

COMMODITY MARKETS AND ECONOMIC DIVERSIFICATION IN UZBEKISTAN.

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Abstract: This paper gives information about what does actual commodity market stand for and shows how this market has been developing and contributing to the economy of Uzbekistan. The foreign trade data is taken from the OEC website where the share of the commodity market's elements in export and import until 2023 is illustrated in percentages. Also, several challenges and opportunities for economic diversification will be outlined in terms of commodity markets.

Introduction

A commodity market trades in raw or primary products rather than manufactured products. *Soft commodities* are agricultural products such as wheat, livestock, coffee, cocoa, and sugar. *Hard commodities* are mined or extracted, such as gold, rubber, natural gas, and oil. More recently developed commodities markets include those for emissions, electricity, and cell phone minutes. Commodities must be clearly defined and standardised in order for markets to function well. For instance, it shouldn't matter who owns or sells an ounce of gold of a particular purity. A range of derivative contracts, such as spot contracts, forwards, futures, options on futures, and swap contracts, as well as the actual physical trading of commodities, are available on commodity markets. Trading in futures contracts stretches back hundreds of years before stock markets; in China, there is evidence of trading in rice futures as early as 6000 B.C.E.

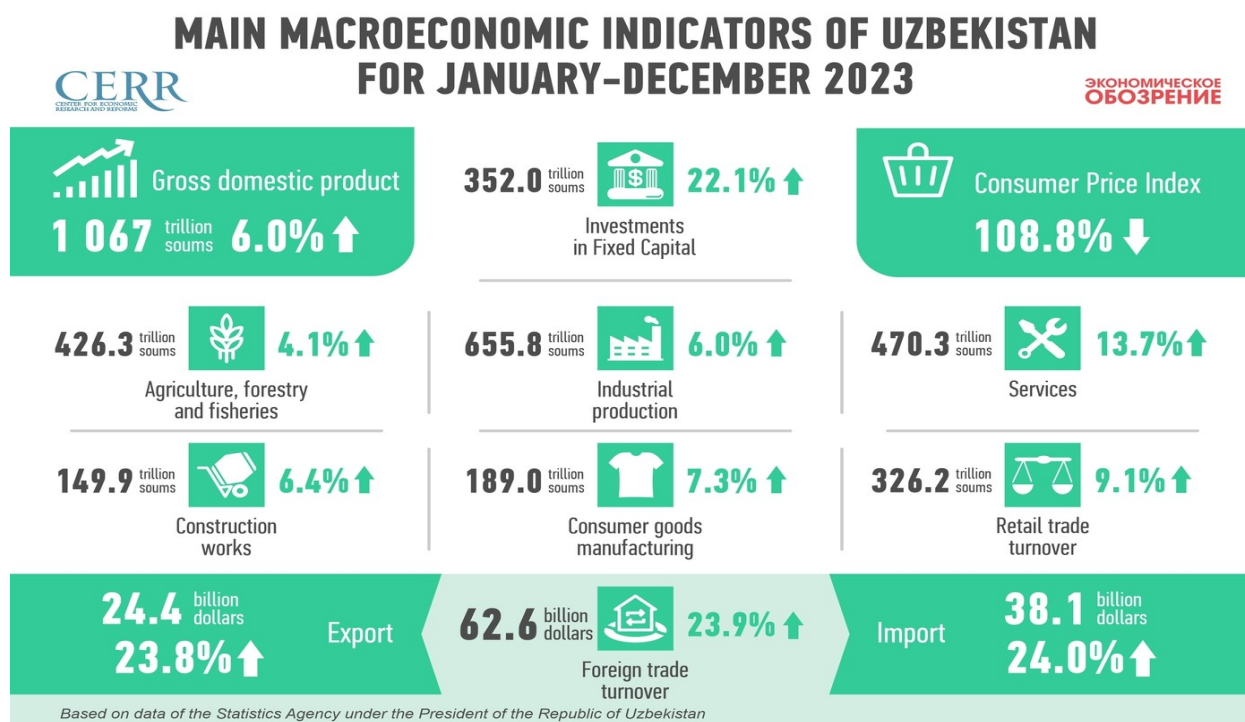
Within financial and commodity markets there are principally three key risks that have been recognised for many years. These are market risk, credit/counterparty risk, and operational risk. The latter, which is very important in terms of clearing, settlement and custody, really hit the headlines with the collapse of Barings Bank caused by management failures and an inadequate control framework, particularly across operational procedures and processes.

