



**THE ROLE OF INDUSTRIAL POLICY IN ENHANCING EXPORT  
POTENTIAL: STRATEGIC APPROACHES AND THE EXPERIENCE OF  
UZBEKISTAN**

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## **Introduction**

Industrial policy serves as a cornerstone for economic transformation in developing countries, offering a deliberate framework through which governments can guide structural change, nurture competitive industries, and integrate more deeply into global value chains. In the context of globalization—where technological innovation, shifting consumer preferences, and complex trade relationships continually reshape market access—relying solely on market forces often leaves rising economies vulnerable to commodity price volatility and external shocks. For Uzbekistan, with its rich historical legacy as a Silk Road crossroads and abundant natural endowments, an astutely crafted industrial policy has become the vehicle for moving beyond traditional raw material exports toward higher value manufactured goods.

Since achieving independence in 1991, Uzbekistan confronted the dual challenge of inherited Soviet era specialization in cotton and metals and the need to build entirely new industrial capacities. Early efforts at liberalization in the 1990s yielded uneven results: while macroeconomic stabilization was achieved, the economy remained heavily exposed to fluctuations in global commodity markets. Recognizing these limitations, the Uzbek government embarked on a comprehensive reform agenda beginning in 2017, anchored by three interlocking pillars: regulatory overhaul, targeted investment promotion, and strategic sectoral support. The result has been a marked shift in the country's export composition—from more than 70% raw materials in 2011 to nearly 50% manufactured products by 2023.





This expanded introduction will first situate Uzbekistan's industrial policy within the broader theoretical debates on state led development versus laissez faire approaches. It will then trace the evolution of policy instruments—from exchange rate management and tax incentives to the creation of free economic zones—and explain how these tools have been calibrated over time to respond to both domestic constraints (such as infrastructure bottlenecks and skills gaps) and external opportunities (including Russia's market demand and new trade corridors with Europe and China). Finally, the introduction will highlight three critical success factors underpinning Uzbekistan's journey: institutional coordination among ministries and development agencies; the balancing act between protection and competitiveness; and the adaptive learning process by which policies are continuously refined through feedback from the private sector and multilateral partners. By unpacking these dynamics in greater depth, this article lays the groundwork for understanding how targeted industrial interventions can catalyze export diversification and long term economic resilience in emerging markets.

**Keywords:** Industrial Policy; Export Potential; Economic Diversification; Free Economic Zones; Foreign Direct Investment; Exchange Rate Management; Tax Incentives; Public–Private Partnerships; Uzbekistan; Strategic Sectoral Support.

### **Economic Context and the Role of Industrial Policy**

Upon the Soviet Union's dissolution, Uzbekistan inherited an economy heavily skewed toward commodity exports. However, reforms initiated in 2017 to liberalize markets and attract investment have driven an average annual GDP growth of 5.3% (World Bank). Industrial policy has been central to stabilizing the economy, reducing unemployment, and raising the manufacturing sector's share of GDP. According to a United Nations report, Uzbekistan's success stems not only from liberalization but also from deliberate, well targeted state support.

### **Strategic Approaches to Industrial Policy**

Uzbekistan employs a multi pronged strategy to elevate its export performance:

1. **Currency Management** Maintaining a deliberately competitive exchange rate, supported by foreign exchange reserves, has sharpened export competitiveness. Between 2000 and 2007, real effective exchange rates fell by over 50%, catalyzing export growth.





## 2. Tax and Financial Incentives

Exporters dispatching more than 30% of their output benefit from tax relief—including up to a 50% reduction in corporate taxes.

## 3. State Procurement and Investment

Government contracts provide stable domestic demand, while public investment fuels capacity expansion in priority industries.

4. Selective Attraction of FDI Through joint ventures with leading foreign firms, particularly in the automotive and chemical domains, Uzbekistan secures capital, technology transfer, and managerial expertise.

5. Protectionism Paired with Export Support Import substitution measures (such as higher import tariffs) are balanced by streamlined customs procedures and subsidy schemes for exporters.

## 6. Free Economic Zones (FEZs)

Special economic zones—with tax holidays and simplified regulations—serve as magnets for greenfield investment and accelerate clustering effects.

Thanks to these combined instruments, total exports climbed from \$15.5 billion in 2011 to a substantially higher share of manufactured goods—most notably in vehicles and chemical products.

