

Ways to improve the mechanism of state support for the localization of industrial production

Sobitova Rano Solidjonovna
TerSU, iffd (PhD)

Xodjamurova Sevinch Nuriddinovna
TerSU Uzbekistan-Belarus
joint program 1st year student

Abstract

This article aims to study the regional aspects of import substitution in the process of integrating the regions of Uzbekistan into the system of global economic relations, to highlight the issues of economic policy and state support aimed at import substitution by the government of the republic in order to protect domestic industrial producers and replace imported goods and technologies with competitive products produced in our country.

Keywords: Import substitution, industrial cooperation, localization program, localization projects

Regional aspects of import substitution are being studied as an important factor in the integration of the regions of Uzbekistan into the system of global economic relations. ¹However, state support for import substitution at the macro and micro levels and the practical organization of this process are fragmentary, limited to tasks in the field of ensuring food security and developing the agro-industrial complex. ²

In order to protect domestic industrial producers and replace imported goods and technologies with competitive products produced in our country, the government of the republic has pursued an economic policy aimed at import substitution. In 2015, the Chamber of Commerce and Industry of the Republic of Uzbekistan Import substitution industry plans for 2016-2019 have been developed, which provide for a significant reduction in the share of imports in domestic intermediate consumption of products. Enterprises participating in the implementation of import substitution industry plans are potential recipients of state support measures provided for in the state programs of the Republic of Uzbekistan.

In Uzbekistan, industrial cooperation is being promoted on the basis of industrial cooperation within the framework of the program for the localization of production of finished products, components and materials. The Ministry of Foreign Trade, the Ministry of Economy and Finance, and the State Committee of the Republic of Uzbekistan for Assistance to Privatized Enterprises and Development of Competition are responsible for this. This program involves investment

¹ Исмагилова Л.Р. Развитие экспортоориентированных и импортозамещающих производств как фактор интеграции региона в систему мирохозяйственных связей. – Дисс. канд. экон. наук, 2004 г.; Кадочников П.А. Влияние импортозамещения на процессы экономического роста в переходной экономике. – Дисс. канд. экон. наук, 2005 г.

² Батчиков С. Импортозамещающий вектор альтернативной стратегии народнохозяйственного развития // Российский экономический журнал, 2002, №3.

projects that are important for the further development of industrial production based on local raw materials, materials and components.

The legislation of the Republic of Uzbekistan clearly spells out the procedure for considering and introducing investment projects in accordance with the Localization Program and its implementation mechanism.

The project's performance meets the following criteria to be considered for inclusion in the Localization Program:

- a) availability of local raw material resources and capacities for the production of localized products;
- b) from the moment of inclusion in the localization program, the level of localization should be at least 36% in the first year, at least 45% in the second year for manufactured products, and at least 50% in the third year, with 36%, 40%, and 45% for mechanical engineering and metalworking products, respectively;
- c) the share of exports in net proceeds from the sale of localized products should be at least 20% in the second year and at least 30% in the third year from the moment of inclusion in the Localization Program;
- d) ensuring that the final product's place of origin in terms of the TIF TN code changes by at least one of the four digits relative to the initial raw materials;
- y) the presence of demand for localized products in domestic and foreign markets;
- j) the presence of imports of similar products (except for the production of new types of products);
- z) the presence of preliminary agreements or contracts with potential consumers of the products;
- i) the sale prices of localized products do not exceed the prices of imported products of the same type (taking into account transportation costs to the Republic of Uzbekistan, taxes and customs duties).

The priority right to enter the localization program is enjoyed by enterprises that have implemented a quality management system in accordance with international standards. Their projects, projects that provide for the production of export-oriented types of products and are implemented in districts and cities of the republic receiving subsidies, meet the above criteria.

