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# INDUSTRIAL DIVERSIFICATION AS A KEY FACTOR IN ENHANCING UZBEKISTAN'S EXPORT POTENTIAL

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**Abstract:** Industrial diversification is widely recognized as a crucial driver of sustainable economic growth and export expansion in developing and transition economies. For Uzbekistan, whose industrial and export structures have long been characterized by a significant reliance on raw materials and low value-added products, diversification of the industrial sector has become a strategic priority. This article aims to analyze the role of industrial diversification in enhancing Uzbekistan's export potential and to identify key directions and mechanisms for its effective implementation. The study is based on the use of general scientific methods, including analysis and synthesis, comparative and structural analysis, as well as the examination of official statistical data and international experience. The results of the research demonstrate that industrial diversification contributes to export growth by expanding the range of exportable products, increasing their technological content and competitiveness, and reducing vulnerability to external shocks. The article proposes a systematization of the main factors and policy measures that can strengthen the export potential of Uzbekistan through industrial diversification. The findings may be useful for researchers, policymakers, and practitioners involved in the development of industrial and export strategies.

**Key words:** industrial diversification, export potential, industrial policy, value-added production, manufacturing sector, Uzbekistan.

**Annotatsiya:** Sanoatni diversifikatsiya qilish rivojlanayotgan va o'tish davridagi iqtisodiyotlarda barqaror iqtisodiy o'sish hamda eksport salohiyatini kengaytirishning muhim omillaridan biri sifatida keng e'tirof etiladi. Sanoat va eksport tuzilmasi uzoq vaqt davomida xomashyo resurslari hamda past qo'shilgan qiymatga ega mahsulotlarga yuqori darajada bog'liq bo'lib kelgan O'zbekiston uchun sanoatni diversifikatsiya qilish strategik ustuvor yo'nalish hisoblanadi. Mazkur maqolaning maqsadi sanoatni diversifikatsiya qilishning O'zbekiston eksport salohiyatini oshirishdagi rolini tahlil qilish hamda uni samarali amalga oshirishning asosiy yo'nalishlari va mexanizmlarini aniqlashdan iborat. Tadqiqotda tahlil va sintez, taqqoslash va strukturaviy tahlil kabi umumilmiy usullardan, shuningdek, rasmiy statistik ma'lumotlar va xalqaro tajriba tahlilidan foydalanildi. Tadqiqot natijalari sanoatni diversifikatsiya qilish eksport hajmining oshishiga, eksport qilinadigan mahsulotlar assortimenti kengayishiga, ularning texnologik darajasi va raqobatbardoshligi oshishiga, shuningdek, tashqi iqtisodiy shoklarga nisbatan zaiflikning kamayishiga xizmat qilishini ko'rsatadi. Maqolada sanoatni diversifikatsiya qilish orqali O'zbekiston eksport salohiyatini mustahkamlashga qaratilgan asosiy omillar va davlat siyosati choralari tizimlashtirilgan. Olingan xulosalar sanoat va eksport strategiyalarini ishlab chiqish bilan shug'ullanuvchi tadqiqotchilar, siyosat ishlab chiquvchilar va amaliyotchilar uchun foydali bo'lishi mumkin.

**Kalit so'zlar:** sanoatni diversifikatsiya qilish, eksport salohiyati, sanoat siyosati, qo'shilgan qiymatli ishlab chiqarish, qayta ishlash sanoati, O'zbekiston.

**Аннотация:** Промышленная диверсификация широко признаётся одним из ключевых факторов устойчивого экономического роста и расширения экспортного потенциала в развивающихся и переходных экономиках. Для Узбекистана, промышленная и экспортная структура которого на протяжении длительного времени характеризовалась высокой зависимостью от сырьевых ресурсов и продукции с низкой добавленной стоимостью, диверсификация промышленного сектора стала стратегическим приоритетом. Целью данной статьи является анализ роли промышленной диверсификации в повышении экспортного потенциала Узбекистана, а также

выявление ключевых направлений и механизмов её эффективной реализации. В исследовании использованы общенаучные методы, включая анализ и синтез, сравнительный и структурный анализ, а также изучение официальных статистических данных и международного опыта. Результаты исследования показывают, что промышленная диверсификация способствует росту экспорта за счёт расширения ассортимента экспортируемой продукции, повышения её технологического уровня и конкурентоспособности, а также снижения уязвимости экономики к внешним шокам. В статье предложена систематизация основных факторов и мер государственной политики, способствующих укреплению экспортного потенциала Узбекистана на основе промышленной диверсификации. Полученные выводы могут быть полезны для исследователей, государственных органов и практиков, занимающихся разработкой промышленной и экспортной политики.

