THE ROLE AND IMPORTANCE OF LOCAL PRODUCTION IN REDUCING A COUNTRY'S DEPENDENCE ON IMPORTS

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Abstract. This article explores the impact of organizing import-substituting local production by entrepreneurial entities on reducing a country's dependence on foreign goods. It also highlights the significance of such entrepreneurial activities in the economic development of the nation and discusses relevant theoretical aspects. Additionally, the article provides proposals and recommendations for establishing local production to replace imports within entrepreneurial ventures.

Keywords: small business, import dependence, private entrepreneurship, import substitution, localization, product manufacturing, employment, sustainable development, modernization, market saturation, efficiency, diversification.

Аннотация. В данной статье рассматривается влияние организации импортозамещающего местного производства предпринимательскими субъектами на снижение зависимости страны от иностранных товаров. Также подчеркивается значение такой предпринимательской деятельности в экономическом развитии страны и обсуждаются соответствующие теоретические аспекты. Кроме того, в статье приводятся предложения и рекомендации по созданию местного производства для замены импорта в рамках предпринимательских предприятий.

Ключевые слова: малый бизнес, импортозависимость, частное предпринимательство, импортозамещение, локализация, производство продукции, занятость, устойчивое развитие, модернизация, насыщение рынка, эффективность, диверсификация.

Introduction

There are various trends in global economic development, one of which involves establishing and efficiently utilizing localization in the manufacturing and services sectors. Localization policy has traditionally been seen as a key tool to balance exports and imports, increase employment, and reduce the impact of external and internal negative factors on the economy. Today, however, it is also considered a means to enhance a country's investment attractiveness.

The President of the United States, one of the most advanced economies in the world, has emphasized the importance of manufacturing for the national economy and called on the government to support it. He aims to implement this through Hamilton-style import substitution —replacing foreign-manufactured goods in the U.S. market with domestically produced alternatives[1]. This illustrates that localization processes are important not only for developing countries but also for developed ones.

In this context, one of the most effective strategies for ensuring stable economic growth in Uzbekistan under current globalization conditions is to utilize domestic capacities—namely, to replace imported finished goods with locally produced products and further develop domestic industry. [2]In the new stage of economic reforms in Uzbekistan, particular attention is being paid to the full utilization of regional production capacities, based on the efficient use of local raw materials and the development of industry through advanced technologies, as a means to reduce import dependence.

[1] https://www.newequipment.com/industry-trends/article/22059145/trump-echoes-alexander-hamilton-with-import-substitution-stance

[2] Decree of the President of the Republic of Uzbekistan dated September 11, 2023 on the "Uzbekistan-2030" strategy PF-158 //https://lex.uz/docs/6600413

Developing production through import substitution and localization—particularly via small business entities—can yield significant results. Small businesses are quick to adapt to changes, are unafraid of innovation and competition, and are crucial in providing employment and increasing incomes. In many cases, they serve as engines of growth for developing economies.

Literature Review

Small business entities account for more than 56% of Uzbekistan's gross domestic product (GDP) and 78% of employment, playing a vital role in the economic process[3]. The partial or complete domestic production of imported goods within a region is referred to as import-substituting localization. Therefore, it is important to understand that localization represents a dynamic structure reflecting the ratio of imports to domestic supply and the changes in the level of localization in the economy.

From another perspective, import substitution is also viewed as a development strategy, a component of the balance of payments, or an industrialization policy. It is considered one of the main drivers of sectoral and economic development through the active attraction of investment into production.

A review and synthesis of literature dedicated to localization show that the definitions of the term "localization" differ slightly depending on the research objectives and the period during which the research was conducted. These definitions help reveal the unique characteristics of localization processes within the studied fields.

The term "localization" originates from the Latin verb *localize*, meaning "to make local" or "to assign to a specific place." [4]In Uzbekistan's economic literature, the term "localization" is widely used alongside the equivalent term *lokalizatsiya* (localization in Russian).

