

## **Labour Market Issues in Uzbekistan**

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### **Abstract:**

The article examines current situation and development trends in the labour market of Uzbekistan. In addition, the impact of the labour migration on the labour market as a factor in the effective use of labour resources and emerging problems in the migration development have been investigated. The basic focus areas for promoting productive and efficient employment of the population by creating new jobs have been developed.

**Keywords.** labour market, labour force, labour resources, labour migration, new jobs, balance of labour resources.

### **Introduction**

The Concept for the complex social-economic development of the Republic of Uzbekistan until 2030 elaborated in view of the development trends of the world economy is considered the main guidance for undertaking the measures to mitigate the impact of negative external factors on the country's economy, demographic trends and tensions in the labour market, the need to strengthen the production potential of the regions, providing a comprehensive solution to the issues of ensuring employment growth and improving the living standards of the population, shifting the national economy to a sustainable path of development and improving the well-being of the population.

In some regions of the country there is a shortage of specialists, while in other regions the surplus is witnessed. The high level of labour supply is reflected in the unemployment growth in the regions with excess labour resources, the high share of informal employment (40%) makes a negative impact on the state budget. In reliance upon the considerations specified above, the government of the republic pays particular attention to the development of forms of self-employment, formalization of employment in the household and the reduction of the level of informal employment through financial and microlending support. In compliance with the trends of the world economy, the development of the digital economy is crucially important in regulating these processes. Furthermore, the digital economy development enhances innovation-based forms of non-traditional employment in developed countries, leading to their informality in most cases, while informal employment in developing countries is characterized by the fact that it is reflected in low-skilled jobs.

It should be noted that the problems of the labour market have always been on the focus of the government of the Republic of Uzbekistan. Aim 37 of section IV “Conducting fair social policy,

development of human capital” of the Decree of the President of the Republic of Uzbekistan № PD-27 dated February 28, 2023 “On the state program for the implementation of the development strategy of New Uzbekistan for 2022-2026 years in the year of caring for people and quality education” states that “Creating an opportunity for every citizen to study for a specific profession at the expense of the state. Doubling the scope of vocational training, educating a total of 1 million unemployed citizens and raising the participation of non-public educational institutions in this process up to 30%”<sup>1</sup>.

The President of the Republic of Uzbekistan Sh.M. Mirziyoyev has emphasized essentiality of comprehensive assistance to improve the employment and income of the population, introduction of new effective mechanisms to ensure the employment of the unemployed, especially young people and women, graduates entering the labour market for the first time, importance of consistent implementation of measures aimed at creating favorable conditions for attracting the needy population to work, as well as further stimulating the activities of business entities that have created new jobs. In this regard, he has pointed out: “We give priority to training our sons and daughters in contemporary professions that are in high demand in the labour market, to develop entrepreneurial skills and hardworking qualities in them, to realize their initiatives, as well as to provide them with work and housing”<sup>2</sup>.

### **Literature review**

Currently significance of the research aimed at determining the characteristics of the labour market at the beginning of XXI century is increasing. The concepts of the population employment and the labour market have come a long way in evolutionary development. For the first time the problems of population employment and unemployment were studied by representatives of the classical scientific school generalizing the theory of A. Smith, D. Ricardo, J.B. Say and K. Marx.

The mechanism of action within the framework of the classical model of the labour market is based on the determination of wages through the ratio of supply and demand. Essential elements of this labour market are the following: supply and demand for labour, wages, market conditions, unemployment. There is no state regulation of the labour market in this model. It is based on the principle of self-regulating market and the concept of “economic person”. The price of labour is determined based on the market situation and affects the supply and demand of labour, regulates the ratio and maintains the balance between them.

The principle of “laissez faire” is used by the classical school as a positive program in all aspects of economic life. This principle covers the freedom of the market, the free choice of activity and profession, and limits the position of the government in economic life. D.Ricardo and J.B.Say, who were the followers of A.Smith argue that excessive savings impoverishes society by raising unemployment, reducing wages, and diminishing the entrepreneurial activity.

In the opinion of J.B. Say, production of surplus goods, a part of labour and capital is excluded from production, and the release of demand for these goods into the world market results in the re-establishment of full employment. The confusing point of J.B. Say’s views is that in the conditions of free competition and self-ordering of the market, economic crisis, reduction of capital and employment is impossible.

