

**ECONOMIC MODERNIZATION IS THE WAY
AWAY DUMMY TO REAL ECONOMY**

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Republic of Uzbekistan**JEL Classifications:** O11, O31, P41, Q01**Key words:** Analysis, sustainable economic development, reform, modernization, innovation, investment, productivity

Abstract: The paper is dedicated to analysis of economic modernization on the base of innovations to reach high living standard on the ground productivity increasing. Resource productivity is the most important indicator of economic effectiveness. Economic modernization is the most effective way to productivity increasing and overcome the global financial-economic crisis, because it provides to construct real economy, but no dummy one. Moreover, key reason of the world financial-economic crisis is over reflection, but not overproduction.

Introduction

Nowadays innovative modernization is the most important source of economic growth. To overtake developed countries it is very important and fruitful to develop that economic branches and sectors, which have the highest level of value-added and resource productivity. In the conditions of the global financial-economic crisis an intensive process of replacing the old economic order with the market economy is going on in a number of CIS (Commonwealth of Independent States) and some other countries. As a result radical, deep shifts have happened in economic sphere of these countries.

Deep modernization processes that were carried out in economic system have changed the contents and the status of many economic categories and concepts; have rearranged accents and main directions in social-economic development of the country. It is clear that these changes could not leave the sphere of social and economic relations, which sensitively react to all changes in public life. The process of shaping of the new relations has rendered and continues to render very forceful influence to material sphere of the society's life, its social and cultural environment. Modernization means changes, transition from old to new order, but on the background of world financial crisis it is vitally important for developing countries to save sustainability their economic development. President of the Republic of Uzbekistan Islam Karimov notes: "Despite that is might paradoxically, the global economic crisis makes it yet more urgent to permanently renew and modernize the production, requires us to concentrate our strength and resources"¹⁹.

Therefore, during world financial crisis is going it is necessary to modernize economy and reach, achieve the highest level of value-added and resource productivity. It should be aim, goal and priority object of the modern sustainable economic development.

Labour productivity

The formed new relations predetermine the necessity of using qualitatively new approaches to the problems of employment, the social guard of low-income strata of the population, motivations of labour, its productivity, wages, etc. And these approaches should reflect the new mutual relations

¹⁹ Karimov I., 2009. The Global Financial-Economic Crisis, Ways and Measures to Overcome it in the Conditions of Uzbekistan, Tashkent, Uzbekistan, p. 33.

between the employees and the employer in conditions of purchase and sale of labour force in the market of labour.

More than nineteen years that have elapsed from the beginning of market reforms has become the period of deep rethinking many ways and stereotypes of thinking for economic science about labour. Nevertheless many important problems remain debatable and require their solutions until now. It concerns, first of all, the role of the state in regulating the labour relations, ratio between wages and social payments, shaping of the new approaches and concepts directed on reorientation of social maintenance in conditions of mixed economy.

The new concepts that have appeared during economic reforms such as the variety of the forms of managing and private property on means of production, hiring and sale of labour, system of compensation and payment of labour adequate to the market economy render the increasing influence on the relations of the employees to work, on efficiency of their work.

The role and the significance of productivity in determining the progress at various stages of human development varied depending on particular conditions of the given stage and problems facing the society. However it has always remained as a decisive, major factor of economic growth. So it is now – in conditions of transition to market economy.

Any transitional period raises instability in the economic development, crisis and decrease of production, diminution in total volume of GDP and GDP per capita, deterioration of the material position and status of the people. Such transition requires a qualitatively new solution and approaches to the problems of social-economic development that were unfamiliar to us. In such conditions in countries with transitional economy the special urgency is acquired by the problems of stabilizing the economy, and consequently – reaching stable long-term economic growth as major condition of improving the wellbeing of the people, increasing the level of their life.

The specific feature of the Republic of Uzbekistan is the labour-abundance of its economy. However whether it means that for Uzbekistan the problem of labour productivity increasing not as acute as, for example, in countries with the limited human resources. But productivity in Uzbekistan, e.g. productivity of labor, more than 4-12 times less than it in developed countries. That is why this problem is so actually for the country. But owing to efforts of leadership in the country keeps positive dynamics of productivity (Table 1).

As shown in Table 1 we conclude, as minimum, two statements:

1. Labour productivity has positive trend. The productivity in 2000-2008 has increased in total economy by 2.6 times. In public sectors the growth consists 1.9 times, private sectors – 2.8 times.

2. In private sector labour productivity in 2000-2008 has increased faster that one in public sector. As it shown in Table 1 before 2006 year labour in public (state) sector was more productive. In 2000 year level of private sector productivity consists 74.6% of public sector productivity and in 2006 – 101.6%, in 2008 – 108.4% (see Table 1, correlation).

Therefore, modernization efforts give positive results in labour productivity meanings.