Localization refers to the process of producing and managing goods and services that substitute imports in the domestic market. This involves identifying market demand, properly mobilizing resources, using cost-effective technologies, adhering to quality standards, and optimizing supply chains to enhance competitiveness.

The German economist Friedrich List, in his work *The National System of Political Economy*, emphasized the necessity of active state intervention and a protectionist policy for the development of national economies. He argued that the state must support the production of import-substituting goods to develop its industry. One of List's central ideas is that national industries should be protected from foreign competition during their early stages of development. This is achieved through state-enforced protective measures such as tariffs and restrictions. According to List, a country's wealth and power are defined by the volume of its industrial exports and the reduction in imports.[5] His theory asserts that active government involvement in the economy and the focus on producing import-substituting goods are critical to industrial development—a view that remains relevant today.

For instance, many developing countries now focus heavily on producing locally made alternatives to foreign goods to ensure sustainable growth and reduce dependence on imports.

According to a 2023 study by Pavel V. Razov and Irina G. Prokhorova, organizing import-substituting local production plays a key role in ensuring sustainable development and economic diversification. The authors propose that countries prioritize policies aimed at these goals[6].

Professor Ha-Joon Chang of the University of Cambridge is a strong advocate of protectionist economic policies—particularly import substitution—as a historically and legally

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[3] https://stat.uz/uz/rasmiy-statistika/small-business-and-entrepreneurship-2

[4] https://www.etymonline.com/word/localization?utm_source

[5] Anikin A.V. The Youth of Science: The Life and Ideas of Pre-Marxian Economic Thinkers. M.: Politizdat, 1975. P. 323-338

[6] Razov P.V., Prokhorova I.G. The role of import substitution in supporting small and medium-sized businesses. Socio-political sciences. 2023. vol. 13. No. 5. Pr. 96–101. (In Russian) DOI: 10.33693/2223-0092-2023-13-5-96-101. EDN: NIHCLY

validated tool for economic development in developing countries. In several of his major works, he presents empirical evidence from historical and modern cases of industrialization in support of protectionism.

In his book *Kicking Away the Ladder*, Chang argues that all wealthy nations, including those now promoting free trade and open markets (such as the UK and the USA), achieved prosperity through protectionism, subsidies, and policies they now advise developing nations to avoid. He emphasizes the contradiction in developed nations recommending policies they themselves abandoned only after achieving economic success.[7]

These studies underscore the importance of localization and import-substituting production in reducing import dependence and driving economic growth.

Research Methodology

This study employed a combination of scientific and methodological approaches and techniques, including:

- ❖ Analysis and synthesis methods**:** for breaking down complex economic relationships and reassembling them into a coherent framework.
- ❖ Comparative analysis**:** to examine the similarities and differences in import substitution strategies and their effects across regions and sectors.
- ❖ Statistical analysis**:** for evaluating numerical data and trends related to production, employment, import/export volumes, and economic growth.
- ❖ Graphical and tabular presentation: to visually express data and trends for clearer understanding and effective communication.

These methods were systematically applied to assess the organization of local production by entrepreneurial entities and its impact on reducing dependence on imports, particularly within the context of Uzbekistan's economic environment.

Analysis and Results

In developing countries, import substitution is typically implemented as part of broader development goals. These nations often lack the sufficient capacity to effectively utilize their national resources, and in many sectors, modern technologies are not yet available. Consequently, they may face difficulties achieving export-led growth in a highly competitive global environment. However, a well-organized localization strategy can provide a pathway to real economic growth. For instance, Uzbekistan has achieved significant outcomes in the textile and construction industries through active government support for such strategies.

As a country's economy develops and its wealth increases, there is a growing tendency to purchase various goods and services from abroad. This is due to regional specialization processes that emerge based on available resources, climate conditions, logistics, and labor. Thus, production and service provision increasingly reflect these regional advantages.

