



## **THE ISSUE OF NATURAL MONOPOLIES: CHALLENGES FOR REFORMATION IN TRANSPORT SYSTEM OF UZBEKISTAN**

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### **Abstract**

Calling the conception of natural monopolies as the economic fiction was grown at the end of XIX and beginning of the XX century in the USA. Due to the tough competition in infrastructural areas manufacturers with the support of some economists created the institution of natural monopolies [1] (DiLorenzo 1996, 43). To the best of our knowledge, Di Lorenzo is the one of the first published papers that investigates the real genesis of natural monopolies, using real examples for proving the artificial 'necessity' of them.

In a world of perfect competition, life is good. Firms can enter and exit markets. Instantly and without cost, products are homogeneous and everyone is perfectly informed. Firms are so numerous that none of them is large enough to influence prices by altering output and act independently[2].

The aims of this study are (1) explaining the inefficiency of the conception of natural monopoly and (2) evaluating the strategy of step by step reformation the railway system where natural monopoly still exists.

In industrialized countries, the interaction of the state and the market is formed under the influence of various factors, including the impact of the transport factor of the market, taking into account historical development, the issues of existing changes in the conditions of globalization [3], national characteristics of the geo-economic and social policy of the state. Developing new legislation that effectively regulates unregulated issues[4], as well as pre-determining the rules governing such relationships, will help in combating various unlawful practices[5].

In the last decades of the XX century, transport policy has taken a significant role in the most important directions of the socially oriented strategy of developed countries aimed at increasing the national efficiency of the economy, which has become measured not by traditional quantitative indicators, but by qualitative social





indicators, primarily the levels of quality of life of the population, reliability and efficiency of transport provision of regions.

During the years of independence, large-scale structural and institutional reforms in transport have been carried out in the Republic of Uzbekistan. Gradual denationalization and privatization of transport facilities, transition from administrative management to more effective regulation of market-based policy has been occurred. At this stage, we can say that the legal framework for transport activities in market conditions is practically created. At the same time, in order to improve the position of Uzbekistan in the world logistics rankings, it becomes particularly relevant to study the experience of other states, primarily economically developed countries, in regulating and investing in industries that ensure the vital activity of the transport and logistics system.

According to the statistic data of Antimonopoly committee of Uzbekistan (2021) 2021, 130 business entities are registered in the State Register of Natural Monopolies [6]. These entities provide the country with the basic necessities of life: energy, transportation, gas, water, post office services and at al. By the way, their efficiency is not so high and some of them in dotation support by the government. Due to the annual financial statistics of 2020, 40 % of the inefficient entities in Uzbekistan concern as natural monopoly sector [7].

Natural monopolies have been remained as one of the historical institutions of post-soviet countries. The absence of private companies in USSR and the mindset against private property had made the institution of natural monopolies actual [8].

In Western countries, the need for state ownership of transport and a higher degree of regulation than in private sector is determined by a number of reasons. Firstly, this is a universal reason that private companies tend to desire to reduce their own costs due to a sharp increase in public costs. Secondly, there are some features of transportation activities. One of them is that transport is usually a natural monopoly. It is unprofitable for society to build and maintain the operation of overlapping railway lines, highways, canals, airports, because the costs are too high, and the effect is small. "This is one of the reasons for the massive bankruptcy of a large number of railway companies in the United States and the reduction of the railway network in the period 1918-1990 by 200 thousand km, or almost 50%."

The development of transport also requires the availability of large land plots, which are almost permanently withdrawn from economic circulation. The construction of transport facilities is a capital-intensive process with long payback periods and is usually implemented with the help of either the state or with the involvement of a sufficient number of shareholders. In many countries with developed market



economies, it is generally recognized that in order to protect consumer rights, the state is obliged to monitor and regulate this process, acting as a participant in it.

The acceleration of the growth rates of Uzbekistan's economy, which began in the last 15-20 years, caused by further expansion and deepening of its integration into the world market and increased economic activity of the regions, had a positive impact on the change in the dynamics and structure of cargo and passenger transportation.

