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MUNDARIJA (CONTENTS)**MEHNAT BOZORI VA MEHNAT MUNOSABATLARI**

S.B.G'oyipnazarov	<i>Ish bilan bandlik sifatini oshirishning ijtimoiy-iqtisodiy omillari va rivojlanish yo`nalishlari</i>	6-17
S.P.Qurbanov	<i>Ish bilan unumli bandlik darajasini baholashda institutsional, inklyuzivlik va hududiy xususiyatlar</i>	18-29
Z.Y.Juliyev	<i>Preparing Uzbekistan's labour force for WTO integration: risks and policy directions</i>	30-40
Sh.Sh.Iskandarov	<i>Aholi bandligini ta'minlashda oly ta'lim xizmatlarining vazifalari</i>	41-50
M.A.Jumayeva	<i>Nogironligi bo'lgan shaxslar uchun inklyuziv tadbirkorlik bo'yicha ilmiy tadqiqotlarning bibliometrik tahlili (R dasturi asosida)</i>	51-60

INSON KAPITALI

Sh.V.G'aniyev	<i>Kredit-modul tizimini jahon tendensiylariga tenglashtirish</i>	61-69
S.R.Xolbayeva	<i>Рост охвата высшим образованием как фактор безработицы</i>	70-82
J.B.Shaymanov B.B.Quvondiqov	<i>Inson kapitali va uning iqtisodiy rivojlanishdagi o'rni....</i>	83-91

INSON TARAQQIYOTI

N.A.Axmedova	<i>Aholi daromadlarini oziq-ovqat xavfsizligiga ta'sirining hozirgi holati tahlili</i>	92-101
A.F.Abdullayev	<i>O'zbekiston axborot-kommunikatsiya texnologiyalari sektorining rivojlanish holati: 2017-2024 yillar tahlili</i>	102-110
D.B.Fayziyeva	<i>Minimal ish haqi siyosatining iqtisodiy va ijtimoiy oqibatlari</i>	111-119
J.K.Karimov	<i>Davlat iqtisodiyoti xavfsizligining tuzilmaviy komponentlarini aniqlashga yondashuvlarni ishlab chiqish</i>	120-128
J.K.Karimov	<i>Globallashuv muammolari sharoitida iqtisodiy xavfsizlik indeksini iqtisodiy va matematik modellashtirish</i>	129-139

KAMBAG'ALLIKNI QISQARTIRISH**S.S.Amirdjanova**

Risiki i ugrozy popadaniya v bednost' среди занятogo naseleniya 140-148

MIGRATSIYA**Z.T.Jumanova****J.X.Abdikayumov**

Iqtisodiyotga turizmning bevosita ta'sirini tanlanma kuzatuvlar asosida statistik baholash 149-159

INSON RESURSLARINI BOSHQARISH**M.Sh.Axmedov**

Korxonalarda KPI orqali ishchilarni rag'batlantirish tizimini takomillashtirish masalalari 160-170

K.A.Ibroximova**I.A.Imomov**

Mechanisms for improving personnel management in enterprises to enhance financial sustainability 171-183

J.R.Mansurov

Turistik korxonalarda HR texnologiyalarini joriy etishning samaradorlik ko'rsatkichlari 184-194

M.G'.Qaxramonova

Kadrlar qo'nimsizligi darajasini pasaytirishda xorijiy kompaniyalar tajribalaridan O'zbekiston mehnat bozorida foydalanish imkoniyatlari 195-206

TADBIRKORLIKNI RIVOJLANTIRISH**T.Djurayev**

Modelirovaniye prognozirovaniya razvitiya agrupromyshlennogo kompleksa 207-216

J.I.Islomov

Raqamli iqtisodiyot sharoitida buxgalteriya hisobini yuritishning yangi yondashuvlari 217-226

N.O.Jumaniyazov**S.J.Xudayorova**

Xorazm viloyati iqtisodiyotini barqaror rivojlanirishda sanoat tarkibiy o'zgarishlarini takomillashtirishning ustuvor yo'nalishlari 227-237

N.O.Jumaniyazov**N.Z.Matmuratova**

Xorazm viloyati iqtisodiyotini barqaror rivojlanirishda sanoat tarkibiy o'zgarishlarini takomillashtirish strategiyasi 238-247

