



CHALLENGES AND SOLUTIONS OF FORMATION OF COMPETITIVE ENVIRONMENT IN REGULATION OF NATURAL MONOPOLIES

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***Annotation.** This article presents the role of natural monopolies in the economy, their positive and negative consequences, as well as suggestions and comments on the regulation of natural monopolies and the formation of a competitive environment in their activities.*

***Keywords:** monopoly, natural monopoly, oligopoly, monopsony, types of competition, forms of competition, methods of competition, functions of competition, competition law, law on natural monopoly.*

INTRODUCTION. Natural monopolies play an important role in the economy of any country. Because the products they produce or the services they provide are important because they always have their customers in the market.

In the context of globalization of the economy, natural monopolies are the main link in the chain of producers, suppliers and suppliers of raw materials in the country. According to the Law of the Republic of Uzbekistan "On Natural Monopolies", the activities of natural monopolies are regulated by the state in the following areas [1]: transportation of oil, oil products and gas by pipeline; production and transportation of electricity and heat. These areas mentioned in the law are among the areas that create the basic infrastructure of the economy.

The level of competitiveness of the country's economy is mainly determined by the activities of monopolies in the domestic and foreign markets. In the era of globalization of the economy, it can be observed that the share of monopolies in the industrial economy is growing. This is because there is a need



for large-scale opportunities for the rapid development of the economy. That is, the need for financial capital, modern technologies, the introduction of new innovative ideas into the industry, potential and experienced personnel will be high. This is evidenced by the fact that all of these needs are more likely to be addressed by monopolies or natural monopolies than by small organizations.

The formation of competitive relations in the field of natural monopolies combines more complex and multifaceted problems. Many experts and scholars who study the problems of competition and monopoly express different views on the problem of competition, but they do not give a clear definition of the term, there is no fixed model of defining the relationship between enterprises or organizations as competitive, clear formulas affecting efficiency also not developed.

Therefore, the state's constant control over the areas of natural monopolies, regulation of their activities, the formation of a fair competitive environment in the market has always been recognized as a topical issue and has become important.

Analysis of the relevant literature. The histories of the origin of natural monopolies and its peculiarities have been widely studied by economists. Natural monopolies, if they arose once in the course of human life in the process of satisfying their needs, or in the spheres of the economy, remain natural and subsequent. However, as practice shows, some of them eventually lose their "naturalness". This is due to the fact that in the field of natural monopolies, the state is constantly developing a competitive environment and regulating their activities.

In the economic literature, various types of measures aimed at supporting the competitive environment in the field of natural monopolies, the regulation of their activities and the theoretical issues of their practical application have always been widely studied.



The price of the goods set by the business entity holding a dominant position in the commodity market, if this price [2]:

- Exceeds the amount of costs and benefits required for the production and sale of such goods;
- Monopoly is a high price if it is aimed at compensating for unreasonable costs or gaining additional benefits as a result of reducing the quality of goods.

The concept of competition was first defined in 1776 by A. Smith. When the supply of goods in the market decreases, prices rise, and when supply exceeds demand, prices fall. In addition, he defined the basic principle of competition - the principle of "invisible hand", that is, despite the fact that entrepreneurs pursue their own interests, situations always pursue their own interests and simultaneously pursue their own interests in society [3].

There are at least four models of economic competition: perfect competition, monopolistic competition, oligopoly, monopoly, each of which focuses on different conditions of the economic environment and different resources at the disposal of economic entities [4].

In his research, V. Lishchuk proposes to consider the process of regulation of natural monopolies both at the level of de-monopolization of certain activities, and at the level of regulation of prices and quality of services [5].

The system of state regulation of natural monopolies implements a wide range of regulatory and legislative measures that allow changing the national economic system to ensure the most efficient operation of individual economic entities [6].

Monopoly means the right to own anything or engage in any activity. In economic theory, a monopoly is a large enterprise, firm, or association that accounts for a large portion of the production and sale of a particular type of product, and the monopoly dominates the market for profit. Therefore, such



enterprises have a dominant position in the market, are able to influence the pricing process, achieve favorable prices and, as a result, receive high profits [7].

