

Textile Industry of Uzbekistan: Achievements and Problems

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Abstract. The introduction of continuous forms of organization of production was identified as a priority for textile enterprises as the most important condition and source of measures for the development of the country's textile industry and the production of export-oriented products. In this regard, the article examines some of the problems of the formation of a modern competitive national textile industry in the Republic of Uzbekistan. And on this basis, priorities were developed for the development of the textile industry for the medium term.

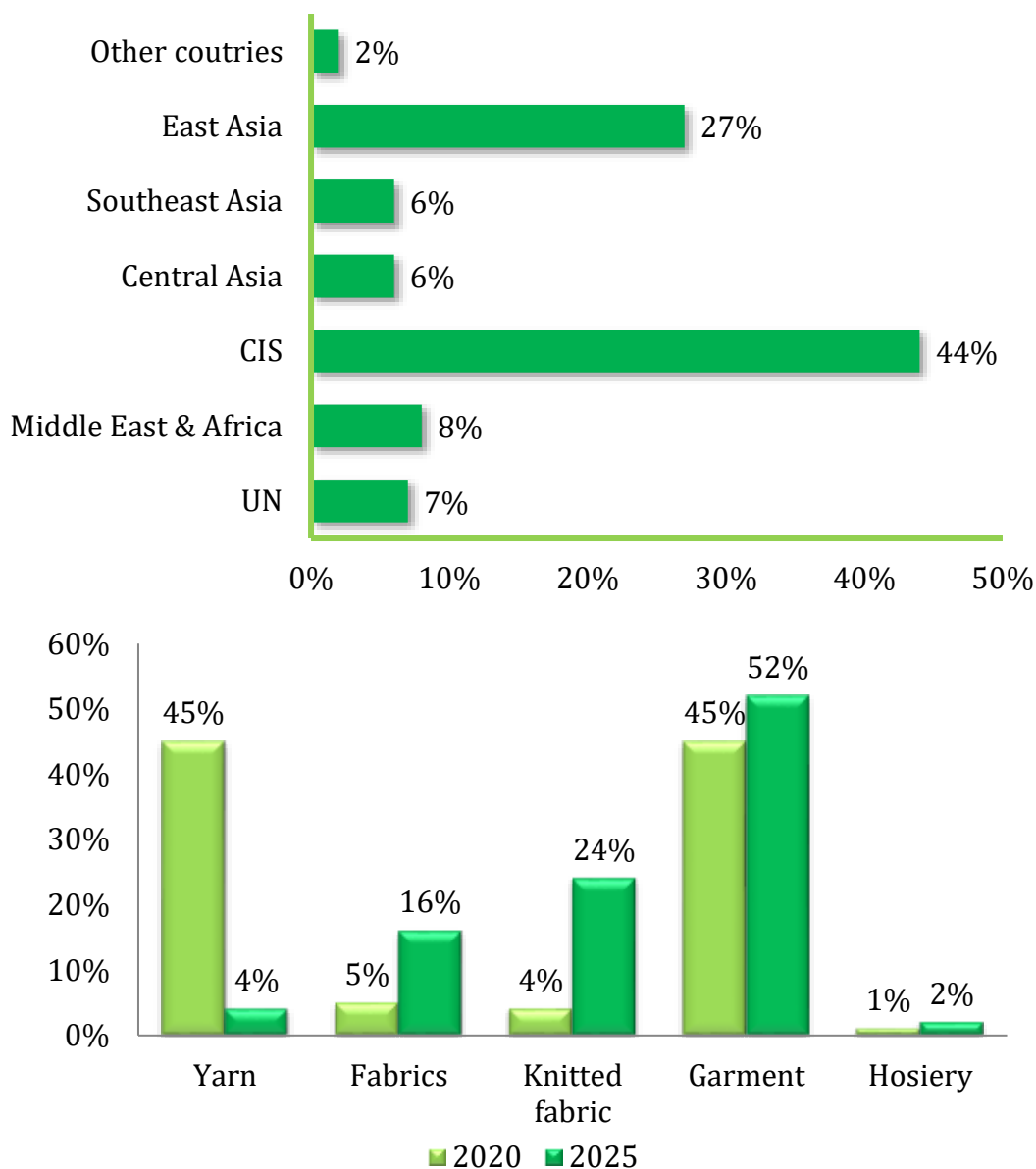
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The global textile industry was valued at USD 993.6 billion in 2021 and is expected to reach USD 1,032.1 billion in 2022, forecast to grow at a CAGR of 4.4% during 2019-2025 (\$1.207 billion). This growth is attributed to high demand for clothing, especially in developing countries including India, China, Bangladesh and Mexico, as a result of population growth. In addition, rising levels of disposable income and rapid urbanization in these countries have led to an increase in the number of outlets and supermarkets; thereby supporting the overall growth of the market.