K. Marx’s theory of employment is based on the theory of surplus value, the theory of the growth of the organic structure of capital and the laws of influence. K. Marx’s work “Capital” examines the impact of capital growth on the state of the working class. He introduced the concept of “reserve army of labour”, which is considered a condition for the functioning of the capitalist method of accumulation and capitalist production.

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<sup>1</sup>Decree of the President of the Republic of Uzbekistan № PD-27 dated February 28, 2023 “On the state program for the implementation of the development strategy of New Uzbekistan for 2022-2026 years in the year of caring for people and quality education”.[//www.lex.uz](http://www.lex.uz)

<sup>2</sup>Message of the President of the Republic of Uzbekistan dated December 29, 2020.[//www.president.uz](http://www.president.uz).

The problems of the labour market are studied in a more comprehensive way in the works of economists of the neoclassical school, such as A. Marshall, A. Pigou, J.B. Clark, and others. In this model, the market self-regulation turns wages into an external regulatory lever of the labour market by raising or lowering wages.

Neoclassicists have developed the concepts of “limited productivity of production factors”, “limited product of labour” and “limited worker” that have determined the limits of the use of labour power. J.B. Clark put the law of “decreasing limited productivity” into economic circulation, that is, the state of “decreasing labour productivity” is observed in the production process, the amount of wages depends on labour productivity and the level of employment of workers.

The higher the number of employees in the labour process, the lower the labour productivity and wages. From the point of view of A. Pigou, the real income growth is necessary as a mechanism of employment growth in crisis conditions. According to A. Pigou, the cause of unemployment is a high level of wages, and a decrease in wages, on the contrary, increases employment because it reduces production costs and creates an opportunity to hire additional workers.

According to his opinion, the decrease in the price of goods based on the reduction of production costs results in the increase in the purchasing power of population groups that do not exist on their wages. This idea creates additional demand and expands production and employment. From the point of view of A. Pigou, the factor that determines the employment size of is a function of the actual demand for labour. A. Pigou is a supporter of the “voluntary unemployment” theory, which suggests that workers do not agree to work for “normal” wages, which arise as a result of supply and demand in the market, and remain voluntarily unemployed.

A. Marshall in “Principles of Economics” studies the worker as a rational subject who evaluates the pluses and minuses of his participation in production. If the labour costs measured by the subjective assessment of the limited labour burden are considered minus, then the negative feelings of the worker depending on such an assessment will be demonstrated about the work intended for monetary indemnity. This concept is based on two cases: first, the labour supply is adjusted in compliance with the real wage supply; secondly, it results from changes in real wages.

Keynes introduces the concept of “obligatory unemployment” due to limited demand for labour and rejects the ideas of the classics about self-regulation of the labour market, automatic interest rate changes, and price and wage elasticity. According to Keynes, the main cause of unemployment is the lack of effective aggregate demand. In the opinion of Keynes, the psychological law expresses the need for more consumption (increase in aggregate demand) than accumulation. In the theory of regulation of population employment, J.M. Keynes<sup>3</sup> provides an analysis of the mechanism of restoration of economic equilibrium based on the state budget, monetary, and tax policies at the level that promotes an effective demand and new investments.

The idea of the effective demand is an important aspect of the theory of J.M. Keynes. If the aggregate demand falls below the level expected by the entrepreneur, and because of this it is not possible to cover the production costs, it is possible to witness a reduction in production occurs, which leads to unemployment. On the contrary, if the aggregate demand is higher than the expected level, it will stimulate the production development. The aggregate demand leading to equilibrium is activated, production of goods and services through incentives and the level of employment of the population is increased in reliance upon the impact of supply.

### **Research methodology**

The basic provisions and principles of dialectics constitute the methodological basis of the research. In mitigating the problems of the functioning of the labour market and the mechanism of achieving equilibrium we have used the method of analyzing the importance of labour migration, that is, the method of collecting, processing and analyzing the data on the main

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<sup>3</sup>Keynes J.M. General theory of employment, interest and money. / J.M. Keynes. M: Progress, 1978.-494 p.

indicators of the labour market. Logical analysis, synthesis, generalization, induction and deduction, systematic approach to economic events and processes have been widely used to draw conclusions from the data.

