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## COMPETITIVE ENVIRONMENT AS A DIVERSIFICATION FACTOR AT THE MACROECONOMIC LEVEL

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**Abstract:** *The article provides information on the concept of corporate internal consistency, which determines the choice of diversification strategy. The profitability indicators of industrial sectors, the economic effects of diversification and modernization of production on industrial competitiveness are analyzed. The following main problems affecting the level of competitiveness of real sector products have been identified.*

**Keywords:** *words: diversification strategy, competition development, effective competitive environment, profitability indicator.*

### I. Introduction

The United Nations Industrial Development Organization (UNIDO) has released its next edition of the "Industrial Competitiveness Index - 2020" using statistical data compiled during the COVID-19 pandemic, which has had a negative impact on industrial development worldwide. 2022” report. According to it, the average index was 0.062, or 0.006 more than the previous value[1].

The report notes that the volume of industrial products produced in the Republic of Uzbekistan increased by 1.9 times over the past period, from 235.3 trillion soums in 2018 to 451.6 trillion soums in 2021. The largest relative weight in the production structure fell on the enterprises of the processing industry (82.0%), their production volume amounted to 305.9 trillion soums.

Based on this, Uzbekistan ranked 89th out of 154 countries in the Competitiveness Index with an index of 0.017, improving its position in the ranking by 5 places, which allowed our country to enter the category of countries with an average quantile of industrial development (according to the index methodology). Positive changes were noted in 6 indicators, while indicators decreased in 2 indicators.

The competitiveness of the industry was achieved through the diversification and modernization of production, the development of the processing industry sector over the sectors producing raw materials through the production of ready-to-consume and new types of products.

The growing dominance of the processing industry over the development of raw material-producing sectors today leads to the development of the republic's economy as a single, functioning system, forming the regulatory capacity and driving forces of economic growth. The elimination of the republic's orientation towards raw materials requires a significant diversification of its economy, the creation and development of effective businesses, and a real, functioning incentive framework. In this case, the condition for the competitiveness of manufactured products as a result of the continuous process of economic activity of all market entities and the quality of the entire institutional environment should serve as an incentive framework.

## II. Materials and Methods

According to the resource concept of diversification, firms grow through diversification, using existing growth potential - organizational capabilities or inherited management resources. The development of the resource concept begins with the research of E. Penrose, who determined the growth strategy of a firm by its resource potential. This allowed the supporters of this concept (B. Wernerfelt, D. Thies, R. Ramelt, J. Dosi, S. Winter, S. Montgomery, etc.) to determine what determines the choice of a firm for related and unrelated diversification. D. Thies, R. Ramelt, J. Dosi and S. Winter introduce the concept of "corporate internal consistency" that determines the choice of a diversification strategy. For example, firms that are the same in terms of products produced, but have different levels and composition of corporate internal consistency between different categories of resources, implement different diversification strategies. The internal agreement of the firm was seen by the authors in the orientation to the "core business". The concept of "core business", in turn, envisages a set of capabilities of the firm that differentiate it from the rest.

The main principle of resource theory is that related diversification has a significant advantage over unrelated diversification. This is determined by the potential release of resources (facilities, technologies, customer base) when used together. The concept of "core business" was supported by K. Prahalad and G. Hamel with the idea of the core capabilities of the firm[2]. This became the basis for firms to either engage in related diversification (by selling unrelated areas) or to conduct internal negotiations on the directions of diversification of the firm. D. Collis, S. Montgomery[3] proposed three elements of effective corporate strategy, which include: corporate resources; interconnected businesses; organizational structure, management systems and processes. In this case, achieving value from diversification is possible only through the organic combination of the three indicated elements and a clear vision of the future, the goals and objectives of the firm.

## III. Results and Discussion

The given data represent the tendency of the advantage of the processing industry over the raw materials sector by 3 times in terms of the volume of fixed funds, by 17.5 times by investments and by 2.3 times by depreciation (Table 1).