The mechanisms for forming and implementing the localization program are insufficient to expand sectoral and inter-sectoral cooperation as a set of measures in various fields to stimulate industrial cooperation and support import substitution. In order to fully influence industrial cooperation as a driving force of structural reforms, it is necessary to expand the use of market regulation mechanisms in the future.³

In particular, for the full development of industrial cooperation relations in Uzbekistan, it is necessary to improve the general framework conditions, which include:

- legislation in the field of industrial cooperation;
- effective state support for relations within the framework of industrial cooperation through the provision of tax benefits and preferences;

³ Информация о ходе реализации Программы локализации производства готовой продукции, комплектующих изделий и материалов за январь-декабрь 2017 г. Государственный комитет Республики Узбекистан по статистике. <https://stat.tat.u.z/uzploads/docs/localisation-yan-dek-2017-ru.pdf>

- development of the infrastructure of industrial cooperation (industrial cooperation centers, regional subcontracting centers, etc.);
- information support for industrial cooperation (issuance of subcontractor catalogs, preparation of information materials, etc.).

Due to favorable macroeconomic conditions, including an appropriate tax policy that stimulates the deepening of cooperation and specialization between enterprises, facilitated access to financial resources necessary for business development, a reduced level of customs duties on imported components of finished products, and high qualification of labor resources, there is no strong need for targeted state stimulation of the development of industrial cooperation.

As is known, the current tax system, due to the features of tax payments under simplified and generally established taxation, promotes the specialization and cooperation of enterprises. Also, in the case of a simplified procedure, all small business entities included in the chain pay VAT on the proceeds received. In the case of the formation of a value-added chain under the general taxation system, suppliers who are not VAT payers pay VAT on the entire proceeds of the enterprise at the next link in the chain. In addition, the reduction in the tax burden occurs mainly due to the reduction of tax payments from the volume of proceeds. This also reduces tax barriers for enterprises in the case of specialization and cooperation. In such conditions, specialization and cooperation are beneficial for enterprises to form a value-added chain and produce goods with high added value.

The Concept of Improving the Tax Policy of the Republic of Uzbekistan, aimed at reducing tax obstacles, simplifying the taxation system and improving tax administration, provides, among other measures, for the following from January 1, 2019:⁴

- a) the abolition of mandatory contributions to state target funds from the turnover (income) of legal entities;
- b) the transfer of enterprises with an annual turnover (income) of more than 1 billion soums at the end of the previous year or reaching the established threshold during the year to a generally established tax payment;
- c) for taxpayers with an annual turnover (income) of up to 1 billion soums, the payment of turnover (income) tax with a base calculation rate of 4% and, depending on the possibilities, the payment of value added tax on a voluntary basis;
- g) introducing a complete system of tax calculation, clarifying the taxable base and reducing the number of benefits, and maintaining the current rate of value-added tax at 20% by gradually reducing the amount of this tax based on the results of 2019.

If the above measures are successfully implemented, they will lead to the development of cooperation and specialization between our enterprises, becoming an important condition for the growth of the production of finished goods with high added value.

In order to solve the problems of developing industrial cooperation in individual sectors and regions of the industry, it is necessary to conduct a thorough study of the state of development of

⁴ O'zbekiston Respublikasi Prezidentining 2018 yil 29 iyundagi PF-5468-sonli "O'zbekiston Respublikasining soliq siyosatini takomillashtirish konsepsiyasi to'g'risida"gi Farmoni. <http://le.x.u.z/ru/pdfs/3802374>

regional industries, identify the competitive advantages of sectors, assess the state of cooperative relations of industrial enterprises, and develop promising directions and optimal forms of developing industrial cooperation, identify problems of developing cooperation in the regions and ways to solve them. There is great potential for the development of industrial cooperation in such industrial sectors of the republic as mechanical engineering, textile, chemical, food, and pharmaceutical industries.

On July 3, 2019, the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan published a proposal on optimizing import duty rates. It states that the current customs duty rates can have negative consequences for the development of the real sector of the economy. That is, a situation has arisen in which the import of goods serves to be profitable, and manufacturing enterprises lose their investment attractiveness and are focused on importing finished products.