**Ключевые слова:** промышленная диверсификация, экспортный потенциал, промышленная политика, продукция с добавленной стоимостью, обрабатывающая промышленность, Узбекистан.

## INTRODUCTION

In the context of globalization and increasing international competition, the diversification of national economies has become one of the key conditions for achieving sustainable economic development. For countries with a transitional economy, such as Uzbekistan, the structure of the industrial sector and the composition of exports play a decisive role in ensuring long-term growth, macroeconomic stability, and integration into the global economy.

In recent years, the Government of Uzbekistan has initiated large-scale structural reforms aimed at modernizing the economy, developing manufacturing industries, and expanding export-oriented production. Within this framework, industrial diversification is considered not only as a means of transforming the industrial structure, but also as a key factor in enhancing export potential and increasing the competitiveness of domestic products in foreign markets [2].

Industrial diversification refers to the process of expanding the range of industries and products within an economy, reducing dependence on a narrow set of sectors, and developing new areas of production. In economic theory, diversification is often associated with increased resilience to external shocks, higher productivity, and accelerated technological progress [3].

Two main types of industrial diversification are usually distinguished: horizontal diversification, which involves the development of new industries at the same stage of the value chain, and vertical diversification, which focuses on deeper processing of existing resources and the creation of value-added products. For Uzbekistan, vertical diversification is particularly important, as it allows the country to move from raw material exports to the production of finished goods [4].

The relevance of this study is determined by the need to identify effective ways to diversify the industrial sector of Uzbekistan and to assess their impact on export development. Despite the growing number of policy documents and analytical reports devoted to industrial development, the relationship between industrial diversification and export potential in Uzbekistan still requires comprehensive academic analysis [5].

The purpose of this article is to substantiate the role of industrial diversification as a key factor in enhancing Uzbekistan's export potential and to develop practical recommendations for strengthening export-oriented industrial development. To achieve this goal, the following objectives are set: (i) to analyze the current state of the industrial sector and export structure of Uzbekistan; (ii) to review theoretical approaches to industrial diversification; (iii) to identify the main directions of industrial diversification in Uzbekistan; and (iv) to assess the impact of diversification on export potential.

### Chapter 1 Review of literature on the subject

Numerous studies demonstrate that diversifying the industrial structure and export portfolio plays a significant role in promoting economic growth and enhancing export potential in developing and emerging economies.

Hausmann et al. and colleagues [6] examine the relationship between export diversification and economic development using 55 years of global trade data. They show that countries that increase the variety of their export baskets generally exhibit faster economic growth and higher resilience, as diversification precedes income growth and the development of production capabilities. Their PriSDA model identifies that a country's export diversity and technological profile are closely linked to its future economic growth. In the context of Uzbekistan, this provides a theoretical basis: the broader and more technologically advanced the export basket, the higher the potential for sustainable growth.

De Stefano and colleagues [7] focus on firms' export strategies and product diversification, using data from Italian companies. They demonstrate that diversification beyond core production is associated with better growth and profitability outcomes, indicating the importance of expanding the range of exportable products

beyond traditional sectors. Such “external” diversification strengthens firms’ positions within global production and sales networks. This approach is useful for analyzing how diversification of production and products in Uzbekistan’s industrial sector can enhance exporters’ competitiveness.

Juthathip Jongwanich [8], in an empirical study on Thailand, analyzes the effect of export diversification on economic growth at the industry level. The results show that the impact of diversification depends on the sector: in high-tech industries (e.g., electronics, automotive, chemicals), diversification positively affects growth and exports, whereas in other sectors, specialization may be more beneficial. This study confirms that industrial diversification is not a universal solution — its effect depends on the technological level and structure of the sector.