**Table 1**

**Dynamics and ratio of key economic indicators in the raw materials sector and the processing industry in the Republic of Uzbekistan, in billion soums, at current prices[4]**

	Fixed assets		Investments in fixed assets		Net profit		Depreciation	
	2017	2021	2017	2021	2017	2021	2017	2021
Advancement indicators of processing production in relation to the	184.9	210.2	86.2	237.7	404.3	1760.8	251.0	245.6

raw material sector , in %								
- absolute growth, bln.s.	21967	63874.1	- 1965.7	32408.8	10562.9	28165.1	12347.8	29035.2
- plant growth, in %	100	290.8	100	1748.7	100	266.6	100	235.1

As a result, the republic's economy is increasing its ability to reproduce due to the formation of high-quality self-organizers for the production of effective goods based on taking into account not only natural, but also acquired competitive advantages. The increase in the competitiveness of the economy in 2021 compared to 2017 is associated with the improvement of the macroeconomic environment. This is reflected in the restriction of natural monopolies in recent years, the implementation of an incentive and clearly targeted state industrial and technical policy, and the adequate use of privileges created in exchange for economic and social orientation.

The allocation of capital between the raw material and processing sectors is one of the main institutional conditions leading to the diversification of the country's economy:

- that the market of hydrocarbon raw materials is supported by the financial-budgetary system;
- an effective tax-financial system that puts pressure on market entrepreneurial activity and supports innovative orientation of investments;
- measures being taken to exploit comparative competitive advantages in the context of emerging differentiation, integration of world markets and economic unions (WTO, EAEU, APEC, OECD, etc.);
- State support for the production of national processing industry products, taking into account competition in domestic and foreign markets.

Regardless of the direction of management on the development of competition, it will be possible to achieve a positive result that is demanded by the public and takes into account both the objective needs of the national business community and the conditions of the foreign market through reforms to ensure balanced macroeconomic dynamics, stabilize the internal economic environment, and liberalize market relations.

The level of monopolization of the fuel and energy market is extremely high: Urgenchtransgaz, Uzbekhydroenergo, Issyk-Kul Electric Stations, Uzbek National Electric Networks, Uzbekneftegaz, Uztransgaz, Uzbek National Electric Networks, Uzbek Regional Electric Networks, Uzbek Transgaz, Uzbek State Enterprise "Uzbekistan Post", Uzbek State Enterprise "Tuyamuyun-Nukus Interregional Water Pipeline Operation Department", Uzbek State Enterprise "Damkhodzha Interregional Water Pipeline Operation Department", Uzbek State Enterprise "U A similar situation is typical for the foreign market.

Despite the high level of monopolization of the state-owned oil and gas sectors, the growth of their revenues has ceased to cover current budget expenditures and the decline in the absolute growth of tax revenues from other sectors. In 2011-2021, the share of tax revenues from other sectors decreased by half. This indicates that the state

continues its policy of covering budget expenditures through taxes from oil and gas companies.

According to statistical data, the supply of electricity, gas, steam, and air conditioning to the domestic market remains the most unprofitable and loss-making sector of industry (Table 2).

