

UDC 332.1
JEL: G34; O18

<https://doi.org/10.33619/2414-2948/92/43>

MODERN CONSTRUCTION INDUSTRY OF UZBEKISTAN: TRENDS, PROBLEMS AND PROSPECTS

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СОВРЕМЕННАЯ СТРОИТЕЛЬНАЯ ИНДУСТРИЯ УЗБЕКИСТАНА: ТЕНДЕНЦИИ, ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ

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Abstract. The article describes some specific features of construction industry in Uzbekistan. Presented a study of trends in development of the construction industry in Uzbekistan over the past few years, as well as the impact of growing population on need for investment in construction.

Аннотация. В статье описываются некоторые особенности корпоративного управления, характерные для строительной отрасли. Представлено исследование тенденций развития строительной отрасли Узбекистана за последние несколько лет, а также влияние роста численности населения на страны на растущую потребность в инвестировании в строительство.

Keywords: construction industry, building and construction work, indicators of construction, corporate management.

Ключевые слова: строительная отрасль, строительство, показатели строительства, корпоративное управление.

Introduction

In recent years, large-scale reforms have been taken place in Uzbekistan, which appears in the fast and large transformations in all sectors of the economy.

In any country the construction industry has always been one of the leading sectors of the economy. Being one of the sectors of the economy, construction takes part in the building and modernization of fixed assets and infrastructure for the whole national economy, and is well known as the main fund-forming sector of the country's economy.

Nowadays the construction industry as one of the leading sphere in Uzbekistan needs modern management tools. Thus, the development of the construction industry is a key factor in solving socio-economic problems [1].

Literature review

In the history of the world economy, the concept of corporate governance first appeared in the 18th century. Corporate governance as an important component of strategic management still does not have a single agreed definition. The main essence of corporate governance arises from the separation of the functions of management and ownership of the property of the organization.

For the first time, the problem of corporate governance was commented by Adam Smith in his

book “About the Wealth of Nations”, where he noted the following: “from the head of the company, who is the manager of other people's money that does not belong to him, it is impossible to expect that he will also treat them with the same care and wariness as co-owners of a private partnership agreement look after their own” [2].

Later in 1932, the Americans Berle and Means, in their work *The Modern Corporation and Private Property*, highlighted the presence of a power gap between the administrative management and stakeholders of large companies. They noted: “the growth of modern corporations has led to a concentration of economic power that can claim equal terms with the modern state — economic power against political power, where each side is strong in its own sphere” [3].

Later in 1997, American economists and representatives of the school of behavioral finance, F. Schleifer and R. Vishni, define corporate governance as “the ways in which corporate finance providers guarantee themselves a return on their investments” [4]»

The Organization for Economic Cooperation and Development defined it in 1998 as follows: “Corporate governance is the system by which business corporations are regulated and controlled. The structure of corporate governance determines the distribution of rights and obligations between the various participants of the corporation (board, managers, shareholders)” [5].

In 2001, finance specialist Patrick McColgan gave a broad overview of agency theory and corporate governance. The main goal of his research was to explore the sphere of relations in which the interests of managers diverge from the interests of shareholders. He meant agency relations and agency costs that arise from the relations of participants in corporations. P. McColgan argues that the agency problem can be reduced through an effective corporate governance mechanism, which can play a key role in reducing agency costs and reducing ownership problems in companies. Management should be designed according to the environment of the firm, and how one general mechanism may be more important for some firms and less important for other firms [6].

Putting forward these ideas, P. McColgan based on the work of Jensen and Meckling. They were the authors of *The Theory of the Firm* (1976) and defined the agency relationship as a type of contract, where the key point is to hire an agent to perform the services of the company on his (owner's) behalf. The agency problem arises from diverging interests and ownership/control conflict as the principal delegates some decision-making authority to the agent. M. Jensen and W. Meckling argued that this delegation of authority reduces the value of maximizing decisions made by the manager in the company [7].

Also Himmelberg, Hubbard and Palia (1999) added argument to the views of Jensen and Meckling, saying that the problem of agency relations is not the same in all firms, but is different in different firms, different industries, and also in different cultures [8].

Methodology

The theoretical and methodological basis of the study was general scientific methods based on the dialectical approach, such as system analysis and synthesis, and the comparative method. Also, statistical and economic analysis methods were used to identify trends of the construction industry in Uzbekistan. The research methodology was based on a comprehensive analysis of the development indicators of the construction industry and macroeconomic indicators.

Analysis and results

In modern conditions of digitalization and globalization of the economy, construction, like other production sectors, acquires a new economic meaning, which is associated with the movement of capital and the freedom of activity of each subject of business relations. As an economic

relationship, construction is a continuous investment activity of capital owners throughout each stage of the life cycle of building construction process, where investments were made [9].

According to the Boston consulting group (an international company that specializes in management consulting and business strategy), thanks to the rapidly growing infrastructure and ongoing reforms in the country, new opportunities are opening up in sectors such as construction, tourism and financial services (Table 1) [10–13].

