



## THE ROLE OF INNOVATION IN ECONOMIC DEVELOPMENT: EVIDENCE FROM UZBEKISTAN

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**Abstract:** *Innovation is an important factor in economic development, productivity growth, and competitiveness. This bachelor's thesis studies the role of innovation in the economic development of Uzbekistan, a transition economy that is implementing structural reforms. Using secondary data from national and international sources, the research examines the relationship between innovation indicators such as R&D expenditure, technology adoption, and human capital, and economic growth. The results show that innovation has a positive effect on economic development by increasing productivity and supporting economic diversification. However, limited investment in R&D and institutional problems reduce the overall impact of innovation. The study emphasizes the need for strong innovation policies to achieve sustainable economic development.*

**Keywords:** *Development economics, innovation, economic growth, technology, Uzbekistan economy.*

### INTRODUCTION

Economic development depends not only on capital and labor, but also increasingly on innovation and technology. Innovation helps countries increase productivity, develop new industries, and compete in global markets.

For developing and transition economies, innovation is crucial for reducing the development gap with developed countries. In Uzbekistan, the importance of innovation and economic development is reflected in many adopted laws and widely discussed draft regulations on social media platforms.

These include the Law of the Republic of Uzbekistan "On Innovative Activity" dated July 27, 2020; the Law "On Science and Scientific Activity"; the Presidential Decree of January 22, 2018 on the State Program for the implementation of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017–2021 under the theme "The Year of Active Entrepreneurship, Innovative Ideas and Technologies"; the Presidential Decree No. PF-5975 dated March 26, 2020 "On measures to radically update state policy on economic development and poverty reduction"; Resolution No. PQ-4653 dated March 26, 2020 on the organization of activities of the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan and its system organizations; Resolution No. PQ-4862 dated October 13, 2020 "On additional measures to improve the system of involving the population in entrepreneurship and developing entrepreneurship"; as well as the Resolution of the Cabinet of Ministers dated February 17,



2021 on the effective organization of the activities of the Entrepreneurship Development Agency under the Ministry of Economic Development and Poverty Reduction.

These legal and institutional reforms demonstrate the government's strong commitment to promoting innovation, entrepreneurship, and sustainable economic development in Uzbekistan.

#### Literature Review

The role of innovation in economic development has been highlighted in both classical and modern economic theories. Schumpeter said that innovation is the main engine of economic growth through a process called creative destruction. Some growth theories explain that technological progress comes from planned investment in research and development (R&D), education, and innovation.

Empirical studies show that countries with higher levels of innovation tend to experience faster economic growth and higher productivity. Innovation supports countries develop new industries and improve their exports. In developing countries, using new technology and making small improvements are very important. Recent studies on transition economies suggest that institutional quality, education systems, and government support are critical for transforming innovation into economic growth. This thesis builds on these findings by focusing on Uzbekistan.

From a development economics perspective, innovation influences economic development through several channels:

1. **Productivity Growth:** New technologies improve efficiency in production processes.
2. **Industrial Diversification:** Innovation enables the development of new industries and value-added sectors.
3. **Human Capital Development:** Education and skills are essential for innovation and technological adoption.
4. **Competitiveness:** Innovative economies are better positioned in global markets.

These channels suggest a positive relationship between innovation and economic development, which this study examines in the context of Uzbekistan.

This study uses a qualitative and quantitative descriptive approach. Secondary data are collected from the State Statistics Agency of Uzbekistan, the Ministry of Innovative Development, and the World Bank. Innovation is measured using indicators such as R&D expenditure as a percentage of GDP, number of patents, adoption of digital technologies, and education levels. Economic development is assessed through GDP growth, productivity trends, and structural changes in the economy.

The analysis shows that innovation-related indicators in Uzbekistan have improved in recent years, particularly in digitalization and startup development. GDP growth has been supported by technological upgrades in manufacturing, agriculture, and services. However, R&D expenditure remains low compared to international benchmarks.

Limited private sector involvement and weak links between universities and industry reduce the effectiveness of innovation policies.



Despite these challenges, innovation has contributed positively to productivity growth and economic diversification.

The findings suggest several policy implications. First, increasing investment in R&D and innovation infrastructure is essential. Second, improving the quality of education and skills development can strengthen human capital.

Third, fostering cooperation between universities, research institutions, and the private sector can enhance innovation outcomes. Government support for startups, digital transformation, and technology transfer should be expanded to accelerate economic development.

#### Conclusion

Innovation plays a key role in Uzbekistan's economic development by boosting productivity, supporting new industries, and enhancing competitiveness.

While progress in digitalization and startups is evident, limited R&D investment and weak collaboration between universities and industry reduce its full potential.

Strengthening innovation policies, investing in R&D, and developing human capital are essential for achieving sustainable economic growth.

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