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Effective Management of Natural Monopoly Enterprises: Economic Approaches and Proposals

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ABSTRACT

This article analyzes the economic mechanism of managing natural monopoly enterprises and puts forward practical proposals for its improvement. In the context of current state policy and economic reforms, the efficiency, tariff policy, cost transparency and corporate governance system of natural monopoly entities operating in strategic sectors such as energy, transport, water supply are studied. Based on scientific and practical analyses, proposals are developed on price formation, investment climate, innovative activity and state-supervisory relations. Based on tables and sources, real statistical data on the sector are analyzed and specific directions for improving the national model are indicated.

Keywords: natural monopoly, economic mechanism, tariff policy, state control, corporate governance, investment climate, efficiency, energy, infrastructure, privatization, regulation.

Introduction. Today, global economic processes, the intensification of the competitive environment, and the increasing demand for the economical use of resources put the issue of effective management of strategic sectors on the agenda of the economic policy of each country. From this perspective, the issues of regulating the activities of natural monopolies, their harmonization with the mechanisms of a market economy, and rational management by the state are of great relevance.

A natural monopoly is a market structure in which a single producer (or service provider) dominates the entire market, and the existence of competing enterprises is economically inexpedient. In such a situation, the cost of services, investment policy, and resource allocation are carried out exclusively through these monopolistic entities. Therefore, ensuring their efficiency and protecting social interests has become one of the priorities of state policy.

In Uzbekistan, such sectors as electricity, natural gas, railway transport, water supply and sewage systems operate as natural monopoly sectors. These sectors are considered the main factors not only of economic activity, but also of the well-being of the population and industrial development. They also maintain social stability and macroeconomic balance. Therefore, the economic mechanisms used to manage them are important not only from the point of view of departmental, but also from the point of view of national economic security.

In the current context, the economic reforms being implemented in Uzbekistan, in particular,

measures aimed at transforming state-owned enterprises, expanding market mechanisms and improving the competitive environment, also cover natural monopoly entities. In this context, it is necessary to review existing management mechanisms, harmonize them with modern economic models and develop specific and practical solutions to increase the efficiency of monopoly activities.

The issue of managing natural monopoly enterprises is of strategic importance in the economy of any country, especially in areas related to infrastructure - electricity, gas supply, transport and water resources. These sectors are the main engines not only for ensuring economic growth, but also for raising the standard of living of the population, industrialization and regional development.

Review of relevant literature. The issue of managing natural monopolies and their economic regulation is one of the complex and multifaceted issues that has been studied by international and local economists for many years. An analysis of the existing literature shows that approaches to managing natural monopolies in economic theory have been formed in several stages.

In his work *The Economics of Welfare*, AC Pigou was the first to argue for the distinction between social costs and private costs and to argue that natural monopolies should be regulated by the state. According to him, in a monopoly situation, the market cannot regulate itself effectively, because the monopolist seeks to maximize profits, not social benefits.[1] The model of state intervention based on AC Pigou's ideas is still used in practice in many countries today.

G. Stigler, in his article "The Theory of Economic Regulation", takes a critical approach to the "accepted" theory of state control, arguing that state control can often serve the interests of certain groups rather than social interests.[2] This view casts doubt on the effectiveness of state intervention in economic activity and indicates the need to reconsider regulatory mechanisms.

W. Baumol developed his model of natural monopolies operating in "competitive markets" - he based his theory of "contestable markets" on the idea that efficiency can be achieved by ensuring freedom of entry and exit from a monopoly market.[3] This theory proposed a new approach to optimizing the structure and management of existing monopolistic markets.

K. Arrow and J. Mirrlees have focused on the issue of information asymmetry in the field of natural monopolies. They emphasize that information asymmetry in the relationship between the state and enterprises has a negative impact on efficiency and indicate the need to develop effective control instruments in such conditions.[4]

Uzbek researchers have also conducted some theoretical and practically based work in this area. In his study, R. Alimov critically analyzed the institutional effectiveness of state control in regulating natural monopolies, drawing attention to the lack of transparency of costs in the existing system and the weakness of the regulatory framework.[5] In his opinion, it is necessary to strengthen economic motivation and market discipline in the activities of monopoly entities.

A. Kurbonov, on the other hand, has studied the possibilities of achieving efficiency through innovative approaches and the introduction of digital technologies in the activities of natural monopolies. He considers it important to encourage private sector participation to improve the investment climate in the sector. [6]

A study by Sh. Rakhmonov examined the impact of corporate governance on efficiency in the transformation of natural monopoly enterprises.[7] He believes that efficiency can be achieved by reforming internal management systems and activating independent supervisory boards in these enterprises.

study of this literature shows that the issue of managing natural monopolies is closely related to various macroeconomic and institutional factors. Each author offers a different approach to a particular issue, but the general conclusion is that for the effective management of such enterprises, there must be a balance between economic mechanisms and state policy. Also, the question of which of these theoretical approaches is practically suitable in the conditions of Uzbekistan and can be adapted to the national model requires separate research.

Research methodology. Comparative comparison of ways to reduce the impact of natural monopoly enterprises in economic sectors, study of statistical data, economic comparison, analysis, logical thinking, scientific abstraction, analysis and synthesis, induction and deduction methods were widely used.

