



ASSESSMENT OF THE HIDDEN ECONOMY OF THE REPUBLIC OF UZBEKISTAN ON THE TRANSFORMATION OF LABOR RESOURCES

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**Annotation:** This article explores the hidden economy of the Republic of Uzbekistan and its impact on the transformation of labor resources. Using a comprehensive analytical framework, the study assesses the size, structure and dynamics of the hidden economy of Uzbekistan and its impact on the distribution of labor resources, productivity and income distribution. Through qualitative and quantitative data analysis, the study identifies key factors that drive the hidden economy, such as regulatory burdens, tax policies, and socioeconomic conditions. The results of the study show that the hidden economy has a significant impact on the change in the labor market, which leads to changes in employment, skill use and labor force participation. This study will help to deeper understand the role of the hidden economy in the formation of labor dynamics in transitional economies such as Uzbekistan.

**Keywords:** hidden economy, informal sector, labor resources, labor market transformation, gross domestic product, economic development, employment indicators, tax policy, socio-economic conditions, economy of Uzbekistan.

**Introduction**

The importance of small businesses as the mainstay of ensuring the competitiveness of the national economy is growing in the context of the growing struggle for its economic position in global markets in the world. Despite the fact that small business is considered a leading industry in the supply of demand, employment and rational use of resources in the domestic market of the country, some business generates a certain level of hidden economy as a result of timely non-payment of taxes and other mandatory payments of entities and the escalation of corruption. The expansion of the scale of the hidden economy in turn affects the reduction in the volume of the country's gross domestic product. From this point of view, the share of the hidden economy is taken into account in the process of calculating the gross domestic product of almost all countries. "The share of the foreign economy was 8.0% in world countries, including the United States of America, 36.5% in Brazil, 21.7% in Spain, 19.5% in Italy, 18.5% in Portugal, 18.4% in Korea, 14.5% in China, 11.0% in Canada, 10.2% in Germany, 9.6% in the United Kingdom, 9.0% in Australia, 8.6% in Singapore and 8.1% in Japan"<sup>1</sup>. Mazkur holat kichik biznes va xususiy tadbirkorlik faoliyatida yashirin iqtisodiyotni baholash zaruratini vujudga keltiradi.

In the context of the growing role of small business in ensuring socio-economic development in the world, a number of scientific studies are being carried out to assess the hidden economy in small business and private entrepreneurship activities. Improving the accounting methodology of the hidden economy, introducing modern approaches to the assessment of the hidden economy,

<sup>1</sup> <https://www.gazeta.uz/uz/2021/06/30/economy/>

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regulating the hidden economy, improving the organizational mechanisms for preventing the hidden economy, the effects of the hidden economy on the country's economy and ways to reduce it, the factors that cause the hidden economy and their revealing the characteristics, hiding in the field of small business, improving the efficiency of economic evaluation is one of the priorities of scientific research in this regard. This situation creates the need to assess the hidden economy in the activities of small businesses and private entrepreneurship.

In the context of the increasing role of small business in ensuring socio-economic development in the world, a number of scientific studies are carried out to assess the hidden economy in the activities of small business and private entrepreneurship. Improving the methodology of accounting for the hidden economy, introducing modern approaches to the practice of evaluating the hidden economy, hiding the regulation of the economy, hiding improving the organizational mechanisms of preventing the economy, hiding the influence of the economy on the country's economy and ways to reduce it, hiding revealing the factors that provoke the economy and their features, concealment in the field of small implementation improving the effectiveness of the assessment of the economy is one of the priority areas of scientific research work in this regard.

Particular attention is paid to the issues of increasing the volume of gross domestic product in the conditions of socio-economic development of the new Uzbekistan and further reducing the turnover in the economy. In solving these issues, " implementation of structural changes in the economy aimed at reducing the turnover of finance; widespread introduction and marking of digital technologies in the fields and sectors of the economy; increase the volume of non-cash settlements in the economy; increase the popularity of banking services; the tasks of improving the mechanisms for identifying the subjects of the " hidden economy"; introducing an effective system for reducing the share of the " hidden economy "in foreign trade; organizing extensive propaganda work to reduce the share of the " hidden economy" are defined"<sup>2</sup>.

Implementation of these tasks to take into account the level of activity transparency based on periodic and sample data provided by business entities on the main activity indicators and results in support and promotion of small business and private entrepreneurial activities, periodic assessment of factors stimulating the hidden economy in the activities of small business entities by agencies regulating small business and private, the development of targeted recommendations for their elimination and a program of specific measures assumes scientific research aimed at assessing the dependence of the main factors in the formation of a hidden economy and the future changes in their influence.

