

## Article

# Analysis of Production Indicators and Development Directions Based on Localization by Business Entities

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**Abstract:** In the context of global economic fluctuations, localization and import substitution have become vital strategies for ensuring sustainable development and reducing dependence on external markets. In Uzbekistan, particularly in the Namangan region, localization policies have gained momentum as part of broader reforms, focusing on small business development, regional industrialization, and the production of import-substituting goods. Despite progress, challenges such as outdated technologies, limited competitiveness, and underdeveloped infrastructure persist. While localization is widely discussed in economic theory, there is insufficient empirical analysis of its application in Uzbekistan, especially concerning small business contributions and regional industry dynamics. This study analyzes production indicators based on localization in the Namangan region, evaluates the effectiveness of small business involvement in import substitution, and identifies strategic directions for industrial development. Findings indicate that small businesses account for more than half of Uzbekistan's GDP and 78% of employment, with even higher shares in Namangan, demonstrating their central role in localization. The analysis of imports and exports shows persistent dependence on foreign products, yet significant potential for import-substituting production, particularly in sectors such as textiles, electrical engineering, pharmaceuticals, and leather products. Competitive assessment using HHI and CR-3 indices reveals an underdeveloped market structure, underscoring opportunities for new projects. The study introduces a staged framework for organizing localized production, integrating market analysis, design, investment planning, compliance, branding, and sustainability. Effective implementation of localization strategies through small businesses and industrial zones will reduce import dependence, create jobs, attract investment, and strengthen regional economic growth.

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## 1. Introduction

Today, in the conditions of economic fluctuations in the world, there is a need, first of all, to use domestic opportunities, to protect the industries that create the most jobs. In the Republic of Uzbekistan, textiles, building materials, furniture manufacturing are among such industries[1].

The current president of the United States, one of the most developed countries in the world, emphasizes the importance of manufacturing for the economy and asks the government to stimulate it. And he seeks to do this through a Hamiltonian-style import substitution strategy - this is done by replacing foreign-made goods with domestically produced products in the US market. Through this idea, it can be understood that

localization processes are equally important not only for the economies of developing countries, but also for developed countries[2].

In developing countries, import substitution is usually carried out for development purposes, and countries do not have sufficient opportunities for the effective use of national resources, because due to their limited economic capabilities and lack of modern technologies, they do not have enough opportunities to produce competitive products in many areas. Therefore, they may sometimes face difficulties in achieving export-based growth while withstanding international competition. However, if an economic development strategy is developed through properly organized localization, the opportunity to achieve real growth will expand through rational use of the benefits provided by the government to local producers[3].

However, as the country's economy develops and countries become richer, the desire to import many products and services from abroad increases. This is due to the processes of specialization of production and provision of services depending on the capabilities of the regions. That is, specialization is carried out depending on factors that strongly affect production and service provision, such as natural resources, climatic conditions, logistics and labor resources. From this point of view, in order to comply with the processes of specialization in the future, it is advisable to draw up localization programs now, taking into account the natural resources and other important opportunities in the regions[4].

The large-scale implementation of localization measures in the national economy and their continuous continuation is one of the important tasks in the direction of forming a competitive economy in our country. In order to organize the production of local products that replace imports by business entities, it is first of all necessary to study the products imported from foreign countries to the region and the market analysis. Accordingly, we analyze the products imported from foreign countries to the Namangan region, where our research is being conducted[5].

## 2. Materials and Methods

The following scientific and methodological approaches and methods were used in the study, including the method of analysis and synthesis, comparative analysis, statistical analysis, graphical and tabular presentation, and others.

The concept of localization comes from the Latin verb "localize", which means "to localize" or "to assign to a specific place". In our country, the term "localization" is widely used in the presentation of economic data, along with "localization." In foreign literature, the word localization is also used with the term "import substitution."

The emergence of the concept of import substitution was studied in the works of economists-mercantilists A. Moncrétin, J. B. Colbert and others, The ideas of mercantilism were formulated by such famous economists as A. L. Ordin-Nashokin, I. T. Pososhkov. The main fundamental ideas of the mercantilists are expressed in the fact that "the main duty of the state is to promote the growth of national industry and trade, which, as an indispensable condition for national prosperity, allows for a positive balance of trade"[6].