Capital productivity

Another, no less important source of economic growth is the accumulation, increasing their volume and improvement in physical capital. The country has a savings rate above the average, has, undoubtedly, a high rate of economic growth. Uzbekistan, given this pattern, is building its industrial policy at the expense of additional capital investments in priority sectors of the economy, sustaining economic growth. The experience of developed countries shows that to ensure sustainable economic growth requires that the share of investment in gross domestic product accounted for more than 20-25%. In Uzbekistan, this index tended to decrease - from 31% in 1996 to 19% in 2005. In 2006, the share of investment in gross domestic product amounted to - 18% in 2007 – 19.4%, in 2008 – 23.0%. A gradual decrease in accumulation rate from 31% in 1996 to 19.4% in 2007, and up to 23.0% in 2008, 26.1% in 2009 (see Table 2). Associated with increased export volumes, net of taxes, remittances of migrant workers and other elements of non-investment, ensured the growth of gross domestic product of the Republic of Uzbekistan.

An important source of sustainable economic development in modern conditions is technological progress. For Uzbekistan, it is one of the basic conditions for the modernization of the economy from commodity production to high orientation and information production. Modernization and structural renewal is a factor increasing the average per capita GDP and bring it to the level of developed countries. The upgrade of increasing production capacity to build and expand production of new products, improving quality of products already mastered. Modernization provides rapid economic development. Under current conditions in Uzbekistan to achieve high and sustained economic growth due to the radical improvement of the structure of the economy.

Country, more widely used scientific and technological innovation, possesses great potential growth. Upgrading through the introduction of the achievements of technological advance facilitates the transition from extensive production to a new level - intensive type of economic growth. In recent years the structure of Uzbekistan's economy has been significant changes. All the more pronounced upward trend in the share of services and industry in GDP and reduce the share of agriculture (see Table. 3).

Effectiveness of production factors

In our opinion, it is very important to identify the effectiveness of the processes of modernization, especially through their reflection in the economic growth of the country. To this end, analyze the relevant statistics. Table 4 uses data from the Republic of Uzbekistan for measuring the contribution of three sources (factors) of economic growth for the period from 1996 to 2007 (see Table 4).

The data in Table 4 show that for 12 years, from 1996 to 2007, real GDP grew at an average of 6.5% per year. In this case, 1.6% is the result of increasing capital stocks, 1.9% related to the increased

contribution of labor; 3.0% were the result of increasing total factor productivity (Solow residual). Between 1996 and 2008 GDP grew by an average of 5.58% per year. In this case, 2.26% is the result of increased capital stock, 1.64% are related to an increase in the contribution of the labor factor, 1.68% were the result of increasing the Solow residual.

Comparison of economic growth in the years of active modernization and the previous ten years are given below (see Table5). Total factor productivity, which is also called "Solow residual" can vary for many reasons. However, the main one is technological progress. Other causes are education and government regulation. In our study, these factors underlie the processes of modernization. Consequently, the hypothesis of the need to modernize and its high socio-economic efficiency has found statistical evidence on the basis of the theory of economic growth, economic theory suggests, Robert Solow model.

Moreover, the auxiliary data and analytical Table 5. clearly indicate that for two years of intensive modernization 2006-2007. experienced fundamental structural changes in the ratio of factors of economic growth. Thus, if during the past ten years, 1996-2005. contribution of factors was 1.73: 1.53: 1.43, that is, was approximately equal, after the active public policies for modernization and renewal of the economy, this ratio changed dramatically and reached 1.6: 2.2: 4.6 .

Hence, modernization component increased more than 3.2 times (4.6 to 1.43). The slight decline in the contribution of capital to economic growth (1.6 instead of 1.73), as our research shows, is associated with a reduction in the rate of accumulation (the ratio of investment to GDP) in the economy. However, the results of 2008, there has been a significant increase in the contribution factor of capital (6.5%), which was reflected in the increase of contribution this factor and for the period 2006-2008 to 4,05%. This is due to the fact that there was a marked increase in investment in fixed assets in 2008 (28.3%).

Based on the data contained in Table 2 and Table 5, we calculated the total economic impact of modernization on the scale of national economy:

- 1) during the two years 2006 to 2007: $(28186.2 - 15210.4) * 0.036 = 467.1$ billion soum.
- 2) For 2007: $(28186.2 - 20759.3) * 0,031 = 230.23$ billion soum.
- 3) For 2008: $(36839.4 - 28186.2) * 0.0034 = 29.42$ billion soum.

Thus, modernization gives some economic effect. For two years (2006 to 2007.), He was almost 467 billion soum. In 2007, the effect exceeded 230 billion soum. In 2008 there was a decrease, since the sharp increase in investments in fixed assets has not given the appropriate rate of GDP, due to the negative impact of the global financial crisis and the lag delay of investment in real capital. An important source of economic growth in a market economy is the level of development of foreign economic relations, which is also possible on the basis of modernization and structural renovation. Taking advantage of the international division of labor will restructure the national economy through the provision of scarce imports of consumer and investment goods, expanding markets. However, one

should consider the optimal mix of internal and external factors of economic growth, national and international division of labor.

