

## Economic complexity as the source of economic transformation of Uzbekistan

### Key Messages

- Uzbekistan has aimed to attain high income country status by the 2030 which implies that institutional reforms, innovation, macroeconomic stability and regional development are among key priorities.
- Therefore, fostering economic complexity of produced goods and services may become one of the benchmarks to assess the quality of economic growth.
- Countries with increased economic complexity index are associated with higher GDP per capita and life satisfaction indices at the country level.

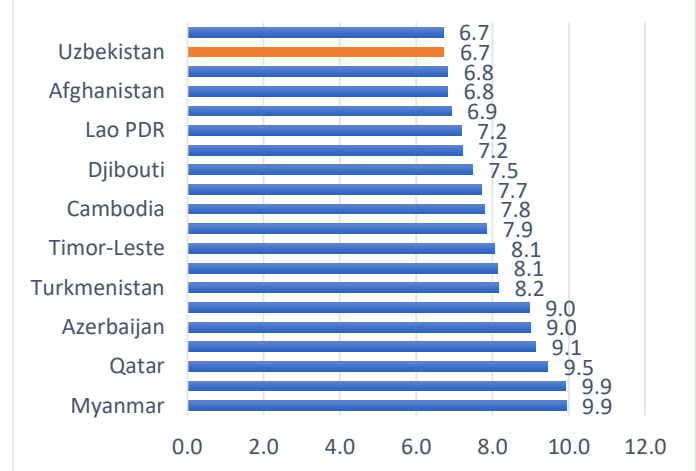
Recently, the Government of Uzbekistan has posted a draft resolution for the Concept for socio-economic development of Uzbekistan 2030<sup>1</sup>. This concept targets to increase GDP by 2.1 times and GDP per capita by 3 times. The draft resolution identifies seven priority areas of socio-economic development of the country, aimed at increasing the inclusiveness of economic growth and the transition of Uzbekistan to the list of high-income countries in the long term, which include:

1. Institutional changes and priority areas for ensuring macroeconomic stability;
2. Priority areas for the development of the real sector of the economy;
3. Priority areas for the development of human capital;
4. Priority areas for the development of innovation;
5. Priority areas for the development of engineering communications and industrial infrastructure;
6. Priorities for further improvement of the investment and business environment;
7. Priority areas of balanced socio-economic development of the regions.

The draft resolution underlines that in order to achieve the goals it is necessary to maintain GDP growth rates

equal or above to the levels of 6.4%. The main factors of GDP growth are ensuring the growth of real industry volumes by 2.3 times (an increase in the share in GDP from 26.3% in 2018 to 33.3% in 2030), construction work 2.1 times (from 5,7% to 6.4%) and services 2.1 times (from 35.6% to 39.3%) and, accordingly, a 1.8% decrease in the share of agriculture (from 32.4% to 21%). As a result, this will lead to a 3-fold growth in exports.

**Figure 1. GDP growth, Top20 for 2000-2018**



Indeed, the main factors in achieving the goals are:

1. Transformation of the growth of the demographic factor into effective economic growth through the development of mechanisms for targeted regulation of labor resources and the growth of human capital, the efficient use of resources for economic growth.
2. Effective use of the regional factor by strengthening the material and technical and financial base of the regions, accelerated mobilization of local resources and opportunities for the implementation of

<sup>1</sup> <https://regulation.gov.uz/ru/document/8839>

infrastructure, production and social projects that ensure the creation of productive jobs and increase the incomes of the local population. At the same time, particular importance will be given to the use of the advantages and benefits of economic and specialized zones, industry clusters, small industrial zones, innovation centers, technology parks for the effective development and deployment of industrial production and attracting private and foreign investment.

3. Conducting a targeted investment policy in ensuring economic growth and structural transformation through a systematic transition from the concept of growth in the volume of attracted investments to the concept of their effective use. This will be facilitated by the rational use of natural resources, the development of renewable energy sources and high value-added industries, which will also help to reduce environmental emissions, preserve and restore ecosystems.