Analysis and results. With the transition of economic reforms in Uzbekistan to a new stage, the role of natural monopoly entities has increased even more. The processes of transforming state-owned enterprises, adapting them to market mechanisms, developing a competitive environment and opening up wide opportunities for private sector participation also directly cover the sphere of natural monopolies. However, the activities of such enterprises still have problems such as low economic efficiency, high costs, substandard quality of services, and lack of transparency in price formation:

1. The need to make the economy competitive. The lack of an effective management mechanism in natural monopoly industries negatively affects the cost of national products, as well as their competitiveness in foreign markets.
2. Social justice and public welfare. Prices for natural monopoly services (electricity, gas, water) directly affect the real incomes of the population. It is important to take into account the principles of social efficiency and justice when setting prices.
3. The need for innovative development. In today's digital transformation environment, the pace of technological innovation of natural monopoly enterprises is insufficient. This hinders the improvement of service quality and operational efficiency.
4. Improving the investment climate. Without a transparent, economically sound, and predictable governance mechanism for natural monopoly sectors, it becomes difficult to attract private investment.
5. International obligations. Uzbekistan's aspirations to join the World Trade Organization and the reforms it is undertaking to improve its investment rating also require the activities of natural monopolies to be brought into line with international standards.

In this context, effective management of natural monopoly enterprises, improvement of their economic mechanisms - not only within the sector, but also at the level of the national economy - serves to ensure sustainable development. In this process, reconsidering the role of the state, ensuring a balance between market mechanisms and social interests is one of the most important tasks on the agenda.

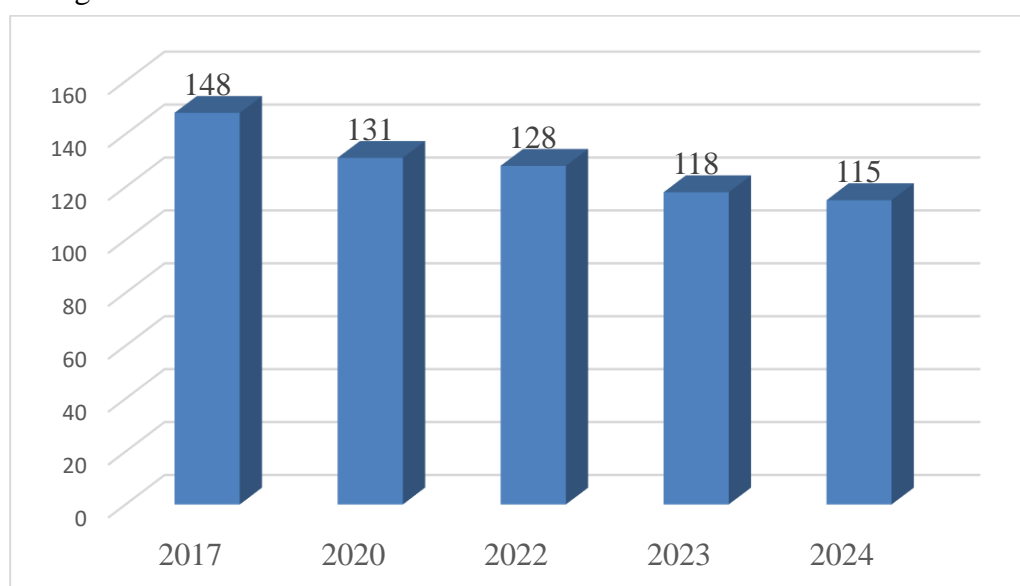


Figure 1. Number of natural monopoly entities

Source: Data from the Committee for Development of Competition and Consumer Rights Protection of the Republic of Uzbekistan

The data presented in the figure shows that the number of natural monopolies decreased to 115 during 2022-2024, as state-sponsored reforms continue and privatization mechanisms are being strengthened.

According to the results of the research conducted, the following conclusions were reached:

1. The number of monopolies is decreasing, and the process of coordination is expanding with transparency and privatization reforms.
2. The process continues as a result of systematic tariff reforms aimed at increasing energy strategy, marketization, and efficiency.

Historical proposals: completely shifting tariffs to a cost-based payment model; transforming subsidies and public plans into a system that takes into account market signals; creating broad opportunities for private sector investment and technological innovation.

Conclusion. Improving the economic mechanism for managing natural monopoly enterprises is a crucial issue for the sustainable and effective development of the economy of Uzbekistan. Today, sectors such as electricity, natural gas, water supply and transport services occupy a strategic position not only as an integral part of the national infrastructure, but also as an integral part of social welfare and production processes.

Based on the analysis conducted in this article, the following main conclusions can be drawn:

1. The number of natural monopoly entities is decreasing, which is a practical result of the privatization, improvement of the competitive environment and reform process in the country. However, this process needs to be strengthened not only in form, but also in content.
2. Transparency in the pricing and cost system is still lacking. Tariffs are often set on social or administrative grounds, which limits investment activity and reduces efficiency.
3. The level of innovation in the energy and other monopoly sectors is low, technological renewal is slow. That is, enterprises have high energy consumption and low efficiency, which does not comply with UN and WTO standards.
4. Existing control and management systems are ineffective. State control over monopolies is largely formal due to institutional weaknesses and conflicts of interest.

Based on this analysis and conclusions, it is advisable to carry out work in the following areas:

- Introducing cost-based mechanisms in tariff policy. This will encourage enterprises to exercise financial discipline and form a pricing policy that reflects real costs.

monopolistic sectors. For example, it is possible to ensure the participation of alternative providers in the provision of services or supplies.

enterprises. The division of functions between independent supervisory boards, internal audit, executive and supervisory bodies should be reviewed.

- widespread introduction of innovation and digital technologies. This will increase the quality of service, reduce costs and create convenience for the user.
- Deepening institutional reforms. It is necessary to strengthen the independence of economic regulatory bodies, their analytical and regulatory functions.

A systematic, pragmatic and reformist approach to the management of natural monopoly enterprises is required. The state's role in this process should not be to exercise complete control, but to create effective market signals and economic incentives. Only then will it be possible to achieve economic efficiency, quality of services and the well-being of the population in these sectors.

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