In the modern world, competitive export must be effective, namely: create a market for highly qualified workers, develop technologies and introduce them into production. The leadership of our country pays special attention to expanding the position of domestic products in foreign markets, as evidenced by the set of additional measures adopted in Uzbekistan to increase the export potential of the country's textile and garment and knitwear industry.

Among them is the creation of the Export Promotion Agency under the Ministry of investment and Foreign Trade of the Republic of Uzbekistan. The tasks of the Agency include the implementation of the "Mode in Uzbekistan" program to promote domestic brands and goods abroad, including through holding national exhibitions. In addition, the Agency provides various types of assistance to exporting organizations: information and advisory support, legal services, financial, marketing assistance, as well as in matters of tax and customs administration, pricing, implementation of international standardization and certification systems, in finding buyers and others.

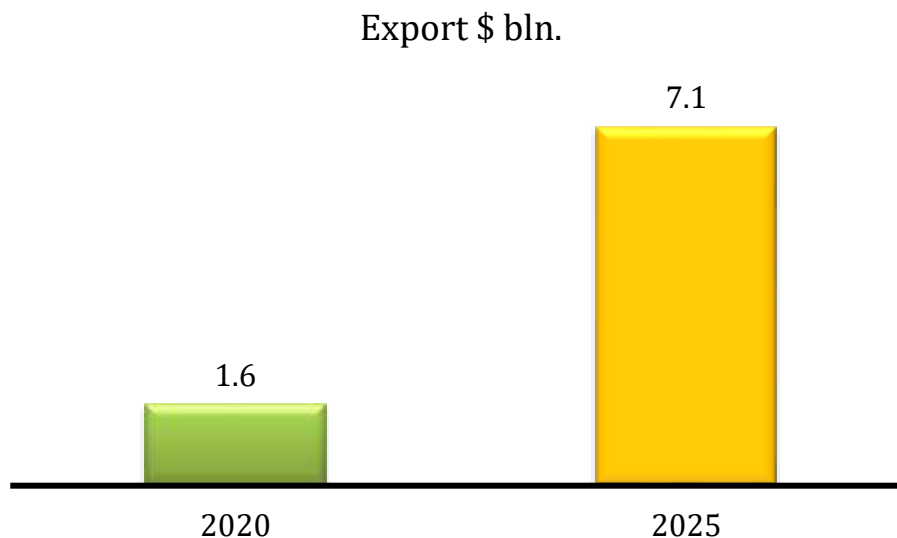
Export geography



Source: State Statistics Committee, RB Asia and UOIK

Much attention is paid to the textile industry, which plays a significant role in the economy of our country and in particular, in exports. The number of textile companies involved in export activities has exceeded 1200 units, in 2019. Uzbekistan exported \$ 2.1 billion worth of textile products, which is more than 10% of the country's total export operations.

New types of products have been exported to more than 60 countries of the world: compact yarns, tent cloth, terry garments, home textiles, melange yarns, poplin, technical fabrics, labels, etc. in the structure of exports, the share of goods with high added value in the total export volume amounted to more than 50 percent. Taking into account the steady and growing demand for domestic cotton products in the world commodity market, work is being carried out to develop the geography of product exports, to search for alternative sales markets in the EU. America and Southeast Asia New sales markets have already been mastered: the USA. El Salvador, the Philippines, Morocco, Croatia, Kuwait, Israel, Kenya, Canada, Colombia, Saudi Arabia and others.



Source: Grand View Research, RB Asia and WAIC

Currently, there are more than 75 trading houses of large exporting enterprises in the EU, CIS and Asia, whose main task is to establish contacts with new partners to increase the export of domestic textile products.

In order to expand the export assortment of domestic products, work is underway to deliver through online stores, as well as the introduction of Amazon Wild Berries into the online trading system to deliver goods to customers. As a result this year alone, the annual growth in exports of finished products should be about \$ 32 million.