Therefore, it is important not to overlook the role that economic complexity plays in economic progress. Figure 2 provides a visual association between Economic complexity index and GDP per capita for 2017. As it can be seen there is direct positive association between these two variables. In particular, ECI explains nearly 45% of GDP per capita variation across the globe. However, the association between economic growth and ECI are much deeper than simple correlation. As suggested by Hidalgo et al. (2011) “Countries whose economic complexity is greater than what we would expect, given their level of income, tend to grow faster than those that are “too rich” for their current level of economic complexity. In this sense, economic complexity is not just a symptom or an expression of prosperity: it is a driver”.

Figure 2. ECI and GDP per capita, 2017

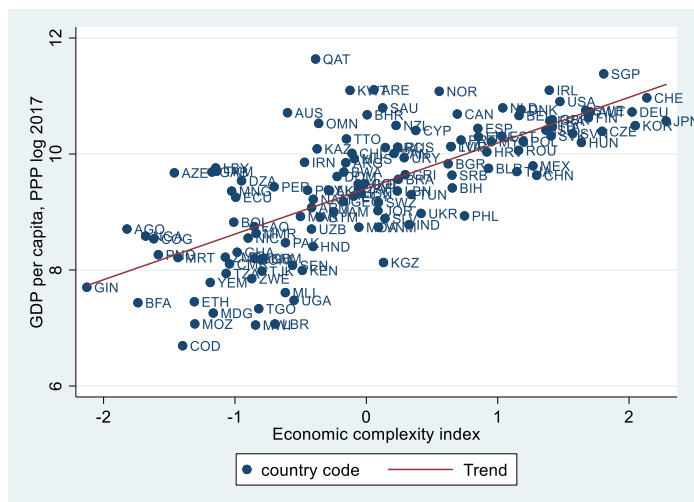
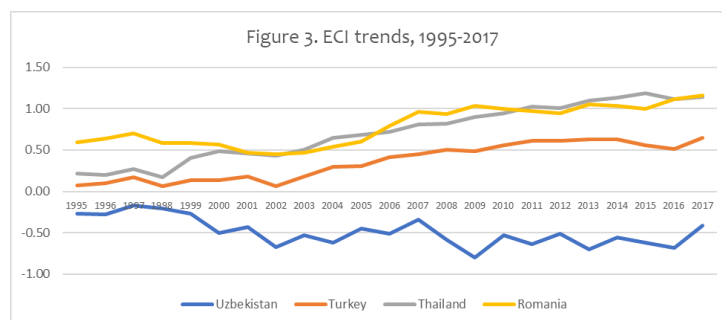
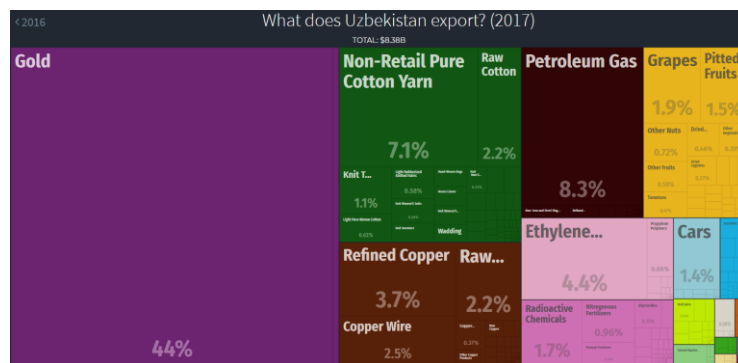


Figure 3 plots ECI trends for Uzbekistan and selected countries. As it can be seen, overall the degree of technological and knowledge sophistication in the goods and services that are produced and exported from Uzbekistan have not change significantly between 1995 and 2017, while in other countries amount of knowledge that is embedded in the productive structure of an economy have increased significantly.



As a result, export structure of Uzbekistan was largely dominated by primary goods and services in 2017. As suggested by ATLAS MIT Observatory the revealed comparative advantage of Uzbekistan for cars is 0.4 compared to 27 for raw cotton and 49.3 for grapes.