N.O.Jumaniyazov

Xorazm viloyati iqtisodiyotini barqaror rivojlanirishda sanoat tarkibiy o'zgarishlarini takomillashtirish yo'llari 248-258

U.U.Raxmatullayev

Kichik biznesni eksport salohiyatini oshirish obyektiv zarurati 259-267

T.M.Urakov

O'zbekiston Respublikasi yashil iqtisodiyotda milliy shaffoflik tizimi 268-275

A.A.Shomirov

Iqtisodiyotga qimmatli qog'ozlar bozori orqali portfel invetisiyalar jalb qilishning obyektiv zarurligi..... 276-285

A.A.Abduqahorov

Kichik va o'rta biznes subyektlari eksport salohiyatini oshirishda kichik sanoat zonalarining o'rni 286-295



PREPARING UZBEKISTAN’S LABOUR FORCE FOR WTO INTEGRATION: RISKS AND POLICY DIRECTIONS

Juliev Zukhriddin Yuldashevich

PhD, Lecturer, Westminster International University in Tashkent
e-mail: zjuliev@wiut.uz

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Abstract. This article identifies the key risks in labor markets associated with Uzbekistan's accession to the World Trade Organization (WTO). While deeper trade integration typically enhances national productivity, as domestic industries adjust and reallocate resources toward sectors where the country holds a comparative advantage, trade liberalization also comes with short-term labor-market risks. These risks, associated with the sectoral reallocation of the workforce, include potential worker displacement due to import competition (particularly in low-productivity sectors), wage stagnation, deepening informality, and widening skill mismatches. Based on descriptive data we identify risks and propose targeted policies designed to smooth these short-term disruptions in labor markets.

Keywords: Uzbekistan's accession to the WTO, economic integration, trade liberalization risks, labor-market adjustment, sectoral reallocation, labour market

O'ZBEKISTON MEHNAT RESURSLARINI JST INTEGRATSIYASIGA TAYYORLASH: XATARLAR VA IQTISODIY SIYOSAT YO'NALISHLARI

Juliyev Zuxriddin Yuldashevich

PhD, O'qituvchi, Toshkentdagi Xalqaro Vestminster Universiteti

Annotatsiya. Ushbu maqolada O'zbekistonning Jahon savdo tashkilotiga (JST) a'zo bo'lishi bilan bog'liq mehnat bozoridagi asosiy xatarlar ko'rib chiqilgan. Xalqaro savdoning chuqurroq integratsiyasi mahalliy sanoat vakillari mamlakat qiyosiy ustunlikka ega bo'lgan tarmoqlarga moslashishi va resurslarni qayta taqsimlashi orqali mamlakatning iqtisodiy salohiyatini oshishiga olib keladi. Biroq, savdoni erkinlashishi qisqa muddatli mehnat bozori xatarlarini ham keltirib chiqaradi. Bu xatarlar mehnat resurlarining tarmoqlararo qayta taqsimlanish jarayoni bilan bog'liq bo'lib, quyidagilarni o'z ichiga oladi: importga raqobatchi tarmoqlarda ishchilarning ehtimoliy ishdan bo'shatilishini oshishi (ayniqsa, unumdoorligi past tarmoqlarda), ish haqi turg'unligi, norasmiy bandlikning oshishi va malaka nomutanosibliklarining kengayishi. Olingan ma'lumotlar va aniqlangan xatarlarga asoslanib, biz mehnat bozorlaridagi ushbu qisqa muddatli xatarlarni yumshatishga qaratilgan maqsadli takliflarni beramiz.