It is no secret that following the market collapse of 2008 regulators and, indeed, many others, considered financial markets and institutions were “out of control” and that the unacceptable risks that particularly banks and some investment funds were taking posed a threat to the whole global economy and capitalism itself.

Research

In this section, we will analyze the amount of economic indicators which were in 2023 and interpret the share of the elements belonging to commodity markets in export of Uzbekistan.

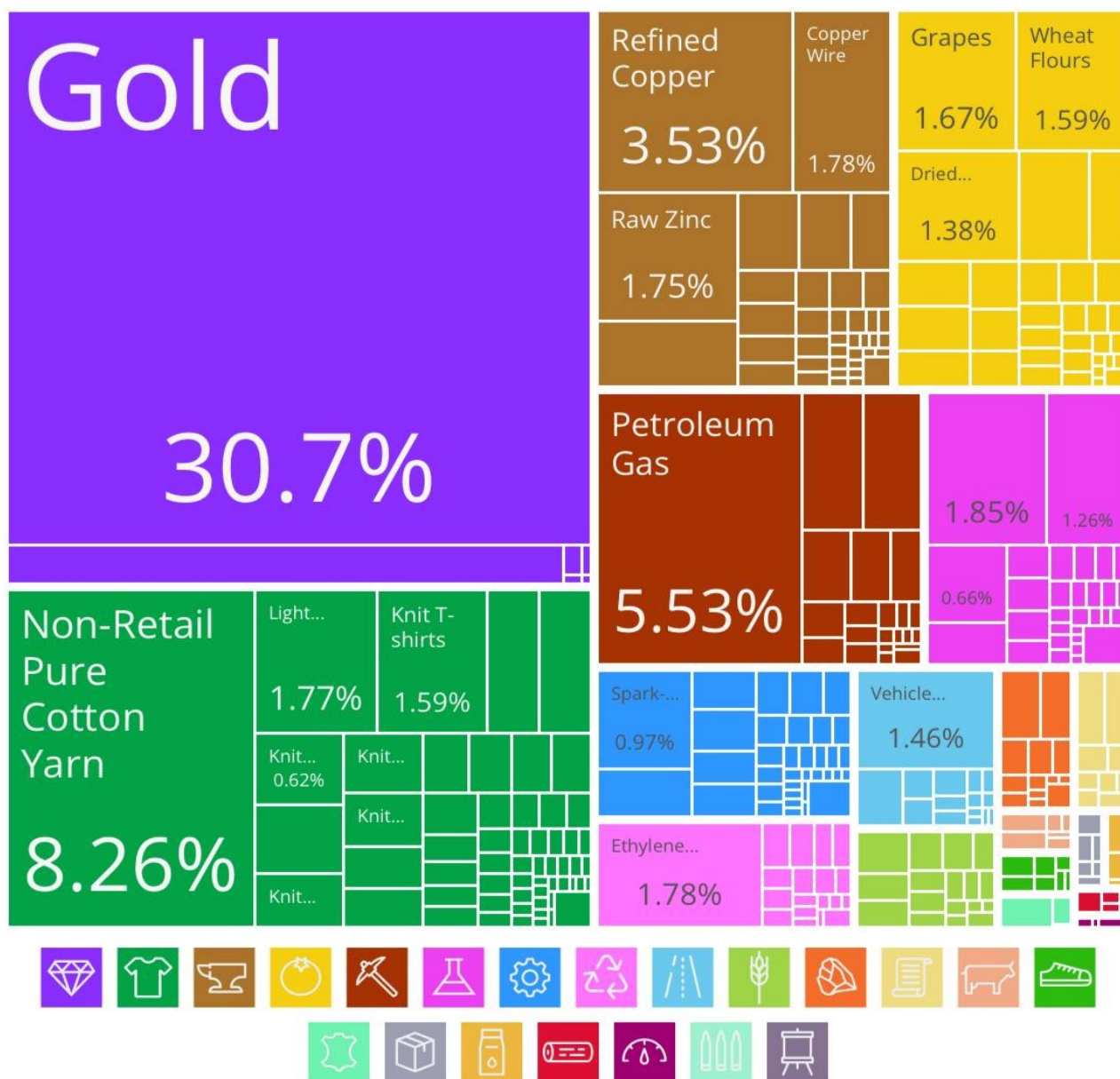
1st graph¹. The information about the main macroeconomic indicators of Uzbekistan in 2023 is given in trillion soums.



