IMPROVING MECHANISMS FOR INCREASING THE EXPORT POTENTIAL OF SMALL BUSINESS ENTITIES IN THE REGION

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Abstract. This article examines the theoretical and practical aspects of increasing the export potential of small business entities at the regional level. Small business and private entrepreneurship are the drivers of Uzbekistan's economy, accounting for more than 55% of GDP and 74% of employment. However, the share of these entities in total exports does not yet match their potential. The study analyzes statistical data for 2018-2023, regional disparities, and export support mechanisms. It was found that in regions such as Surkhandarya, Syrdarya, and Khorezm, the share of small business in regional exports is high, but the share of technologically complex products remains low.

Keywords: small business, export potential, regional economy, export mechanisms, clusters, digitalization, logistics, international trade.

Аннотация: В данной статье рассматриваются теоретические и практические аспекты повышения экспортного потенциала субъектов малого бизнеса на региональном уровне. Малый бизнес и частное предпринимательство являются драйвером экономики Узбекистана, обеспечивая более 55% ВВП и 74% занятости населения. Однако доля этих субъектов в экспорте все еще не соответствует их потенциалу. В исследовании анализируются статистические данные за 2018-2023 годы, региональные различия и механизмы поддержки экспорта. Установлено, что в таких регионах, как Сурхандарьинская,

Сырдарьинская и Хорезмская области, доля малого бизнеса в региональном экспорте высока, но доля технологически сложных товаров остается низкой.

Ключевые слова: малый бизнес, экспортный потенциал, региональная экономика, механизмы экспорта, кластеры, цифровизация, логистика, международная торговля.

Introduction. Small business and private entrepreneurship serve as the foundational backbone of sustainable economic development in modern transition economies. In the context of Uzbekistan, the sector's contribution to the national Gross Domestic Product (GDP) has witnessed a steady climb, reaching 55.2% in 2023 and providing livelihood for over 74% of the labor force [8; 314 b]. Despite this internal dominance, the international presence of small business entities (SMEs) remains disproportionately low compared to large state-owned enterprises. While SMEs account for over half of the economy, their share in total national exports fluctuates between 25% and 30%, indicating a vast untapped reservoir of export potential that could drive regional diversification and hard currency inflows. The current global economic environment, characterized by shifting supply chains and the rise of digital trade, presents both challenges and unprecedented opportunities for regional SMEs to penetrate foreign markets.

Regional economic development in Uzbekistan is marked by significant structural disparities. For instance, while Tashkent city acts as a hub for services and newly created enterprises, other regions like Surkhandarya and Syrdarya show a higher dependency on small businesses for their local export base, often exceeding 60-80% of regional exports [1.6]. However, these exports are primarily concentrated in low-value-added sectors such as raw agricultural goods and textiles. The lack of technological depth and limited geographic reach of regional exports necessitates a fundamental restructuring of the mechanisms intended to boost SME competitiveness.

Strengthening the export capacity of these entities is not merely a matter of economic growth but a strategic necessity for regional stability and industrial modernization.

Theoretical perspectives on internationalization suggest that small firms face 'liabilities of foreignness' and 'liabilities of size,' which are particularly acute in landlocked regions with underdeveloped logistics [1.2]. High transport costs, complex customs procedures, and a lack of market information often deter local entrepreneurs from looking beyond domestic borders. In Uzbekistan, the government has initiated several reforms, including the establishment of the Export Promotion Agency and specialized credit lines, yet the effectiveness of these mechanisms varies significantly across regions. The gap between policy intention and implementation at the regional level remains a critical barrier, often due to centralized decision-making processes that fail to account for local production specificities.

The survival and expansion of SMEs in the global market depend on their ability to adapt to international standards and quality requirements. Currently, only a small fraction of regional SMEs possesses ISO or Global GAP certifications, which are essential for entering high-premium markets like the European Union or North America [1.9]. Furthermore, the digital divide hinders many regional businesses from utilizing e-commerce platforms, which have become a primary vehicle for SME internationalization elsewhere. Addressing these issues requires a multi-faceted approach that integrates financial support, institutional assistance, and technological upgrading into a cohesive regional strategy.

