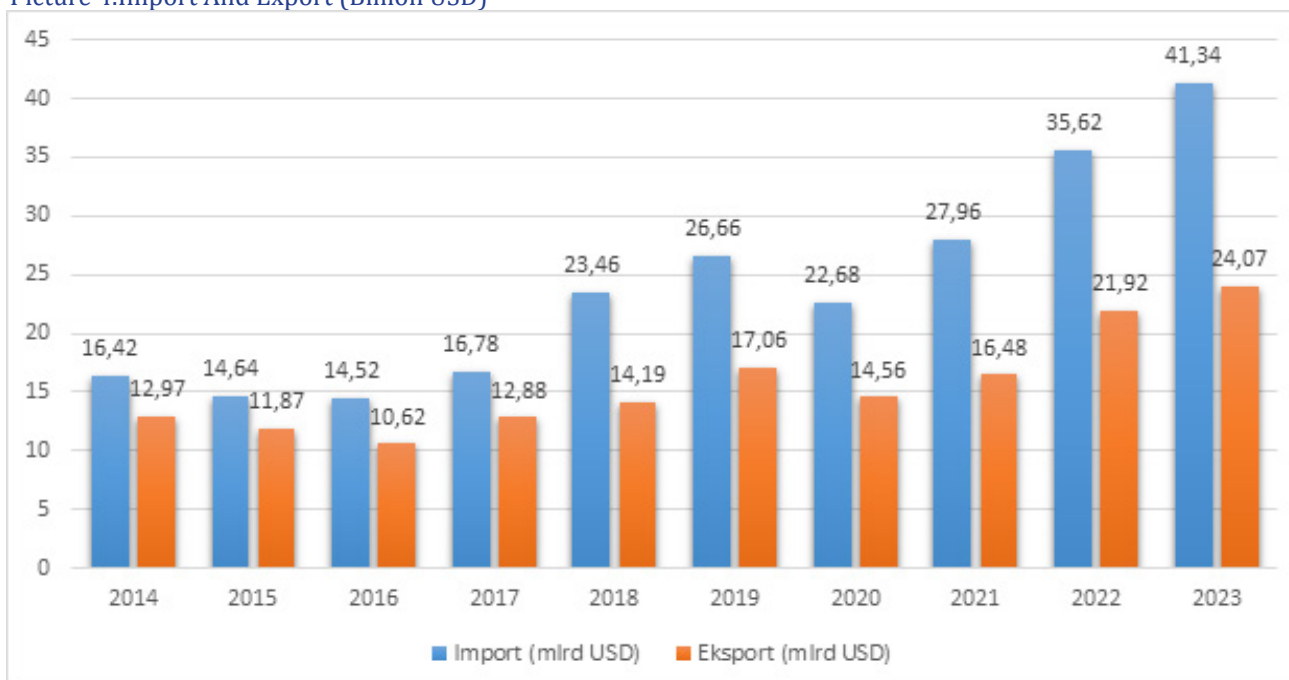
In addition, special attention is paid to the development of human capital in order to effectively implement the localization policy in Uzbekistan. Consequently, the government is investing heavily in ensuring that employees acquire the skills and knowledge necessary to effectively use and manage modern production facilities. This requires strengthening cooperation between industry and educational institutions to ensure that curricula meet the requirements of the labor market. In recent years, the banking sector in Uzbekistan has been modernized, giving priority to digital technologies in order to develop competitiveness and strengthen economic growth [17] and at the same time, the government's guarantee of the legal framework of banks increases the investment activity of banks, while also ensuring the modernization of the economy and financial support for small business activities [18]. In each country, attention is paid to the sustainable development of entrepreneurial activity. Because entrepreneurial activity is the most priority sector for any country that has chosen the path of a market economy. Below is a summary of the efforts made to develop the economy in Uzbekistan in recent years [1].

Picture 3. Uzbekistan's GDP (USD) and its annual growth rate (in percent)

Year	GDP (billion USD)	Annual rise (%)
2014	80.85	+10.48 %
2015	86.20	+6.62 %
2016	86.14	-0.07 %
2017	69.70	-19.09 %
2018	58.70	-15.78 %
2019	67.29	+14.63 %
2020	66.44	-1.26 %
2021	77.34	+16.41 %
2022	90.10	+16.50 %
2023	101.59	+12.75 %