According to economist A.N. Makarov, "Localization implies the supply of components manufactured in the national territory by local manufacturers to foreign companies based on existing production capacities". This definition focuses on the domestic production of components previously produced abroad based on the production capacities of foreign enterprises. However, in our opinion, localization should not be limited to components only, since the production of finished products can also be mastered within the country[7].

These studies show how important the production of products based on localization is in developing the economy and reducing dependence on imports.

### 3. Results

The resolution of the President of the Republic of Uzbekistan Shavkat Mirziyoyev dated December 2, 2024, established measures for the socio-economic development of the Namangan region and further improvement of the investment and business environment, and set a plan to attract \$4.2 billion in investment, export \$1 billion, create 323 thousand jobs, and lift 55 thousand families out of poverty by 2025. The greatest potential is small business and entrepreneurship, and the fact that 82 percent of the working-age population of the Namangan region is engaged in this area indicates the importance of scientific research on the development of small business for the country's economy[8].

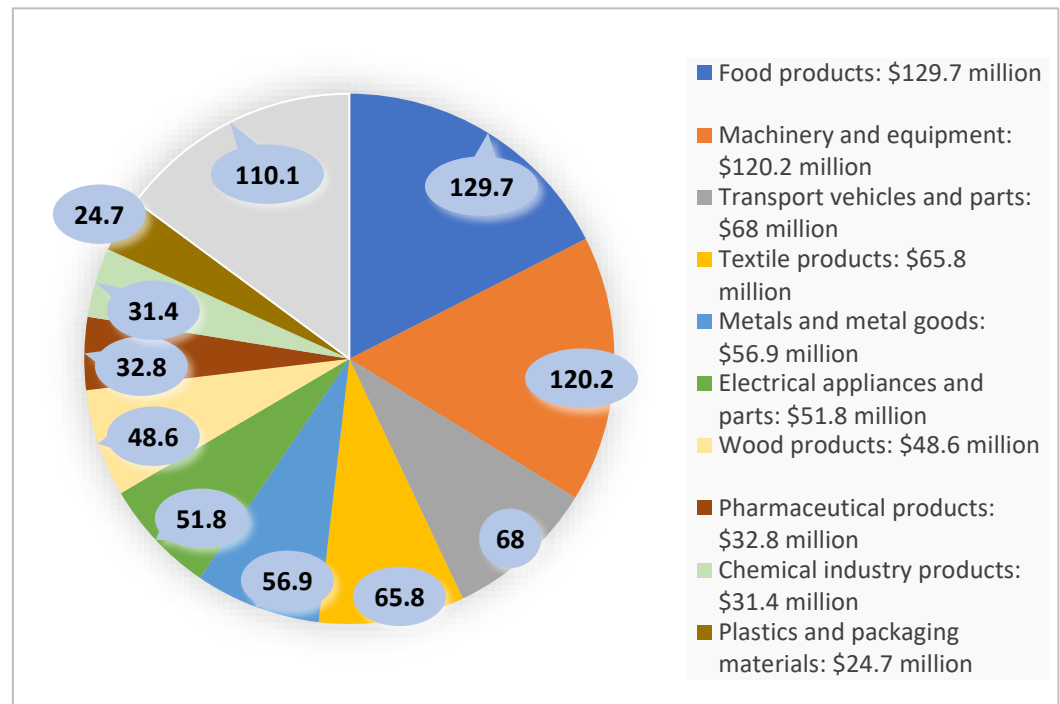
From this perspective, the most effective way to ensure sustainable growth of the Uzbek economy in today's globalization environment is to utilize domestic potential, that is, to produce imported finished products in the country and further develop local industry. In the new stage of economic reforms in Uzbekistan, special emphasis is being placed on fully utilizing the production potential of regions and reducing dependence on imports, based on the effective use of the local raw material base and the development of industry based on advanced technologies.

