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THE GLOBAL COMPETITIVENESS INDEX

F.A.Djalilov

Tashkent state university of economics

Abstract

This article examined the global Competitiveness Index and its main indicators, and examined the level of competitiveness of the country's economy, the level of development of the economy and similar factors

Keywords: competition, competitiveness, Ranking of countries, global competitiveness index, competitiveness rating, state competitiveness index.

The Global Competitiveness Index (GCI) is an annual report published by the World Economic Forum (WEF). It measures the competitiveness of countries and economies based on a comprehensive set of factors and indicators. The GCI assesses the ability of a nation to achieve sustained economic growth, productivity, and prosperity in a globalized world.

To compile the GCI, the World Economic Forum gathers data from various sources, including surveys of business leaders, executive opinions, statistical data, and reports from international organizations. The data is then analyzed and weighted to create a comprehensive ranking of countries based on their competitiveness.

The GCI takes into account both macroeconomic factors and microeconomic fundamentals that contribute to a country's competitiveness. It evaluates a wide range of factors, including institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

Including the Global Competitiveness Index (GCI) can bring several benefits to a country. Here are some potential advantages:

Economic Growth: The GCI helps identify a country's strengths and weaknesses in various areas of competitiveness, such as institutions, infrastructure, market efficiency, technological readiness, and innovation. By addressing these areas of improvement, a country can enhance its overall competitiveness, attract investment, foster entrepreneurship, and stimulate economic growth.

Investment Attraction: The GCI provides valuable insights for investors and businesses looking to expand or establish operations in a particular country. A high ranking in the GCI can enhance a country's image as an attractive investment destination, leading to increased foreign direct investment (FDI) and capital inflows. This influx of investment can create jobs, stimulate local industries, and drive economic development.

Increased Trade: A strong GCI ranking signifies a country's competitiveness in global markets. It implies that the country's goods and services are of high quality, efficient, and technologically advanced, making them more appealing to international buyers. This can result in increased exports and improved terms of trade, boosting the country's trade balance and overall economic performance.

Enhanced Productivity: The GCI analysis helps identify areas where a country can improve its productivity and efficiency. By implementing necessary reforms and policies, such as investing in infrastructure, improving education and skills development, and fostering innovation, a country can enhance its productivity levels. Higher productivity leads to improved competitiveness, increased output, and higher standards of living for its citizens.

Policy Guidance: The GCI provides policymakers with valuable data and benchmarks to evaluate the effectiveness of their policies and identify areas requiring attention. It serves as a tool for policy formulation and helps governments prioritize their efforts towards improving competitiveness in areas such as education, technology, business environment, and governance.

Human Capital Development: The GCI emphasizes the importance of human capital and its role in driving competitiveness. A focus on education, skills development, and healthcare, as indicated by the GCI, can lead to a more knowledgeable and productive workforce. This, in turn, attracts investment, promotes innovation, and supports long-term economic growth.

International Collaboration: The GCI facilitates international collaboration and learning between countries. By comparing their performance with other nations, countries can identify best practices, learn from successful models, and adapt policies that have proven effective elsewhere. This exchange of knowledge and experiences can lead to improvements in various aspects of competitiveness and overall economic development.

One of the main indicator of GCI is goods market efficiency. World Economic Forum Competitiveness Index include 7 pillars of Product market analysis. The Product Market pillar assesses the efficiency, openness, and competitiveness of a country's product markets. It evaluates factors such as market concentration, trade openness, intensity of competition, barriers to entry, and efficiency of the domestic market. The assessment of the Product Market pillar provides insights into the

effectiveness of a country's regulations and policies related to product markets, which can significantly impact its overall competitiveness.

A). Domestic market competition:

- distortive effect of taxes and subsidies on competition (based on survey which illustrates the response to the survey question “In your country, to what extent do fiscal measures (subsidies, tax breaks, etc.) distort competition?” [1 = distort competition to a great extent; 7 = do not distort competition at all] based on survey which illustrates the response to the survey question “In your country, to what extent do fiscal measures (subsidies, tax breaks, etc.) distort competition?” [1 = distort competition to a great extent; 7 = do not distort competition at all]).