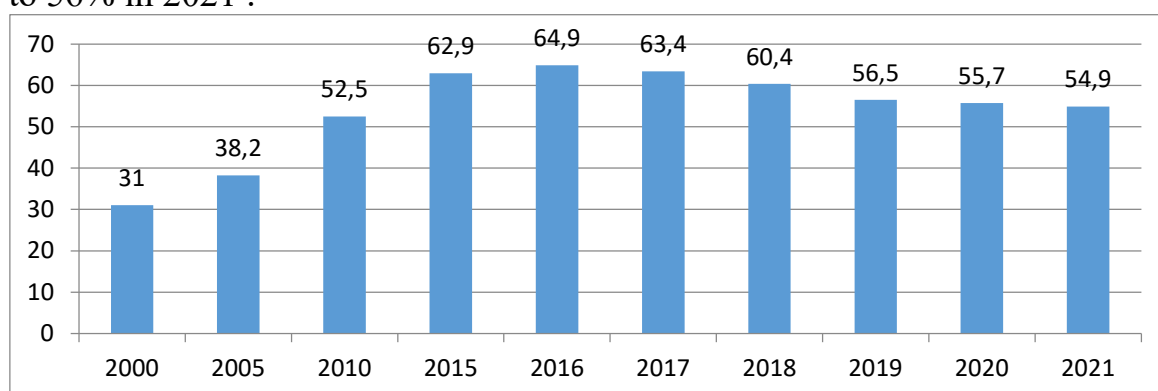
In 2017-2021, the profitability index for the industry increased from an average of 8.8% to 63.4%. The mining industry, which was unprofitable in 2017, became profitable by 2021 and amounted to 29.8%. The electricity, gas, steam supply and open pit mining industry suffered a loss of 35.0%. The water supply, sewage system, waste collection and disposal industry became loss-making since 2018 and the loss level in 2021 was 12.4%.

**Table 2**

**Profitability indicators of industrial sectors [6]**

	2017	2018	2019	2020	2021
<b>Total by industry</b>	8.8	23.1	14.7	50.5	63.4
<b>Including:</b>					
<b>Mining and open pit mining</b>	-66.7	10.2	-92.9	18.3	16.5
<b>Manufacturing industry</b>	19.6	29.4	21.2	25.0	29.8
<b>Electricity, gas, steam supply and open pit mining</b>	-9.9	-6.7	-8.4	-23.3	-35.0
<b>Water supply, sewage system, waste collection and disposal</b>	2.9	-11.4	-11.4	-10.0	-12.4

Small business has become one of the important factors of the republic's economic development in 2000-2021. The main indicators of its development are characterized by the following trends (Figure 1): measures taken to shape the business environment, comprehensively support and further stimulate the development of small business and private entrepreneurship helped increase its share in GDP from 31.0% in 2000 to 56% in 2021 .



**Figure 1. Dynamics of changes in the share of small businesses in the economy in 2000-2021 [7] (in percent of GDP)**

In 2021, small businesses produced industrial products worth 121,719.2 billion soums. By region, the largest volume of industrial production by small businesses was accounted for by Tashkent city (25.6%), Tashkent (11.8%), Fergana (10.5%), Andijan (8.0%) and Samarkand (7.9%) regions, while the lowest volume of industrial production remains in Khorezm region (2.5%) (Appendix 2.3.1).

By region, the highest share of small businesses in total industrial output is observed in Jizzakh region (52.4%), Surkhandarya (51.4%), Namangan (49.2%), Fergana (45.8%), Samarkand (42.5%), Syrdarya (39.6%), Bukhara (39.0%), Tashkent city (36.3%), Andijan (27.1%) and Kashkadarya (26.3%) regions. The share of small businesses in Navoi region (6.9%) remains the lowest (Appendix 2.3.2).

In 2021, the volume of retail turnover of small businesses amounted to 204787.4 billion soums, or 82.1% of the total retail trade turnover, with a growth rate of 111.8% compared to 2020. The volume of construction work amounted to 77762.0 billion soums, or 72.4% of the total volume of construction work. The growth rate compared to 2020 was 106.6% (Appendix 2.3.3, 2.3.4).

According to the results of the fourth quarter of 2021, a sample survey was conducted among small enterprises and microfirms. 14,735 small enterprises and microfirms participated in this survey. Of these, 5,486 (37.2%) assessed the economic situation as favorable. The remaining 1,201 (8.2%) entities assessed the economic situation as unsatisfactory. The distribution (share) of small enterprises and microfirms participating in the survey by type of economic activity was 18.6% (2,739) in industry.