The Decree of the President of the Republic of Uzbekistan NO. UP-5989 of May 5, 2020 “On urgent measures to support the textile and garment and knitwear industry” opened wide opportunities for export manufacturers. According to the Resolution, investment projects implemented in 2020 – 2025, as well as the provision of working capital to textile, garment and knitwear enterprises, are financed from credit lines of the Fund for Reconstruction and Development of the Republic of Uzbekistan in the amount of \$300 million, loans from commercial banks, borrowed funds from international financial institutions and lines of credit of foreign banks open to the textile and clothing and knitwear industries. In order to ensure an increase in export volumes for 2020 (\$ 2.9 billion), the Association “Uzbektextilprom” organized an export support headquarters, which includes employees, as well as regional representatives of the Association. They assist in the export of domestic textile products, study and solve existing problems. To increase the competitiveness of domestic textile products in traditional and promising markets, measures are being taken to reduce customs duties to 5-18%, in accordance with the experience of the EU countries, Turkey, China, South Korea, Tajikistan and Turkmenistan.

Exports of textile products are planned to increase by 2025 up to \$ 7 billion. “In this regard, the corresponding Concept for the accelerated development of the textile and clothing and knitwear industry for the period 2019-2025 was developed.

The main goal of implementing the Strategy is to increase the volume of textile products produced in the country, develop the production of new types of goods (blended yarn, mercerized cotton yarn, blended fabric, technical textiles), strengthen cooperation with the chemical industry and mechanical engineering, gradual reorientation to high-tech production of competitive products that meet international high value-added textiles.

To achieve this goal, the following tasks are envisaged:

- increase for the period 2019-2025 industrial production 3.8 times, finished fabrics 3.0 times, knitted fabrics 3.1 times, garments and knitwear 5.3 times, hosiery 1.6 times creating a reliable base of innovative and design developments, ensuring wide access of domestic textile products and brands to foreign markets, including using a developed logistics infrastructure and electronic trading platforms, improving the system for training qualified personnel for the industry;
- an increase in exports, mainly due to products with high added value, to \$ 7.1 billion by 2025 (an

increase of 5.7 times);

- obtaining by Uzbekistan the status of the beneficiary of the “GSP +” system of the European Union, which will allow at least double the volume of exports of products of domestic companies to the EU countries;

- reduction of dependence on imports due to the commissioning of production facilities for the production of dyes and synthetic fibers;

- the introduction from 2021 of duties on the export of such products in order to ensure the complete processing of semi-finished products (yarn) produced by local enterprises;

- creation localization of production of textile equipment and component parts.

Also, according to the Decree of the President of the Republic of Uzbekistan No. UP-6091 dated October 21, 2020. “On measures to further expand financial support for export activities” State Fund for Support of Entrepreneurship for a period until January 1, 2022:

a) provides compensation for loans allocated for pre-export financing, including working capital, regardless of the interest rate and the amount of loans established by commercial banks, in the amount of;

- up to 50 percent of interest expenses on loans in notional currency, but not more than 10 percentage points;

- up to 50 percent of interest expenses on loans in foreign currency, but not more than 5 percentage points;

b) provides guarantees for loans from commercial banks allocated for pre-export financing, including working capital, in the amount of up to 50 percent of the loan amount, but not more than 8 billion soums;

c) provides compensation and (or) surety for additionally allocated loans for pre-export financing, including working capital in the amount and on the terms established by this clause, regardless of the presence of debt on previously received loans, subject to a positive credit history;

d) charges a commission on the guarantees provided in the amount halved.

In the long term, the growth in the volume of textile products in industrial production will increase by 3 times, the growth of exports - by 43 times. As part of the development of international cooperation, it is envisaged to create regional representative offices of the Association covering the regions of the CIS countries (Belarus, Russia, the republics of the Caucasus), EU countries, Central Asia and Southeast Asia.

If earlier domestic manufacturers were mainly focused on the domestic market, now their focus is on entering foreign countries, where they show great interest in Uzbek textiles. And this, in turn, affects the increase in the number of exporting enterprises. Products with the Made in Uzbekistan trademark are supplied to many countries of the world. Now the departments of the republic are developing specific criteria for new labeling of exported products. Obtaining the Uztextile label will mean that the products meet all the most stringent requirements for the markets of the European Union, the USA Japan and South Korea.