At present, virtually no country in world could do without the participation of foreign investment in development of various sectors and industries. However, the inflow of foreign capital should be limited by depending on the state of the national market, industrial and social infrastructure, and capacity on the external market with competitive products.

And there is one more important thing. According World Bank data in 2007 GWP (Gross World Product) consists more than 52,600.0 bln. USD. At the same time world stock market turnover is equal approximately 600,000 bln. USD. We know that stock papers (shares, bonds, derivatives, swaps, treasure bills, commercial papers, etc.) are symbol of contribution in property. They are only reflection, but not origin. The mirror magnified, i.e. shows little origin as huge reflection. They (stock papers and turnover) are dummy, but not real. And, we think, that is real reason of global world financial crisis.

Conclusion

Nowadays the world stands on the threshold of the new industrial and technological revolution. There are indeed huge reserves for the increase of efficiency of use of natural and material resources and its role in reaching the social-economic progress is very great. According to the calculations of some scientists the efficiency of use of natural and material resources can be increased – no more, no less – by four times! It means that it would be possible to receive four times more agricultural products from each hectare of land, it would be possible to receive four times more finished products on each kilowatt of electric energy or cubic metre of natural gas, etc. It is not difficult to imagine what level of material prosperity and abundances would be possible to ensure for the people of our planet, if we managed to achieve quadruple increase of efficiency of use of natural and other kinds of resources.

In our opinion, the growth of productivity will promote the solution of the important economic and social problems, namely:

1. Provide real picture of the world economy state. Allow world economic leaders to understand of necessity of transition from dummy to real economy and economic relations.

2. In our opinion, the real and the deepest reason of the modern global financial crisis is over reflection, but not overproduction.

3. Before and after the world crisis, as our analysis has shown, the developed countries have high economic level, but low growth. On the contrary, developing countries have low economic level, but high economic growth.

4. Increase the volume of the gross domestic product. As a matter of fact that in some countries up to 60 - 70 % increases of the national income caused by the growth of labour productivity. For example, as has shown the analysis of statistics of economic growth of the USA for period since 1929 for 1982 more than 2/3 (68 %) of the increase of real GDP was supplied by the growth of productivity of labour.

5. Strengthening the position of the country in international division of labour, magnification of its export potential. Because of the characteristic features of economic development of country after gaining its political independence is the active integration of economy of the Republic with world economy, especially the economic ties with countries of distant foreign countries are strengthening with fast paces. Only the high efficiency ensuring appropriate competitiveness of domestic production in the international market, the national economy can receive necessary positive effect from the increase of integration with other countries of world community.

6. Curbing inflation and solution of problems of employment of the population. The growth of productivity causes the growth of production in the natural form and consequently to reduction of cost. Here is the main significance of productivity of labour in overcoming the inflation. A high-productive labour promotes, with other things being equal, growth of income for both employees and employers. The growth of income in this and in the other case creates favourable internal incentive motives and conditions for escalating of the investment potential, as it will increase actual possibilities for accumulation both on the part of the population and on the part of the businessmen. Therefore, the possibilities for investment, creation of new jobs, decreasing of unemployment are increased.

7. Improving conditions and quality of life of the population. According to the theory of the competitive market of labour, the more productive labour is highly paid. In conditions of transition of the economy, although new modes of distribution of income (income from the property, dividends from stocks, interest from the savings in the banks and securities, profit on enterprise and commercial activity etc.) have appeared, wages remain as a main source of the incomes of the population. According to the various evaluations it's the share reaches up to 65% in our country. Therefore, the solution of the problems of productivity of labour will promote the increase of material well-being of the people, improving the conditions and quality of their life.

8. Modernization should be conducted not only productivity sphere, but all economic and social relations and spheres.

Generalizing above-stated statements, it is necessary to mark that the economy of any country, which is not oriented on growth as major parameter, cannot claim for stable development. Any financial injections and investments cannot promote rise of a national economy, if a proper performance level of accumulated industrial and labour potential is not ensured. As a result, the development of the society and level of well-being of all its members depends on the level and dynamics of resource productivity.

