

IMPACT OF FINANCIAL-ECONOMIC RELATIONS IN THE LIBERALIZATION OF ENTERPRISES

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Abstract:

This article analyses how liberalization is likely to affect small companies, and suggests that in order to enable them to tackle the new threats and opportunities stemming from liberalization, there may be a need to change the focus of government support.

Key words: liberalization, entrepreneurship, economic development, financial liberal.

Introduction

It is obvious that the economic liberalization programs being introduced in many countries are fundamentally changing companies' sources of competitive advantage, and forcing them to re-examine their business strategies in order to survive and thrive in the new, more competitive, environment. Clearly understanding the significance of both financial and economic liberalization of enterprises, our government has been considering and working on this issue.

A study shows that line ministries are becoming one of the most powerful centralized controllers in service delivery. And in the service industry, centralized management is even more dangerous than in any other. As a result, there are no functions that sectoral management structures could effectively perform in an innovative economy. Some of them set themselves the task of conducting antimonopoly policy in a particular sphere of the economy. Some of them set themselves the task of conducting antimonopoly policy in a particular area of the economy. Perhaps there is some justification in this for the preservation of many branch offices to this day. However, the main path, in our opinion, consists in ensuring the true independence of the subjects, significantly increasing the role of local economic management, minimizing the number of sectoral ministries and turning them into bodies for coordinating the activities of large national economic complexes.

Materials and Methods

According to Chaudhary C.M. economic liberalization is the lessening of government regulations and restrictions in an economy in exchange for greater participation by private entities; the doctrine is associated with classical liberalism. Thus, liberalization in short is "the removal of controls" in order to encourage economic development[1].

It is pursued the path of economic liberalization in the recent decades with the stated goal of maintaining or increasing their competitiveness as business environments. Liberalization policies include partial or full privatization of government institutions and assets, greater labor market flexibility, lower tax rates for businesses, less restriction on both domestic and foreign capital, open markets, etc. In support of liberalization, former British Prime Minister Tony Blair wrote that: "Success will go to those companies and countries which are swift to adapt, slow to complain, open and willing to change. The task of modern governments is to ensure that our countries can rise to this challenge." [2]

According to O'Sullivan and others economic liberalization is elimination of government regulations or restrictions on private business and trade.[3] It is usually promoted by advocates of free markets and free trade, whose ideology is also called economic liberalism. Economic liberalization also often involves reductions of taxes, social security, and unemployment benefits. Economic liberalization is often associated with privatization, which is the process of transferring ownership or outsourcing of a business, enterprise, agency, public service or public property from the public sector to the private sector. For example, the European Union has liberalized gas and electricity markets, instituting a competitive system.

It is said that in developing countries, economic liberalization refers more to liberalization or further "opening up" of their respective economies to foreign capital and investments. Three of the fastest growing developing economies today; Brazil, China, and India, have achieved rapid economic growth in the past several years or decades, in part, from having "liberalized" their economies to foreign capital.[4]

M. ShaheEmran notes [5] that the current emphasis on financial liberalization in the form of increased competition in the banking sector and market determined interest rates are likely to be counterproductive if the issue is how to induce banks to experiment with new industrial entrepreneurs. There are two types of policies that one might design to make financing of new industrial entrepreneurship possible starting from such a no new industrial financing equilibrium: (1) inter-sectoral policies, and (2) inter-temporal policies. The inter-sectoral policies are aimed at improving the relative profitability of lending to new industrial entrepreneurs, while the intertemporal policies aim to increase the share of the future rent on good entrepreneurship that goes to the bank.

Methodology of the Research

The methodology includes historical analyzes, systematic analyzes, and graphic methods. Statistics have been made by the help of official statistics of Uzbekistan.

Results

Several researches have been conducted for identifying the concept of economic and financial liberalization of entrepreneurship and following results have been achieved.

Firstly, according to the results of studies it has been defined that an entrepreneur is a person who has a role of an industrialist and forms an organization for the commercial use. He is a change agent who transforms the demand into supply by forecasting the needs of the society. Though entrepreneurship is the overall process of developing, launching and running a business, there are many different types of entrepreneurship. People have varying aspirations and visions for the kind of businesses they want to create. Everyone operates their business based on their own personality, skills and characteristics. Some people think that with hard work they can find success, while others may use capital to help them get there. For some entrepreneurs, profits are less important than providing a social good. Though every type of entrepreneur experiences similar challenges, they may choose to address them differently. Each type of entrepreneur sees challenges in a unique way and has different resources to overcome them. Here are the different types of entrepreneurship[6]:



Fig. 1. Common types of Entrepreneurship [6]

While preserving the principles of administrative subordination to higher management bodies, the process of denationalization, provided, in particular, by the new law on property, should contribute to the enhancement of the role of enterprises.