Table 1

OPENING OPPORTUNITIES IN TRADITIONAL AND NEW SECTORS OF THE UZBEK ECONOMY*

	<i>OLD FRIENDS</i>	<i>NEW BIG FEATURES</i>
Description	Traditional sectors relying on natural resources and competitive advantages Long-standing but not productive Space for development: full potential, not yet realized; optimization possible	New sectors developing due to key current trends in the economy High growth rates Space for development: significant gap with other countries
Examples	Oil and gas Mining industry Agriculture Textile industry	1. Financial services 2. Construction 3. Telecommunications 4. Tourism

(*Source: BCG report "Uzbekistan: Window of Opportunity")

Economists speak about the “construction” industry and mean the cooperation between the owners of capital and the rest of the participants in investment (construction) processes.

Everywhere throughout the history of mankind, construction has consumed most of the material resources. Eras passed, new building possibilities and style features of architecture appeared, economic criteria changed, but at the same time, close attention to the search for rational and efficient use of certain resources was invariably maintained.

The construction business and its economy are inseparably linked with the development of the productive forces and production relations. Solving various construction problems gave rise to such concepts as: consumption, savings, construction time and etc. This influenced the process of society’s development, because culture is a key component of a sustainable any country and highly connected with the whole economy.

In the course of its entire historical development, construction and its economy have gone from domestic trade to handicraft, from simple and complex cooperation to a large industrial branch based on the use of machines, from the “trial and error” method to predicting the subtlest consequences of investment projects.

The construction complex, understood as a structural element of the national economy, which has an appropriate government body, ceased to exist with the collapse of the administrative system. In a market economy, the term "construction complex" is used only in its meaningful understanding, which allows to combine various types of industries and institutional structures that ensure, as a result of their interconnected activities, the creation of finished construction productsю

The main cause in the need to invest in construction is a significant increase of population in Uzbekistan in recent years. According to the Statistics Agency, the resident population of Uzbekistan amounted to 36.024 million people at January 1, 2023 (Figure 1).

Based on the demographic situation, it becomes important to provide the country's population with high-quality housing (Figure 2).

According to statistics, in the structure of GDP, in 2022 the share of construction was 6.7%. This indicator has been stable since 2020. In general, stable economic growth and positive demographic dynamics allow us to expect further development of the construction industry in the coming years. What is also indicated in the Decree of the President of the Republic of Uzbekistan No. 60 of January 28, 2022 “On the development strategy of New Uzbekistan for 2022-2026” (<https://lex.uz/docs/5841077>).

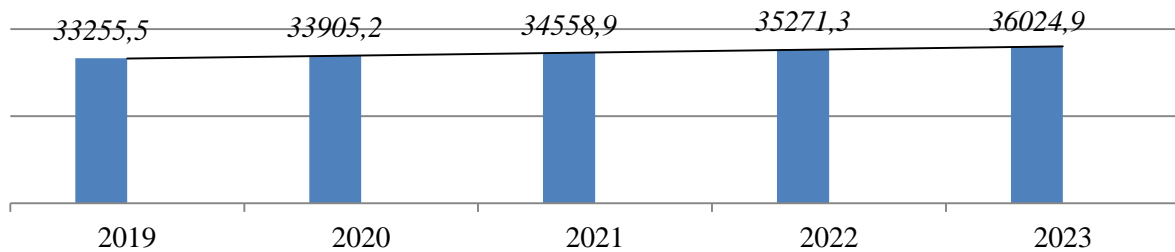


Figure 1. Permanent population of Uzbekistan in 2019-2023 (in thousand people). [Source: Statistics Agency under the President of the Republic of Uzbekistan]

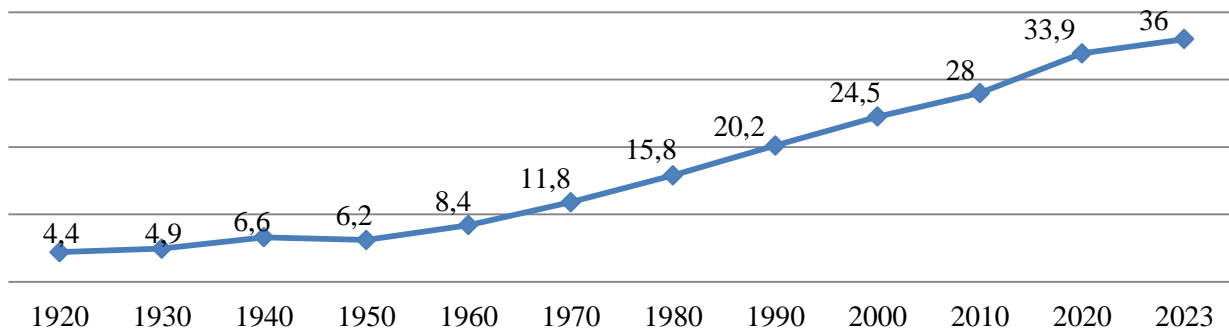


Figure 2. Change in the permanent population of the Republic of Uzbekistan over the past 100 years (as of January 1, 2023, million people) [Source: Statistics Agency under the President of the Republic of Uzbekistan]

This legal act involves the elimination of existing problems and shortcomings in the construction industry (Table 2).