We can say with confidence that the day is not far off when in most countries of the world, when buying clothes, consumers will make their choice in favor of products from Uzbekistan, which may become a worthy competitor to the products of the most famous international brands.

In 2020, Uzbekistan harvested over 3.5 million tons of raw cotton. And I would like to emphasize that the clusters managed to pick cotton without the general mobilization of the country, forced labor and with the help of mechanical harvesting. The system has become a driver for the development of the agricultural and textile industry in Uzbekistan.

2020 year was one of the most fruitful years for the industry in terms of expanding the range of products and entering new markets. For example, enterprises have mastered new types of protective products with innovative solutions. This gave incentive to the establishment of export of products to countries such as Kuwait, Greece, Slovenia, and USA. At the same time, we can observe an increase in interest from European and American companies in cooperation. Among them are such eminent companies as Inditex. Carrera Jeans, Carfuer, Olymp Bezner KG and others. The “Uztextileprom” Association to this day, with the assistance of the Ministry of Foreign Affairs and MIFT, continues negotiations with various companies on the supply of products.

Transport corridors are of particular importance when exporting products. At a time when neighboring countries closed their borders due to quarantine, the “Uztextileprom” Association together with the Ministry of Transport of Uzbekistan developed alternative delivery routes. Along with railway and land

transport, the supply of products began to be carried out by air. In order to stimulate enterprises, part of the cost of transporting products began to be covered by The Export Promotion Agency under the Ministry of Investment and Foreign Trade. Thus, the textile industry became the only sector of the economy that by the end of the first half of the year was able to export \$ 1.2 billion and attract over a thousand of enterprises to export.

For the current successful development of the industry, the achievement of forecast indicators, timely implementation of investment projects, attraction of investments, both external and internal, and the creation of new industries remain extremely important, in a pandemic, the implementation of investment projects is influenced by delays or cancellation of the supply of necessary materials and equipment, in the context of severe restrictions on interstate transport links, the arrival of specialists from abroad also faces complications.

In general, investment activity in the textile and clothing and knitwear industries continues to develop dynamically. The inflow of investments into the textile industry in the first half of the year increased 1.6 times compared to the same period last year. Over the nine months of 2020, over 50 new large projects have been implemented. Among the significant projects I would like to mention Oksoroy Vortex, Yontex and Oksaroy Sardoba, Sardoba Oqsaroy Textile, Oltin Mato Tex. Zomin Textile, Oq Oltin Mega Textile, Fergana global textile. In general, 71 new enterprises are scheduled to start up for the current year, for a total of \$ 474 million, which will make it possible to increase the export of products by \$ 190 million.

The social significance of the projects should also be noted here. They are implemented in hard-to-reach and economically weak regions, with an excessive labor force. The textile industry is seen as one of the important areas in providing employment and poverty reduction. In this regard, we focused on the Syrdarya, Bukhara regions, the Republic of Karakalpakstan. The industry employs more than 15 thousand people annually. This year, this figure has reached up to 17 thousand.

Uzbek textile products have long been loved by the European consumer for their environmental friendliness and competitive price. We have been supplying ready-made clothes to Europe for several years. The industry's enterprises work with many well-known brands like Hugo Boss, Pierre Cardin. Zara Home and others. The volumes of supplied products are much less than the available potential for a number of reasons, including due to the existing high tariffs when importing products into the EU. Currently, Uzbekistan uses the basic General System of Preferences, according to which the Republic can export to the EU countries about 3000 goods without levying customs duties and 3200 items - at reduced rates, if Uzbekistan receives unilateral tariff preferences within the framework of "GSP +", then the number of commodity items that Uzbek producers will be able to export to EU countries will grow to 6200.

Obtaining the status of the beneficiary of "GSP +" by our country will create a solid foundation for sustainable growth and diversification of exports, which will also serve the dynamic development of mutually beneficial foreign economic relations with the countries of the European Union.

"Uztextileprom" Association was one of the initiators of joining the "GSP +" system. On an ongoing basis, work was carried out with representatives of the European Commission, meetings with the assistance of the Ministry of Foreign Affairs and MIFT. In order to obtain this status. Uzbekistan has done a lot of work. A visit of the Uzbek delegation to Brussels was organized. As a result of which, the European side stated and welcomed the completion of ratification by Uzbekistan of all 27 international conventions and agreements required to obtain the status of a beneficiary of the Generalized System of Preferences "GSP +", and confirmed its readiness to assist in the preparation of the application of the Uzbek side for obtaining this status and all kinds of support to Uzbek suppliers in entering the markets of the EU countries.