Kalit so'zlar: O'zbekistonning JSTga a'zo bo'lishi, iqtisodiy integratsiya, savdoni liberallashtirish xatarlari, mehnat bozori moslashishi, tarmoqlararo qayta taqsimlash, mehnat bozori

ПОДГОТОВКА РАБОЧЕЙ СИЛЫ УЗБЕКИСТАНА К ИНТЕГРАЦИИ В ВТО: РИСКИ И НАПРАВЛЕНИЯ ПОЛИТИКИ

Жулиев Зухриддин Юлдашевич

PhD, Лектор, Международный Вестминстерский университет в Ташкенте

Аннотация. В данной статье определяются ключевые риски на рынках труда, связанные с предстоящим вступлением Узбекистана во Всемирную торговую организацию (ВТО). Хотя более глубокая торговая интеграция, как правило, повышает национальную производительность, поскольку отечественные отрасли адаптируются и перераспределяют ресурсы в сектора, в которых страна обладает сравнимым преимуществом, либерализация торговли также несет краткосрочные риски для рынка труда. Эти риски, связанные с межотраслевым перераспределением рабочей силы, включают потенциальное сокращение рабочих мест из-за импортной конкуренции (особенно в секторах с низкой производительностью), стагнацию заработной платы, углубление неформальности и расширение несоответствия навыков. На основе описательных данных и выявленных рисков мы предлагаем целенаправленную политику, призванную сгладить эти краткосрочные сбои на рынках труда.

Ключевые слова: вступление Узбекистана в ВТО, экономическая интеграция, риски либерализации торговли, корректировка рынка труда, межотраслевое перераспределение, рынок труда

Introduction

Uzbekistan is entering a decisive phase in its economic development as it finalizes negotiations for accession to the World Trade Organization (WTO). WTO membership is expected to reinforce the market transformation by promoting free and rules-based trade, which can stimulate long-term economic growth through increased market access, technology transfer, and greater foreign investment. Free trade offers considerable benefits for emerging economies such as Uzbekistan. On average members enjoyed on average 1-1.5% higher economic growth within a decade (WTO, 2024). By lowering trade barriers and increasing integration into global value chains, countries can realize long-term productivity and efficiency gains by reallocating resources toward sectors with a comparative advantage (Melitz, 2003).

However, the benefits of greater integration into world trade are not without challenges. WTO accession can intensify competition in domestic markets, posing risks to vulnerable sectors and to workers in industries that may not be prepared to compete with imported goods or multinational producers. In this context, the labour market becomes a critical area of concern. While the reforms may create new opportunities for highly skilled workers in competitive sectors, they may simultaneously threaten jobs in industries with lower productivity, limited technology adoption, or weak market positioning. Without adequate precautions, workers facing displacement could experience income shocks, unemployment, or downward mobility, thereby eroding public support for trade reforms.

This article aims to assess the potential labour market risks associated with Uzbekistan's WTO accession and propose targeted policies that ensure a smooth and inclusive adjustment process. Its objective is to help policymakers reduce the adverse effects of increased foreign competition on vulnerable workers employed under tradeable sectors and support skill upgrading and employment opportunities within a more open and competitive economy.

Literature Review

The current literature regarding trade adjustment in labor markets provides clear direction for identifying possible short-term risks associated with trade liberalization.

First, trade liberalization generates employment risks, particularly in tradable sectors where competitive pressures are most intense. These risks are often concentrated in industries that rely heavily on low-skilled labor or occupations requiring minimal training (Busse et al., 2024; Feiyang Shi, 2024). As import competition rises, economies undergo structural adjustments that require displaced workers to transition into new occupations or sectors. However, such mobility is often slow and difficult. Challenges in occupational mobility are not unique to developing countries with less mature labor markets; they are also well documented in advanced economies. Autor et al. (2014, 2016) show that trade-induced displacement frequently leads to occupation switching, downward mobility, lower wages, or unemployment, particularly for less-skilled workers or those performing manual tasks.

The ability of a regional economy to absorb workers changing occupations plays a key role in mitigating individual losses during periods of structural change induced by trade. This absorption capacity is directly tied to the existing industry composition (Yi et al., 2024). Regions characterized by a diverse mix of related industries and jobs where existing skills are highly transferable typically face lower occupational mobility costs. This environment allows workers displaced from a contracting sector (e.g., agriculture) to transition more smoothly into expanding sectors (e.g., industry or services) within the same geographic area, reducing the need for costly geographic relocation (migration). Ultimately, a region's industrial structure and its ability to facilitate these skill-based transitions are crucial in mitigating the negative economic and social effects of large-scale disruptions.