Based on this, as well as on the results of discussions held through meetings and round tables with numerous entrepreneurs, manufacturers and businessmen, a draft government resolution on reviewing and optimizing import duty rates was agreed on the following principles:

- for natural raw materials and goods of important social importance (grain, flour, ore and metal concentrates) - a 0% customs duty rate;
- raw material goods; products not produced in the republic; products of social importance; for products that have not been imported in the last 3 years - from 2% to 5%;
- semi-finished or finished products, the production of which is considered inefficient or economically inexpedient due to natural and climatic conditions; food products produced and processed in the country, but not meeting existing requirements; goods whose production volume is increasing; for food products that have a negative impact on human health - from 10% to 15%;
- agricultural products that are produced and exported in sufficient quantities; finished products for final consumption produced in a volume that covers consumer demand in the republic; for products that have a negative impact on human health, are consumed for luxury and are not considered essential in the first place - from 20% to 30%.

At the same time, it is planned to reduce customs rates for 197 goods that are not produced in the republic. In particular, customs duties were reduced for 89 goods - from 5% to 2%, for 79 - from 10% to 5%, and for 7 - from 20% to 2%. In addition, taking into account the market conditions, the amount of duties for 2,818 goods was left unchanged.

It should be noted here that the decision taken, first of all, should not contradict the priority areas set out in the Action Strategy, including reforms aimed at creating an effective competitive environment and gradually reducing monopoly in the product and services market.

Secondly, it is advisable to widely discuss the important decision to optimize and increase import duty rates, not through a unilateral approach, but with a thorough analysis of the consequences of its results.

That is, it was mainly attended by agencies that were more interested in increasing the volume of local production and the potential of producers in exchange for increasing customs rates, as well as representatives of local manufacturing enterprises that sell their products mainly under state protection.

It is known from world experience that, firstly, increasing customs rates reduces the liberalization of the country's economy and leads to the failure of free market mechanisms to function fully. As a result, this situation may cause the country's economy to lag behind.

Secondly, increasing import duty rates in developing countries may not reduce the flow of imported goods, but may lead to the spread of counterfeit goods, a "gray" system and corruption in that country.

Thirdly, temporarily (2-3 years) protecting local producers from external competition is, in fact, tantamount to suspending the development of those enterprises for the same period. That is, the local manufacturer, taking advantage of the lack of competition, tries to forcefully sell more products on the market at the price it sets, without paying attention to product quality or innovation. Just one example, when the demand for cars from the GM Uzbekistan plant was high, due to insufficient attention to product quality, product improvement, and cost reduction, these cars are now morally obsolete, while improving the quality of the car and adding modern comfort and functions leads to an increase in cost. The resulting price is not raised by the market. Ultimately, GM Uzbekistan has ceded its place in the Russian and Kazakh markets to other competitive, cheap, modern car manufacturers, in practice.

Fourth, due to the lack of alternative goods in the domestic market, the country's population is forced to buy high-priced, low-quality, morally obsolete products. As a result, the standard of living of the population decreases in line with the high price. That is, the higher the price of the consumed goods, the poorer the population that buys them becomes.

Fifth, an environment of "unfair" competition is created for "honest" entrepreneurs working through imports. They will have to fight hard against "counterfeit" goods.

In our opinion, it is advisable for the state to protect local producers not in a protectionist way, but in modern, non-harmful economic methods.

In particular, it would be more effective if the state allocated the necessary financial resources and subsidies to producers of import-substituting and export-oriented products to purchase raw materials, materials, or to form working capital, to purchase modern energy-efficient equipment.

For example, in the countries of Southeast Asia, small and medium-sized enterprises (SMEs) are supported by the state through subsidies. Subsidies are allocated to the following areas:

innovative development of industries;

establishment of new production facilities, involvement of employees in research and development;

promotion of goods of national producers;

creation of infrastructure, promotion of goods on the international market;

improvement of product quality;

introduction of new production technologies in accordance with new scientific principles, as well as environmental requirements;

financing of technical modernization;

creation of technological parks, etc.

Also, in China, a special state fund has been established for state support of small and medium-sized businesses;



In India, the government has adopted a comprehensive program for the development of the leather industry, the expansion (modernization) of production is carried out in the form of subsidies. The programs also provide for the creation of new research institutes involved in the development of technologies for the industry and the expansion of existing ones.