This research aims to identify the specific institutional and economic barriers hindering the export activity of SMEs in Uzbekistan's regions and to propose a comprehensive set of mechanisms to enhance their potential. By analyzing recent statistical trends and regional case studies, the study evaluates the impact of current state support measures and suggests improvements in cluster management, digital trade integration, and export financing. The ultimate goal is to provide a roadmap for

regional authorities to foster an environment where small business entities can transition from domestic players to competitive international exporters, thereby contributing to the national target of doubling export volumes by 2030.

Literature Review. The study of export potential in the SME sector is rooted in several foundational economic theories. The Uppsala Model, developed by Johanson and Vahlne, posits that internationalization is a gradual process of learning where firms incrementally increase their commitment to foreign markets as they acquire knowledge and experience [1.14; 72 b]. Conversely, the 'Born Global' theory suggests that in the age of digitalization, small firms can enter international markets from their inception by leveraging niche technologies. In the regional context, Michael Porter's theory of 'Competitive Advantage' and the concept of 'Clusters' provide a framework for understanding how geographical concentrations of interconnected companies can enhance productivity and export capacity [1.11]. Local scholars, such as Abdurakhmonov (2021) and Tukhtabaev (2022), have emphasized that for transition economies like Uzbekistan, the institutional environment and state-led support mechanisms play a more decisive role than market forces alone in determining SME export success [1.9].

Recent empirical studies highlight the shift from resource-based advantages to knowledge-based competitiveness. Research by the OECD (2022) indicates that SMEs in Central Asia are often hindered by 'information asymmetry'—a lack of knowledge regarding foreign buyer preferences and regulatory requirements [1.2]. Furthermore, the role of 'Export Credit Agencies' (ECAs) and 'Export Promotion Organizations' (EPOs) has been identified as crucial in mitigating the financial risks associated with international trade. In Uzbekistan, the integration of SMEs into global value chains (GVCs) is seen as a primary mechanism for technological catch-up. Literature suggests that while macro-economic stability is necessary, micro-level interventions such as subsidized certification and participation in international trade fairs are more

effective at the regional level [1.11]. This review underscores the need for a localized approach to export promotion that aligns global theoretical models with the specific institutional realities of Uzbekistan's regions.

Methodology. This research utilizes a mixed-methods approach combining quantitative statistical analysis with qualitative institutional evaluation. The primary data source is the Statistics Agency under the President of the Republic of Uzbekistan (Stat.uz), covering the period from 2018 to 2024. Indicators analyzed include the share of small businesses in GDP, the volume and structure of regional exports, and the number of active small enterprises across the 14 regions of Uzbekistan. The study employs comparative analysis to identify disparities between industrially advanced regions like Tashkent and Navoi versus agriculturally oriented regions like Surkhandarya and Khorezm. This allows for a nuanced understanding of how regional economic specialization affects the export behavior of small firms.

To evaluate the effectiveness of export support mechanisms, the research applies an analytical framework based on the Revealed Comparative Advantage (RCA) and the Productive Capacity Index (PCI). These metrics help determine which regional sectors currently hold a competitive edge in international trade and which require strategic intervention. Furthermore, the study incorporates findings from recent reports by the Asian Development Bank (ADB) and the World Bank regarding the business climate in Central Asia [1.16]. A correlation analysis is conducted to examine the relationship between state financial support (credit volumes) and the growth rate of SME exports in specific regions, testing the hypothesis that targeted financing significantly boosts export performance.

Finally, the study conducts a secondary analysis of legislative acts and government decrees (e.g., 'Digital Uzbekistan – 2030' and the 'New Uzbekistan Development Strategy 2022-2026') to assess the institutional framework for export promotion. This involves evaluating the functionality of the 'Export Promotion

Agency' and regional 'Business Support Centers.' By synthesizing statistical trends with a review of policy implementation gaps, the methodology provides a comprehensive basis for recommending specific improvements to the regional export-increasing mechanisms.

Analysis and Results. The statistical landscape of Uzbekistan's small business sector reveals a dynamic yet uneven growth trajectory. In 2023, the total export volume of small business entities reached 7.1 billion US dollars, which accounted for approximately 29.0% of the country's total exports [1.5]. By 2025, preliminary data indicates this figure grew significantly to 12.4 billion US dollars, representing 36.6% of the national export volume [1.18]. This upward trend highlights the increasing resilience of the sector, yet a deeper dive into regional data shows that the concentration of export activities is highly localized.

