

IMPACT OF INDUSTRIAL DEVELOPMENT ON MACROECONOMIC STABILITY

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Abstract: This article analyzes the industrial development of Uzbekistan and its impact on macroeconomic stability. Industry is one of the most important sectors in the economy and exhibits a strong correlation with macroeconomic stability. The main indicators of macroeconomic stability, such as stable economic growth, employment, price stability and food security, are formed on the basis of industrial development. In the article, the strong influence of the industry on the macroeconomic stability in the conditions of Uzbekistan is determined. Also, on the basis of the analysis, proposals for further development of the industry and strengthening of macroeconomic stability have been developed.

Keywords: industry, macroeconomic stability, economic growth, small industrial zones, free economic zones, macroeconomic policy, entrepreneurship, active investment policy, digitization, investments.

Today, industry is an important sector for both the development of the economy and the daily life of people. This sector is considered as one of the main sectors of the economy of every country. Because the production process is carried out in the industrial sector. Also, this industry provides jobs to the population, and food products are created in this industry. These are among the main indicators affecting macroeconomic stability.

The biggest factor affecting macroeconomic stability is the price level or inflation in the country. The main sources of inflation are the food sector and the energy sector. Both of these large sectors are part of the industry. That is why it is possible to influence macroeconomic stability on the basis of industrial development.

Industrial development creates dynamic and competitive economic performance, leading to increased income and employment, facilitating international trade, and increasing resource efficiency. Through these, the development of industry is the main factor of poverty alleviation and general well-being [1].

There is clear evidence that a developing manufacturing sector is key to increasing productivity and thereby economic growth. The emergence of manufacturing in the 18th and 19th centuries fundamentally changed the production structure of Europe and the United States, and industrialization led to a transformation of the East Asian economy from the 1960s. The relationship between industry and economic growth typically exists across countries and income levels. According to international data, it is confirmed that the share of production in the economy increases with the growth of gross domestic product (GDP) in low, lower middle and upper middle income countries. This correlation changes only after a country becomes a high-income economy, where services begin to occupy a relatively higher share of manufacturing [2].

According to studies, industrial development has had a positive effect on social welfare in Iran [3]. It has been determined that increasing investment activity in Uzbekistan leads to macroeconomic stability based on industrial development [4]. It has been determined that one of the important factors for the industry is infrastructure, and public-private partnership is an effective tool for its development [5]. It has been analyzed that digitization is the most important factor in the development of modern industry [6]. In another study, foreign direct investment was considered as the biggest influencing factor of industrial development [7].

According to the economic characteristics of Uzbekistan, the share of industry in the economy of this country is high. The economy is structurally changing and the share of industry remains high. The share of the industry in the total gross domestic product of the country is on average 1/3.

In 2017, 26.5 percent of the country's GDP was the share of industry, and this indicator showed a growth trend in the following years. In 2021, the share of industry in GDP was 34.5 percent. During the analyzed period, the share of the agricultural sector in the economy decreased. The share of services and industry sector has increased. The share of the agricultural sector in the total GDP was 32.2 percent in 2017, and by 2021 this indicator will decrease to 26.9 percent. During the analyzed period, the service sector accounted for 38-40 percent of the country's total GDP.

In 2018, the share of industry in the total GDP increased to 31.1%, to 34.4% in 2019, and to 34.4% in 2020 despite the global pandemic.

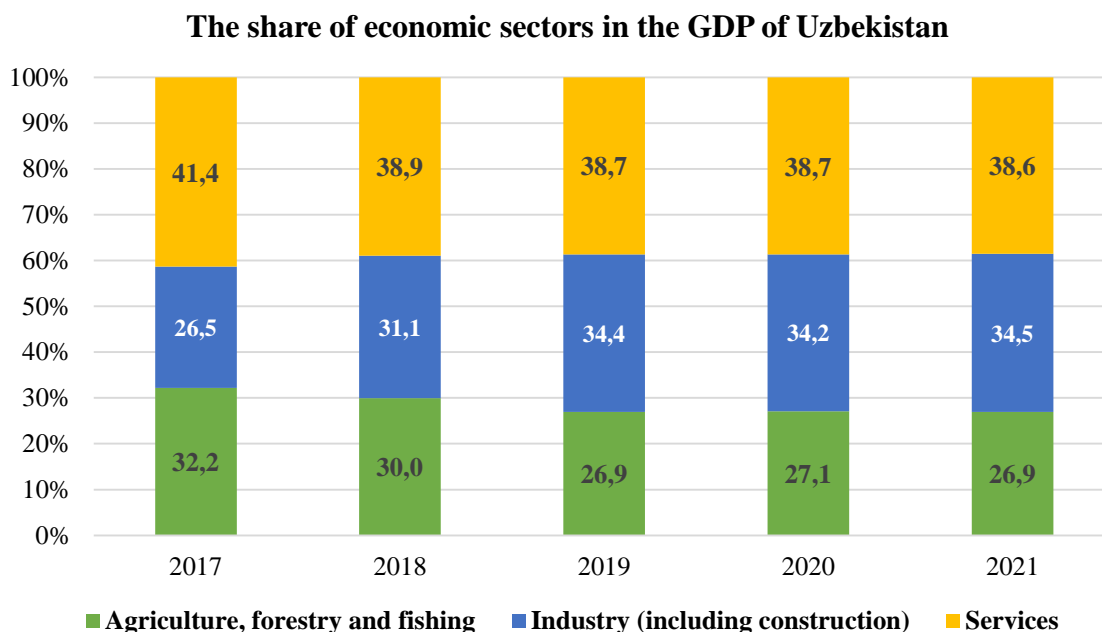


Figure 1. The share of economic sectors in the GDP of Uzbekistan [Source: Author's development based on information from the official website of the State Statistics Committee. <https://stat.uz/uz/rasmiy-statistika/industry-2>]

Today, Uzbekistan is actively pursuing a policy of industrial development. Free economic and industrial zones are being established and investors are being attracted to them. Based on this, the country is becoming more attractive for investment. As a result, the production structure is expanding and developing qualitatively. The government provides every investor with all the opportunities and facilities for business activities. This is an incentive for investors to invest in Uzbekistan. In addition, the country has sufficient labor force for entrepreneurship.