In Korea, state grants are allocated for the development and commercialization of industrial ecosystems for the production of high-tech materials.

Finally, in Turkey, in order to support industrial enterprises, a procedure for providing interest-free state loans has been introduced with the participation of the Small and Medium-sized Business Development and Support Agency (KOSGEB).

Therefore, at the same time, it is more important for us not to interrupt this technological process chain with various protectionist methods, but to create favorable conditions that will serve to increase the flow of modern innovative technologies, as well as intellectual and investment resources to our country.

We believe that in protecting domestic producers through customs payments, it is necessary to take into account the experience of advanced countries, and most importantly, to take into account the results of artificial protection that has been in effect in our country for many years. Based on this, we are implementing a project on the production of localized products at the expense of the State Fund for Support for the Development of Entrepreneurship

It is advisable to provide guarantees for 50 percent of the loan attracted for the purpose of increasing the volume of loans and to cover the interest rates of commercial banks up to 5 percent in the established manner.

The following measures to stimulate the industrial sector, including the production of import-substituting products, at the state level, are implemented in the state programs of the Republic of Uzbekistan "Development of Industry and Increasing Its Competitiveness", including:

1. Financial support for individual industrial sectors (subsidies to industrial organizations or organizations included in the infrastructure for supporting activities in the industrial sector under the Chamber of Commerce and Industry of Uzbekistan): automotive industry; transport machinery; agricultural machinery, machinery for the food and processing industries; machinery for special industries (construction, road and municipal machinery, fire, airfield, forest machinery); machine-tool industry, including R&D; light and textile industry; organization of folk arts and crafts; children's goods industry, including R&D; metallurgy and rare earth metals; forest industry complex; chemical complex; production of composite materials (composites) and products made from them.

Mechanical engineering products dominate the republic's import structure. In 2022, the share of machinery, equipment and vehicles in the total volume of goods imported into Uzbekistan will be 37.6%. We can note that machinery and transport equipment, which make up the main share in the import structure, are mainly imported from the People's Republic of China (31.6%), the Republic of Korea (16.6%), the Russian Federation (9.0%), Turkey (6.0%), and Germany (5.7%).⁵

⁵ O'zbekiston sanoati. 2020. – T.: B.34. Mahalliy budjetlarning qo'shimcha manbalari hisobiga amalga oshirilgan.

This indicator is higher in the regions of the republic, for example, in the Andijan region - the republic's market capacity in terms of soum equivalent amounted to approximately 26.3 trillion soums, which is comparable to the volume of self-produced products shipped by machine-building and instrument-making organizations, including organizations producing electrical equipment and vehicles, in 2022 throughout the republic (Table 1).

Table 1
Separate indicators of the mechanical engineering market in 2021⁶

	National production volume of machinery, equipment and vehicles		The volume of industry incentives in the form of subsidies	
	Billions of soums	As a percentage of the total	Billions of soums	As a percentage of the total
Republic of Uzbekistan	59112,0	16,1	1378,0	32,9
Republic of Karakalpakstan	353,6	2,5	137	40,9
Regions:				
Andijan	26300,0	74,0	137	42,3
Bukhara	421,6	2,4	26	8,9
Jizzakh	572,7	10,3	13	7,3
Kashkadarya	145,7	1,0	68	22,9
Navoi	1237,2	1,9	121	49,6
Namangan	974,6	8,9	177	65,8
Samarkand	5078,5	28,1	81	41,3
Surkhandarya	308,9	5,6	97	40,1
Syrdarya	301,3	3,8	88	65,2
Tashkent	5958,4	9,2	171	45,0
Fergana	1272,6	6,0	34	10,2
Khorezm	5028,7	53,4	87	49,4
Tashkent city	11468,7	31,2	142	18,2

Scientific, technical and innovative activities, including patenting, which increased more than 3 times in the processing industry from 2011 to 2022 alone, reducing dependence on technological imports, and creating and using our own advanced technologies should be an important component of all these processes (Table 2).