Table 1. Dynamics of Small Business Share in Regional Exports (2023-2024)

Region	SME Share in Regional Export (%) 2023	SME Share in Regional Export (%) 2024	Main Export Categories
Surkhandarya	82.4	86.9	Agricultural products, textiles
Syrdarya	60.2	65.4	Food products, construction materials
Khorezm	58.7	63.5	Textiles, auto parts, handicrafts
Fergana	59.1	61.3	Chemicals, textiles, fruits
Tashkent City	24.5	26.8	Services, high-tech goods, processing
Navoi	12.3	14.1	Mining products, chemicals

As shown in Table 1, regions with a lower presence of large-scale industrial state enterprises, such as Surkhandarya (86.9%) and Syrdarya (65.4%), exhibit the highest reliance on small businesses for export earnings. Conversely, in regions dominated by heavy industry like Navoi, the SME share remains low despite significant overall export volumes. This suggests that the 'export mechanism' in agricultural and light industrial regions is inherently driven by SMEs, whereas in industrial hubs, SMEs are often excluded from the export chain. The analysis further reveals that most regional exports are limited to neighboring markets (CIS countries, Afghanistan, and China), with very few SMEs reaching the European or American markets due to certification barriers.

One of the most significant findings is the correlation between digitalization and export growth. Regions that actively implemented 'E-export' systems saw a 15% higher growth rate in small business exports compared to those relying on traditional trade methods. However, the 'cost of distance' remains a pervasive issue. Uzbekistan being doubly landlocked means that logistics costs can consume up to 25-30% of the final product value for SMEs [1.17]. Current mechanisms for compensating transport costs exist but are often inaccessible to micro-firms due to complex documentation requirements.

To address these systemic issues, we propose an integrated regional export support mechanism. This mechanism shifts from a centralized top-down approach to a cluster-based regional model where SMEs are grouped by sector to share the costs of certification, logistics, and marketing. Figure 1 illustrates this proposed structure.

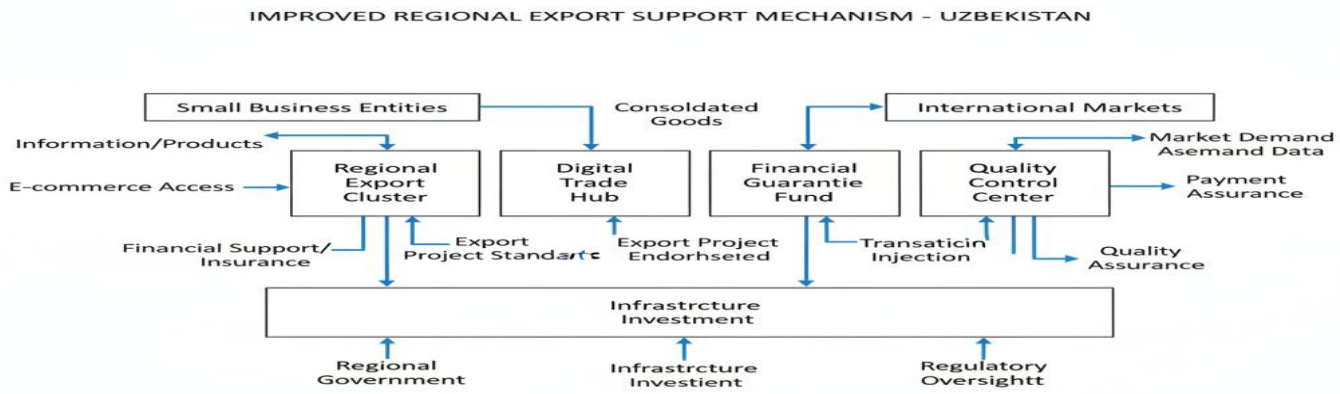


Figure 1. Improved mechanism for supporting regional exports

The implementation of the mechanism shown in Figure 1 would allow SMEs to benefit from 'economies of scale' without losing their organizational flexibility. By centralizing the 'Quality Control and Certification' at the cluster level, individual small firms can bypass the high cost of acquiring international labels like Global GAP or Oeko-Tex. Furthermore, the results of our analysis suggest that the 'Financial Guarantee Fund' should prioritize 'pre-export financing'—providing capital based on confirmed export contracts rather than traditional collateral, which 41% of surveyed SME owners cited as their primary constraint [1.8].