### Analysis and results

Uzbekistan has a large amount of competitive labour resources. The country's population has grown from 26 million people at the beginning of 2005 to 36 million people in 2022. The number of labour resources constituted 20 million people in 2022 and the number of economically active population accounted for 15 million people. This is equal to 16% of the labor force of the Euroasian Economic Union countries, which was 93.6 million people in 2019. This indicator accounts for about 10% of the labour force of the Euroasian Economic Union countries in Kazakhstan, 5.5% in Belarus, 2.8% in Kyrgyzstan, and 1.4% in Armenia (Table 1).

The average salary in Uzbekistan in 2020 accounted for 266 dollars. This is almost two times less than in Kazakhstan. The well-being of labour resources and the low level of wages increase the attractiveness of investments in labour-intensive sectors of the economy of Uzbekistan<sup>4</sup>.

Lack of jobs is considered an urgent problem for Uzbekistan. In 2020, the country's unemployment rate increased to 10.5% from 9% in 2019. Among 16-30-year-olds, this indicator reached 17.1%, and among women - 14.7%. The number of people in need of employment increased by 1.6 million people. Lack of jobs within the country forces citizens of Uzbekistan to find work overseas. In 2020 approximately 1.9 million people left the country, which constitutes 14.5% of the jobs in the economy<sup>5</sup>.

**Table 1. Labor market indicators in Uzbekistan and Euroasian Economic Union countries<sup>6</sup>**

	Uzbekistan	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
Labour force (million people)	14,8	1,2	5,1	9,2	2,6	74,9
Unemployment, in %	10,5	18,1	4,1	4,9	5,5	6,1
Remittances (in % in relation to GDP)	14,8	11,2	2,2	0,3	28,5	0,6
Salary, USD	266	388	508	515	239	710

Note: 1) Labor force in Uzbekistan, Belarus, Kazakhstan and Russia - during 2020, in Armenia - in the III quarter of 2020, in Kyrgyzstan - in 2019; 2) Unemployment in Uzbekistan - in 2020, in Armenia - in the III quarter of 2020, in Belarus, Kazakhstan and Russia - in the IV quarter of 2020, in Kyrgyzstan - in 2019; 3) remittances (money transfers) - in 2019; 4) salary - during 2020.

The Foreign Labor Migration Agency of Uzbekistan estimated the number of migrant workers in 2019 from 2.6 million to 3 million<sup>7</sup>.

Uzbekistan is one of the largest donors of labour resources and recipients of remittances in the CIS region. According to the data of the Statistics Committee of the CIS, the number of labour migrants from Uzbekistan who stayed in the CIS countries in 2019 constituted 1039160 in Russia, 2903 in Kazakhstan, and 1345 in Belarus (Figure 1). However, in reality (in terms of unregistered labour migrants) the number of citizens of Uzbekistan in the territory of the

<sup>4</sup> Alekseev I., et al.. (2019) Uzbekistan: Okno vozmozhnostey (Window of opportunities). BCG. Available at: <https://www.bcg.com/en-ru/uzbekistan-window-of-opportunity> (Access date: January 5, 2021).

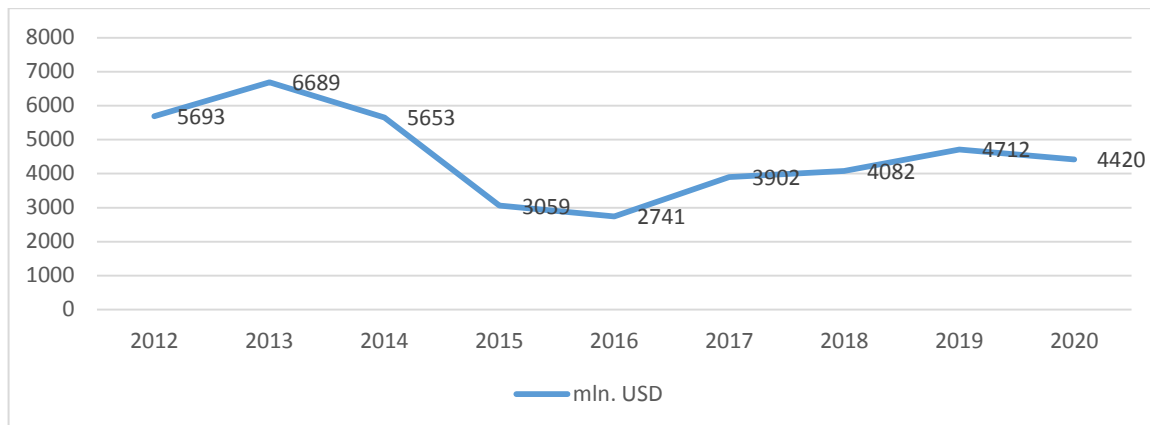
<sup>5</sup> Data of the Ministry of Employment and Labour Relations of the Republic of Uzbekistan, 2020.