### Literature review

J. from foreign scientists in the direction of economic sectors on the basis of structural changes in the activities of small business and private entrepreneurship. B.Sey[3], A.Smith[4], Y.A.Schumpeter[5], E.Dachmen[6], R.F.Hébert, A.N. Link[7], J. Atkinson, D.J.Storey[8], R.Swedberg[9], R.M.Hodgetts, D.F.Kuratko[10], O.A.Anya[11], Grebel[12], Z.A.Yusof, D.Bhattasali [13] and others have done scientific research.

<sup>2</sup> Ўзбекистон Республикаси Вазирлар Маҳкамасининг “Ўзбекистон Республикасида «Яширин иқтисодиёт» улушини қисқарттириш чора-тадбирлари тўғрисида”ги 2020 йил 20 июндаги 394-сон қарори. <https://nrm.uz/contentf?doc=626884>

Issues within the scope of the research topic were also discussed by economists-scientists of the CIS countries. A.Rube[14], A.Yu.Chepurenko[15], I.Ansoff[16], O.V.Komarova, T.A.Salamatova, D. Ye. Gavrilov[17], V.G.Basareva[18], Miloslavskaya [19], M.M.Barmuta, N.V.Volkova, S.A.Gavrilenko [20] and others have been seen in research work.

A number of scientists have conducted scientific research in the study of small business and private entrepreneurship in Uzbekistan. In their works, they based the factors affecting small businesses on the development of small business and private entrepreneurial activities, based on foreign experience. It is in line with a.V.Vakhobov, Sh.G'.Yuldashev, A.Abdullayev, N.N.Sadigov, B.T.Baykhanov, S.Nasretdinov, R.Z.Yuldashev, D.D.Rustamova, N.G.Karimov, E.A.Makhmudov, U.U.Inoyatov and others conducted scientific research.

Many of the research works studied are focused on the content, essence of foreign investment in entrepreneurship and small business entities and its involvement in the small business sphere of the national economy. However, the lack of study of the mechanisms for identifying the subjects of the "hidden economy", as well as the economic relations that arise in the processes of improving its reflection in the gross domestic product, makes it necessary to carry out research work in this regard.

### Research methodology

Currently, although there are many ways to assess the scale of hidden economic activity, since it cannot be assessed directly, it is necessary to use indicators that best cover and reflect the features of the activities of the hidden economy. The study aims to investigate the relationship between two variables, small business and clandestine economics. The reasons between them can be simultaneously in both directions, and therefore we must solve the problem of identification regarding the dependent and independent variable, as well as the association symbol. To do this, first of all, we will use the results of calculating the hidden economy of the Republic of Uzbekistan on the change in labor resources.

It is worth noting that this method is based on the fact that the unregistered unemployed are the main labor force serving the hidden economy. In this case, it, together with the criminal economy, causes an assessment of the size of the entire hidden economy. It is assumed that labor productivity in the Secret economy is the same as labor productivity in the official economy, and the share of the Secret economy in the gross domestic product is considered proportional to the share of unregistered unemployed in the labor force.

In this case, the hidden economy can be determined by the difference in the value relative to the volume of gross domestic product, which is correctly proportional to the volume of the country's gross domestic product and is in fact the opposite of the number of people employed in the economy:

$$Te=(Tr*VVP/Z)-VVP \quad (1)$$

here,  $Te$  – the size of the hidden economy, in billions;

$Tr$  – total labor resources, in millions;

$VVP$  – gross domestic product, in billions;

$Z$  – the number of items of labor resources in the economy, in millions.

Of course, it is also necessary to determine the determined value (volume of the hidden economy) of the country relative to the gross domestic product ( $T_{VVP}$ ), which is determined using the following formula:

$$T_{VVP}=(Tr/Z-1)*100 \quad (2)$$

The decrease in the labor force participation coefficient in a formal economy can be seen as a sign of the growth of the labor force in a clandestine economy. If the total participation of the labor force is considered permanent, then the decrease in the official share of participation in the country's economy will be able to be viewed as an indicator of growth in hidden economic activity.

#### Analysis and results.

Considering that small business entities are currently being carried as the main driver in the country's economy, it is advisable to determine the share of small business entities in the country's main hidden economy. In general, the term small business is applied to firms with a limited number of employees. Therefore, several indicators and variables have been developed to study and explain small business activities. A small business is usually estimated by a natural amount, that is, the number (or share) of individual entrepreneurs in the economy. We used the share of individual entrepreneurs in total employment as a trustee of a small business.