There is no specific formula that universally demonstrates the distortive effect of taxes and subsidies on competition, as the impact can vary depending on the specific market conditions and policy design. However, there are some economic concepts and models that can be used to analyze and quantify these effects. Here are a few commonly used approaches:

1. Deadweight loss analysis: Deadweight loss, also known as excess burden, measures the efficiency loss caused by market distortions. A deadweight loss is a cost to society created by market inefficiency, which occurs when supply and demand are out of equilibrium. Mainly used in economics, deadweight loss can be applied to any deficiency caused by an inefficient allocation of resources.

It can be calculated by comparing the equilibrium quantity and price in the absence of taxes or subsidies with the equilibrium under the policy. The larger the deadweight loss, the greater the distortion caused by taxes or subsidies.

$$\text{Deadweight Loss Formula} = \frac{1}{2} \times (Q_1 - Q_2) \times (P_1 - P_3)$$

In other words:

$$\frac{1}{2} \times \text{Change in quantity} \times \text{Change in Price}$$

This then calculates the area for the deadweight consumer surplus in the first instance, and the deadweight producer surplus in the second instance. If we then add them together, we get the total deadweight loss.

In this case, the deadweight consumer surplus would equal:

$$\frac{1}{2} \times (7 - 5) \times (200 - 100) = 100$$

The deadweight producer surplus would equal

$$\frac{1}{2} \times (5 - 3) \times (200 - 100) = 100$$

So in total, the deadweight loss to society is \$200 for this example.

2. Price elasticity analysis: Price elasticity of demand and supply measures the responsiveness of quantity demanded and supplied to changes in price. By analyzing the price elasticities, you can determine how taxes and subsidies affect prices and

market outcomes. Higher elasticities indicate a greater potential for distortions in response to policy interventions.

3. Comparative statics analysis: Comparative statics involves comparing market equilibrium outcomes before and after the introduction of taxes or subsidies. This analysis examines changes in key variables such as prices, quantities, profits, and consumer welfare to assess the distortive effects on competition.

On June 14 2021, the President of Uzbekistan signed a resolution "On additional measures aimed at developing poultry farming and strengthening the fodder base of the industry."

Poultry meat production in Uzbekistan

Poultry meat production	2016	2017	2018	2019	2020	2021
poultry meat production, 1000 tonnes	99,7	133,5	173,0	205,2	181,1	220,7
comparison with the previous year, in %	110	134	130	119	88	122
Price per kg				23878	25621	30500
Price changes in percentage					107,30	1,19

According to the document, starting from June 1, 2021 poultry farms paying value added tax will receive subsidies from the republican budget in the amount of 50 sums for each sold egg and 1,000 sums for each kilogram of poultry meat sold produced on the farms.

The allocation of a subsidy had a good effect on increasing production after a decrease during the quarantine measures of the pandemic in 2020. The effect of subsidies across sectors remains heterogeneous. If in agriculture 1 soum of benefits gives 33 sums of added value, then in education - only 20 sums, and in the IT sector 16 sums.

The effectiveness of the use of incentives has been significantly realized in the field of poultry farming and fisheries. In particular, the volume of production in the poultry industry increased from 133,503 tons in 2017 to 205,243 tons in 2019.

On other hand this effect does not show very good results in terms of stabilizing or lowering prices. At the same time deadweight loss from this subsidy equal to

$$\frac{1}{2} (220.7-181.1) * (30500-29500)= 19.8 \text{ bln. sum.}$$

It means that the inefficiency in the market has resulted in a loss of economic welfare amounting to 19.8 bln. sum. This represents the value of the foregone consumer and producer surplus that could have been attained if the market operated at its socially optimal level.

The magnitude of deadweight loss provides an estimate of the economic inefficiency caused by market distortions or deviations from the optimal allocation of resources. In this case, the 19.8 bln. sum indicates the size of the welfare loss resulting from the misallocation of resources.

It's important to note that the calculation of deadweight loss is typically an estimation and involves assumptions and modeling based on economic theory and data. The actual value of deadweight loss can vary depending on the specific circumstances,

such as the size of the market, the nature of the distortions, and the elasticities of supply and demand.

That's why the President emphasized that it is necessary to take stock of tax and customs benefits, cancel inefficient ones, and unify benefits for foreign and domestic investors⁷⁴.

4. Game theory analysis: In oligopolistic markets, game theory can be used to analyze the strategic interactions between firms and the impact of taxes or subsidies on their behavior. Models like the Cournot or Bertrand competition can be applied to study the effects of policy interventions on market outcomes.