By region, the largest number of small businesses and micro-firms participating in the monitoring of small business entities were in Tashkent city (2,404), Samarkand (1,492), Tashkent (1,299), and Fergana (1,215) regions.

According to the results of the survey of small enterprises and microfirms conducted in the fourth quarter of 2021, the largest share of enterprises that assessed the economic situation as favorable in the current period by type of economic activity was in construction - 39.5%, in trade - 39.1%, and in the services sector - 36.6%.

Also, the largest share of enterprises that assessed the economic situation as satisfactory was in industry (55.9%), agriculture, forestry and fisheries (55.4%), and services (55.3%).

In the fourth quarter of 2021, the largest share of enterprises that assessed the economic situation as favorable in terms of the prospects for changes in the next 3 months among small enterprises and microfirms participating in the monitoring, by type of economic activity, was 47.8% in construction, 47.6% in trade, and 45.2% in the services sector (Appendix 2.3.6).

Also, the largest share of enterprises that assessed the economic situation as satisfactory in terms of the prospects for changes in the next 3 months was in industry (50.3%), agriculture, forestry and fisheries (50.1%), services (49.4%), and trade (47.9%).

In accordance with the new Uzbekistan Development Strategy, the goal is to effectively continue the reforms implemented in the above-mentioned areas in 2022-2026, mobilize existing resources and opportunities, further increase the volume of gross domestic product per capita, and by 2030, Uzbekistan will join the ranks of countries with above-average per capita incomes.



**Table 3**

**Assessment of business confidence in the fourth quarter of 2021 , in % [8]**

	Changes in the current period compared to the same period last year		
	increase (improvement)	unchanged	decline (deterioration)
<b>Total turnover of the enterprise</b>	49.4	40.0	10.6
<b>Number of busy people</b>	28.3	64.5	7.2
<b>Price for sold products (goods, works and services).</b>	41.2	53.3	5.5
<b>Financial resources: own, credit and debt funds</b>	32.0	61.0	7.0
<b>Competitive environment</b>	41.9	53.7	4.4
The prospect of changes in the next 3 months			
<b>Total turnover of the enterprise</b>	52.8	42.8	4.4
<b>Number of busy people</b>	33.3	63.0	3.7
<b>Price for sold products (goods, works and services).</b>	42.7	53.6	3.7
<b>Financial resources: own, credit and debt funds</b>	36.6	58.5	4.9
<b>Competitive environment</b>	44.0	52.6	3.4

This is to be achieved by stimulating and increasing the share of the private sector, attracting foreign direct investment, and developing a cluster system in key sectors. It should be noted that the effective and rapid development of leading sectors in the economy leads to an increase in the country's GDP, that is, an increase in the volume of domestic product per capita[9].

The global maneuver of the tax system to equalize the tax burden in the raw material and processing sectors of the economy, according to the business community, should consist of the following:

- a significant differentiation of tax rates across sectors by increasing insurance payments from wages for the extractive sector and proportionally reducing this indicator for the processing industry;

- reduce VAT on innovative manufacturing, introduce tax holidays based not on time, but on the share of market-competitive and exported products.

The need for a general reduction of tax burdens on producers cannot be solved by simply providing tax benefits and preferences for various industries and sectors of the economy. It is necessary to radically reorient the entire tax policy from its primarily fiscal orientation to stimulating significant economic activity for business, with an emphasis on its innovative component. According to statistical data, the total current tax burden on business in the Republic of Uzbekistan currently amounts to 20-25%, compared to 40-45% in the US and Western economies[10].

According to World Bank estimates, it is in the range of 50.7%, which is 1.5 times higher than official estimates (33-35%), and excluding the oil and gas sector, it is 24.3% [11], which is higher than in Canada, Great Britain, New Zealand, and Switzerland. Foreign experience shows that high rates hinder budget replenishment

and, on the contrary, encourage tax evasion. The tax burden on business in Uzbekistan is lower than in China, Canada, and Germany, as a result of which it is more profitable to locate production there, which helps to stimulate the export of non-primary goods in Uzbekistan. In particular, additional benefits are introduced for exporters in terms of uninterrupted supply of raw materials, allocation of working capital, credit, customs, and taxes.