In Uzbekistan, from 2000 to 2019, the operational length of public railway tracks increased by 1,564 km and at the beginning of 2020 amounted to 4,735.1 km. The average density of railways and road networks in the country is slightly higher than in Iran, Russia and Kazakhstan, but much lower than in developed countries.

In 2020, cargo turnover amounted to 67 billion ton-km, however, due to the consequences of the coronavirus pandemic, it decreased by 7.9% compared to last year. Passenger turnover decreased by 15.6% during the specified period.

For Uzbekistan, which is separated from international sea routes by the territories of two or more states, the costs of exporting and importing products are becoming a critical factor of competitiveness. The sustainable functioning of transport within the country and its adjacent communications is a guarantee of the unity of the economic space, the free movement of the population and commercial products, the improvement of life and living standards of the population, ensuring the integrity and national security, the integration of the country into the world economic space.

Currently, there are a number of shortcomings and problem areas in the industry. There is an insufficient level of multimodal transportation, logistics, customs, warehousing and other services in the republic. The volume of container traffic in Uzbekistan is significantly lower than in developed countries. To some extent, this is due to high transport tariffs indexed by the formula "costs + profit". Currently, the railways of the region are not productive, the existing tariff policy is not aimed at supporting small and medium-sized companies and exporters of goods. Thus, within the framework of bilateral intergovernmental agreements on international road transport, bilateral legal regimes for transportation between countries are designated. They allow passage only through certain checkpoints, due to incorrect procedures for issuing transit permits, due to insufficiently justified limitation of their number, there is a restriction of the delivery route and freedom of transit traffic, due to trade barriers, WTO requirements, transportation quotas occur (bureaucratic delays in approving and issuing permits). Regarding transport, the problem is the different level of participation of Central Asian countries in them. Most of the agreements and conventions are not effective; their norms are not







applied (mechanisms for implementing the provisions of these international acts have not been worked out).

However, investments in the infrastructure of the industry are quite large and with a long payback period, which makes them not attractive to investors. Views were expressed as investments included in innovative investments include the development of a new generation of technical devices and technologies. The fundamental tasks of transforming of the railway sector is creating a market-competitive environment in the country and attracting private investment in this area. Despite non-discriminatory access to the railway infrastructure guaranteed by legislation for independent freight companies-operators it is necessary to review and adopt more effective regulatory acts for establishing framework for transportation.

For faster external communication in transport the development of transport communications with appropriate equipment demands the creation of multimodal logistics centers (MLCs). Large transport hubs along the MLCs route, functioning on the basis of advanced logistics which ensures coordinated interaction of all modes of transport are being created intensively. In developed countries, the formation of modern logistics clusters is considered as strategic points of growth.

President of Uzbekistan Sh. Mirziyoyev, in his speech to Oliy Majlis on January 25, 2020, pointed out: "In the railway sector, it is necessary to differentiate the transportation of passengers and cargo, operation and maintenance, that is, to allocate a natural monopoly part and separately develop those areas where it will be possible to attract the private sector.

The average density of railways and road networks in the country is slightly higher than in Iran, Russia and Kazakhstan, but much lower than in developed countries.

Governmental enterprises in the transport market should be privatized consistently. Legal regulation of the sphere should be reformed step by step. Rules and regulations which are not incorporated in one document do not sufficiently contribute efficient business (entrepreneurial) activities[9].

At the same time, the government remains responsibility for the safety of the transport process. It proceeds from the principle of excluding unnecessary interference in the management of transportation activities, both in the field of transport entrepreneurship and in certain issues of regulation of the sphere. Gradual deregulation of the transport sector is considered as one of the important methods of transformation. Due to the recognition of railway infrastructure as a sphere of natural monopoly, it is necessary to understand the urgency of strengthening the competitive position of the railway company, both in the domestic and foreign markets of transport services.





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