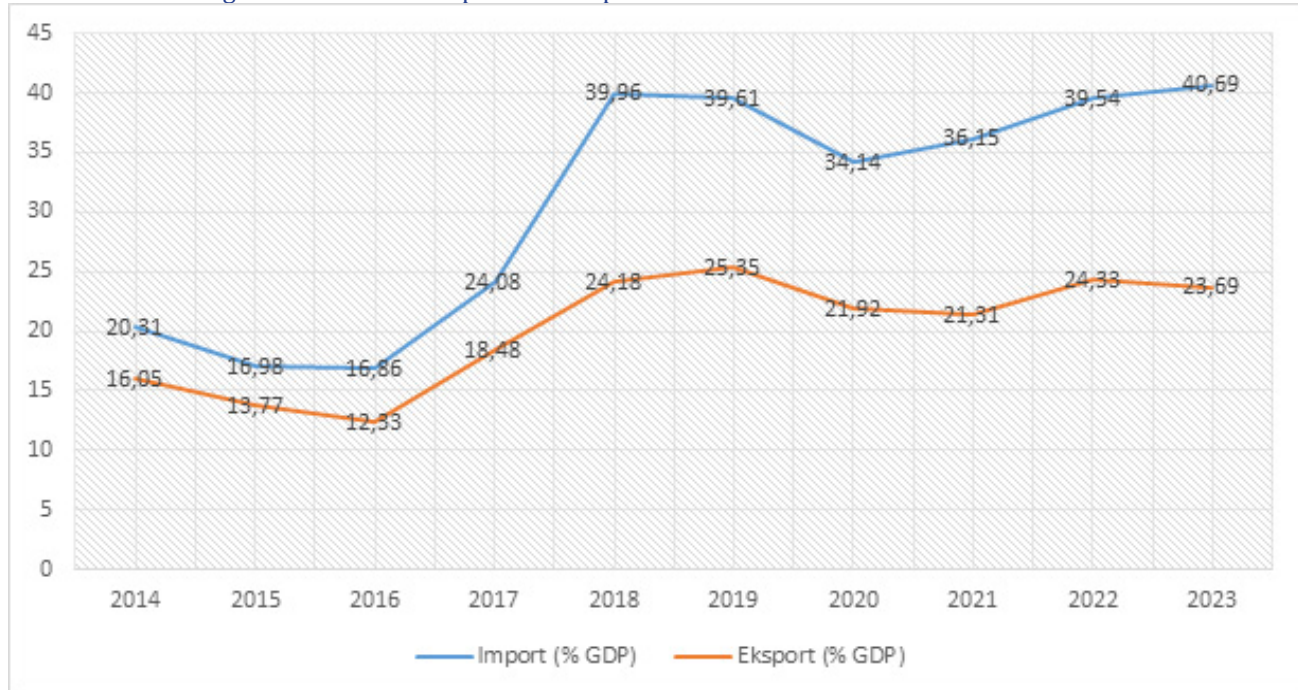
According to the table above, GDP in Uzbekistan grew by an average of 4.2% from 2014 to 2023, with a decrease of 19.09% and 15.75% in 2017 and 2018 due to the devaluation of the soum against the dollar, and after a decrease of only 1.26% during the Coronavirus pandemic in 2020, steady growth occurred after 2021, and in 2023, Uzbekistan's nominal GDP amounted to 101.59%. It should be noted that the importance of imports and exports, which have a significant share in GDP, is very significant, and in recent years, measures have been taken to reduce the demand for export goods in the country through the implementation of a localization policy. As evidence of this, the following chart is analyzed in detail [19,20]:

Picture 4. Import And Export (Billion USD)



As can be seen from this graph, Uzbekistan's export potential in 2016 was only \$10.62 billion, and this figure is expected to more than double to \$24.07 billion by 2023. However, the sad part is that Uzbekistan's import potential is still significantly higher than its export potential, amounting to \$41.34 billion in 2023. From this, it can be concluded that Uzbekistan needs to implement deeper reforms to reduce its total import demand.

Picture 5. Percentage of Uzbekistan's imports and exports in GDP:



According to the data presented in the figure above, in 2014 and 2016, Uzbekistan's import and export capacity was less than 20% of GDP, and as a result of supporting the localization of goods and services, exports, which accounted for 12.33% of GDP in 2016, will double to 23.69% by 2023 [19,20]. Analyzing the above data, exports, which accounted for 12.33% of GDP, amounted to \$10.62 billion, and this amount doubled to \$14.19 billion in the next two years as a share of GDP. By 2023, the share of Uzbekistan's export potential in GDP will be 23.69 percent, an increase of two and a half times from 2016 to \$24.07 billion.

## CONCLUSION AND SUGGESTIONS

In developing countries there is much reliance on the products which are imported. In order to reduce this reliance any government is highly likely to make an attempt by employing varied methods including stimulating the measures taken to support localization. Likewise, Uzbekistan today is a developing country, it still depends on some modes products which are imported. But, for the last decade by the initiatives which have been introduced by the president of the country Sh. Mirziyoyev the country has acquired the capacity to manufacture modern vehicles more than before, to produce construction materials and it has gained lots of achievements in pharmaceuticals and textiles too. As a result, Uzbekistan's GDP has improved from 58.70 billion dollars to 101.59 in the period from 2018 till 2023.

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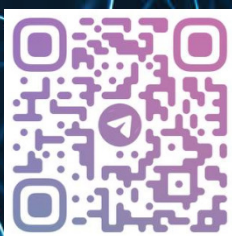
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