In our opinion, the main problem remains the role of financially and economically liberal enterprises in the national economy. Indeed, the principle of their administrative subordination to ministries is still preserved. And while this is so, both the sectoral and republican governing bodies will remain the bearers of administration. All this determines the special relevance of the problem we are investigating.

Our understanding of the role of sectoral agencies has changed over time. At first, it seemed that the main thing was to get rid of the subjects of everyday administrative care.

Indeed, as long as the law retains the provision that the higher authorities are responsible for meeting the needs of the national economy and the population in the products of the industry, it is unrealistic to count on a change in management methods. How can the highest authorities influence the satisfaction of the needs of the population, in addition to issuing directives and directions?

It also seemed unreasonable to impose on the Ministry of economic methods of regulating the activities of economic entities. In this area, first of all, centralism and an economic approach are needed.

In terms of science, technology and structural policy in the industry, the important role of the top management in these areas seemed clear. However, later on, our opinion on this matter changed.

The experience of developed countries is important in many respects, and above all for the first attempt to form a modern model of market services, organically including commodity-money relations and the market, democracy and active participation of workers in management, the formation of the system of civilized associations. However, turning on this path for our country is now in many respects difficult. Previously, the skills and traditions of running a financial and market economy were still preserved, there were personnel both in practice and in science, possessing the relevant experience. In last years, these traditions were weakened. They do not have to be restored, but formed anew. Practical steps, the experience of market regulation, including the use of commodity reserves and commodity interventions to stabilize prices and much more, is of great interest. Clearly, one cannot ignore the fact that. The Republic of Uzbekistan is now dealing with a fundamentally different new innovatively developing economy than before.

As for the global financial experience, it seems to be very important for the formation of a developed system of regulation of the circulation of money and securities and the market as a whole. For example, the effectiveness of the banking system, which consists of a central bank of issue and a network of commercial banks that provide services for the storage of customer funds and direct lending. For such a system of services to function, it is important to remove banks from the subordination of the Central Bank (CB). Then his policy will not be determined by certain decisions of the center, which, as experience shows, are often arbitrary, and these decisions will be predetermined and placed in a rigid economic framework. The presence of a reserve financial system and the Central Bank's interest rate policy open up the possibility of a fairly strong regulatory impact

on the financial and economic activities of commercial banks. Within the framework of these regulators of services, commercial banks attract and store free funds, provide them as loans with the greatest economic result. This behavior is prompted by competition between commercial banks in an environment where businesses have the opportunity to open their accounts in any of them.

The ongoing division of the Central Bank into a number of sectoral banks practically preserved the system of administrative lending. Sectoral banks remain dominant in their respective fields. The results of their financial and economic activities do not always reflect the real effectiveness of the loan, since the enterprises remain in strict dependence on them.

The system of genuine commercial banks is just beginning to take shape. When developing the banking system, it is especially important to take into account the world level of legal regulation of services. This experience allows you to prepare in advance for situations that have already been encountered in practice. It is also necessary to bear in mind the significant difference between the functioning of decades of well-established financial and economic regulation of the banking sector.

The most responsible and complex problems of financial and banking services arise at the present stage, when effective services have not yet taken shape. This requires major extraordinary tying measures,

"Hot money" held by the population, which "pounced" on any product and bare store shelves, to reduce budget deficits to an acceptable size, stop lending automatism, etc. Probably, in the world experience one can find in a more or less complete form a set of financial and banking services. But no one will solve the difficult task of combining them, bringing them into the system for us.

At the same time, the liberalization of the economy of Uzbekistan, as one of the principles of a new stage of development, presupposes the further development and improvement of the financial mechanism for regulating the financial and economic activities of enterprises in emergency cases for example, in a situation caused by the coronavirus pandemic. Against this background, the territorial features of the development of the financial and economic independence of enterprises should also be preserved. This determines the importance of the problem under study now.