Implementing the processes of developing product production based on localization through small businesses can bring great results. Because it does not require large funds for organization, quickly adapts to changes, is not afraid of innovation and competition, and most importantly, it is small business that is the most active sector in providing people with jobs and increasing their income. In many cases, it is the locomotive of the economy of developing countries. Small businesses account for more than 56 percent of Uzbekistan's gross domestic product and 78 percent of employment, and play an important role in this process. In the Namangan region, where we are conducting research, this indicator is more than 73.4 percent of gross domestic product and 82 percent of employment[9].

The increase in the share of small businesses in the leading sectors and branches of the economy is a solid foundation for ensuring economic growth and social stability. In Uzbekistan, small businesses have become the largest driver of employment, investment, innovation, competition, added value and exports. The number of small and medium-sized businesses has doubled in five years. 10.5 million citizens earn income in them, more than half of the economy, one third of industry and exports are accounted for by small and medium-sized businesses, which is the result of large-scale positive reforms being implemented. In Uzbekistan, at the end of 2024, small businesses created 753,226.9 billion soums of added value, or 54.3 percent of the gross value added in the economy. When analyzing the total added value created by small businesses by sector, 33.9 percent fell on agriculture, forestry and fisheries, 12.6 percent on industry, 10.1 percent on construction, and 43.4 percent on services.

In Namangan region, a total of 745.1 million dollars of goods were imported in 2024, which amounted to 828.6 million dollars compared to the same period in 2023, which is a decrease of 83.5 million dollars[10].

Figure 1 illustrates the structure of goods imported to the Namangan region in 2024, expressed in million dollars by product type. The largest share is food products at \$129.7 million, followed by machinery and equipment at \$120.2 million. Transport vehicles and parts accounted for \$68 million, while textile products reached \$65.8 million. Imports of metals and metal goods totaled \$56.9 million, and electrical appliances and parts \$51.8 million. Smaller shares included wood products, pharmaceuticals, chemical industry products, and plastics, highlighting a diversified but import-dependent structure.



**Figure 1.** Analysis of goods imported to Namangan region in 2024 by product type, million dollars.

These goods were imported from 58 countries of the world, mainly China (36.5%), Russia (11.3%), India (9.6%), Kazakhstan (7.4%), Turkey (6.5%), Kyrgyzstan (4.5%) and Germany (4.4%) countries, which account for a relatively large part of the total regional import shares[11].

At the same time, if we look at the export potential of Namangan region by the end of 2024, a total of 596.5 million dollars was exported to 51 countries of the world. The largest share of exports falls on the share of Russia (58.0%), China (8.0%), Kyrgyzstan (7.2%), Kazakhstan (4.9%), Turkey (4.0%) and Germany (2.4%). These data show a high share of imports in Namangan region by the end of 2024, indicating the wide scope for localization, that is, the production of import-substituting products in the region.

As a result of the attention paid to supporting entrepreneurship in our country, localization processes are also developing rapidly. Due to the small number of large industry enterprises in Namangan region, the main focus is on increasing production volumes through the development of medium and small enterprises.

In Uzbekistan, "Free Economic Zones" (FEZ) and "Small Industrial Zones" (SIZ) are institutional mechanisms introduced for the purposes of diversifying the economy, developing local production, attracting investments and increasing export volumes. We will consider the legal framework, areas of activity of these two tools and their impact on the localization process[12].

Projects for placement in free economic and small industrial zones are selected based on specific criteria, and when considering investment projects, the number of newly created jobs, the presence of a potential foreign partner and investor country, the demand for manufactured products in domestic and foreign markets, export volumes, as well as the level of localization of production are taken into account.

The main requirements for projects proposed by business entities for placement in small industrial zones include the implementation of projects for the production of industrial products, the creation of new jobs, and the production of import-substituting and (or) export-oriented types of finished products, materials and components[13].

#### 4. Discussion

A free economic zone is a territory established for the purpose of establishing new production capacities, developing high-tech production, actively involving in the development of modern competitive, import-substituting, export-oriented finished industrial products, as well as ensuring the development of production, engineering and communications, road and transport, social infrastructure and logistics services.

Today, a total of 73 small industries and 2 free economic zones have been established in Namangan region, and attention is being paid to placing projects that produce localized products that are import-substituting in these industrial zones[14].