Table 2

STRUCTURE OF GROSS DOMESTIC PRODUCT BY TYPE OF ECONOMIC ACTIVITY
 (as a percentage of the total)*

Indicators	2017	2018	2019	2020	2021	2022
I. GDP, total	100,0	100,0	100,0	100,0	100,0	100,0
Gross value added of industries	89,0	89,3	91,5	92,7	93,0	93,2
Net taxes on products	11,0	10,7	8,5	7,3	7,0	6,8
II. Gross value added of industries	100,0	100,0	100,0	100,0	100,0	100,0
Agriculture, forestry and fisheries	32,2	29,7	26,6	26,8	26,5	25,1
Industry (including construction)	26,5	30,5	33,8	33,4	33,9	33,4
Industry	21,1	24,7	27,5	26,8	27,3	26,7
construction	5,4	5,8	6,2	6,7	6,6	6,7
Services	41,4	39,8	39,6	39,7	39,6	41,5
trade, accommodation and food services	7,6	7,0	6,6	6,5	6,8	7,0
transportation and storage, information and communication	9,0	7,9	7,4	6,8	7,0	7,0
other service industries	24,8	24,9	25,6	26,4	25,8	27,5

Source: Statistics Agency under the President of the Republic of Uzbekistan

Because of these conditions, the role of corporate governance is significantly enhanced in the process of making effective and reasonable strategic decisions on the development of individual organizations and the entire industry. The positive result of the activity of construction enterprises is mainly determined by the effectiveness of the applied methods and tools of corporate management.

At its core, corporate governance is the system of rules, processes, or laws by which businesses operate, are governed, and controlled. In today's world, corporate governance is a rapidly evolving concept, and its importance has increased in recent years as business practices and government regulation become more demanding. Today, it is important to ensure fair treatment of all stakeholders of corporate relations (shareholders, employees, suppliers, customers, creditors, etc.), as well as comply with all requirements of the corporate process and government legislation.

Good corporate governance practice emphasizes transparency, accountability, fairness, and stewardship as essential ingredients for the long-term performance of an organization. A board that adheres to high standards of corporate governance must be able to strike an effective balance between conflicting interests represented by different stakeholders, leading to better decision making in the interests of ethical behavior throughout the organization's development cycle. In addition, corporate governance must create a structure within which risks can be effectively managed; develop a process for both internal controls and external reviews that balance the powers of counterparties, ensuring compliance with relevant laws and regulations governing public companies or corporations.

Summarizing the features of corporate governance in construction companies, I would like to note that there are likely to be differences in corporate governance between construction companies. Factors such as the size of the company, whether it is public or private, how its board is structured, and what management methods are in place will influence the corporate governance of a construction company.

Conclusions and recommendations

In connection with the above, it is proposed:

1. Establish transparent corporate governance systems. Companies must have transparent processes and procedures to maintain integrity throughout the organization. They should have policies that promote accountability, such as regular internal audits, performance reviews, and appropriate disclosures available to investors and other stakeholders.

2. Increase board diversity/independence. Companies can ensure the diversity and independence of their board of directors so that different points of view are always taken into account at the highest levels of decision making. Companies also need to ensure that their executive leadership team is also diverse, including people from different walks of life with different backgrounds and skills.

3. Increase shareholder engagement. Companies should strive to communicate effectively with all stakeholders, but especially shareholders, who are often an integral part of the decision-making process in corporate governance structures.

Ultimately, good corporate governance maintains a system of checks and balances for business acquirers that will ensure that they comply with professional legal frameworks even when they are under pressure from emerging market trends or majority shareholders entering the corporation through equity or similar investment arrangements. By emphasizing responsible ethical business conduct, backed up by periodic review by shareholders and executive boards, there is increased safeguard against hostile takeovers undertaken solely for personal gain, without regard to the intrinsic values or codes of conduct that apply to public companies or conglomerates.

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*Работа поступила
в редакцию 25.05.2023 г.*

*Принята к публикации
04.06.2023 г.*

Ссылка для цитирования:

Saifullaeva M. Modern Construction Industry of Uzbekistan: Trends, Problems and Prospects // Бюллетень науки и практики. 2023. Т. 9. №7. С. 310-316. <https://doi.org/10.33619/2414-2948/92/43>

Cite as (APA):

Saifullaeva, M. (2023). Modern Construction Industry of Uzbekistan: Trends, Problems and Prospects. *Bulletin of Science and Practice*, 9(7), 310-316. <https://doi.org/10.33619/2414-2948/92/43>