Another significant risk avenue stems from the potential for the informalization of firms, specifically Small and Medium Enterprises (SMEs) (Goldberg and Pavcnik, 2003; Menezes-Filho et. al , 2011). In an environment of increased import pressure and tighter market competition, SMEs are more likely to pursue cost-minimizing adjustments, including downsizing employment, cutting wages, or shifting workers into informal arrangements. In the absence of strong labor regulations and enforcement mechanisms, this behavior may accelerate informalization as firms attempt to reduce compliance costs to survive.

Finally, literature also warns about the institutional risks associated with restructuring economic sectors in alignment with international requirements. A specific institutional risk identified relates to the agricultural labour market, where rural workers and small farmers, particularly in cotton and horticulture, face difficulties in complying with stringent international sanitary and phytosanitary (SPS) requirements (OECD, 2025). The rising official and private standards, involving stricter entry requirements and costly safety and logistics demands, can undermine the competitiveness of small, poorer countries and push small and medium-sized enterprises (SMEs) and small farmers out of crucial export supply chains, leading to potential job losses and reduced income opportunities (Jeffee and Hanson, 2004).

In the following sections, we will discuss the current status of the labor market in Uzbekistan, examine the aforementioned risks, and propose possible policy solutions.

Methodology

Our analysis utilizes descriptive labor market data obtained from the National Committee of Statistics of Uzbekistan to evaluate the above-mentioned risks within the current national context.

Results and Discussion

Current Labour Market and Displacement Risk. Uzbekistan's labour market remains dominated by employment in agriculture, which accounts for over 20% of total jobs (Figure 1). The manufacturing sector represents the second largest source of employment (over 10%), with the majority of workers concentrated in food processing and textiles sectors. These sectors are simultaneously labour-intensive and low-skilled, making them particularly vulnerable to increased foreign competition following WTO accession. As tariffs fall and imports expand, firms in these industries may experience pressure to restructure or downsize, placing their workers at disproportionate risk of unemployment. For example, within the most vulnerable groups of people may fall, women, who are disproportionately employed in textile and light-manufacturing industries, which are among the sectors most exposed to import competition. Workers displaced from agriculture or low-skill manufacturing often face limited mobility into non-tradeable or higher-productivity sectors, where employment increasingly requires technical qualifications, digital competencies, and certified vocational training.