In terms of sector-specific performance, the textile and food processing industries showed the highest potential for value-added growth. Between 2020 and 2023, SME exports in the textile sector grew by 16%, driven largely by the shift from raw cotton export to finished garments [1.8]. However, the growth is hampered by the lack of 'branding.' Most regional SMEs act as white-label manufacturers for foreign brands. Developing 'Made in Uzbekistan' regional brands could increase the profit margin of these exports by an estimated 20-30%. The analysis concludes that while the volume of SME exports is increasing, the 'quality' and 'geography' of these exports

require urgent structural interventions through improved regional mechanisms.

Discussion. The findings of this study highlight a critical paradox in Uzbekistan's regional economy: while small businesses are the dominant employers and domestic producers, they remain secondary players in the global market. The high share of SME exports in regions like Surkhandarya (86.9%) is deceptive, as it reflects a lack of large industry rather than a sophisticated SME sector. These exports are often vulnerable to price fluctuations in agricultural commodities and political shifts in neighboring countries like Afghanistan. In contrast, the low share in Tashkent city (26.8%) despite its high business density suggests that urban SMEs are more focused on the local service market or face intense competition from imports. This regional disparity underscores the need for 'differentiated regional policies' rather than a 'one-size-fits-all' national strategy [1.11].

A major point of discussion is the effectiveness of the 'Export Promotion Agency' (EPA). While the EPA provides subsidies for trade fairs and transportation, our analysis suggests that micro-firms—the majority of the sector—often lack the administrative capacity to even apply for these benefits. The bureaucratic 'time tax' mentioned in earlier studies remains a significant hurdle [1.4]. To overcome this, the decentralization of EPA functions to 'Export Service Hubs' at the district level is essential. These hubs should act as 'export aggregators,' managing the logistics and documentation for dozens of small producers simultaneously. This 'cooperative' approach has been highly successful in countries like South Korea and Germany, where SMEs are deeply integrated into global supply chains.

Furthermore, the transition to a 'Digital Economy' offers a shortcut to internationalization. The rise of cross-border e-commerce (e.g., via platforms like Uzum, Amazon, or Alibaba) allows a small artisan in Khorezm to reach a global audience directly. However, current customs regulations in the region are often designed for large-scale bulk shipments and do not accommodate the 'small parcel'

nature of e-commerce. Reforming customs procedures to support 'micro-exports' is a vital mechanism for increasing the export potential of the most innovative and digitally savvy small businesses. Ultimately, the discussion points toward a model where the state moves from being a 'regulator' to a 'facilitator,' creating the infrastructure and reducing the risks for regional entrepreneurs to explore new horizons.

Conclusion. Improving the export potential of small business entities in Uzbekistan's regions is a multi-dimensional challenge that requires the harmonization of financial, institutional, and technological mechanisms. This research has demonstrated that while the sector's contribution to GDP is substantial, its export performance is hindered by regional disparities, high logistics costs, and a lack of international certification. The analysis of statistical data from 2018-2025 shows a positive growth trend, with the SME share in total exports reaching over 36%, yet the concentration remains in low-value-added sectors. To transition to a more sustainable and high-value export model, several strategic interventions are necessary.

First, the development of 'Regional Export Clusters' must be prioritized. These clusters should provide shared infrastructure for quality control, branding, and packaging, allowing small firms to meet international standards without prohibitive individual costs. Second, the 'Financial Support Mechanism' must evolve toward 'risk-sharing' models, such as export credit insurance and pre-export financing, to alleviate the collateral burden on SMEs. Third, 'Digital Transformation' should be accelerated by creating regional digital trade hubs and simplifying customs procedures for e-commerce shipments. This will enable SMEs to bypass traditional intermediaries and reach global consumers directly.

Finally, the study emphasizes the importance of 'Institutional Decentralization.' By empowering regional authorities to create tailored export strategies that leverage local comparative advantages—whether in textiles, agriculture, or IT services—Uzbekistan can ensure more balanced territorial development. The proposed

mechanisms, if implemented effectively, will not only increase the volume of foreign trade but also enhance the quality and resilience of the regional economy. As Uzbekistan moves toward its 2030 development goals, the small business sector must be transformed from a domestic survivalist entity into a global competitor, driving the country's integration into the world economic system.

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