Currently, there is virtually no concern in Uzbekistan about shortages of basic goods—whether food, clothing, or household items. This is largely due to the responsiveness of small businesses, which are highly sensitive to even minor changes in consumer demand. These entrepreneurs respond quickly to shortages: initially by sourcing goods from other regions or countries, and over time by localizing production to restore market supply-demand balance.

An increase in the share of small business participation in leading sectors is a strong foundation for economic growth and social stability. In Uzbekistan, small businesses have become the most dynamic sector, driving job creation, investment, innovation, competition, added value, and exports. Over the past five years, the number of small and medium enterprises has doubled. Around 10.5 million citizens are employed in this sector, which contributes over half of the national economy, one-third of industry, and one-third of exports—clear evidence of the broad reforms being implemented.

[7] https://www.theguardian.com/commentisfree/article/2024/may/22/the-guardian-view-on-free-trade-an-idea-whose-time-has-gone?utm_source=chatgpt.com

By the end of 2024, small business entities in Uzbekistan had generated 753.2 trillion UZS in gross value added (GVA), accounting for 54.3% of the country's total GVA. A sectoral breakdown shows: 33.9% came from agriculture, forestry, and fisheries; 12.6% from industry; 10.1% from construction; and 43.4% from services.

The share of small businesses in major sectors of the economy was as follows: 95.8% in agriculture, forestry, and fisheries; 78.4% in construction; 49.8% in services; and 25.9% in industry.

From 2025 to 2030, the Asian Development Bank plans to allocate $3.4 billion to support business development in Uzbekistan. According to Kanokpan Lao-Araya, head of the ADB's Uzbekistan office, $400 million will be allocated by the end of 2025 specifically for developing small and medium enterprises (SMEs). One of the ADB's key focuses is facilitating the integration of SMEs into global value chains. These measures will further strengthen the role of SMEs in the national economy.

In line with Uzbekistan's national development strategy "Uzbekistan – 2030," key priorities include improving citizens' welfare, protecting natural resources, ensuring sustainable economic growth, reducing poverty, enhancing education quality, safeguarding the environment, and promoting social integration. As a result of these initiatives, there has been a notable improvement in income levels and living conditions. By the end of 2024, the real growth rate of household income reached 108.1% compared to the same period of the previous year. This growth reflects the success of the government's effective economic policy and its well-structured action plans.

Under the leadership of President Shavkat Mirziyoyev, wide-ranging reforms have empowered citizens to use their potential, foster innovation, and explore entrepreneurship without fear. In today's challenging global context, countries are increasingly prioritizing the protection of domestic producers. From this perspective, it is essential to continue supporting entrepreneurs who manufacture competitive products, thereby boosting their legal confidence and future income potential.

As of now, nearly 9,200 entrepreneurs in Uzbekistan have created at least 50 jobs each. With proper support, these businesses can expand and employ even more people. Companies hiring individuals from low-income groups are granted tax exemptions on social contributions for three years—a benefit available not only to textile enterprises but across all sectors. This approach could provide employment to hundreds of thousands of low-income citizens in sectors such as textiles, construction materials, leather footwear, electrical engineering, food production, livestock, and construction.

In 2024, as a result of supportive policies and infrastructure, small businesses in Namangan region produced industrial goods worth 15.97 trillion UZS, accounting for 50.0% of total regional output. This represents an increase from 48.9% in 2023 and 43.8% in 2022, indicating notable growth in small business-driven industrial production in the region.