In particular, "DREAM WEARS" LLC located in the "Dashtbog" small industrial zone produces "sandwich panel" products worth 3.0 billion soums, "Muhammad Ali" LLC produces buttons and plastic hangers for textile products worth 128 million soums;

"Fahr nur servis" LLC located in the "Yuksalish" small industrial zone produces solar street lights and lighting fixtures worth 7.0 billion soums, "FLAT TILE" LLC produces tile and ceramic products worth 44.5 billion soums;

"Tai Chang Special Steel" LLC JV located in the "Namangan" free economic zone produces 305.7 billion soums metal profile products worth 65.1 billion soums by JV "Ifoda Agro Kimyo Himoya" LLC;

"Akhsikent sof sanoat" LLC located in the free economic zone "Kosonsoy-farm" produced hygienic gloves worth 7.7 billion soums;

"Nam electro" LLC located in the small industrial zone "Davlatobod" produced spare parts for high-voltage electrical networks worth 732 million soums.

By the end of 2024, localized products worth 2,721.3 billion soums were produced within the framework of 111 types of projects, an increase of 144.2 percent compared to 2023. The import substitution efficiency of manufactured products amounted to 210.9 million dollars[15].

In particular,

- Construction materials - 577.5 billion soums (9 enterprises);
- Metallurgical industry - 573.7 billion soums (11 enterprises);
- Food industry - 169.3 billion soums (2 enterprises);
- In the electrical engineering industry - 22.5 billion soums (15 enterprises);
- In the pharmaceutical industry - 8.8 billion soums (4 enterprises).

At the same time, 25 business entities have launched the production of 33 types of products, including solar street lights, buttons, plastic hangers, artificial synthetic fiber, polyethylene pipes, sportswear and goods, spare parts for high-voltage electrical networks, disposable test tubes and gloves for medicine, electrodes, gas analyzers, electronic components for cars, children's toys, air-oil cooler condensers, enameled bathtubs and shower trays, adhesives (sodium silicate), special equipment (motorcycles), car batteries, shoe soles, etc.

As a result of the expansion of new projects and projects implemented in the Namangan region within the framework of state programs, the production of high value-added products such as import-substituting pectin (a viscosity-increasing and food industry product) and biologically active additives, mineral fertilizers, synthetic fiber fabrics, water pumps and electric motors, pharmaceutical products, tricycle and lithium batteries was launched.

Our scientific research analyzed the activities of "Musaffo Polymer" LLC, a manufacturer of localized products, namely ceramic bathtubs and shower cabins, located in the Namangan region. In this context, the market for this type of product was studied.

The study was conducted based on the database of industrial production volumes of the National Statistics Committee for 2023 and import and export data of the Customs Committee.

Import and export status of ceramic bathtubs, sinks and toilets: During the reporting period, 267 enterprises imported 723.8 thousand ceramic bathtubs, sinks and toilets from 20 countries worth 17 million US dollars. 51 percent of imported products are from China, 13 percent from Turkey, 12 percent from Iran, 9 percent from Germany, and 15 percent from 16 other countries.

The average price of imported ceramic bathtubs, sinks and toilets was \$23.5 per unit. When studying the level of import concentration, the share of the 5 largest importing enterprises accounted for 36 percent of total imports.

In 2023, 32 enterprises exported 179.5 thousand products worth \$3.1 million to 6 countries. The bulk of exported products fell on Kazakhstan (79 percent), Tajikistan (9 percent) and Russia (6 percent). The average price of these exported products was \$17.2 per unit.

The degree of saturation of the domestic market with goods produced in our country.

When considering projects for inclusion in the localization program for the production of finished products, components and materials on the basis of industrial cooperation, based on the procedure for determining the saturation of the domestic market with goods produced in our country, 996.6 thousand ceramic bathtubs, sinks and toilet bowls worth 183.7 billion soums were produced by 33 business entities in 2023.

Based on this data, it was determined that the level of domestically produced ceramic bathtubs, sinks and toilets in 2023 was 64.7 percent.

Competitive situation in the domestic market. As part of the analysis, the competitive situation in the ceramic bathtubs, sinks and toilets production market was assessed using the internationally recognized HHI (Herfindahl Hirschmann Index) and CR - 3 indicators. When calculating the HHI based on the number of economic entities and production volumes, the index result was 3098 points, indicating that the competitive environment in this product market is not developed.