- extent of market dominance (Response to the poll question "How do you characterize corporate activity in your country?" [1 = dominated by a few business groups; 7 = spread among many firms]);

Most concentration and dominance measures like CR (Concentration Ratio) and Herfindahl–Hirschman Index (HHI) are calculated by using the number of companies and their shares in a market and regulatory bodies employ them for determining the level of competition or dominance.

- Competition in services (demonstrates the average of the scores of the three components of the following Executive Opinion Survey question: "In your country, how competitive is the provision of the following services: professional services (legal services, accounting, engineering, etc.); retail services; and network sector (telecommunications, utilities, postal, transport, etc.)?" In each case, the answer ranges from 1 (not at all competitive) to 7 (extremely competitive).

B) Trade openness:

- Prevalence of non-tariff barriers (Response to the survey question "In your country, to what extent do non-tariff barriers (e.g. health and product standards, technical and labelling requirements, etc.) limit the ability of imported goods to compete in the domestic market?" [1 = strongly limit; 7 = do not limit at all] | 2018–2019 weighted average or most recent period available);

Calculating the prevalence of non-tariff barriers (NTBs) can be a challenging task due to their diverse nature and the lack of standardized data. However, here are some steps you can follow to get an estimate of the prevalence of NTBs:

1. Define the scope: Determine the specific types of NTBs you want to analyze. NTBs can include various measures such as quotas, licenses, technical standards, sanitary and phytosanitary regulations, customs procedures, subsidies, and more. Focusing on specific categories will help narrow down the analysis.

2. Identify data sources: Look for available data sources that provide information on NTBs. These may include government reports, trade databases, industry surveys, academic research, and international organizations' publications like the World Trade Organization (WTO), World Bank, or regional economic organizations.

3. Collect relevant data: Gather data on the specific NTBs you are interested in studying. This may involve extracting information from trade databases, reviewing policy documents, or utilizing survey results. Data can include the number of NTBs in place, their duration, affected sectors, or estimated trade impact.

⁷⁴ <https://www.gazeta.uz/ru/2022/11/01/preferences/>

4. Quantify prevalence: Analyze the collected data to quantify the prevalence of NTBs. This could involve calculating the number of NTBs per country, sector, or product category. You can also examine the duration of NTBs or estimate the trade impact caused by specific barriers.

- Trade tariffs (The weighted mean applied tariff is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. Applied tariffs are considered to be the tariff rates applied by a customs administration on imported goods. They are the rates published by national customs authorities for duty administration purposes);

- Complexity of tariffs (Measures the complexity of a country's tariff regime. The score ranges from 1 (very complex) to 7 (not complex) | 2018 or most recent period available Tariff complexity is assessed on four criteria: tariff dispersion, the prevalence of tariff peaks, the prevalence of specific tariffs and the number of distinct tariffs. This index is calculated as the simple average of the normalized score of these four criteria);

The complexity of tariffs refers to the level of intricacy and difficulty involved in understanding, implementing, and navigating the tariff systems of countries. It encompasses various factors that can make tariffs challenging to comprehend and work with. Here are some elements that contribute to the complexity of tariffs:

1. Tariff structures: Tariffs can have different structures, such as ad valorem tariffs (based on the value of the goods), specific tariffs (a fixed amount per unit), or a combination of both. Some countries may also have complex tariff schedules with multiple levels, exemptions, or preferential rates based on factors like the country of origin or trade agreements.

2. Tariff classifications: The Harmonized System (HS) is used globally to classify traded goods for customs and tariff purposes. However, determining the correct HS code for a specific product can be challenging, as it requires detailed knowledge of the product's composition, characteristics, and intended use. Misclassification can lead to incorrect tariff assessments or delays in customs clearance.

3. Tariff rates: Tariff rates can vary widely across countries and products. Different goods may have specific tariff rates, and these rates can change frequently due to government policies or trade negotiations. Keeping up with the latest tariff rates can be demanding, especially for businesses involved in international trade.

4. Exemptions and exceptions: Tariff systems often include exemptions, exceptions, or preferential rates for specific products, industries, countries, or trade programs. Identifying and understanding these provisions can be complex, as they may involve complex rules of origin, regional trade agreements, or industry-specific regulations

5. Trade agreements: Countries engage in numerous bilateral, regional, and multilateral trade agreements, which can lead to varying tariff obligations and preferences. Navigating the rules and regulations within these agreements, understanding their implications, and ensuring compliance can be intricate and time-consuming

- Border clearance efficiency (Assesses the effectiveness and efficiency of the clearance process by customs and other border control agencies in the eight major

trading partners of each country. The scale ranges from 1 (worst) to 5 (best). <https://lpi.worldbank.org/about>).