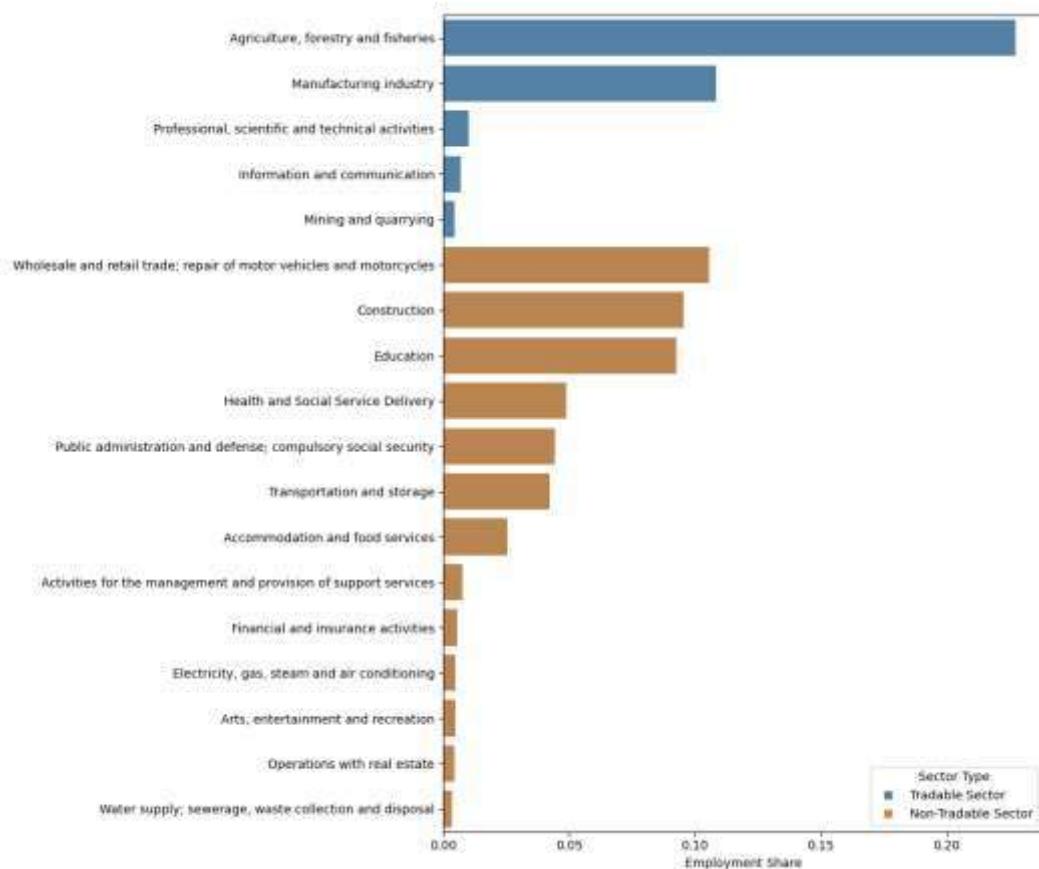


Figure 1. Employment share in Total Employment by Sector in 2024

Source: Author's own calculation using data from National Statistics Committee of Uzbekistan (uzstat.uz)

High cost of displacement could be smoothed by inter-sectoral or inter-regional mobility of the labour. However, there are significant disparities in the regional distribution of industry within Uzbekistan. For example, the Navoiy region has a sharply high share in industry (78.5%), while agriculture is low (5.3%) (Figure 2). Conversely, regions like Jizzakh (24.8% agriculture) and Surxondaryo (23.9%) have an agricultural predominance, which causes the population to migrate to industrialized centers or centers with developed service sectors, particularly to Tashkent city, where the service sector accounts for 65.7%. Regional industrial imbalances suggest that workers facing sectoral displacement may be better off taking inter-regional migration to find jobs aligned with their existing skills, rather than retraining for new industries. High migration costs may prevent smooth flow of labor between regions leading workers to end up in low return human capital sectors if they stay in their own regions. Sensible policy would be providing generous inter-regional mobility assistance to those who are affected (Yi et al., 2024). Without targeted policies to cushion the transition, structural changes can lead to prolonged unemployment, downward wage pressures, or movement into informal or precarious work among vulnerable groups.

