

## Deep Processing of Textile Products and Diversification of Exports a Key Factor of Economic Development

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**Annotation:** This article provides an analysis of the current state of the textile industry in the country, the volume of production and export figures by country, as well as proposals for further development of the textile industry.

**Keywords:** Non-consumer goods, gross domestic product, export volume, diversification, raw materials, boycott, product cost, competitiveness, value added, cluster, yarn, knitted fabrics, ready-made knitted products, custom rate.

### Introduction

In recent years, the textile industry has become the main driver of the economy of the Republic, and the contribution of the textile industry in the development of the economy of the Republic and regions is invaluable. The volume of production of semi-finished and finished products, including white gold, non-consumer goods made of cotton, which is one of the main assets of the Republic of Uzbekistan, has significantly developed. The country annually cultivates an average of 3.0 million tons of raw materials by cotton, and all local clusters and textile enterprises are producing competitive products with added value and diversifying into world markets.

On the basis of radical reforms implemented by our government, the goal is to produce competitive textile products and increase exports, as well as expand the export geography of countries. The issuance of many decrees and resolutions by our President on the textile industry will certainly serve the benefits of entrepreneurs, and the country's development will have a positive impact on GDP growth, production and exports. The country's development and prosperity are also determined by export indicators. Diversification of products and production of competitive products and their export to the world market has become a state policy.

The word diversification (from the Latin word "diversificatio" means change, diversity, development) means the expansion of the range of activities of enterprises (associations) and the range of products they produce, their renewal and the development of new markets. As a result of diversification, a wide range of complexes that produce a variety of goods, services and developments, but are not always technologically interconnected. The process of diversification in the countries of the world began to develop in the mid-50s of the 20th century. Initially, diversification in the United States, Japan and Western Europe will take place in industry, transport, construction and finance. Therefore, the nature of diversification is determined by the socio-economic factors of these countries, as well as the general factors that apply to other countries.

In diversification, firms, especially monopoly firms, take on a multi-sectoral nature. Firstly, they will start operating in high-income, fast-growing industries. Along with the production of products, companies also begin to prepare the raw materials needed for this product. They spend money on industries that save a lot of money from the low-income sector. For example, U.S.A concerns deal

with services, construction, land sales, publishing, sales information, equipment rentals, and more.[1]

### **Analysis of the relevant literature**

The definition of the word diversification has been demonstrated by many foreign scholars in their theory and practice. According to them, diversification is the expansion of the range of products developed, the penetration of new markets and industries.

According to Rumyantseva, diversification is defined as the expansion of the range of products produced by enterprises or associations of enterprises, the use of enterprises' own funds to create new types of production, access to other industries and sectors. In the political-economic dictionary, diversification is the penetration of large companies into industries that are not directly connected to the main network of industry or activities.[2]

According to I. Ansoff's theory, diversification is a term applied to the process of redistribution of resources available in a particular enterprise to other areas of activity. This process involves the transition to new technologies, access to new markets, and new networks. At the same time, the products to be produced in the future must be completely new, which requires investment to produce them.[3]

According to F. Kotler, the firm's diversification strategy as an opportunity to produce new products for new markets.[4]

R. Pitts and H. Hopkins follow a slightly different aspect on this term. They define diversification as running multiple types of business simultaneously.[5] They mentioned above as diversification, a way to expand a core business to develop or reduce risk:

- Includes all investments other than those directly aimed at maintaining the competitiveness of the existing business.
- New products, services, market segments and foreign markets can be accepted as investment.
- Internal development, product procurement, establishment of joint ventures and licensing agreements can be achieved in several ways.

### **Research methodology**

During the research economic, statistical, comparative analysis, chronological observation and mathematical methods were used. At the same time, published scientific works of foreign scientists on this topic were utilized.

### **Analysis and results**

The textile industry in Uzbekistan is one of the fastest growing industries. Today, there are more than 7,000 textile enterprises operating in Uzbekistan, and the number of workers and employees in the industry is 378,000.[6]

In recent years, since 2017, the textile industry has undergone radical reforms. First of all, the President's initiative to eliminate the forced involvement of children, school teachers, doctors and government agencies and organizations in the cotton harvest, which has become the most painful for Uzbekistan, has been completely eliminated.