Determining border clearance efficiency involves assessing the effectiveness and speed of customs and border procedures for goods entering or leaving a country. Here are some key steps to evaluate border clearance efficiency:

1. Define relevant indicators: Identify the indicators that measure border clearance efficiency. Common indicators include clearance time, paperwork requirements, inspection procedures, transparency of regulations, and overall trade facilitation measures. Determine which indicators are most relevant to your analysis.

2. Collect data: Obtain data related to border clearance processes. This can be done through various sources, such as customs authorities, trade associations, international organizations (e.g., World Bank, World Trade Organization), and surveys of businesses engaged in cross-border trade. Data should cover aspects like processing times, documentation requirements, physical inspections, and any associated costs.

3. Analyze clearance time: Calculate the average time it takes for goods to clear customs and cross the border. This typically includes the time from arrival at the border to the release of the goods for further transport. Analyze the data by country, border crossing point, or trade route to identify variations and trends.

4. Assess documentation requirements: Evaluate the paperwork and documentation needed for border clearance. Consider the number of documents required, complexity, and the ease of electronic submission. Examine if there are standardized formats or systems in place to simplify the process. Higher efficiency is associated with streamlined and simplified documentation requirements.

5. Evaluate automation and digitalization: Consider the level of automation and digitalization in border clearance procedures. Assess the availability and utilization of electronic systems for submitting documents, online payment of fees, and communication with customs authorities. Automation reduces manual processes, paperwork, and associated delays.

Improving the goods market efficiency index in the Global Competitiveness Index (GCI) can bring several benefits to a country. Here are some potential advantages:

1. Enhanced Competitiveness: A high goods market efficiency index indicates that a country has a well-functioning and efficient market for goods and services. It suggests that there are minimal barriers to entry, effective competition, and efficient allocation of resources in the market. By improving goods market efficiency, a country can enhance its competitiveness, attracting more businesses and investment.

2. Increased Productivity: A more efficient goods market allows for increased productivity. When goods can flow easily in the market, businesses can access inputs, raw materials, and resources in a timely manner, facilitating smooth production processes. Reduced bottlenecks and streamlined supply chains contribute to improved productivity levels, leading to higher output and economic growth.

3. Consumer Benefits: An efficient goods market benefits consumers by providing them with a wider range of choices, competitive prices, and improved product quality. When markets are efficient, businesses are incentivized to offer innovative and high-quality products at competitive prices. This leads to greater consumer satisfaction, increased purchasing power, and improved living standards.

4. Increased Trade: A country with a well-functioning goods market is likely to experience increased trade. When goods can be easily produced, distributed, and traded, both domestically and internationally, it facilitates export growth. Improved goods market efficiency reduces trade barriers and transaction costs, making it easier for businesses to engage in international trade, expand their market reach, and capture export opportunities.

5. Business Environment: A high goods market efficiency index indicates a favorable business environment. When markets are efficient, businesses can operate with reduced bureaucratic hurdles, streamlined regulations, and improved access to financing. This encourages entrepreneurship, stimulates business creation, and attracts investment. A conducive business environment can foster economic dynamism, job creation, and overall economic development.

6. Innovation and Technological Advancement: Efficient goods markets promote innovation and technological advancement. When businesses can easily bring new products to market and compete based on innovation, it incentivizes research and development efforts. A competitive goods market encourages businesses to invest in new technologies, improve processes, and drive overall economic progress.

7. Attraction of Foreign Direct Investment (FDI): An efficient goods market is an attractive factor for foreign investors. When markets are efficient, it signals a favorable business environment and reduces the risks associated with investing in a particular country. Improved goods market efficiency can lead to increased foreign direct investment (FDI), bringing in capital, technology, and expertise, which can further stimulate economic growth.

8. It's important to note that improving goods market efficiency requires addressing various factors, such as reducing trade barriers, improving logistics and infrastructure, streamlining regulations, promoting competition, and enhancing market transparency. Additionally, the benefits of improving goods market efficiency may vary depending on a country's specific context and the overall competitiveness of its economy.

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