According to experts, under the "GSP +" preferential trade regime, the expected export volume of textile products at the initial stage will be \$ 300 million, with a subsequent increase to \$ 1.2 billion by 2025.

But our task does not come to an end there. In order to achieve these goals, it is necessary to fulfill a number of conditions, that is, comply with international standards. It is necessary to pay attention to product design, quality and environmental friendliness. The issue of knowledge of industry enterprises in doing business with European companies, marketing and branding remains acute.

So, in cooperation with the international consulting company Gherzi within the framework of the Global Program of the German Society for International Cooperation (GIZ) "Sustainable Development and Increase of Added Value in the Cotton Industry" financed by the Federal Ministry of Economic Cooperation

and Development of Germany, the project “Promotion of the export of the textile industry of Uzbekistan, business implementation -incubator and accelerator in the fashion industry”.

The project includes 2 main components: export promotion and business incubator assistance to support entrepreneurs in the fashion industry. To achieve these goals, an independent expert was involved from the German partners, who will work together with industry enterprises in Uzbekistan for 2 years. The consulting company Gherzi is engaged in the development of the industry development strategy. Certification issues will be dealt with by the certification company Control Union together with the “Uztextileprom” Association.

The project will develop marketing and export strategies for the textile industry of Uzbekistan and companies focused on the German and European markets.

However, our target is not only the EU market. We are currently working on quality standards to enter the Korean, Japanese and US markets. Our main goal is to cover the planet with quality, environmentally friendly products.

A couple of years ago, we used to apprehensively offer our products to international retailers and clothing brands, since everything related to Uzbek cotton was considered from the point of view of human rights violations. The reforms carried out in Uzbekistan in recent years in the field of labor protection and combating forced labor have shown that brands themselves are ready to cooperate with us. And the “boycott” announced by NGOs is no longer applicable to Uzbek textile products. Currently, together with the Cotton Campaign, an Agreement is being developed between cotton and textile clusters and international clothing brands, which will enable Uzbek enterprises to work freely with European and American partners.

Significant results have been achieved in terms of the presence of Better Cotton initiatives in Uzbekistan, with the assistance of the international Finance Corporation IFC and the German Society for international Cooperation GIZ. Currently, the BCI has begun the process of creating a representative office in Uzbekistan. And soon, Uzbek cotton grown by cotton-textile clusters will be certified in accordance with international standards.

And undoubtedly for the industry, the wide propaganda of reforms in the textile industry is in one of the greatest importance.

In order to widely promote reforms in the textile industry, transfer the business climate, the “Uztextileprom” Association, together with renowned French filmmakers, is in work on creating a short film dedicated to Uzbek cotton. I hope that this film will be presented soon.

Today, the textile industry of the Republic of Uzbekistan is a dynamic growing industry with high export potential. We have wide opportunities for directing industry products to foreign markets, for organizing production of export-oriented textile products that meet the requirements foreign markets, and directing them to foreign markets will increase the export potential of our countries. In this regard, in order to increase the export potential of enterprises, it is necessary improve product quality so that each product meets the requirements of world standards.

It is necessary to activate the work of marketing departments, use the Internet to explore the needs of overseas markets, increase the participation of enterprises in international textile exhibitions and publish the results on network sites, in newspapers and magazines; the industry is mainly developing extensively, currently in the country more than 7,500 enterprises operate, but the installed production capacities are not operate at full capacity (average 60-70%), and the load factor at full power should be at least 90-97%.

One of the main reasons for this is lack of working capital (almost all enterprises do not have their own working capital, that is, they work on loans from commercial banks), the second - incomplete operation of high-performance machines, low productivity due to insufficient workers' qualifications. It would be advisable to use factors of intensive development in enterprises so that the industry can operate efficiently and trade stably in foreign and domestic markets; believe that in the clothing and knitwear industry it is necessary to invest more than in the spinning and weaving industry.

Today the world the market is saturated with spinning and weaving products, which leads to low profits and even unprofitability.

Thus, in the development of the textile and light industry of the republic, as well as in order to increase its export potential, it is necessary to increase production high-quality finished textile and light industry products with high value added and their share in exports. It is desirable to carry out targeted

activity.

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