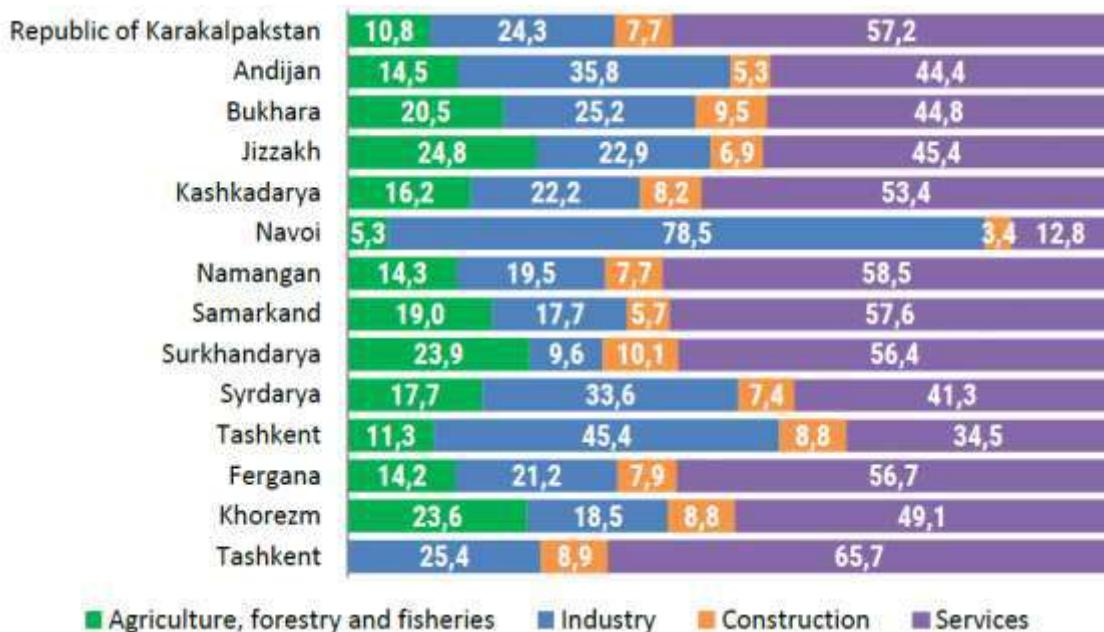


Figure 2. Sectoral structure of GRP for January-March 2025, in % to total

Source: Report by National Statistics Committee of the Republic of Uzbekistan: Gross domestic product of the Republic of Uzbekistan January-March 2025.

Wage inequality and skills mismatch risk. Recent labour market trends in Uzbekistan indicate that wage growth has been strongest in sectors requiring higher skills and professional qualifications (Figure 2). In contrast, sectors that currently employ the majority of workers, such as agriculture, manufacturing, and construction, experienced quarterly nominal wage growth of less than 5 percent, while wages in high-skilled services grew at a much faster pace. WTO accession may exacerbate this wage divergence, since workers in low-skill trade-exposed sectors may face significant transition costs. Specifically, the rapid movement of workers from tradeable sectors (such as textiles or food processing) into non-tradeable services could increase labour supply in those sectors, placing downward pressure on wages and intensifying competition for jobs. Transition costs are likely to arise from the need for re-training, digital skills upgrading, vocational certification, or occupational requalification, which many workers may not be able to afford without state assistance. Without policies to manage skills mismatches and cushion adjustment, WTO-driven restructuring risks amplifying wage inequality and labour market instability.

Business Informalization Risk. Although sectoral labour statistics do not yet provide detailed information by firm size, available enterprise data highlight that Uzbekistan’s labour market is heavily shaped by small and medium-sized enterprises (SMEs). A recent update from the National Statistical Committee shows that 84 percent of all registered firms operate as SMEs, and in highly trade-exposed sectors such as agriculture, manufacturing,

and food processing the share reaches up to 98 percent (Table 1). Majority of small firms operate in trade, industry and agricultural sectors (Figure 3).