Cieślak, Kaciak & Welsh (2012). This research examines geographical export diversification for small and medium-sized enterprises (SMEs) and its impact on export performance. The authors demonstrate that expanding the number of export markets improves firms’ export outcomes by reducing dependence on a single market and efficiently distributing risk [9]. This finding is particularly relevant for countries with narrow export bases: in addition to product diversification, market diversification is crucial.

## RESEARCH METHODOLOGY

The methodological basis of the study includes both general scientific and special research methods. In particular, methods of analysis and synthesis were used to study the structure and dynamics of the industrial sector and exports of Uzbekistan. Comparative analysis was applied to assess international experience in industrial diversification and its relevance for Uzbekistan [3]. Structural and logical analysis made it possible to identify the interconnections between industrial diversification and export potential.

The information base of the research consists of official statistical data of the State Statistics Committee of the Republic of Uzbekistan, reports of international organizations (World Bank, UNIDO, UNCTAD), as well as national strategic documents and scientific publications of domestic and foreign researchers [2; 3].

To visualize the results of the analysis, tables and figures were used, reflecting the structure of industrial production, the composition of exports, and the key directions of industrial diversification.

## ANALYSIS AND RESULTS

The industrial sector of Uzbekistan plays a significant role in the formation of gross domestic product and employment. Over the past decade, the share of industry in GDP has shown a steady upward trend, reflecting the government’s efforts to stimulate industrial development (Table 1) [5].

Table 1. Structure of Industrial Production in Uzbekistan (selected sectors, %)<sup>1</sup>

Sector	Share in industrial output
Extractive industries	25–30
Manufacturing industries	55–60
Electricity, gas and water supply	10–15

Table 1 demonstrates that Uzbekistan’s industrial sector is characterized by a mixed but still uneven structure. Manufacturing industries account for the largest share of industrial output, ranging from 55% to 60%, which reflects the ongoing shift toward industrial development and value-added production. However, the relatively high share of extractive industries, estimated at 25–30%, indicates a continued dependence on natural resources and primary processing. At the same time, the electricity, gas, and water supply sector represents 10–15% of industrial output, highlighting the importance of infrastructure-related industries in supporting overall industrial activity. Overall, the structure presented in Table 1 suggests that while progress toward industrial diversification has been achieved, further expansion of manufacturing and reduction of resource dependence remain key priorities for strengthening Uzbekistan’s industrial base and export potential.

The export structure of Uzbekistan is also characterized by a high share of raw materials and semi-finished products, including natural gas, metals, and agricultural commodities. Although the share of manufactured goods in exports has increased in recent years, high-tech and knowledge-intensive products still account for a relatively small portion (Table 2) [5].

<sup>1</sup> Source: Compiled by author on the basis of statistical indicators.

Table 2. Structure of Exports of the Republic of Uzbekistan by Sections of SITC (2024-2025)<sup>2</sup>

Structure of the SITC	Volume of goods and services, million US dollars		Growth rate, in %		In % to the total	
	2024	2025	2024	2025	2024	2025
Food products and live animals	116.3	143.2	102.9	123.1	10.1	10.9
Beverages and tobacco	5.8	10.7	98.3	183.6	0.5	0.8
Non-food raw materials, except fuel	24.2	20.4	163.3	80.0	2.1	1.6
Mineral fuels, lubricating oils and similar materials	56.8	69.8	3.8 t.	172.4	4.9	5.3
Animal and vegetable oils, fats and wax	1.8	6.4	95.2 t.	3.5 t.	0.2	0.5
Chemicals and similar products	108.5	133.1	149.5	122.6	9.4	10.1
Industrial goods	278.3	265.5	101.8	95.4	24.2	20.2
Machines and transport equipment	61.7	38.2	113.0	62.0	5.4	2.9
Various finished products	89.2	83.5	117.1	93.1	7.8	6.4
Other products	2.1	46.9	0.2	22.3 t.	0.2	3.6
Services	403.6	492.1	134.8	121.9	35.1	37.6
<b>Total</b>	<b>1148.4</b>	<b>1309.8</b>	<b>54.5</b>	<b>114.1</b>	<b>100.0</b>	<b>100.0</b>

The table illustrates the structure of exports of the Republic of Uzbekistan by SITC sections in 2024–2025 and highlights the main trends in export dynamics. Overall, total exports increased from USD 1,148.4 million in 2024 to USD 1,309.8 million in 2025, indicating a positive development of foreign trade activity. The most significant contribution to export growth was made by services, whose volume rose to USD 492.1 million, while their share in total exports increased from 35.1% to 37.6%. Noticeable growth was also observed in food products and live animals, as well as in chemicals and related products, reflecting a gradual expansion of export diversification and strengthening of value-added segments [5].