<sup>6</sup> Compiled by the author based on the data of statistics agencies of the World Bank, Euroasian economic unit and National statistics offices of Uzbekistan.

<sup>7</sup> Review.uz (2019) The number of labour migrants from Uzbekistan is 2.6 million people. September 3. Available at: <https://review.uz/post/chislo-trudoviyx-migrantov-iz-uzbekistana-sostavlyayet-26-millionov-chelovek> (Access date: January 6, 2021). Review.uz, 2019

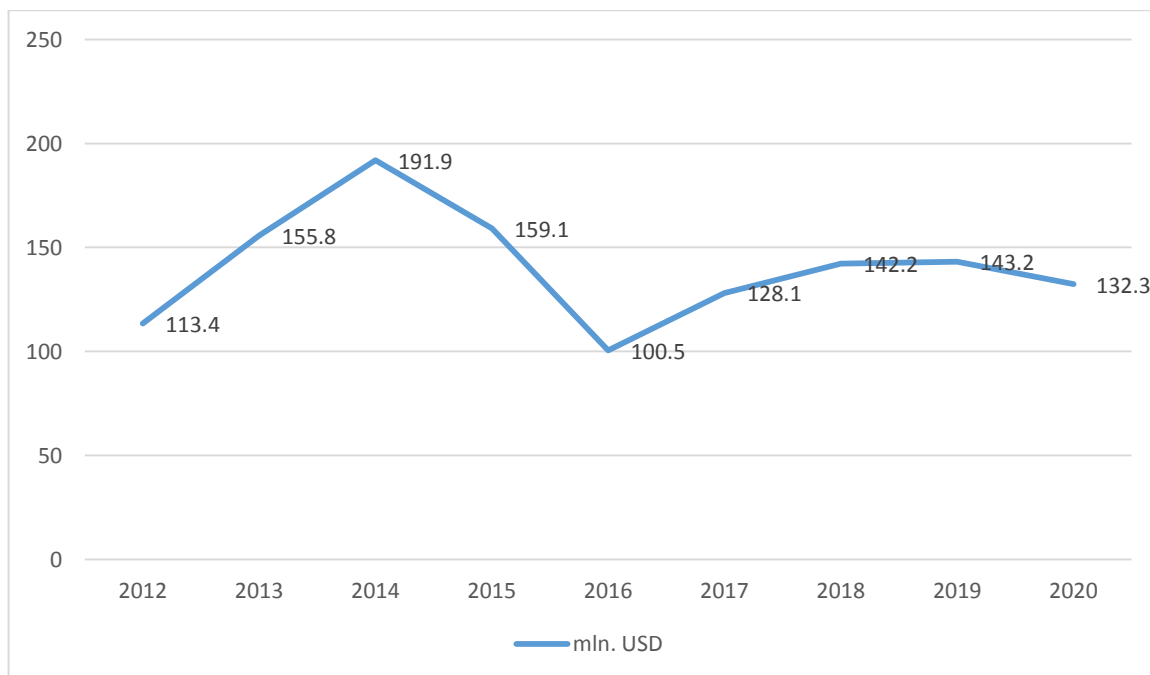
Euroasian Economic Union member countries may significantly exceed the officially announced numbers<sup>8</sup>.

The aggregate income of migrants' remittances in 2018-2019 accounted for about 15% of the GDP of Uzbekistan. In 2020, according to the calculations of the Euroasian Economic Union, due to the negative consequences of the pandemic, this figure has decreased to 12% of the GDP, but remains generally high. The high importance of money transfers increases the vulnerability of the republic's economy to external shocks.