According to experts, there is a need to abolish taxes on the extraction of minerals and excise taxes in the domestic market, and it is proposed to compensate for the decrease in budget revenues by increasing export duties on raw materials. Regarding the refund of VAT on raw materials, it is not refunded at all when raw materials are exported without processing, but it is refunded with certain coefficients for processed products, this measure does not contradict WTO rules[12].

It is no secret that a low fiscal burden on business leads to timely payment of taxes and is a reason for attracting capital to the economy. This violates the principles of market competition. A comprehensive solution to the problem is associated with increasing the competitiveness of the national banking and financial sector, the stock market, the attractiveness of financial flows, and ensuring legal protection of property.

In structural maneuvering, the peculiar competition between state bodies becomes one of the barriers to the degree of influence on a particular sector of the market, the results of which often reflect not only the quality of the assessment of real economic conditions and the reliability of macro-forecasts, but also the momentary needs of the political system. For example, the nature and volume of the tax burden on business, incomes of individuals and legal entities are the competence of both the Ministry of Economic Development and Poverty Reduction and the Ministry of Finance. However, the financial orientation of the policy of the Ministry of Finance of the Republic of Uzbekistan exceeds the role of the tax system as a regulator of economic activity in a market economy, including the extractive and processing industries.

M. Porter's warning that "competition is based on economics, and competitive forces are pushed further than the simple struggle of forces in a single sector" [13] emphasizes the state-related aspects of international competition, not industrial corporations or banks, which are considered the main moving entities. Such competition reaches a global level according to certain rules, which are fixed by multilateral international agreements on free trade. This activity includes measures to eliminate non-tariff barriers, measures to import foreign technologies from international regulatory and legal documents, and the development of plans to develop its own scientific and technical potential. Uzbekistan's participation in interstate associations at various levels and depths of integration remains an important form of increasing its competitiveness in the world market.

In order to achieve structural transformation of the economy in the context of the financial and economic crisis, it is necessary to seek new opportunities for exporting products from the processing industries of the real sector.

Failure to take into account external market conditions in sufficient depth will have a strong impact on the competitiveness of Uzbekistan's raw materials and

processing sectors and will lead to a significant increase in energy resources and gas prices in Uzbekistan.

It should be noted that the terms of the formation of the Eurasian Economic Union (EAEU) provide for the adoption of a single antimonopoly legislation. This should guarantee equal competitive opportunities for the participating countries, which can have a positive impact on the composition of GDP in relation to the extractive and processing industries. At the same time, there is a real threat to the economy of the republic due to unequal competition between the Customs Union, the Eurasian Economic Integration and the WTO, which is determined by the lack of experience in developing a regulatory framework for the economy of the republic that regulates new integration structures. However, this does not mean that these economic ties should be broken. It is advisable to apply a flexible policy of promoting national interests through measures to protect national producers, creating conditions for increasing the efficiency and competitiveness of their businesses, entering large markets, and legal protection from the pressure of hidden competition in both domestic and foreign markets. While implementing structural reforms, the state can use non-tariff methods of influence through credit and monetary policy, apply environmental and technical standards, and provide political support to exporters while adhering to the provisions of the agreement on participation in the economic space.

The Republic of Uzbekistan needs to support fair conditions in relation to the WTO, based on the experience of other countries. For this, the efforts of targeted agencies engaged in foreign economic activity are not enough. It is necessary to assess in advance the consequences of steps taken to change the business environment for domestic producers, taking into account their requirements and capabilities.