The graph provides data about the volume of different macroeconomic indicators that happened between January and December of 2023. This year's GDP (Gross domestic product) certainly increased by 6% to 1067 trillion soums in Uzbekistan, when the Consumer Price Index decreased by 108.8%. Meanwhile, agriculture and services had an increase of 4.1% and 13,7% reaching 426.3 and 470.3 trillion soums, respectively. Additionally, the manufacturing of consumer products and retail trade turnover showed an upward tendency, reaching 189 and 326.2 trillion soums, respectively, while construction works and industrial productions both saw a 6% increase, standing at 149.9 and 655.8 trillion soums. The entire amount of foreign trade turnover was 62.6 billion USD, of which 24.4 billion were exported and the remaining 38.1 billion were imported.

Now, let's see what amount of commodities Uzbekistan exported in 2022 that is prevalent in OEC data.

2nd graph². The volume of all export segments in 2022 which is displayed in percentages



Totally, Uzbekistan exported about 16 billion United States Dollars in 2022. It consisted of 30.7% gold, more than 8% non-retail pure cotton yarn, almost 3.5% refined copper and 5.5% petroleum gas and less than 2% copper wire and other materials with commodities. This means more than half of the export was contributed by commodity market elements which leads to heavy reliance of the foreign trade on commodities.

Commodity markets have a great number of economic impacts that could improve economic healthiness of the country by creating some opportunities to tackle

problems that stagnate the economy. For example, as the data taken from Observatory of Economic Complexity supports the consensus that significant part of export can be matched by commodities and therefore, the country can have more foreign exchange earnings as it has more exports, also this can be one of the ways to enter the world trade. The next advantage of commodity markets is creating jobs in mining, production, and export industries, contributing to employment opportunities. It has also other impacts like price fluctuations in commodity markets impacting inflation rates and macroeconomic stability.

Discussion

Foreign investment in Uzbekistan's commodity markets has been on the rise in recent years, driven by the country's efforts to liberalize its economy and attract foreign capital. Due to its substantial natural resource deposits, which include cotton, uranium, gold, and natural gas, Uzbekistan is a desirable location for international investors looking to make opportunities in the commodities market. The mining industry is one prominent area of investment, especially for gold and uranium. Among the leading producers of gold in the world, Uzbekistan has sizable undeveloped deposits. International mining corporations have been forming joint ventures or collaborating with regional businesses on exploration and extraction operations. Apart from mining, global investment has also been drawn to Uzbekistan's cotton industry. Uzbekistan exports a lot of cotton, and foreign businesses have been making investments in the country's infrastructure for cotton processing.

In order to enhance the investment climate, the Uzbek government has been putting changes into place. These include reducing red tape, giving tax breaks, and granting guarantees to international investors. These initiatives have contributed to increased investor confidence and increased foreign capital inflow into the nation's commodity markets.

Conclusion

In conclusion, the Uzbek economy greatly depends on the commodities markets, which provide jobs, government income, and export earnings. The nation's involvement in international commodities markets has been fueled by its wealth of natural resources, which include minerals, cotton, natural gas, gold, and cotton. Even if the use of these resources has brought about economic benefits, there are drawbacks as well, such as the potential for price instability and environmental issues.

Uzbekistan has to explore initiatives for economic diversification in order to lessen these difficulties and advance sustainable economic development. Commodities still have a place in the market, but diversification strategies should concentrate on growing into high-value sectors like manufacturing, technology, and services. This

strategy can increase productivity growth and innovation while lowering reliance on erratic commodity markets and producing higher-value jobs.

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