### Case Study: Automotive Industry

Uzbekistan's vehicle sector exemplifies the payoff of an assertive industrial policy. Prior to 1992, there was no domestic car assembly. Through partnerships with the likes of Daewoo (later UzDaewooAuto) and General Motors Uzbekistan, the country built up production capacity. By 2014, annual output had reached 250,000 units, with 25% headed to Russia and other CIS markets. Fast forward to 2023, and production soared to 425,876 vehicles—a 25% increase over 2022 (CEIC Data).

**Export Growth:** Automotive exports jumped from \$55.1 million in 2016 to \$208.9 million in 2020, with Kazakhstan absorbing over \$168.6 million of that total.

**Policy Driver:** President Mirziyoyev's 2017–2021 roadmap for accelerating automotive industry development lured new global players such as Peugeot Citroën and BYD, tripling production capacity (Control Risks).





Year	Production (units)	Exports (\$ million)	Main Export Destinations
2016	85 000	55.1	Russia, Kazakhstan
2020	220 000	208.9	Kazakhstan, Azerbaijan
2023	425 876	N/A	Kazakhstan, Russia

### Case Study: Chemical Industry

Similarly, chemical manufacturing has flourished under a presidential decree (PP 3236 of 23 August 2017) aimed at modernization, diversification, and export expansion. A \$12.1 billion investment program covering 31 projects through 2030—including \$1.7 billion in FDI—laid the foundation for rapid growth (Trade.gov).

**Export Dynamics:** Chemical exports rose from \$189 million in 2020 to \$482 million in 2022, reaching over 40 foreign markets (Daryo News).

**Output Gains:** Production climbed from UZS 2.3 trillion (\$189 million) in 2016 to UZS 15.3 trillion (\$1.2 billion) in 2022, facilitated by the launch of 30 new product lines.

Year	Production (\$ million)	Exports (\$ million)	Export Count	Destinations
2016	189	189	N/A	
2020	N/A	189	N/A	
2022	1 200	482	40+	

### Additional Insights and Emerging Trends

Beyond the automotive and chemical sectors, Uzbekistan is now eyeing new frontiers:

#### Electronics and ICT Manufacturing

With the launch of dedicated FEZs for high tech assembly, the country aspires to produce consumer electronics and semiconductors for Central Asian and Eurasian markets.

**Agro processing and Food Exports** Building on its agricultural core, Uzbekistan is investing in modern canneries and packaging plants to export processed fruits, vegetables, and juices, thereby capturing higher value.





Digitalization and Industry 4.0 Incentives for robotics, AI driven quality control, and smart logistics are being introduced to enhance productivity, reduce waste, and meet stringent international standards.

Green and Circular Industry To align with global sustainability norms, policies now encourage eco friendly technologies—such as energy efficient reactors in chemical plants and electrified assembly lines in auto factories.

Human Capital Development Recognizing that technology alone doesn't guarantee success, Uzbekistan has launched vocational training centers and academic partnerships with world class universities to build a skilled workforce.

These emerging areas underscore the need for flexibility: as global markets shift toward digital and green goods, Uzbekistan's industrial policy must adapt to sustain export momentum.

## **Conclusion**

Uzbekistan's industrial policy journey demonstrates how astute government action can reshape an economy—steering it away from commodity dependence toward a diversified, high value export landscape. The country's success in the automotive and chemical sectors underscores the efficacy of an integrated policy toolkit, combining exchange rate management, tax incentives, and free economic zones to catalyze rapid capacity building and market access. By nurturing joint ventures with global industry leaders, Uzbekistan has not only attracted capital and technology but also fostered local skill development and supply chain linkages.

Looking ahead, the lessons from Uzbekistan's experience suggest that maintaining policy agility is paramount. As global trade dynamics shift—driven by digitalization, sustainability imperatives, and regional trade agreements—the ability to recalibrate incentives, streamline regulations, and invest in emerging sectors (such as electronics, agro processing, and green technologies) will determine whether Uzbekistan can sustain its export momentum. Additionally, deepening public-private partnerships and strengthening institutional coordination will be critical to translating strategic visions into on the ground impact, ensuring that infrastructure upgrades, workforce training, and innovation ecosystems keep pace with ambitious export targets.

Finally, the Uzbek model offers an instructive blueprint for other emerging economies: a carefully sequenced combination of protection, promotion, and





competition can unlock latent industrial potential, drive economic resilience, and integrate national economies more fully into global value chains. Continued commitment to data driven policy refinement, proactive engagement with international partners, and an unwavering focus on human capital development will enable Uzbekistan to capitalize on new opportunities—charting a sustainable path toward long term export growth and inclusive development.

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