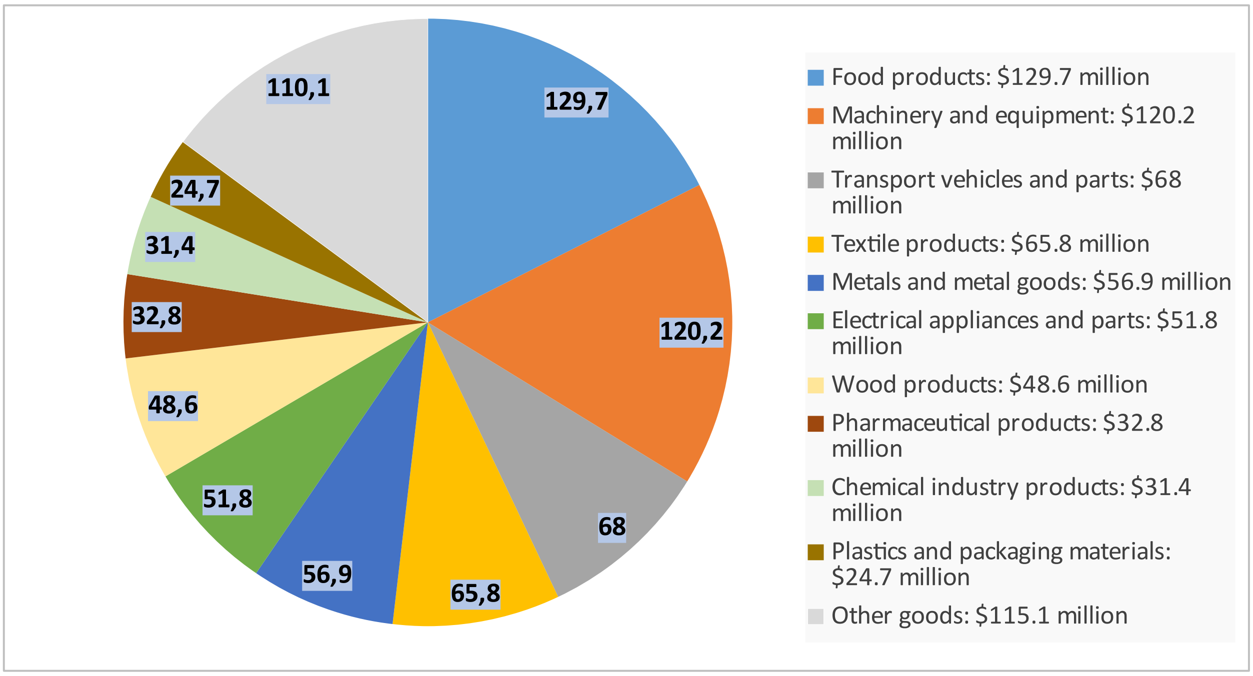
Localization efforts play a key role in shaping a competitive national economy. To organize the production of import-substituting goods, entrepreneurial entities must first analyze imported products and market conditions. Accordingly, this study includes an analysis of foreign trade activities in Namangan region.

In 2024, Namangan imported $745.1 million worth of goods—a decrease from $828.6 million in 2023. The main imported goods included:

- Food products: $129.7 million
- Machinery and equipment: $120.2 million
- Transport vehicles and parts: $68 million
- Textile products: $65.8 million
- Metals and metal goods: $56.9 million
- Electrical appliances and parts: $51.8 million
- Wood products: $48.6 million

- Pharmaceutical products: $32.8 million
- Chemical industry products: $31.4 million
- Plastics and packaging materials: $24.7 million
- Other goods: $115.1 million

Figure 1: Analysis of goods imported to Namangan region in 2024 by product type, million dollars[8]



These imports came from 58 countries, with the largest shares from China (36.5%), Russia (11.3%), India (9.6%), Kazakhstan (7.4%), Turkey (6.5%), Kyrgyzstan (4.5%), and Germany (4.4%).

