

Revealing the Market Hegemony: Automobile Monopoly in Post-Soviet Uzbekistan through Economic Analysis and Policy Perspectives

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Abstract

Uzbekistan is regarded as an attractive destination for foreign investors due to its rich natural and human resources. However, the country's economic system has yet to fully transition into a free market economy, largely because of the dominance of monopolies and oligopolies. These large market players hinder the open flow of the market, creating challenges for economic development. Also, the dependence on a single entity stifles competition, while limiting consumer choice and hindering the country's internal market efficiency. One industry that has been at the center of controversy in post-Soviet Uzbekistan is the car manufacturing sector, which has been monopolized for more than two decades. The present research argues the economic gain and the role of government as the key factors for the retention of the automotive monopoly in Post Soviet Uzbekistan. As seen by the statistics provided by national authorities, the car manufacturing sector brought a massive amount of taxes for the government. Moreover, there is enough evidence that high rates of employment in this industry also contribute to its retention. Next, the nationalization from private to governmental ownership, which is the direct influence of Soviet policies, and the government's role in supporting and nurturing big monopolists have contributed to the continuation of this system. The gained insights from this study will be vital for policymakers, economists, and stakeholders seeking to navigate the complexities of the monopolistic automobile industry in Uzbekistan.

Keywords

Automobile Monopoly, Post-Soviet Uzbekistan, Market Restriction, Monopolistic Industries

1. Introduction & Literature Review

Within the realm of economic systems, diverse classifications exist, each characterized by unique attributes and applications. In the case of post-Soviet Uzbekistan, akin to numerous nations, it operates within a mixed economy framework. Here, the government predominantly manages the market, albeit with limited freedom for private businesses. The majority of entities within the country are either partially or entirely owned by state institutions or government agencies (Rasanayagam, 2011). Of course, Uzbekistan has taken steps to reform its economy and attract foreign investment in recent years. As part of these efforts, the government has initiated measures to reduce state control and promote a more competitive market environment, which includes privatization programs and regulatory reforms (Sattarov, 2012). Even though, in today's market, the gigantic players in every industry still persist. For example:

- *Energy Sector.* National electric power plants are characterized as historically being owned by the government. Production and distribution of natural gas, electricity, and natural coal are usually controlled by state-owned enterprises.
- *Telecommunications.* The market is dominated by 3 major GSM cellular players including Ucell, UzMobile, and Beeline. The state-owned Uzbek Telecom controls the fixed line and fiber backbone infrastructure across the country.
- *Cotton Industry.* Uzbekistan has been a major producer of cotton, and the government has historically played a central role in managing and regulating the cotton industry.
- *Mining and Natural Resources.* Certain aspects of the mining and natural resources sector, including uranium and gold mining, have had significant government involvement (Trushin & Trushin, 2016).

Need to mention that the Soviet era had a profound impact on the economic and political structure of Uzbekistan, shaping its monopolistic landscape in various ways. During the Soviet period (1924-1991), Uzbekistan was a constituent republic of the Soviet Union, and the economy was centrally planned and controlled by Moscow. Here are the main aspects of the Soviet system's influence on the monopolistic landscape in Uzbekistan (Tsereteli, 2018).

1) Central Planning: The Soviet economic system was characterized by central planning, where the state determined production targets, resource allocation, and economic policies. This led to the establishment of state-owned enterprises and a lack of market-driven competition.

2) Monoculture Economy: The Soviet economic model encouraged specialization, and Uzbekistan's economy was primarily focused on cotton cultivation and the production of raw materials. This monoculture approach limited diversification and competition in the economy, contributing to a less dynamic and diversified market landscape.

3) Dependency on Moscow: The Soviet economic structure created a dependency on Moscow for economic planning, investment, and resource allocation.

Uzbekistan's economic policies were heavily influenced by the central authorities in the Soviet capital, and this centralized control further limited the emergence of independent economic actors and competition.

4) Limited Private Sector: Private entrepreneurship was largely restricted during the Soviet era. While there were some small private farms and businesses, the majority of economic activities were directed and controlled by state-owned enterprises (Tsereteli, 2018).

What's more, the legacy of the Soviet system has left a lasting impact on the structure of the Uzbek economy, including elements of state control and limited competition in certain sectors.

Today, the scarcity of officially conducted research projects on monopolistic industries at the macroeconomic level remains noteworthy. Even in the present day, existing literature on this matter is scant, with limited exploration of the initial development and business prospects of key industries such as the automobile manufacturing sector (Saidov, 2017).

This study aims to address critical questions that currently remain unanswered within the Uzbek car manufacturing sector. What underlies the persistence of automobile monopoly? What are the implications of its dominance? And how does this monopolist impact consumer choices and the overall economy? These inquiries underscore the need for a comprehensive understanding of the numerical and causal aspects behind the presence of monopolies, shedding light on potentially collusive or shadowy practices within these industries.