Table 2

⁶ www.stat.uz//O'zbekiston sanoati. 2020. B.83, 89

Indicators of innovation activities implemented in Uzbekistan in 2011-2022⁷

Indicators	2011	2012	2014	2017	2018	2019	2020	In % in 2022 comp ared to 2011
Volume of innovative products produced and sold by own efforts by manufacturing industry, in percent (self-sufficiency coefficient)	0,78	0,92	0,65	0,92	0,78	0,92		
The ratio of the number of implemented national and foreign technological innovations (dependency coefficient)	0,22	0,08	0,35	0,08	0,22	0,08		
Import of technologies, total in million US dollars, including:	4991,6	5882,8	5523,8	5054,0	8358,9	9568,6	7955,2	159,4
By type of activity "Processing industries"				1999,3	3599,5	4811,1	4033,6	More than 4 times
Technology exports, million US dollars.	991,4	884,0	550,2	353,3	209,8	419,0	458,6	46,3
Technology export-import balance (+,-), million US dollars.	-4000,2	-4998,8	-4973,6	-4700,7	-8149,1	-9149,6	-7496,6	-187,4

Thus, the process of import substitution is a complex, multifaceted phenomenon, in which socio-economic, organizational (administrative) and socio-political aspects are intertwined. The organization and effective implementation of this process at the state (regional) level is possible on a programmatic and targeted and planned basis.

The active participation of business communities, regional associations of entrepreneurs (chambers of commerce and industry, associations of industrialists and entrepreneurs, sectoral

⁷ O'zbekistonda ilm-fan va innovatsion faoliyat, 2020. –B.65-66.; Korxonalar va tashkilotlarning innovatsion faoliyati. 2017. –T.: 2018. – B.1-5



associations and unions) and organizations that form the infrastructure to support activities in the industrial sector (cluster development centers, outsourcing and subcontracting centers), and innovative infrastructure organizations is a prerequisite for achieving the planned results in the field of import substitution.⁸

The main aspects of the import substitution plan (on the example of agricultural machinery):

1. Formation of a list of types of agricultural machinery products consumed by agricultural commodity producers.
2. Analysis of information on the consumption of agricultural products by processors of agricultural products, agricultural producers in terms of import products (volumes, names).
3. Conducting field meetings and consultations with representatives of agroholdings and industrial enterprises on the basis of suppliers of agricultural machinery products - large regional importers - in order to familiarize them with agricultural machinery products offered for import substitution.
4. Formation of a list of agricultural machinery products, the production of which is advisable to organize at regional industrial enterprises. Preparation of recommendations on the establishment of the production of agricultural machinery and technological equipment for agricultural production.
5. Formation of a list of industrial enterprises ready to produce products for producers of agricultural goods in the region.
6. Develop a mechanism for interaction between the manufacturer and the customer, form a package of orders and form communication platforms (including regular exhibitions with product samples) for interaction, through the mediation of competent authorities in the field of industry and agriculture.

References:

1. Obolensky V.P. Possibilities and limitations of import substitution policy in industry // Russian Foreign Economic Bulletin. 2015. No. 2. P. 66–3
2. Sobitova R.S. Possibilities of reducing the import content based on the localization of production // Collection of materials of the Republican conference on scientific and practical research in Uzbekistan-Tashkent. 2020. No. 18. conferences.uz.B.67-70.
3. Sobitova R.S. Improving the theoretical foundations of industrial production. Dissertation written for the degree of Iffd:08.00.01. Tashkent. 2024
4. Sobitova R.S. Directions of innovative improvement of the system of economic relations aimed at replacing imported goods // Collection of materials of the Republican scientific and practical conference on the topic of econometric modeling of innovative and investment development of the region.-Urgench. 2022. P. 166-169.
5. Suchkova N. A. Importozameshchenie v prodovolstvennom sektore Rossii: autoref. dis. ... candy. economy date: 08.00.14 / N. A. Suchkova; GNU VNIIESX. -M., 2009. - S.8

⁸ Пигунова М.В. Инновационные механизмы повышения эффективности промышленной политики // Интернет-журнал «Науковедение». Том 7, №2 (выпуск 2 (27) 2015). URL статьи: <http://naukovedenie.ru/PDF/77EVN215.pdf>.