The growth indicators of the industry in Uzbekistan have a large share in the overall economic growth of the country and the formation of macroeconomic stability. Economic growth in Uzbekistan was 4.4% in 2017, and this figure increased to 7.4% in 2021. The country achieved stable growth in 2018 and 2019, reaching 5.4 and 5.7 percent, respectively. In 2020, economic growth fell to 1.9 percent. During this period, due to the global pandemic, there was a period of economic decline in all the countries of the world. During this period, economic

growth was not observed in most countries, but economic growth was observed in Uzbekistan, although it was low.

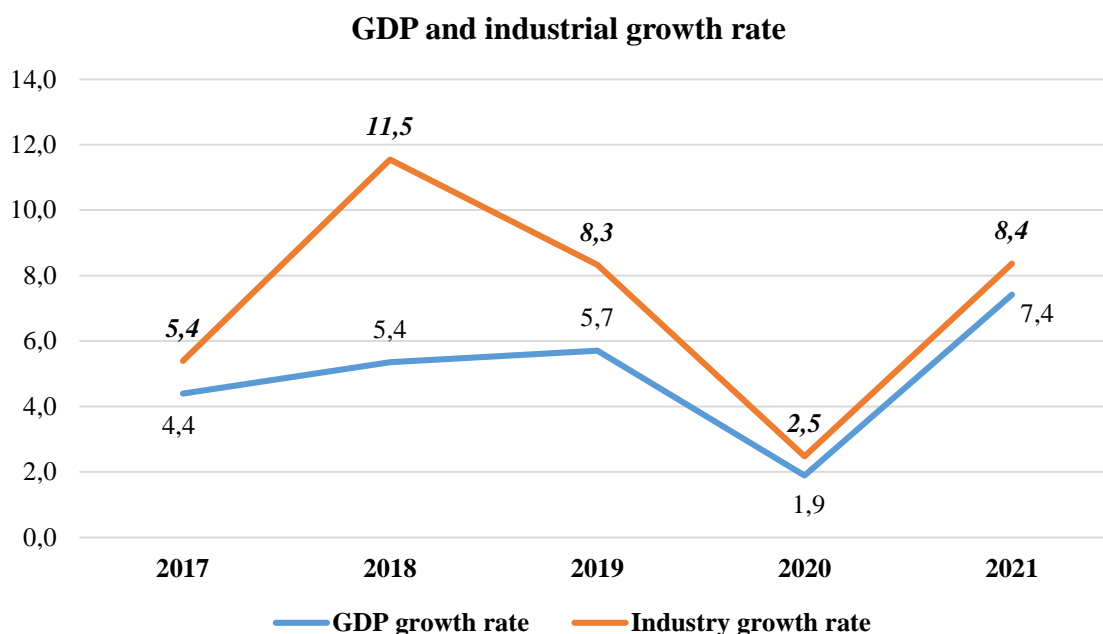


Figure 2. GDP and industrial growth rate. [Source: Author's development based on information from the official website of the State Statistics Committee. <https://stat.uz/uz/rasmiy-statistika/industry-2>]

The growth indicators of the industry recorded higher indicators than the growth indicator of the GDP during the analyzed period. The growth rate of the industry was 5.4 percent in 2017, and increased to 8.4 percent in 2021. The industry's highest growth rate rose to 11.5 percent in 2018. In the next period, that is, in 2018, the growth of the industry was 8.3 percent. During the pandemic, the industrial growth rate was 2.5 percent.

The influence of industry on macroeconomic stability can be known on the basis of comparative analysis based on growth indicators. The growth rate of industry and the growth trend of GDP are close to each other. That is, when high growth was observed in industry, high growth was also observed in GDP. On the other hand, when growth in industry decreased, GDP growth also decreased. Based on this, it can be concluded that there is a strong connection between these two indicators and that the share of industrial growth in economic growth is high. The main indicator of macroeconomic stability is economic growth. Based on the high impact of industrial growth on economic growth, it follows that there is a strong

correlation between industrial and macroeconomic stability. In the case of Uzbekistan, the strength of this connection is based on the analysis.

Industry is the most important economic sector in Uzbekistan. The gross added value of industry in the economy is also high. The industry is structurally broad and developing with high growth rates in the coming years. A strong macroeconomic policy is being implemented in the country for the development of industry. Small industrial zones and free economic zones have been established in the country for the development of industry, and great opportunities for entrepreneurship are provided in these areas. This in itself increases the country's investment activity. Many investors are attracted to the country based on an active investment policy. Based on the increase of investors and the expansion of their activities, the volume of industrial production is increasing and satisfying the population's demand for industrial products. The most important factor influencing macroeconomic stability is price stability. The price increase in the country is due to the high demand for products. On the basis of increasing supply, it is possible to have a positive effect on ensuring price stability in the country. For this, first of all, the development of industry in the country is required.

Based on the analysis, it was found that there is a strong connection between macroeconomic stability and industrial development. On the basis of industrial development, it is possible to ensure food security, increase the employment of the population, increase tax revenues and a number of other positive results.

On the basis of the research, it is proposed to continue the active investment policy conducted in the country today, to increase the number of small industrial zones, to conduct a strong macroeconomic policy and to further expand opportunities for entrepreneurship.

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