In delineating the research's meanings and importance, it becomes evident that unraveling the details surrounding monopolies is not merely an academic exercise but a crucial endeavor to foster awareness about the practices of certain monopolistic industries. To this end, this research seeks to contribute substantially to the existing knowledge base.

The significance of this research extends beyond theoretical exploration, as it delves into the economic implications of automotive monopoly. By employing empirical data sourced from national authorities, the study aims to emphasize the factors contributing to the persistence of monopoly in the car manufacturing sector. Additionally, the study relies on available data, and certain aspects may require further investigation.

The subsequent sections will expound on the methodology employed, present the findings derived from the empirical analysis, and offer a comprehensive discussion of the implications and potential policy considerations arising from our research. Through this, the research aims to provide a nuanced understanding of the dynamics surrounding the monopoly in the automotive industry and their broader impact on the economic landscape of Uzbekistan. The remaining of the study is structured as follows...

2. Research Design & Data Analysis

In this study, a multifaceted approach was employed to investigate the factors

contributing to the retention of car monopoly. Using economic data analysis from the Tax Department and Statistics Agency in **Figure 1**, the study analyzed the sales figures and tax contributions within this industry. The following table shows the total amount of automobile models manufactured by monopolist UzAvtoMotors's product lineup in 2022. The data is measured in 25-thousand-unit intervals (**Figure 1**).

Having been an integral part and essential supplier of the Soviet Union, Uzbekistan had no automotive industry until late 1992, when the first state-owned car manufacturer UzAvtoSanoat was founded in a joint venture with Korean Daewoo Motor Company and American General Motors. By the middle of July 1996, the company officially began the production of vehicles at the new assembly plant in Asaka, Andizhan (**Saidov, 2017**).

Today, this car manufacturer established its firm control over the Uzbek marketplace by holding more than 60 structural enterprises and achieving a vertically integrated three-level company. The company officially employed over 26 thousand workers in all of its systematic establishments. However, the general director (CEO) of UzAvtoMotors, Rustam Rajabov asserts that—*“Now, approximately 100 thousand more people work indirectly in the form of local traders and street dealers. But if we use a simple multiplication method, more than 1 million people are earning a living because of this company”* (**Umirdinov & Turakulov, 2019**).

Based on the figure, in the January-December period of 2022, there were 328,118 total cars produced in Uzbekistan according to the Agency of Statistics under the President of Uzbekistan. Among others, the model “Cobalt” stands well above the other types assembled in Uzbekistan with 101,617 units continuing its dominating position since 2021. “Gentra” was in second place with 87,105 units, while “Damas” was third with 72,235 units. The rest including the model

Points scored

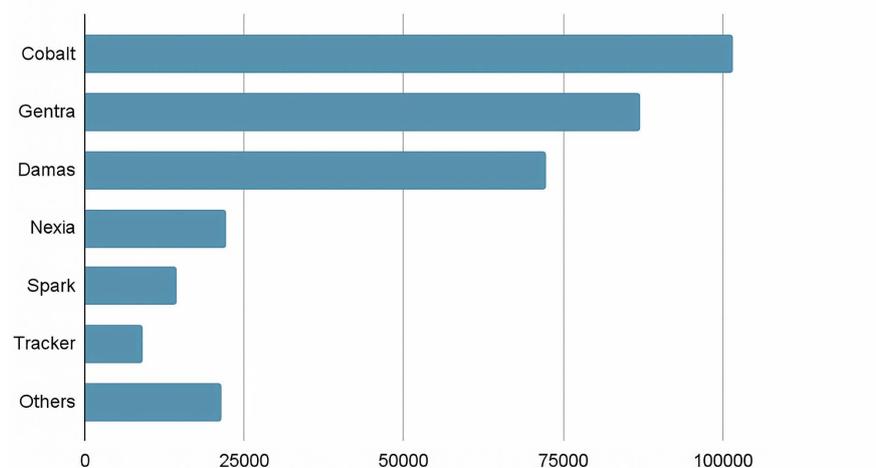


Figure 1. The volume of automobile models produced in UzAvtoMotors's product lineup in 2022 (**UzAvtoMotors, 2023**). *Note.* Quantities were measured in 25-thousand-unit intervals.

“Nexia”, “Spark”, “Tracker”, and others all were produced less than 25 thousand units. However, 92% of all locally sold cars were accredited to this company’s (monopolist’s) proportion in just last year (UzAvtoMotors, 2023).