Given the content of economic competition, according to M. Porter, it reflects the content of competition with five factors [8]: the threat of new competitors; the risk of substitution goods or services; bargaining power of component suppliers; ability of consumers (buyers) to bargain; mutual competitiveness of existing competitors.

The main economic features of natural monopolies [9]: high efficiency of meeting market demand in the absence of competition; invariance of consumption of goods (services) produced by natural monopolies; low level of price impact on demand; technological features of production, which consist of a significant reduction in production costs per unit of goods with the increase in production volume; granting special status to natural monopolies by state bodies as a result of a separate public interest.

Ensuring the proper functioning of the market and the fight against monopolies is one of the main goals of the state's competitive policy, which is achieved through the use of effective mechanisms of antitrust authorities to combat competitive offenses. This issue remains especially relevant due to the high degree of monopolization of many markets, both domestically and in the world market. It requires the discovery of effective mechanisms for the implementation of competition policy. This can be achieved only by reforming the legislation from a theoretical and practical point of view. [10]

Natural monopoly can be described as a strategic entity that creates state social products and services, has a special infrastructure and limited operational capabilities, determined by the relevant state market regulator [11].

Such understanding of effectiveness of the institutional structure of economy predetermines the goal of anti-monopoly laws. The latter consists in



supporting competition as a basis of economic mechanism that ensures effectiveness of production, correspondence between the interests of different companies and the country's economy on the whole, and prevention of consumer's discrimination. Anti-monopoly activities ensure implementation of the two most important functions of competition – comparative and selective [12]

Monopolistic competition according to Chamberlin - providing access to the EU to the only monopoly market of other firms that compete with the monopoly on

a differentiated market of products (services) with similar, but somewhat different consumer properties.[13] For example, in certain segments of the general transportation services market, both road, river, and pipeline transport can compete with rail transport. At the same time, it may turn out that two or more branches of the economy will be effective among themselves, each of which is a natural monopoly in its market segment.

If we look at the practice of countries around the world, the development of natural monopolies will largely depend on their interaction with the external environment. In this case, the relationship is determined by the dynamic effect of market equilibrium, that is, it serves society at every stage of socio-economic development.

RESEARCH METHODOLOGY. Widely used methods of studying existing scientific research on the regulation of natural monopolies and the development of a competitive environment, comparative comparison of tariff and price formation, study and economic comparison and analysis, logical thinking, scientific abstraction.

ANALYSIS AND RESULTS. In economic terms, natural monopolies have the same characteristics as a simple monopoly organization that holds power in a competitive market. In the absence of sufficient regulatory



constraints, a monopoly increases an organization's revenue typically by reducing costs rather than reducing prices.

It performs a number of functions that reflect the role of natural monopolies in the development of the national economy. They include:

- Formation of the state budget. At the current stage of a market economy, natural monopolies are an important source of revenue for the state budget;
- Formation of production costs. The value of natural monopolies and services is reflected in the value of all other goods, works and services created in a particular market;
- Impact on the social status of society. The services produced and provided by natural monopolies have a significant impact on the standard of living.

Unreasonably high tariffs for services of natural monopolies in the economic sphere hinder the development of a competitive network, as the creation of excess tariffs for services of natural monopolies creates various barriers to entering new entrepreneurs in the markets.