Small business is the embodiment of entrepreneurship, one of the main engines of the modern economy, which provides innovation, development, economic growth, income generation and distribution, as well as employment. Small businesses have found their way through the transition as they become flexible and competitive and are able to provide the necessary supplies. These activities increased the living well-being of the population on the one hand, while research and development on the other hand provided the assets necessary for economic growth. According to the approach presented in the research methodology above, a decrease in the level of participation of the labor force is a sign of an increase in the hidden economy and negatively affects the growth of the volume of gross domestic product (Table 1).

Table 1.

Results of the calculation of the hidden economy of the Republic of Uzbekistan on the transformation of labor resources in 2000-2023

Years	Labor resources		Real GDP, billion soums	The size of the hidden economy, billion soums	The size of the hidden economy is in %relative to GDP
	In total, a thousand people	Employed, a thousand people			
	$Tr$	$Z$			
2000	12469	8983	3255,6	1263,4	38,8
2005	14453,2	10196,3	15923,4	6647,9	41,7
2010	16726	11628,4	78936,6	34603,8	43,8
2015	18276,1	13058,3	221350,9	88446,8	40,0
2020	19158,2	13236,4	605514,9	270899,8	44,7
2021	19345	13538,9	738425,2	316670,5	42,9
2022	19517,5	13706,2	888341,7	376648,5	42,4
2023	19690	13873,5	1038258,2	435292,4	41,9



Also during the observation period (2000-2023), the real GDP averaged 178471.4 crore. the average annual growth rate was 10.3 times, during which absolute employment grew 1.5 times a year by 0.07 times, however, it is difficult to say how this imbalance can be attributed to the normal growth of labor productivity due to an increase in capital and human potential. Because, apparently, the hidden economy cannot be reduced as the country increases its GDP. Therefore, it is advisable to look at the relationship between the volume of gross production of small business and the value of the hidden economy, and we can see that the correlation coefficient between them is  $r_{YX}=0.991$ .

This result in turn leads to the fact that small business entities are strongly tied to a clandestine economy in their activities, and that small business entities are now highly important in the growth of a clandestine economy. This result provides only a limited and uncertain amount of information and refutes causal statements. However, our focus is on explaining how small business as a loose variable leads to changes in a latent economy as a dependent variable.

Factors affecting hidden economies and small businesses are included in the model to explore these relationships. The main reasons for the Secret economy are weak macroeconomic stability, high income inequality, especially high tax burden, bureaucracy and tight governance, as well as transparency and lack of rule of law, which is accompanied by corruption . A study of latent economics has shown that small businesses are more conducive to latent economics activities .

The reason for this dependence, especially the former communist emerging market economy, where in the past the bulk of production was carried out in state and managed companies, and during the transition to a market economy in the early 1990s, these large state companies were restructured and fragmented. This created an environment for the legal evolution and development of small businesses. Due to the inability of legislation and administration to adapt to the new market environment and demand in the short term, the small business sector welcomed a way to overcome these barriers and meet the offer through the activities of the clandestine economy.

This view is supported in part by data evidence, as the latent economy grew as a share of official GDP during the transition period . Therefore, when many entrepreneurial ideas, especially high tax and regulatory burdens, hinder the development of the small business sector, the clandestine economy begins in small business. Although the transitional period has led to an increase in demand for flexibility and competitiveness, legislation and tax systems, at least at an early stage, can suspend official small businesses, but provide opportunities for clandestine economy activities.

Thus, there is also the possibility of increasing the share of the hidden economy with a high share of small businesses. However, as the country develops, the barriers to the development of entrepreneurial activity should decrease, small businesses should move to a formal economy and move away from a clandestine economy. The hidden economy should also shrink with economic development.

The empirical result, with significant political implications, shows that in the studied 2000-2023, the two studied variables play an important role among themselves. The result shows that successful (albeit weak) efforts have been made by the government and other politicians to direct entrepreneurial activities from a clandestine economy to formal activities. This means that the policy should focus on creating a favorable environment that supports entrepreneurial activity. This leads to a decrease in the volume of the hidden economy under low transaction, operational, institutional and similar costs at the same time.

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### Conclusions and suggestions

From the above, we can conclude that a hidden economy is a sum of relations related to the production process and the organization of the distribution of products, services, in which one or more stages violate current legislation and have the characteristics of an economic system. The proposed interpretation of the category "hidden economy" takes into account the following important features:

- illegal nature of activity;
- sustainable transport-availability of logistics and other communications;
- the basis of the existence and use of economic, natural, social and intellectual potential.

Detection from research-cha, the hidden economy in the Republic of Uzbekistan has undergone a complex historical development process, from the phenomenon of a criminal nature in the field of economic relations to the system of complex socio-economic processes of transition to market relations. According to the basic principles of systematization, it can be noted that the hidden economy is systemic and the use of a systematic approach in its study is necessary.

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