On top of that, according to the statistics provided by the Tax Committee Under the Cabinet Ministers of Uzbekistan in 2022, car monopolist UzAvtoMotors was listed among 5 of the manufacturing companies that paid the most taxes for government. Specifically, it was in third place, having an annual turnover of 2.71 billion dollars and providing a total of 167.9 million dollars for miscellaneous taxes for the government (Tax Committee under the Cabinet of Ministers of the Republic of Uzbekistan, 2022). These numbers indicate a tremendous benefit for Uzbekistan’s middle-sized economy. Also, it may imply that the abandonment of this monopoly may bring plenty of unintended problems that are impossible to solve.

Nevertheless, the specific data about the costs and environmental damages of UzAvtoSanoat are not readily available, but it is important to note that some potential long-term costs associated with car manufacturing could offset its benefits. As such, we should consider air pollution: the production processes in the automobile industry often involve the emission of pollutants, such as volatile organic compounds (VOCs), nitrogen oxides (NOx), and particulate matter; waste generation: the manufacturing process can generate a substantial amount of waste, including hazardous materials such as solvents, paints, and oils; water consumption: car manufacturing requires significant amounts of water for various processes such as cooling, cleaning, and painting; and resource depletion: the extraction of raw materials, such as metal ores and fossil fuels, for car manufacturing can contribute to resource depletion and environmental degradation (Böckin & Anne-Marie, 2019).

3. Policy Analysis

To evaluate the impact of governmental policies on automobile monopoly, policy analysis is also integrated. The Index of Economic and Business Freedom is mentioned to further support the research’s claim and consolidate its arguments with the previous year’s real-time data (Figure 2). Furthermore, the research incorporates the author’s own political and policy views, adding a nuanced perspective to the analysis while maintaining an objective stance.

Looking back to history, the economy of the Soviet Union was a centrally planned command economy, characterized by state ownership of the means of production and centralized economic planning. It was built upon the principles of Marxist-Leninist ideology to build a complete socialist society (Nove, 1973). Having retained those socialist beliefs, post-Soviet Uzbekistan usually regulates the massive proportion of its market using governmental forces, suppressing the emergence of private companies, and diminishing free economic activity (Tsereteli, 2018).

That said, the government holds the power to influence the retention or dissolution of monopolies through laws, regulations, and enforcement actions. However,

Points scored

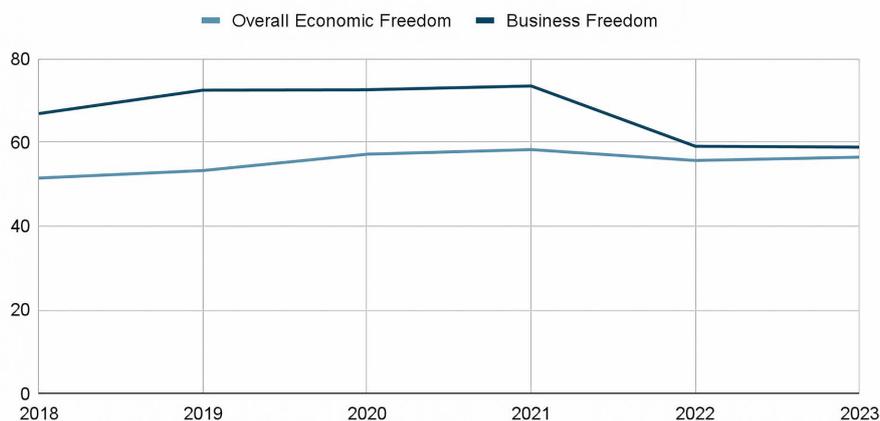


Figure 2. Uzbekistan's Index of Economic and Business Freedom in 2023 (The Heritage Foundation, 2023).

those practices can greatly vary from region to region and are likely to differ across legal systems.

In the case of Uzbekistan, the paper argues that, firstly, the nationalization of this foreign company (formerly called “GM Uzbekistan” and renamed “UzAvtoMotors”, afterward) and, secondly, the number of barriers and distinctive strategies are exclusively directed to maintain a monopoly in the automotive industry presumably because of its significant contribution to economic welfare. On top of that, many experts view the government's role as crucial in providing support and protection to ensure the continued prevalence of this monopoly (Nove, 1973).

As mentioned earlier, the *inherent* political and economic views that are deeply interconnected with the principles of the Soviet era remain one of the main driving causes why Uzbekistan still can not abandon its monopolistic approach and let new competitive enterprises establish cutting-edge companies and factories in its area, which then oppresses market efficiency and restricts the choices of helpless costumers (Tsereteli, 2018).

Thus, in compliance with the Index of Economic Freedom—2023, Uzbekistan ranked 109th among 176 countries with 56.5 points and remained on the list of countries with a non-free economy. Its score is 0.8 points higher than last year. Uzbekistan is ranked 23rd out of 39 countries in the Asia-Pacific region, and its overall score is below the world average (The Heritage Foundation, 2023).