**Figure 1. Cross-border money transfers of individuals from Russia to Uzbekistan in 2012-2020<sup>9</sup>**

Among the Euroasian Economic Union member countries only Kyrgyzstan Republic receives a large share of remittances, which constitutes almost 30% of the GDP. In Armenia this figure is about 11%. The amount of cross-border money transfers from Russia to Uzbekistan in 2020 constituted 4.4 billion USD and from Kazakhstan was 132.3 million USD (Figure 2).



**Figure 2. Money transfers of individuals from Kazakhstan to Uzbekistan in 2012-2020 (money transfers of individuals), mln. USD<sup>10</sup>**

<sup>8</sup> Gazeta.uz (2020) The Prime Minister commented on possible entry into the EAEU. February 17. Available at: <https://www.gazeta.uz/ru/2020/02/17/aripov-euu/> (Access date: April 20, 2021). Газета.uz, 2020

<sup>9</sup> Bank of Russia (2020) Cross-border money transfers of individuals (residents and non-residents). Available at: [https://www.cbr.ru/statistics/macro\\_itm/tg/](https://www.cbr.ru/statistics/macro_itm/tg/) (Access date: January 20, 2021). Bank of Russia.

<sup>10</sup> National Bank of the Republic of Kazakhstan.



The pandemic of coronavirus infection has made a serious impact on migration flows in Uzbekistan. According to the Ministry of Employment and Labour Relations, almost half a million citizens of Uzbekistan working abroad returned to their homeland due to the COVID-19 pandemic<sup>11</sup>.

By the end of 2020 with the end of epidemiological restrictions, Russia has demonstrated more interest in attracting labour migrants among the Euroasian Economic Union countries. Russia's additional labor needs were estimated at 0.6-1.4 million people in more traditional, foreign-oriented sectors that are not attractive to Russians (construction, courier delivery, packaging, etc.). The potential labour shortage in Russia can be replenished at the expense of labour migrants from Uzbekistan.

The labour market of the republic is at the same time a driving force and a threat to the national economic development. Relatively low labour force participation rate of the economically active population in Uzbekistan is one of the main risks for future economic growth. On average, 280000 new jobs are created in the economy of the Republic of Uzbekistan per year and 600000 jobs are required annually due to demographic reasons<sup>12</sup>.

The volume of remittances to Uzbekistan from abroad was expected to decrease by 21% in 2022. The World Bank has updated its forecasts in terms of the impact of the conflict between Russia and Ukraine on the volume of remittances from abroad to the Central Asian region. As expected by bank forecasts, in 2022 the amount of money transfers from abroad to the Central Asian region has decreased by 25%. This trend is justified by the decrease in economic activity in Russia due to the political conflicts between Russia and Ukraine and, at the same time, by the sharp fall of the ruble exchange rate. In particular, a decrease in economic activity can result in the reduction in jobs in the country, which, in turn, affects the overall income level of migrants. Meanwhile, the sharp devaluation of the ruble causes a decrease in the nominal value of migrant wages in terms of the USD. In addition, the imposed sanctions and the disconnection of Russian banks from the SWIFT system make it difficult for money transfers to be sent through official channels, as a result of which transfers are expected to move partially to indirect and unofficial channels.

It is reported that as of March 3, the ruble has depreciated by 25% against the US dollar, and it is highly likely that this trend hasn't changed throughout 2022. According to the calculations of the World Bank, in January-September 2021, the volume of remittances from abroad to Uzbekistan amounted to about 7 billion USD (11.6% of GDP), so 55% of it was contributed by Russia. As a country with a large share of the total volume of remittances sent from abroad, instability in Russia will make a significant impact on the volume of remittances.

The highest rate of reduction of international money transfers is expected to be observed in Kyrgyzstan among Central Asian countries - 33%. Kyrgyzstan is strongly dependent on remittances from abroad, in the I-III quarters of 2021, remittances from abroad accounted for about a third of the country's GDP, and the share of Russia in the total volume of transfers constituted 83%. Moreover, transfers from abroad to Tajikistan and Kazakhstan were expected to decrease by 22% and 17%, respectively in 2022 (Table 2).