World experience distinguishes the following areas of support for national exporters: export crediting, direct subsidies, tariff and non-tariff regulation measures, lobbying and political support, such as the introduction of countervailing restrictions. This list is implemented almost in full in relation to the products of the raw material sector and, first of all, to the energy sector. Loans for state corporations of the energy sector of Uzbekistan are provided not only in large banks, but also in their own directly established branch banks to support the directional activities of the concerns, and in the open financial market under preferential rates and state guarantees, which are fully convenient for borrowers. In this case, tariff and non-tariff regulation measures are often directly related to changes in the political situation, and emerging debt obligations are covered by direct purchases on the basis of privatization and long-term lending.

Regarding state support for the processing industry, it should be said that the situation here is somewhat reversed. Equipment manufactured abroad is more competitive in the market due to the VAT refund upon export (compared to similar domestic products). The system of subsidizing interest rates on consumer loans that we have applies not only to domestic, but also to imported equipment. This significantly reduces the competitiveness of Uzbek manufacturers. It should be noted that in the Western market this benefit applies only to its own products.

Analyzing all of the above, the following main problems can be identified that affect the level of competitiveness of the entire real sector:



- ***in the goods and services market:***

- Natural monopoly prices, based on unattractive costs and not reflecting the balance of supply and demand in domestic and foreign markets, fuel an inflationary spiral (hydrocarbon extraction, housing and communal services);
- unincentivized creation of intermediation structures, including internal corporate structures that allow compensation of profit and real business efficiency;
- competitive conditions for both initial business organization and development are directly dependent not on market demands, but also on government corruption (fixed prices and cartel agreements in the pharmaceutical market, car insurance, etc.) and proximity to administrative structures;
- expansion of business and government is reshaping the competitive environment for both large and small companies. Special programs for the development of competition in highly concentrated markets are necessary;
- limiting the use of infrastructure by small businesses, as administrative barriers to market entry will remain;

- ***in the consumer services market:***

- the practical absence of competition in the market of housing and communal economy complicates the social situation due to the official reorganization of former residences in commercial structures and the lack of agreement on the legal basis of legal documents of various types of property;
- It is advisable to strengthen state regulation of market prices of everyday consumer goods by changing the current methodology for determining the subsistence minimum by region;

- ***in the financial market:***

- the monopolization of the domestic financial market by the State Bank reduces the quality of financial services for business and the population. Loan rates for business and processing industries are high and reach 23-28% per annum in the interbank market, which is 4-6 times higher than in the West. At a low level of profitability, this makes it difficult to allocate credit resources for the modernization and development of the processing industries of the industry;
- protection of competition and autarky of the financial sector in the external market leads to capital flight and businesses seeking investment in foreign banks;
- Until recently, the insufficient activity of the Bank of the Republic in the field of prudential supervision of commercial banks led to the criminalization of the banking sector, did not ensure effective regulation of the banking sector in terms of the reliability of balance sheet data. In this case, the collapse of "systemically important banks" cannot be allowed, which in fact means fierce competition;
- the gradual transition of the entire business to international requirements objectively complicates control over its competitiveness in the world market;

- ***in the labor market:***

- the demand for employment by both business and the state does not correspond to the composition of the population and the quality of the workforce (monocity, migrant employment, etc.);

- increased business demand for unskilled labor in construction, housing and communal economy and trade is mainly met at the expense of migrants, representing the harmful composition of the real sector;
- indicates that there is no competitive space for this level of employment;
- Increased competition for employment in government agencies is determined entirely by the size of the salary and has a specific character, which is dependent on personal relationships, which does not in any way improve the quality of public services.

#### IV. Conclusion

In conclusion, it should be noted that the peculiarity of the competitive environment being formed in the economy of the republic, which is characterized by the distortions of the real sector, is characterized by the dominance of uneconomic methods and means of competition, weakening of market motivation, simultaneous increase in prices, a decrease in product quality, and a violation of morality and the application of law. Only the creation of an effective competitive environment is capable of guaranteeing the appropriate market structure of the economy and supporting the permanent conditions of competitiveness for its growth, self-development and implementation of the structural maneuver of GDP.

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