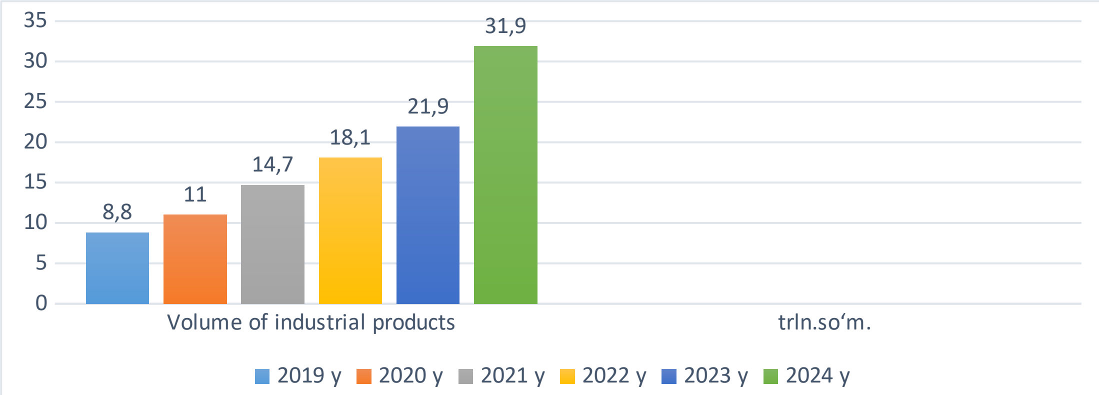
Exports from Namangan totaled $596.5 million in 2024, reaching 51 countries. The largest export markets were Russia (58.0%), China (8.0%), Kyrgyzstan (7.2%), Kazakhstan (4.9%), Turkey (4.0%), and Germany (2.4%).

The value of goods produced under the 2024 localization program increased by 33.1%, reaching 110.2 trillion UZS. Experience from the COVID-19 pandemic has shown that developing domestic production through localization is crucial for reducing economic dependence on external factors, ensuring supply of essential goods, saving foreign currency reserves, attracting investment, and increasing employment.

As a result, the government actively supports entrepreneurs engaged in localized production, especially those manufacturing exportable and import-substituting goods. By focusing on high value-added production, efficient resource use, and expansion of localization efforts, the foundation is laid for deepening and broadening domestic production.

Figure 2. Information on the volume of industrial products in Namangan region. (2020-2024)[9]

[8] Based on information from the press service of the Namangan regional administration
[9] https://www.namstat.uz/uz/rasmiy-statistika/industry-2



In Namangan region alone, 631 new enterprises were launched in 2024, raising the total number of industrial enterprises to 8,450. The region's industrial output grew from 11 trillion UZS in 2020 to 31.9 trillion UZS by 2024—a 2.9-fold increase.

Thanks to state-supported projects in Namangan, an additional 32,450 jobs were created. New import-substituting, high value-added products were introduced, including pectin, bioactive supplements, mineral fertilizers, synthetic fabric, water pumps, electric motors, pharmaceutical goods, tricycles, and lithium batteries. As a result, imports decreased by $65.5 million, and the localization rate rose to 57%.

Table 1. Information on the production of finished products, components and materials within the framework of localization programs in Namangan region. (2020-2024)[10]

Indicators	Unit of measurement	2020 y	2021 y	2022 y	2023 y	2024 y
Number of projects	Pieces	53	66	85	84	122
Number of enterprises	Pieces	34	50	67	66	85
Volume of production of localized products	billion soums	315,0	668,9	1513,0	2107	3023
Volume of exports of localized products	million dollars	2,1	10,1	19,3	12,2	84,1
Number of new jobs created through the organization of production of localized products	Pieces	520	1114	1246	758	2034

According to Table 1 (2020–2024 data), localized production in Namangan has seen significant growth:

- The number of projects rose from 53 to 122
- Enterprises increased from 34 to 85
- Production volume increased from 315 billion UZS to 3.02 trillion UZS
- Exports rose from $2.1 million to $84.1 million
- New jobs created increased from 520 to 2,034

These results show that localization efforts in Namangan are expanding both in scale and efficiency. In 2024 alone, 122 projects produced localized goods worth 3 trillion UZS, generating $84.1 million in exports. Thirty-three new product types replaced imports worth $212.6 million, and over 2,000 new jobs were created—an increase of 43.4% in output and 6.9 times growth in export value compared to 2023.