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Appendix

TABLE 1. PRODUCTIVITY OF LABOUR IN PUBLIC AND PRIVATE SECTORS OF UZBEKISTAN'S ECONOMY AND ITS DYNAMICS IN 2000-2008

Key figures	2000	2006	2007	2008
1. GDP, UZS billion	11 691.4	20 759.3	28 186.2	36 839.4
- GDP produced in public sector	3 484.0	4 618.6	5 834.5	7 588.9
- GDP produced in private sector	8 207.4	16 140.7	22 351.7	29 250.5
2. Employment in economy, thous. People	8 983.0	10 467.0	10 735.4	11 035.4
- Employment in public sector	2 161.0	2 348.0	2 372.5	2 421.6
- Employment in private sector	6 822.0	8 119.0	8 362.9	8 613.8
3. Labour productivity of an employee, UZS thous.	1,301.5	1 983.3	2 625.5	3 133.8
- public sector	1 612.2	1 967.0	2 459.2	3 133.8
- private sector	1 203.1	1 988.0	2 672.7	3 395.8
4. Correlation between private and public sector, %	74.6	101.6	108.7	108.4

SOURCE: CALCULATED BY AUTHOR ON THE BASE OF DATA FROM Uzbekistan Statistical Outlook 2009

TABLE 2. THE DYNAMICS OF INVESTMENT IN FIXED CAPITAL (in current prices)

Year	1996	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total investments, UZS bln.	176.6	744.5	1320.9	1442.4	1867.4	2473.2	3012.9	3838.3	5479.7	8483.7	12531.9
Share in GDP, %	31.0	22.0	26.0	19.0	18.0	20.0	19.0	18.0	19.4	23.0	26.1
By spheres:											
- productive	119.6	427.8	834.2	823.6	1215.7	1586.1	1968.3	2619.8	3840.3	6397.5	9491.2
- nonproductive	57.0	316.7	486.7	618.8	651.7	887.1	1044.6	1218.5	1639.4	2086.2	3040.7
Properties total, (%):	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
- public	69.9	63.8	47.0	40.9	40.4	41.1	63.8	32.6	29.7	25.4	23.9
- private	30.1	36.2	53.0	59.1	59.6	58.9	36.2	67.4	70.3	74.6	76.1

SOURCE: CALCULATED BY AUTHOR ON THE BASE OF DATA FROM Uzbekistan Statistical Outlook 2009, 2010

TABLE 3. PRODUCTIVE STRUCTURE OF UZBEKISTAN'S GDP AND ITS DYNAMICS, %

Year	GDP				
	Industry	Agriculture	Construction	Human services	Net taxes
1995	17.1	28.1	7.1	34.6	13.1
1996	17.8	22.4	8.2	37.2	14.4
1997	15.6	28.3	7.3	36.4	12.4
1998	14.9	26.8	7.5	36.4	14.4
1999	14.3	29.0	6.7	36.6	13.4
2000	14.2	30.1	6.0	37.2	12.5
2001	14.2	30.2	5.8	37.3	11.9
2002	14.5	30.1	4.9	37.9	12.6
2003	15.8	28.6	4.5	37.4	13.7
2004	17.1	26.8	4.5	37.6	14.0
2005	20.7	25.0	4.9	38.4	11.0
2006	22.1	24.1	5.1	39.5	9.2
2007	24.0	21.7	5.5	39.3	9.5
2008	22.3	19.4	5.6	43.3	9.4
2009	24.0	18.0	7.0	44.0	7.0

SOURCE: CALCULATED BY AUTHOR ON THE BASE OF DATA FROM Uzbekistan Statistical Outlook 2009

TABLE 4. THE STRUCTURE OF ECONOMIC GROWTH BY FACTORS, %

YEAR	Economic growth	Share of factor in economic growth		
		CAPITAL	LABOUR	Solow residual
1996	1.7	2.24	1.22	-1.76
1997	5.2	4.76	1.3	-0.86
1998	4.3	4.2	1.3	-1.2
1999	4.3	0.5	1.5	2.3
2000	3.8	0.23	1.54	2.03
2001	4.2	0.998	1.53	1.67
2002	4.2	0.76	1.68	1.76
2003	4.4	0.96	1.76	1.68
2004	7.7	1.22	1.69	4.79
2005	7.0	1.4	1.76	3.84
2006	7.3	1.35	1.8	4.15
2007	9.5	4.3	2.1	3.1
2008	9.0	6.5	2.156	0.34
1996-2007	6.545	1.665	1.865	3.015
1996-2008	5.58	2.26	1.64	1.68

SOURCE: CALCULATE BY AUTHOR ON THE BASE OF DATA FROM Uzbekistan Statistical Outlook 2009

TABLE 5. COMPARING THE STRUCTURE OF ECONOMIC GROWTH IN THE PROCESS OF MODERNIZATION

YEAR	Economic growth	Share of factor in economic growth		
		CAPITAL	LABOUR	Solow residual
1996-2005	4.68	1.73	1.53	1.43
1996-2008	5.58	2.26	1.64	1.68
2006-2007	8.4	2.8	1.95	3.65
2006-2008	8.6	4.05	2.02	2.53

SOURCE: CALCULATED BY AUTHOR ON THE BASE OF PREVIOUS TABLES DATA