The increase in mineral fuels and related materials, on the other hand, indicates the continued reliance on resource-based exports. Overall, these trends suggest that despite positive export growth and an increasing role of services and chemical products, further enhancement of Uzbekistan's export potential requires deeper industrial diversification and stronger support for exports of technologically advanced and high value-added products.

Based on the analysis, several priority directions of industrial diversification in Uzbekistan can be identified (Figure 1):

Figure 1. Main Directions of Industrial Diversification in Uzbekistan<sup>3</sup>

First, the development of value-added manufacturing industries, such as machinery, chemical production, and textile processing, can significantly expand the export base. Second, technological modernization and the introduction of digital technologies contribute to improving productivity and product quality [10]. Third, the formation of industrial clusters facilitates cooperation between enterprises, research institutions, and infrastructure organizations, enhancing export competitiveness [11].

<sup>2</sup> Source: Based on data from the Ministry of Statistics of the Republic of Uzbekistan, updated for 2025

<sup>3</sup> Source: Compiled by author.

Industrial diversification directly affects export potential through several channels [12]. By expanding the range of exportable products, diversification reduces dependence on a limited number of commodities and markets. At the same time, the production of goods with higher value added increases export revenues and improves the country's terms of trade (Table 3).

**Table 3. Relationship between Industrial Diversification and Export Potential**

Aspect of diversification	Impact on exports
Expansion of manufacturing industries	Growth of export volumes
Technological upgrading	Increase in competitiveness
Cluster development	Access to new markets

As shown in Table 3. Relationship between Industrial Diversification and Export Potential, the process of industrial diversification has a direct and multidimensional impact on the development of export capacity. The expansion of manufacturing industries contributes to a steady increase in export volumes by broadening the range of tradable goods and reducing dependence on a limited number of commodity groups. In particular, the development of processing and manufacturing activities enables the transition from raw material exports to finished and semi-finished products with higher value added, thereby strengthening the quantitative and qualitative parameters of exports.

Furthermore, Table 2 demonstrates that technological upgrading and cluster development play a crucial role in enhancing export competitiveness and market access. Technological modernization improves product quality, compliance with international standards, and cost efficiency, which are key factors for successful integration into global markets. At the same time, the formation of industrial clusters facilitates cooperation among enterprises, innovation diffusion, and the development of export-oriented infrastructure, creating favorable conditions for accessing new foreign markets. Overall, the relationships presented in Table 2 confirm that industrial diversification acts as a fundamental mechanism for increasing export potential and ensuring sustainable export growth.

The results of the analysis indicate that countries with a diversified industrial structure tend to have more stable and dynamic export growth. For Uzbekistan, strengthening industrial diversification can become a key factor in increasing export potential and ensuring sustainable economic development.

The findings of this study are consistent with the conclusions of previous research, which emphasize the importance of industrial diversification for export development in emerging economies [14]. International experience shows that successful diversification requires a combination of active industrial policy, investment in human capital, and the development of innovation infrastructure.

In the case of Uzbekistan, industrial diversification should be closely linked to export-oriented strategies and supported by institutional reforms [15]. Particular attention should be paid to improving the business environment, attracting foreign direct investment, and integrating domestic enterprises into global value chains.

## CONCLUSIONS AND SUGGESTIONS

Industrial diversification plays a crucial role in enhancing Uzbekistan's export potential by transforming the structure of the industrial sector and expanding the range of competitive export products. The results of the study confirm that diversification contributes to export growth, increases economic resilience, and creates conditions for sustainable development.

The implementation of an effective industrial diversification strategy in Uzbekistan requires a complex approach that combines technological modernization, cluster development, and support for export-oriented industries. In the long term, strengthening industrial diversification will allow Uzbekistan to reduce its dependence on raw material exports and to secure a stronger position in the global economy.

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