Figure 4. Exports structure of Uzbekistan, 2017

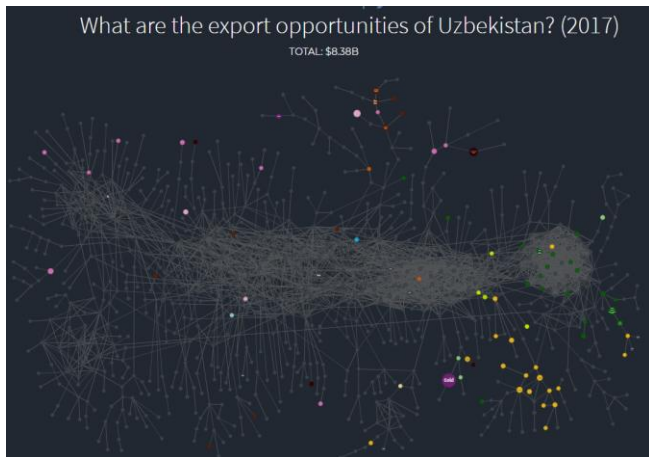


While comparing the exports structure of Thailand for 2017 we may observe that it is significantly diversified with more than 30% falling to the share of machinery and more than 10% to transportation. As a result, the export opportunities for Uzbekistan are much smaller compared to the ones in Thailand (Figure 6)

Figure 5. Exports structure of Thailand, 2017



Figure 6. Export opportunities for Uzbekistan and Thailand, 2017



Finally, overlooking ECI as an important source of economic growth can also have negative implications for society as countries with lower levels of ECI have higher degree of income inequality (Figure 7) and greater happiness inequality within society (Figure 8).

Figure 7. ECI and GINI, 2017

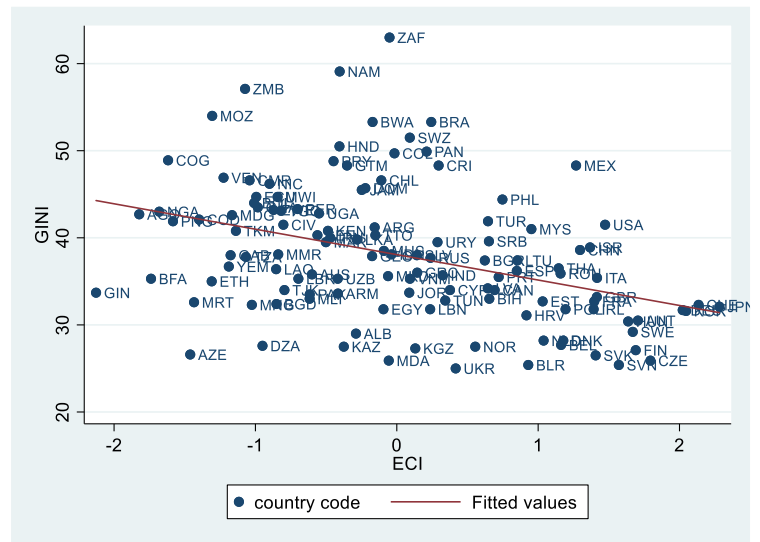
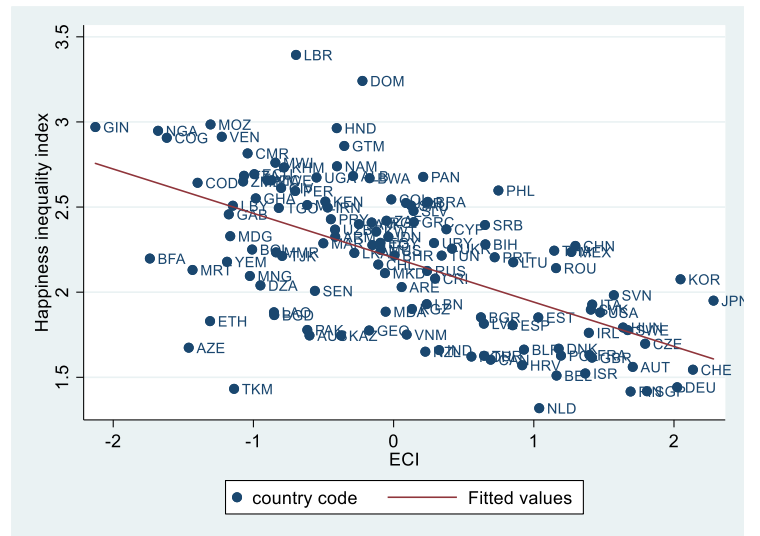


Figure 8. ECI and Happiness inequality, 2017



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