For information: HHI (Herfindahl-Hirschman Index) is used to assess the competitive environment in the market and determine the level of concentration. According to it, when the HHI indicator is from 0 to 1500 points, the competitive environment is developed, when it is from 1500 to 2500 points, the competitive environment is not sufficiently developed, and when it is from 2500 to 10000 points, the market competitive environment is not developed.

Also, in the domestic market, the CR 3 indicator of ceramic bathtubs, sinks and toilets was 68 percent. The CR 3 indicator is equal to the sum of the market shares of the 3 largest enterprises in the domestic production market. The HHI and CR 3 indicators show that the market for the production of ceramic washbasins, sinks, bathtubs and toilets is classified as a market with an underdeveloped competitive environment.

According to the results of the analysis, the saturation level of these commodity markets with local products is low, and there are opportunities for implementing new production projects.

In Namangan region, mainly textile and textile products are developing rapidly, and manufactured products are exported to foreign countries. At the same time, in order to develop new drivers in Namangan region, it is necessary to create broad opportunities for entrepreneurs to develop the electrical engineering, pharmaceuticals, and leather and footwear industries.

In Namangan, "Grand Charm Obooblari" LLC plans to implement a large "Cluster" project worth \$14.5 million to organize the production of "shoe soles", cardboard for shoes and shoes.

In addition, “Botir Mukhammadali” LLC plans to launch an artificial leather production project worth \$3.5 million with Turkish partners.

From the above analysis, it is clear that there are wide opportunities for businesses in the Namangan region to produce import-substituting products.

The following stages are important in organizing product production based on localization by businesses. Here, the main aspects are discussed in detail.

1. Assessing the demand for the product planned for production through market analysis.
2. Paying special attention to product design when developing products, ensuring that they meet the needs and desires of local consumers.
3. Studying and complying with local and international regulations and standards, including safety, health and environmental protection regulations.
4. Ensuring the availability and reliability of raw material supply through supply chain management.
5. Determine the initial investment required to establish production capacity, including equipment, technology, and human resources, through an analysis of capital requirements.
6. Construct, purchase, or lease appropriate manufacturing facilities for production and operations.
7. Develop a brand that emphasizes the innovations, national values, and other advantages of local products and take steps to attract consumer attention through the creation of a national brand in marketing and sales.
8. Anticipate and continuously analyze market fluctuations, changing consumer preferences, and economic conditions that may affect demand.
9. Implement sustainable manufacturing practices to minimize environmental impact.
10. Establish mechanisms to collect feedback from customers and stakeholders to continuously improve products and production processes.

Through the above 10 stages, business entities in the countries will be able to effectively organize and implement product production through localization, focusing on these areas, creating new jobs, reducing dependence on imported goods, attracting investments and increasing national economic growth.

## 5. Conclusion

Localization is inextricably linked with specialization and territorial division of labor and goes hand in hand with it. The localization process plays a key role in the production of new goods and services and in increasing the country's investment attractiveness. At the same time, mastering the production of such goods and services requires the introduction of new approaches to organizing the production process. This, in turn, will have a positive impact on the development of regional infrastructure, solving the employment problem by creating new jobs, and increasing revenues to the local budget.

In order to develop the industry, the following measures will be taken. In particular, by establishing a “Technopark” specializing in the production of “Electrical products” on a 5-hectare land area in the “Barkamol Avlod” Industrial Zone of Namangan city, it is possible to reduce the import of electrical products by 45 percent by implementing 20 promising projects worth 200 million dollars, thereby increasing the level of localization to 80 percent.

By establishing a small industrial zone specializing in the production of “Leather and footwear products” on a 25-hectare land area in the “Orikzor” Industrial Zone of Chartok district of Namangan region, it is possible to launch 136 projects worth a total of 473.3 million dollars in 2025-2026 for the production of finished products intended for export with high added value. This is expected to create 6.5 thousand new jobs in the region. As

a result, the production volume in this sector can be increased to 824.5 billion soums by the end of 2025 and to 1.1 trillion soums in 2026.

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