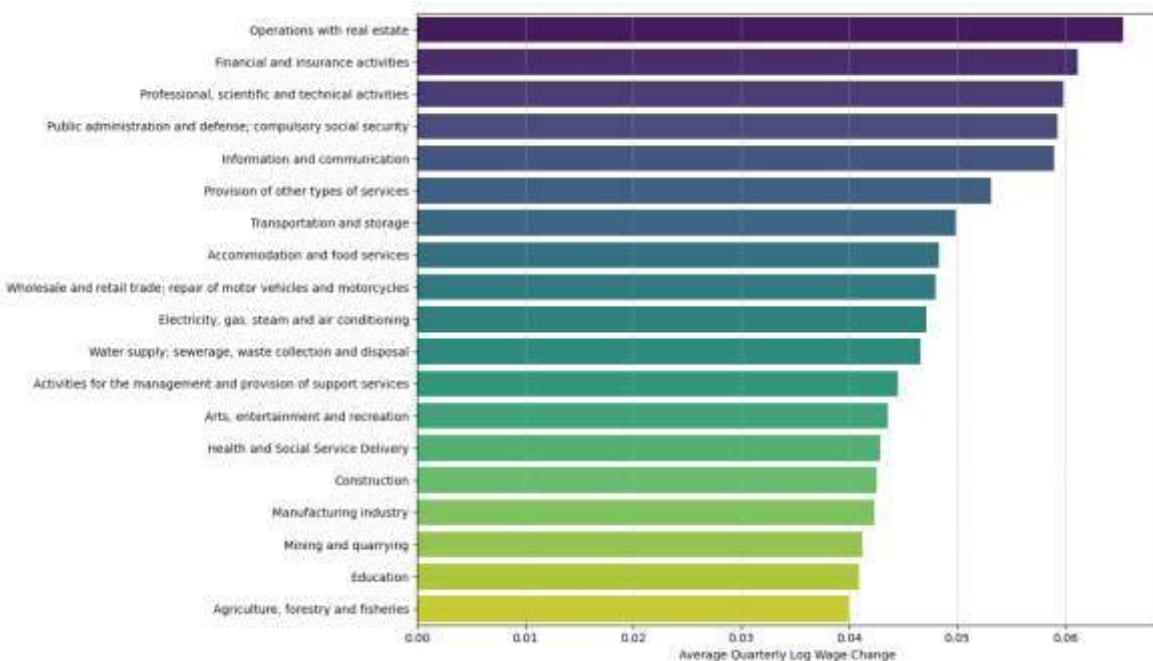


Figure 3. Average Quarterly Nominal Wage Change by Sector (2017 Q1 - 2024 Q4)

Source: Author's own calculation using data from National Statistics Committee of Uzbekistan (uzstat.uz)

While SMEs often benefit from flexible employment structures and lower administrative costs, they will also be the most sensitive to increased competition following WTO accession. In an environment of increased import pressure and tighter market competition, SMEs are more likely to pursue cost-minimizing adjustments, including downsizing employment, cutting wages, or shifting workers into informal arrangements. In Uzbekistan, the current labour code requires that all employment relationships be formalized through a written employment contract, which is a key legal mechanism for ensuring workers' rights and state oversight. However, the reality is that firms sometimes use informal arrangements, a practice which can be exacerbated by trade liberalization. In the absence of strong labour regulations and enforcement mechanisms, this may accelerate informalization¹⁵ as firms attempt to reduce compliance costs to survive. Consequently, vulnerable workers employed in SME-dominated sectors could face job instability, income insecurity, and limited access to social protection during the transition period.

¹⁵ Here, informalization refers to firms shifting part or all of their operations into the informal sector in order to avoid regulatory and compliance costs.

Table 1

Number of firms per sector for 2024 in Uzbekistan

Sectors	Total Number of Firms	Number of SMEs	Share of SMEs
Agriculture, forestry and fisheries	30952	30369	0.9812
Mining and quarrying	2116	2069	0.9778
Manufacturing industry	52027	51319	0.9864
Electricity, gas, steam and air conditioning	528	473	0.8958
Water supply; sewerage, waste collection and disposal	975	831	0.8523
Construction	27408	26933	0.9827
Wholesale and retail trade; repair of motor vehicles and motorcycles	137109	136352	0.9945
Transportation and storage	15778	15545	0.9852
Accommodation and food services	26135	25947	0.9928
Information and communication	9777	9341	0.9554
Financial and insurance activities	2625	2452	0.9341
Operations with real estate	14143	8837	0.6248
Professional, scientific and technical activities	17969	11752	0.6540
Activities for the management and provision of support services	11823	11157	0.9437
Public administration and defense; compulsory social security	13394	2	0.0001
Education	30016	5619	0.1872
Health and Social Service Delivery	10753	9254	0.8606
Arts, entertainment and recreation	5134	2749	0.5354
Provision of other types of services	16177	7115	0.4398
Activities of households employing domestic workers and producing goods and services for their own consumption	1	0	0.0000
Activities of extraterritorial organizations	0	0	-
Total	424840	358116	0.8429

Source: Author's own calculation using data from National Statistics Committee (uzstat.uz)

Regulatory and Institutional Challenges Risk. A related institutional risk concerns the agricultural labour market, which is particularly relevant in Uzbekistan given the sector's importance for employment and poverty reduction. Rural workers and small farmers, particularly in cotton and horticulture, are likely to face difficulties complying with stringent international sanitary and phytosanitary (SPS) requirements, a challenge explicitly acknowledged as the country aligns its national legal framework with WTO rules during its accession process.