On top of that, there are still several causes and implemented rules that contribute to the government's role in retaining this monopoly. For instance, the tender solicitude of government towards monopolies is visible in the number of administered economic and industrial policies such as the provision of incentives, governmental subsidies, and protectionist measures. Those policies are directly meant to benefit specific monopolies by mitigating their economic burdens while limiting the pure competition and entry of other players. As for the year 2022, UzAvtoMotors was the second most tax-exempt manufacturing com-

pany granted 57 million dollars in exclusion of all taxes (Kun. uz, News, 2023). This is the sole example of how the government could preserve the gigantic player by any means.

Following that support, the cost of importing cars into Uzbekistan can transcend the original value of those cars depending on several factors, including the type of car, its value, and the import duties and taxes imposed by the government. This is due to the implemented policies to support domestic automobile production which inevitably results in higher costs for imported cars compared to domestically produce ones.

What's worse is the ongoing problem with corruption rates. The current reforms and newly conducted investigations of anti-monopoly agencies of Uzbekistan are greatly affected by the prevalence of corruption. Indeed, their ability to effectively regulate and promote fair competition was impeded by a corrupted system.

4. Case Studies

To imply the potential consequences of retaining monopolies in the market and to suggest their future demolition for the facilitation of healthy competition, the research also details the comprehensive understanding of the positive outcomes of departure towards the free market, while providing negative consequences of retention of monopolies in these historical case studies:

Retaining the Status Quo of Monopolies

1) De Beers: De Beers has historically held a monopoly over the diamond industry, controlling the mining, production, and distribution of diamonds. This retention of this monopoly allowed them to control prices and limit supply, leading to artificial scarcity and higher prices for diamonds. As a result, the monopoly hindered competition and limited the development of alternative diamond markets (Turrell, 1982).

2) Standard Oil: In the late 19th and early 20th centuries, Standard Oil, led by John D. Rockefeller, held a monopoly over the oil industry in the United States. The retention of this monopolistic company was associated with aggressive tactics to eliminate competition and control the entire oil supply chain. This resulted in higher prices for consumers, reduced innovation, and limited market access for smaller oil producers (The Editors of Encyclopaedia Britannica, 2023).

Potential Departure toward Competitive Market

One historical example of the potential consequences of departing from a monopolistic market towards a competitive free market is the breakup of the Bell System in the United States in the 1980s (Watzinger & Schnitzer, 2022). At those times, the Bell System was considered to be a single monopoly that controlled the telephone industry. This monopolist left no place for competition in the market, especially for smaller counterparts, because of its coercive dominance. However, the system was eventually dismantled due to concerns about lack of competition and its monopolistic power. Yet, it brought many more positive outcomes con-

cerning the overall economy than initially thought.

As competition increased in the local marketplace, companies started to invest more in research and development. This led to significant technological advancements in the telecommunications industry, including the development of fiber-optic networks, mobile telephony, and the Internet.

To attract more customers, they promised even lower prices and better customer service.

Furthermore, the general population of the United States benefited from the profusion of job opportunities that were created as a result of the expansion of new companies. It happened not only in the telecommunication sector but also in related industries such as technology and services. Last but not least, the shift towards a free market enabled customers to choose from a wider range of choices regarding service providers, pricing plans and offered products. Customers could now choose from multiple companies, promoting a customer-centric culture (Watzinger & Schnitzer, 2022).

5. Conclusion

From a macroeconomic perspective, monopolies are detrimental as they dominate the market, leaving no room for competition. In the absence of alternatives, consumers are invisibly forced to purchase from the monopoly, granting it unchecked authority to increase prices or compromise the quality of its product or service (Armstrong & Vickers, 1993). The automobile industry in Uzbekistan is one of these monopolies that have dominated the market since the late 20th century. The research findings indicate that the causes behind the retention of car monopoly in Uzbekistan are twofold. Firstly, there are economic advantages associated with the existence of monopolies in the Uzbek economy, and, secondly, the role of policies imposed by the government is what perpetuates this monopoly's supremacy.

The research also highlights the negative implications of automobile monopoly as one of the reasons for Uzbekistan's economy being classified as non-free and below average standards in the Index of Economic Freedom. With the help of the case studies, the present research shed light on two different circumstances and their consequences. Therefore, the paper consolidated its arguments by bringing the negative and positive results of those case studies in historical contexts.

Given the results of this research, dependence on a single company in the car manufacturing sector could be overcome with strategic actions and special incentives taken by the government to let other foreign enterprises enter the market. To do this, the government should first depart from its prior system of managing the economy that resembles that of the Soviet Union and embrace the new forms of policy-making that create a pathway for healthy competition among firms and companies. It may prove to be the initial step to elevate market transparency, promote a customer-centric culture, and prevent companies from

artificially inflating prices.

For all that, it is essential to conduct more extensive research, not just within the car manufacturing sector but also among other significant providers of public goods and services, focusing on the problem of monopolistic movements in Uzbekistan.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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