Table

1

Types of monopolies that exist in the economy

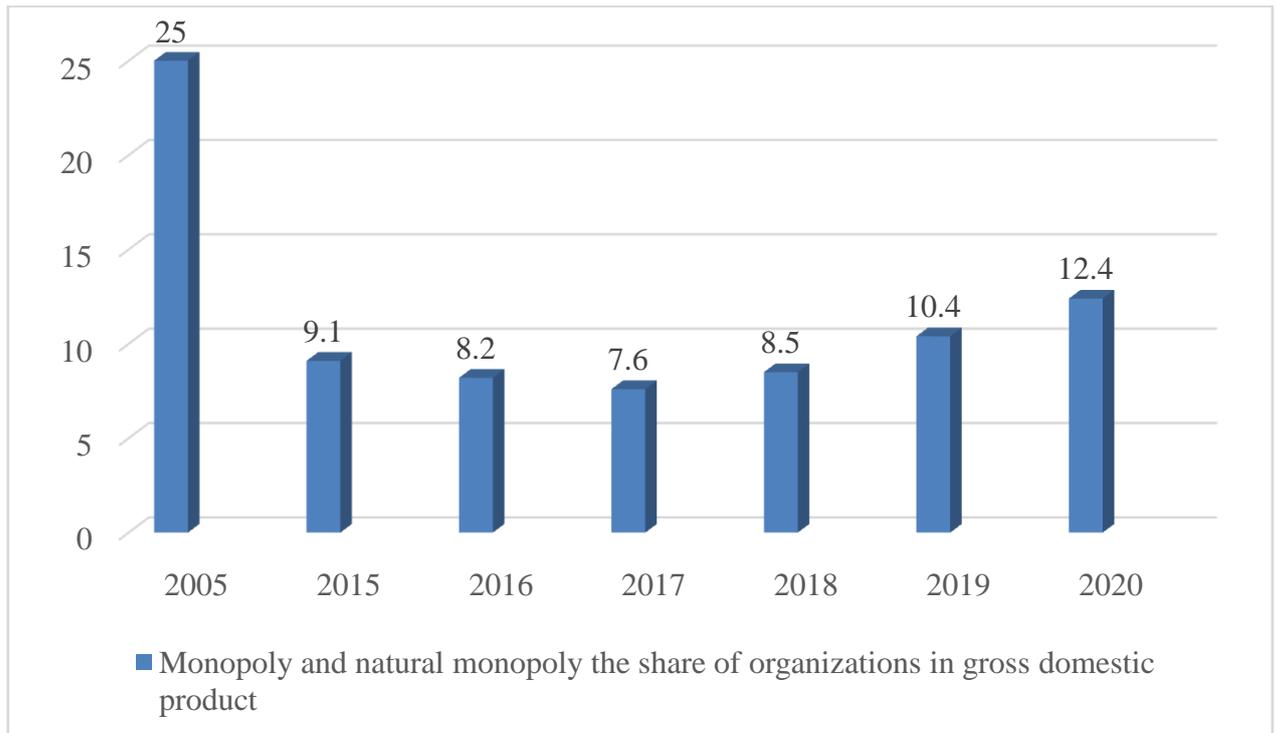
Monopoly types	The content of the types of monopolies
Natural Monopoly	Is a state of the commodity market in which, due to technological features. It is impossible or economically feasible to create competitive conditions for meeting the demand for certain types of goods (works, services) (hereinafter referred to as goods).
Pure natural monopoly	It will not be possible to create a competitive environment in terms of technological and geographical location.



Legal monopoly	It is possible to create competitive conditions in terms of technological and geographical location, but not economically viable.
Oligopoly	The type of market structure in which a group of buyers of a particular product exists.
Monopsony	A type of market structure in which a single buyer of a particular good has a monopoly. By limiting its purchase volume, the buyer will be able to gain a monopoly profit by losing a portion of the seller's income.
Duopoly	A type of market structure in which there are only two suppliers of a particular commodity and there are no monopolistic agreements between them on price, sales markets, production quotas.
Two sided monopoly	The type of market structure in which there is a confrontation between a single supplier of goods and a single (combined) consumer.

Source: The table is compiled by the author.

The share of natural monopoly and monopoly organizations in the GDP (gross domestic product) plays an important role. Year after year, the number of natural monopoly and monopoly organizations is decreasing. Because of this, their share in GDP is decreasing. We can see this through the information presented in Figure1.



1-picture. The share of monopoly organizations in the total volume of GDP in 2005-2020 years, in percentage

Source: data of the State Statistics Office of the Republic of Uzbekistan.

According to the data presented in Figure 1, the share of Monopoly and natural monopoly organizations in the NPM amounted to 25 percent in 2005, 9.1 percent in 2015, 8.2 percent in 2016, 7.6 percent in 2017, 8.5 percent in 2018, 10.4 percent in 2019 and 12.4 percent in 2020.