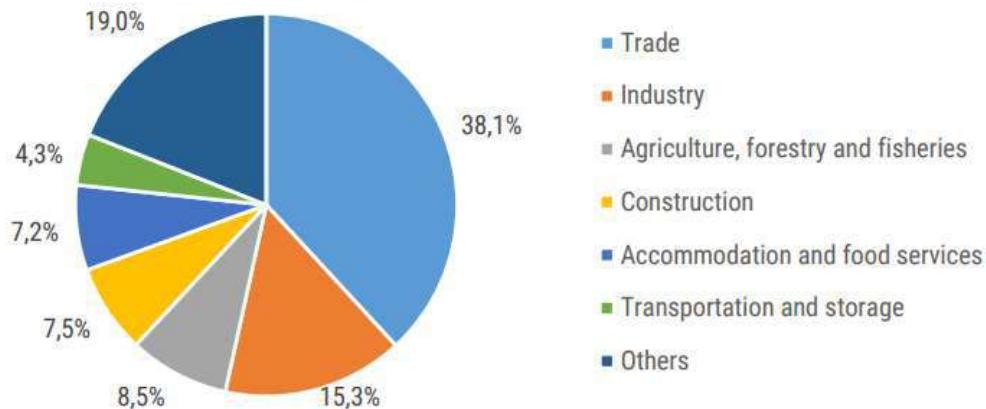


Figure 4. Share of operating small enterprises and microfirms by type of economic activity (as of 01.01. 2025)

Source: PRESS-RELEASE by National Statistics Committee of the Republic of Uzbekistan "Main indicators of the activities of small enterprises and microfirms in the Republic of Uzbekistan", Release date: 23.07.2025

Although these standards enhance competitiveness in the long run, the transition period could exclude small producers from export markets - especially traditional CIS markets with different legacy standards, as well as new markets in China and the EU. This exclusion is a significant concern if they are not supported with compliance assistance, financial incentives, and institutional capacity-building. Fostering "employment-friendly adaptive importing" policies in the agricultural sector might also help mitigate these risks by allowing a managed transition that balances the immediate needs of domestic employment with the long-term goals of international compliance and competitiveness.

Conclusion

Uzbekistan's pursuit of World Trade Organization (WTO) membership offers a significant opportunity for economic modernization and global integration, potentially fostering export-driven growth. However, without robust labor safeguards, trade liberalization risks leaving many workers behind due to immediate job displacement in import-competing sectors, skill mismatches, and high transition costs.

Increased competition in import-competing sectors may lead to large worker layoffs. To mitigate this, labor mobility - both between sectors and inter-regionally - is important. Without robust safeguards to address high mobility costs, displaced workers might move to less productive, low-wage, and low-skilled sectors, further depressing overall wages.

Another risk arising from trade liberalization is the potential for firms to informalize their operations, choosing to employ workers informally to avoid costs associated with formal employment. This trend would place further economic burden on already vulnerable worker groups.

To mitigate above mentioned risks in workforce and leverage the opportunities of WTO accession, Uzbekistan should adopt a proactive, multi-pronged labour policy strategy:

1. Support Sectoral Workflow from Import Competing Industries

- Adopt inter-regional migration stimulus packages (housing, moving subsidies).
- Create retraining funds and short-term unemployment assistance for displaced workers while transitioning to other occupations and jobs.
- Concentrate more on vulnerable target groups (rural, female workers).
- Align vocational education with internationally competitive, export-oriented sectors (e.g., IT, logistics, agro-processing).

2. Encourage Formalization

- Offer tax incentives or social insurance subsidies to SMEs that formalize labour contracts.
- Strengthen labour inspections but ease compliance burden for small businesses.

3. Strengthening Institutions & Regulatory Framework

- Ensure phased liberalization: review labour regulation changes in tandem with trade commitments.
- Build capacity in employment services to track displaced workers, match them to new opportunities, and monitor outcomes.

The successful and equitable realization of the benefits of trade expansion necessitates the government proactively implementing policies designed to manage sectoral transitions, invest heavily in skills development, formalize employment practices, and establish strong social support systems for vulnerable populations. This inclusive strategy is crucial not only for protecting workers in the short run but also for cultivating a dynamic, resilient, and productive labor market capable of sustaining long-term economic development as the nation integrates into the global trading system.

The analysis is descriptive and prognostic in nature; it aims to outline potential future risks based on current trends. Crucially, this study does not employ a causal analysis, as that would require a deeper, micro-level investigation beyond the scope of this paper.

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Mehnat iqtisodiyoti va inson kapitali



+998 71 239 28 13

Tashkent, Uzbekistan

ilmiyamktab@gmail.com

www.laboreconomics.uz