When it comes to reformations on liberalization entrepreneurship in Uzbekistan following statements should be noted since they have been playing major role for the liberalization of entrepreneurship both financially and economically. On October 5, 2016, Mirziyoyev signed the decree[7] "On Additional Measures to Ensure the Accelerated Development of Entrepreneurship, the Full Protection of Private Property, and the Qualitative Improvement of the Business Environment". This initiative sent a clear signal as to his priorities: an understanding that the private sector will be the key driver for economic growth and job creation in Uzbekistan going forward. In February 2017, Uzbekistan adopted a 2017-2021 National Development Strategy[8], which identified five priority areas: 1) Reform of public administration; 2) Reform of the judiciary, strengthening the rule of law and parliamentary reform; 3) Reforms in economic development and liberalization, focusing on modernization of Uzbek agriculture and industry and oriented towards greater competitiveness of the products and services; 4) Social reforms, based on higher incomes and better jobs, oriented on higher quality health care, education, housing etc. 5) Reforms in the security area, focusing on improvements to ensure domestic stability and balanced and constructive foreign policy with the ultimate goal of

strengthening the independence and sovereignty of state. Following this strategy, President Mirziyoyev signaled new directions in both foreign economic relations and domestic economic policy. The areas were well-chosen: the adoption of foreign exchange controls and the high costs of conducting international trade were the two outstanding flaws in the economy. The authorities unified the exchange rate and liberalized the foreign exchange market started in September 2017, began price and trade liberalization, and made significant cuts to tax rates for both firms and individuals from January 2019. The country's opening to the world included elimination of entry visas to promote tourism and business and a renewed commitment to join the World Trade Organization (WTO). The government has expanded social safety net coverage and substantially improved the availability of economic statistics. Uzbekistan's progress has been impressive and as a late reformer it can also benefit from the lessons learned by other transition economies. The economic liberalization measures introduced by the authorities since 2017 are helping address important binding constraints to business, such as the lack of foreign exchange, high import duties, and elevated tax rates. The government is advised to continue realigning the state's role in the economy, while addressing the remaining constraints to private sector development. Measures to address these constraints include:

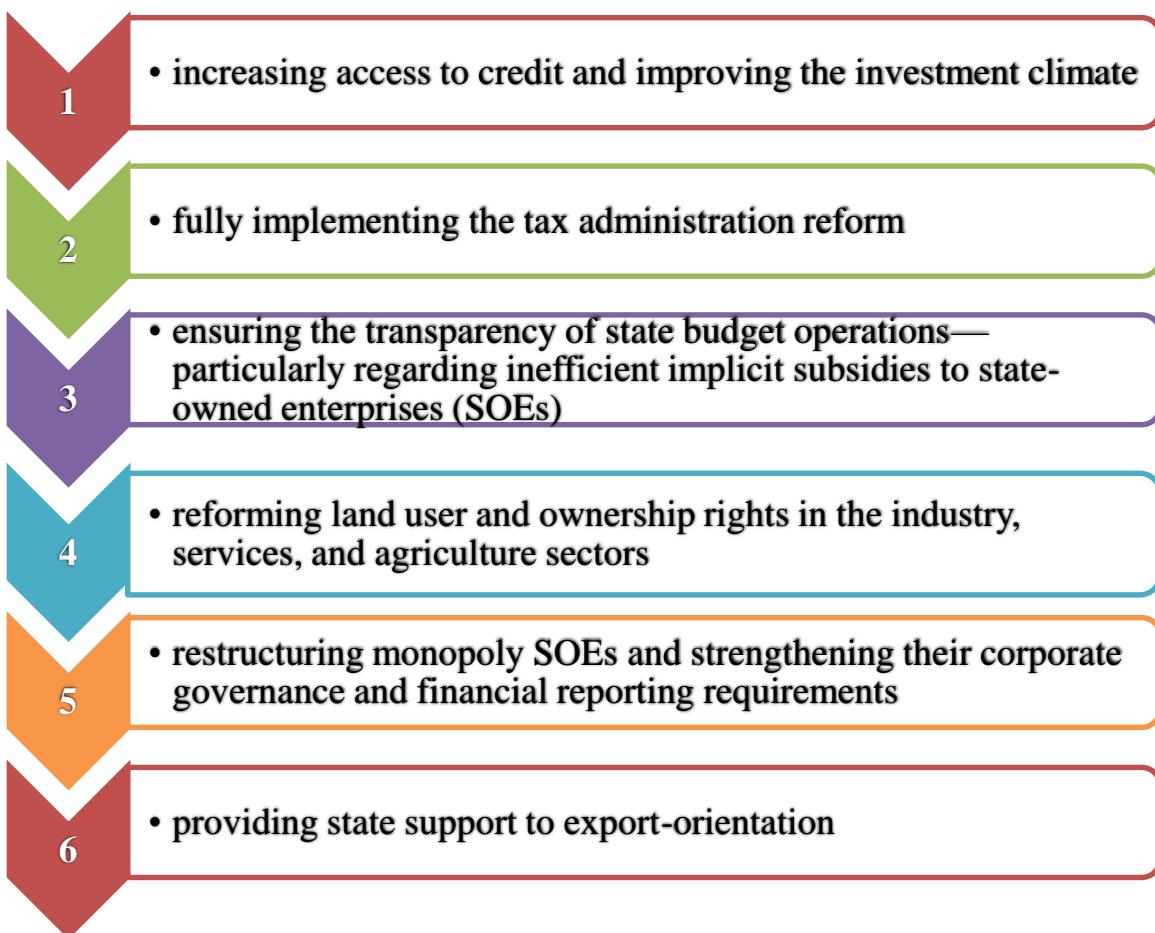


Fig. 2. Measures for liberalization entrepreneurship [9]

Two years ago, Uzbekistan President Mirziyoyev started ambitious liberalization reforms to unlock the country's potential for international business. In September 2017, the government removed long-

standing currency conversion restrictions and liberalized its monetary policy. The soum, the local currency of Uzbekistan, demonstrated about a 2.5% year-on-year depreciation since then. Standard & Poor and Fitch indicate that growing foreign trade turnover of the country and considerable net FX reserves made its mid-term outlook stable. The volume of Uzbekistan's foreign trade turnover in 2018 grew by 27.3% year-on-year to \$33.8 billion, whereas exports contributed \$14.3 billion and imports \$19.5 billion. The trade deficit has grown from \$1.5 billion in 2017 to \$5.3 billion by the end of 2018 due to a deferred demand satisfaction factor. This is due to an increased demand for imported goods. Local businesses, for instance, are taking advantage of new opportunities created by recent currency exchange and trade liberalization reforms to cover their unsatisfied import needs.

Table1

Major Trade Partners (Uzbekistan official statistics, 2018)[9]:

Country	Shares of trade partner countries(in percent)
China	19.0%
Russia	16.9%
Kazakhstan	8.9%
Turkey	6.4%

The United States of America is Uzbekistan's 13th largest trade partner. In 2018, the volume of bilateral trade turnover almost doubled to about \$410 million. Uzbekistan's Constitution provides for a presidential system with separation of powers and a representative government. In practice, power is highly concentrated in the office of the president and the executive branch with an estimated population of more than 34 million, Uzbekistan has the foundation needed to become a regional economic powerhouse: a dynamic, literate, and entrepreneurial population, the largest in Central Asia, relatively good infrastructure; and the largest potential consumer market in the region. Rich natural resources such as gold, natural gas, and cotton offer attractive opportunities for investors. The government's declared economic policy prioritizes the attraction of private investments through improvement of Uzbekistan's business climate, privatization, and liberalization of foreign trade.

Moreover, the head of our Republic delivered following speech on January 24,2020[10] in the Address to the OliyMajlis Uzbekistan exactly, there are major concerns about liberalization of entrepreneurship in the Republic of Uzbekistan. "We are working hard for the extensive development of entrepreneurship and to create new opportunities for this purpose. During the realization of the program "Each Family Entrepreneur", loans totaling 5.9 trillion soums were allocated to family-based startups. As part of the tax reform, the tax burden on wages has been reduced by almost 1.5 times. As a result, the number of employees in the formal sector of the economy increased during the year by 500 thousand. The value added tax rate has been cut from 20 to 15 percent. Thanks to this, 2 trillion soums remained with taxpayers last year. This year, this figure is

expected to reach 11 trillion soums. The fact that so much money is left at the disposal of entrepreneurs in one year opens up enormous additional opportunities for the development of their business. Reforms resulted in the establishment of 93 thousand new business entities last year, almost double the 2018 figures. In the Doing Business ranking of the World Bank, we have risen by 7 positions to come 8th among 190 nations in terms of business registration, and are among the best reformer countries. We have introduced a visa-free regime for citizens of 86 states and a simplified visa regime for 57 ones. Consequently, 6.7 million tourists from abroad visited our country last year, which is 4.7 million or 3.3 times greater than in 2016. In 2019, a total of 5,722 public, private and family kindergartens were established. Thus, within one year alone, the coverage of children with preschool education grew from 38 to 52 percent”.