As a result of the reforms carried out, there is a gradual reduction in the number of monopolists in various sectors of the economy in connection with the creation of a competitive environment, the fragmentation of markets and the attraction of foreign capital.

The main criterion in regulating the activities of natural monopolies is the formation of a competitive environment. The types of competition used in the formation of the competitive environment and their content are given in Table 2.



Table 2

Types of competition used in the formation of a competitive environment in the field of natural monopolies and their content

Name	Types	The content of the types of competition
Types of competition	Competition within the network	Having more favorable conditions for the production and sale of goods, goes among the enterprises of a network for additional profit.
	Competition between network	Is a struggle between enterprises of different industries to get the highest profit.
Forms of competition	Pure competition	There will be a large number of businesses in the same product manufacturing network.
	Pure monopoly	Since the network consists of a single firm, it is the sole producer of the existing product, and monopoly is formed.
	Monopolistic competition	Including monopolies and co-competition. Dozens of manufacturers of the same product compete with each other to achieve a reasonable price and volume of production.
	Oligopoly	The market in which goods and services are dominated by a relatively small number of producers is an oligopolistic network.
Competitive function	Regulation	The task of regulation is to influence supply in order to coordinate production with demand (consumption).
	Resource placement function	Allows the rational placement of factors of production in the enterprise, region, and region where they are most productive.
	Innovative function	Means the introduction of various forms of innovation based on the achievements of scientific and technological progress and requiring the development of market economy entities.
	Customization function	Aimed at the rational adaptation of enterprises to the conditions of internal and external environment, which means the transition from simple self-sufficiency and