Currently, the main economic problem for Uzbekistan is creation of new highly productive jobs. However, due to the underdevelopment of the private sector, creation of additional jobs lags behind the supply in the labour market<sup>13</sup>.

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<sup>11</sup> Interfax (2020) Almost half a million labor migrants returned to Uzbekistan due to the pandemic. May 29.. Available at: <https://www.interfax.ru/world/710939> (Access date: January 20, 2021).

<sup>12</sup> World Bank (2019) *Uzbekistan: Toward a New, More Open Economy*. Available at: <https://www.worldbank.org/en/country/uzbekistan/publication/economic-update-summer-2019> (Access date: January 13, 2021).

<sup>13</sup> World Bank (2018a) *Doing Business 2018: Reforming to Create Jobs*. Available at: <https://openknowledge.worldbank.org/handle/10986/28608> (Access date: March 1, 2021).

In 2020-2030 the demographic factor will make a positive effect on the economic growth of Uzbekistan. Along with the increase in the birth rate in the country, a sharp decrease in the death rate has resulted in the rapid increase in the share of the working-age population in the total population of Uzbekistan since the end of the 1990s, creating conditions for the potential growth of the economy.

**Table 2. Money transfers of labour migrants from some countries to their homeland<sup>14</sup>**

Countries	Remittance flows, 2020, mln. USD	In % in relation to GDP, 2020.	In relation to export and services, in %, 2020	Share of remittances from Russia, in %, 2021	Initial projected growth, in %, for 2022	Reconsidered growth rate forecast, in %, for 2022
Armenia	1327	10,5	35,3	59	11	-19
Azerbaijan	1403	3,3	9,2	62	3	-23
Belarus	1014	1,7	2,7	42	15	-8
Georgia	2110	13,3	35,6	18	2	-5
Kazakhstan	374	0,2	0,7	51	7	-17
Kyrgyzstan	2423	31,3	99,5	83	3	-33
Moldova	1877	15,7	58,2	14	6	0
Tajikistan	2187	26,7	155,2	58	2	-22
Ukraine	15213	9,8	25,1	5	2	8
Uzbekistan	6980	11,6	48,0	55	3	-21

According to UN estimates, approximately 70% of the total population of Uzbekistan will be in the working age category by 2040<sup>15</sup>. During this “demographic window” the share of working-age population in the total population of the country (labour force) reaches its highest level.

### Conclusion and proposals

The following conclusions have been developed as a result of the research conducted regarding labour market and labour migration problems in Uzbekistan:

1. The problems of stabilizing the demographic situation and raising the population's employment can be solved only on the basis of improving the quality of the workforce and accelerating the socio-economic development of the regions.
2. In the balance of labour resources, it is necessary to take into consideration the sources of formation of labour resources and their distribution by types of economic activity. For this purpose, we propose to make adjustments to the current balance of labour resources, including the total number of unemployed according to the methodology of the International Labor Organization, including those who are registered in the public employment service and want to work among the economically inactive population who are able to work. In addition, it is appropriate to include in the balance of labour resources information on the total number of citizens who went to work overseas and distribution of foreign labour migrants working in the country by types of economic activity.
3. In addition, in the balance of labour resources it is necessary to improve the statistical calculation by introducing the clause about different categories of internal and external labour migrants, which make a significant impact on the regional labour markets. For this purpose, it is appropriate to conduct a sample survey of households to collect the data about labour migrants and the conditions of using their work.

<sup>14</sup><https://www.gazeta.uz/uz/2022/03/07/transfers/>

<sup>15</sup>United Nations (2017) *World Population Prospects 2017: The 2017 Revision. Key Findings and Advanced Tables*. Available at: [https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/files/documents/2020/Jan/un\\_2017\\_world\\_population\\_prospects-2017\\_revision\\_keyfindings.pdf](https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/files/documents/2020/Jan/un_2017_world_population_prospects-2017_revision_keyfindings.pdf) (Access date: January 11, 2021).

4. When creating new jobs, it is important to pay attention to their value and compare it with the productivity of the jobs. The cost of one new job created varies according to the main directions of providing employment to the population, the most expensive new jobs correspond to the direction of social infrastructure objects, and the cheapest to the contribution of the household direction. This situation indicates that the use of flexible (non-traditional) forms of providing employment to the population is effective.

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