A study which was conducted for revealing major challenges which were faced by entrepreneurs after liberalization following results have been achieved:

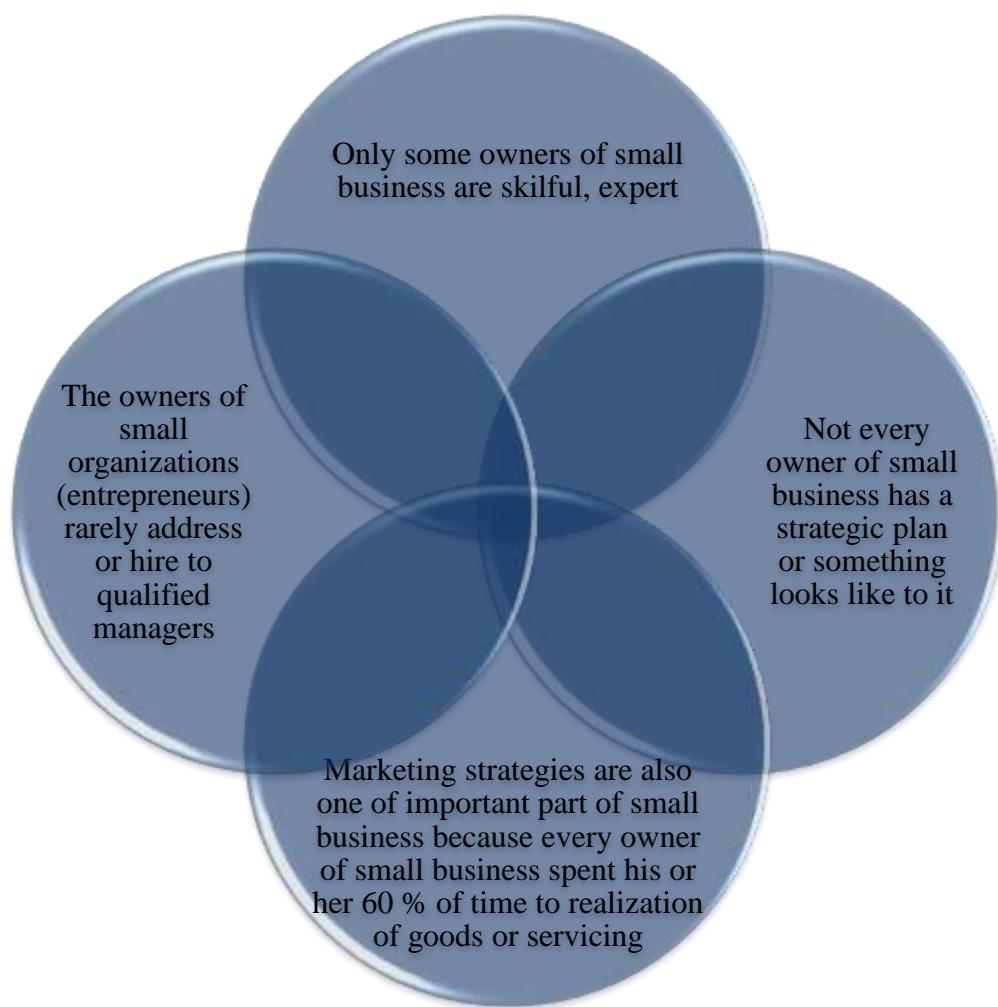


Fig. 3. Major challenges faced by entrepreneurs after liberalization [11]

Conclusion

Summing up, it can be said that liberalization of entrepreneurs both financially and economically supports further improvements in the national economy of our Republic. It is clear from the above conducted researches that many reformations have been made for making entrepreneurship liberal. However, there are still some problems in this sector and following proposals have been made for tackling these issues:

- fully implementing the tax administration reform;
- increasing access to credit and improving the investment climate;
- ensuring the transparency of state budget operations—particularly regarding inefficient implicit subsidies to SOEs;
- reforming land user and ownership rights in the industry, services, and agriculture sectors;
- restructuring monopoly SOEs and strengthening their corporate governance and financial reporting requirements;
- providing state support to export-orientation.

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