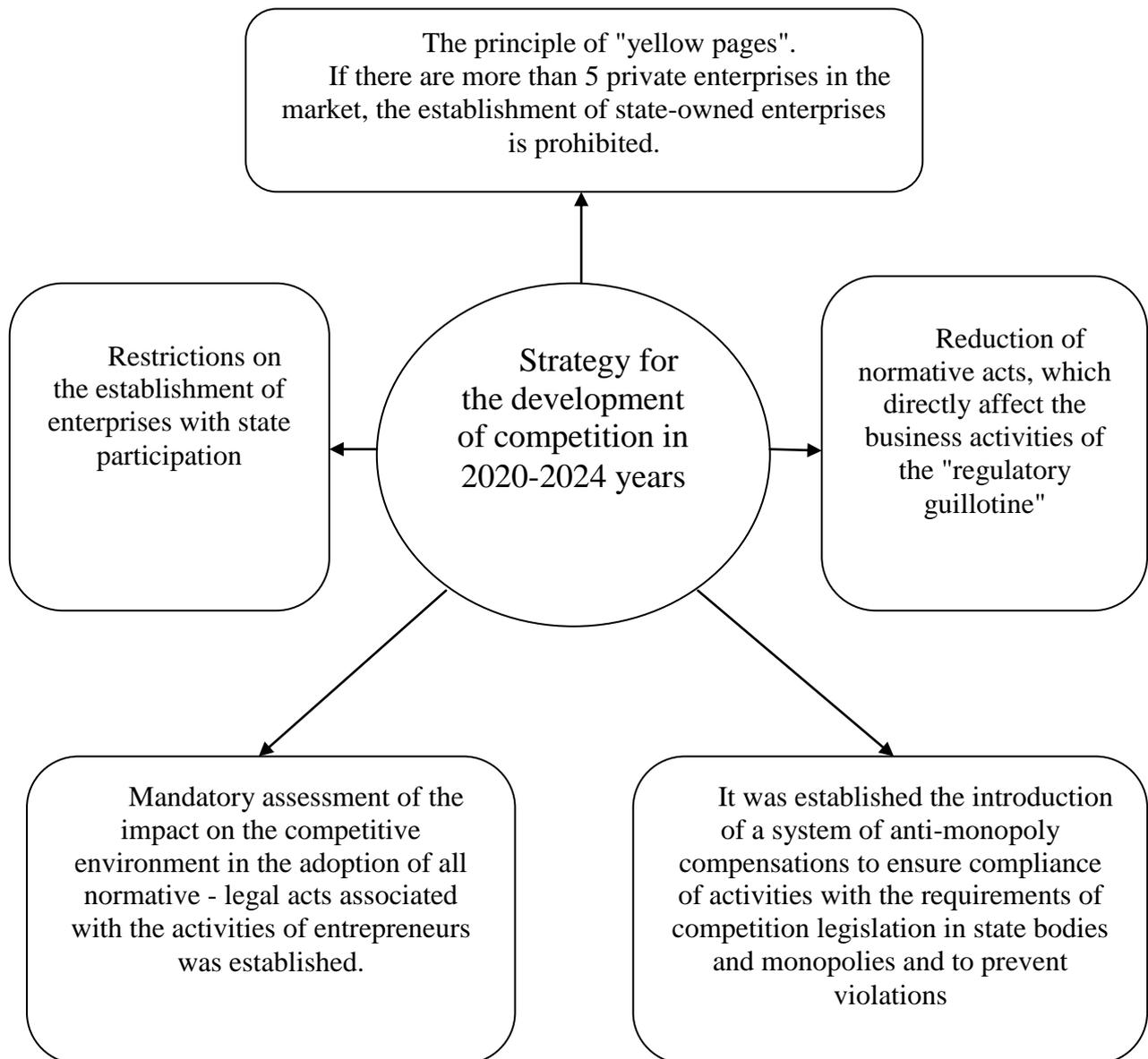


		economic viability to the expansion of areas of economic activity.
	Distribution function	It directly and indirectly affects the distribution of gross domestic product among consumers.
	Control function	It is aimed at preventing some market participants from establishing monopolistic dominance over other participants.
Methods of competition	Price	Is that manufacturers lower the price of their goods relative to the price of similar products from other manufacturers.
	Priceless	Not the price of the goods, but its quality, service, the reputation of the manufacturer

Source: The table was compiled by the author.

According to Table 2, the types of competition that can be applied in the areas of natural monopolies, forms of competition, the functions of competition and the content of methods of competition are given. All this serves to create a competitive environment in the field of natural monopolies.

Several measures are being taken by the anti-monopoly action plan of the Republic of Uzbekistan on the regulation of the activities of natural monopoly organizations and the formation of a competitive environment. New measures to further develop the competitive environment and reducing state participation in the economy are being introduced in practice. We can see it through the 2 picture.



2-picture. New measures to further develop the competitive environment and reducing state participation in the economy

Source: data of the anti-monopoly movement of the Republic of Uzbekistan

In Figure 2, it seems that today it is aimed at regulating the activities of natural monopolies and the use of modern innovations in reducing state participation in the economy. When natural monopolies are purposefully regulated and the influence of state bodies in entrepreneurial activity is reduced,



a modern competitive environment is formed in the market and a potential growth in the country's economy is ensured.

Thus, a natural monopoly arises where competition is impossible or economically inefficient and where competition makes less efficient use of society's resources. It occupies a privileged position in the market - due to the technological features of production and individual resources. At the same time, there is a natural monopoly in the field of activity, which is excluded or limited by natural, technological and other conditions that limit the existence of competition in the market.

In general, the demand for products or services of natural monopolies is not largely dependent on price changes, as it is difficult to replace them with other goods and services in use, and sometimes it is impossible or impossible.

Conclusions and recommendations. First of all, in the regulation of natural monopolies, it is necessary to increase the effectiveness of state regulation of prices, the structural separation of natural monopolies, a complete reconstruction of their network structure. Through the structural division of natural monopolies in the industry, it will be necessary to de-monopolize them, liberalize the competitive environment in the markets, and privatize de-monopolized enterprises and organizations.

It is necessary to develop a new law by combining the Law on Natural Monopolies and the Law on Competition. In formulating a modern competition policy in the new law, attention should be paid to: the introduction of modern legal norms; formation of competitive consciousness (promotion of competition); increase of knowledge and awareness of the population about the advantages of competition; increase the effectiveness of regulatory norms and regulations.



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