These outcomes confirm the high potential for organizing import-substituting production by entrepreneurial entities in Namangan.

[10] https://www.namstat.uz/uz/qo-mita-yangiliklar/15495-namang2023-21

Conclusion and Recommendations

Localization is intrinsically linked with specialization and regional labor distribution. It plays a significant role in the production of new goods and services and in enhancing a country's investment attractiveness. At the same time, the successful adaptation of such goods and services requires innovative approaches to organizing production. This, in turn, positively affects regional infrastructure development, job creation, and increased revenues to local budgets.

In recent years, Uzbekistan has placed significant emphasis on localizing production within entrepreneurial ventures. Raising the level of localization is essential for ensuring the stable and consistent development of the economy, reducing its dependence on external factors, and accelerating the adoption of new technologies in production processes.

To effectively organize import-substituting production by entrepreneurial entities, attention should be directed to several key stages. These stages are outlined below:

Key Stages for Organizing Import-Substituting Local Production by Entrepreneurial Entities

1. Market Analysis
   - ✓ Assess the demand for the planned product and confirm its necessity in the local market.
   - ✓ Analyze current competitors, including imported alternatives, and evaluate their market share, pricing, and quality.
   - ✓ Collect and analyze consumer opinions on product features, quality, and price sensitivity.
2. Product Development
   - ✓ Emphasize product design that meets the preferences of local consumers.
   - ✓ Ensure high quality and compliance with established standards to compete effectively with imports.
   - ✓ Implement potential innovations or advantages that give the product a competitive edge.
3. Regulatory Compliance
   - ✓ Study and comply with local and international standards related to safety, health, and environmental protection.
   - ✓ Identify tariffs, duties, or restrictions affecting imported competing goods and leverage available benefits.
   - ✓ Protect national products through intellectual property rights (patents, trademarks, etc.).
4. Supply Chain Management
   - ✓ Ensure availability and reliability of raw materials.
   - ✓ Evaluate the cost, quality, and consistency of both local and imported inputs.
   - ✓ Develop a reliable logistics plan and establish contractual relationships with suppliers.
5. Financial Planning
   - ✓ Determine capital requirements for facilities, equipment, technology, and human resources.
   - ✓ Explore financing options such as loans, investments, grants, or subsidies.
   - ✓ Analyze and utilize government support programs for localized production.
   - ✓ Manage operational costs and implement cost control measures to ensure profitability.
6. Production and Operations
   - ✓ Establish suitable production facilities based on location advantages like proximity to raw materials and labor availability.
   - ✓ Invest in efficient technologies and equipment for quality and cost-effective production.
   - ✓ Hire and train skilled workers and ensure compliance with labor laws and proper working conditions.

7. Marketing and Sales
   - ✓ Create a national brand that reflects innovation and cultural values, and build consumer awareness.
   - ✓ Set competitive pricing to attract consumers away from imports and ensure profitability.
   - ✓ Develop effective distribution channels (direct sales, retail, wholesale, online platforms).
8. Risk Management
   - ✓ Monitor market fluctuations, changes in consumer preferences, and economic conditions.
   - ✓ Identify and mitigate operational risks such as production delays or equipment failures.
   - ✓ Manage financial risks through careful budgeting, maintaining cash reserves, and contingency planning.
9. Sustainability and Social Responsibility
   - ✓ Apply sustainable practices: efficient resource use, green energy, waste management, and eco-friendly technologies.
   - ✓ Engage in socially responsible activities that improve the company's image—such as scholarships, facility construction, and support for vulnerable populations.
10. Continuous Improvement
   - ✓ Establish feedback systems to gather input from customers and stakeholders.
   - ✓ Invest in R&D to improve products and stay ahead of market trends and competitors.

By focusing on these ten stages, entrepreneurial entities can effectively organize localized production, generate employment opportunities, reduce dependence on imported goods, attract investment, and stimulate national economic growth.

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