The recent lifting of the boycott of Uzbek cotton by the international coalition will dramatically increase the global demand for Uzbek cotton in the world. Exports of the textile industry of Uzbekistan are growing from year to year. According to the data, in 2021, total exports of textile products will amount to about \$ 3.0 billion, a growth rate of 150% compared to 2020.[6]

Picture-1

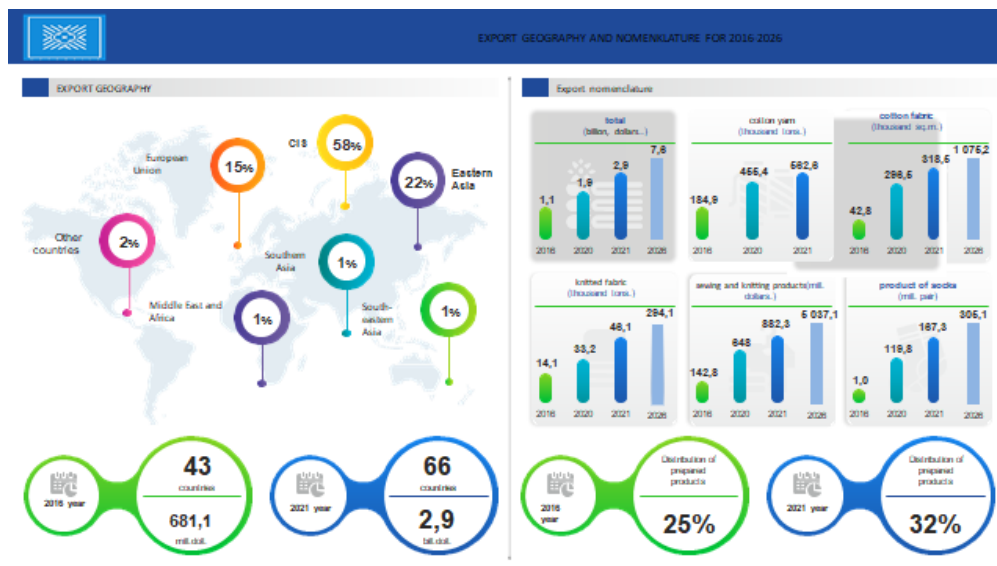


Source: Prepared by the author on the basis of textile data.

As can be seen from this table, the share of thread in 2021 was 36.4%, which is a good decrease due to the processing of raw materials. The main strategic task is to export value-added products with 100% processing of domestically grown cotton in the country. Systematic work is being carried out in this direction. All reforms carried out by the President and our government are contributing to the development of the textile industry.

In accordance with the first paragraph of the Resolution of the President of the Republic of Uzbekistan dated September 16, 2019 No PP-4453 "On measures to further develop the light industry and stimulate the production of finished products" based on deep processing of raw materials, high value-added textiles and garments based on market demand Target parameters of production and export for 2020-2025 have been adopted.[7]

Picture-2



Source: Uztextile Industry Association

Exports are also growing across countries. According to the results of 2021, exports of textiles and garments accounted for 66 countries.[6]

Uzbekistan is located in Central Asia on the map of the world. In ancient times, caravans of Great Silk Road connecting East and West passed through this land and Uzbekistan served as a transit point.

Today, exporting textile products worth \$ 1,524.2 million to CIS countries, \$ 626.5 million to the European Union and Turkey, \$ 612.0 million to South and East Asian countries, and \$ 73.7 million to South Asian countries, \$ 13.4 million to the United States, \$ 32.1 million to Africa, \$ 45.8 million to Southwest Asia and \$ 3.2 million to other countries.[6]

The traditional markets for textile products of Uzbekistan are Russia, China and Turkey. Exports to these countries in 2021 amounted to 2,035.0 million dollars and accounted for 69.4% of total exports. The main exports to these countries are threads, knitted fabrics, ready-made knitted products were exported.[6]

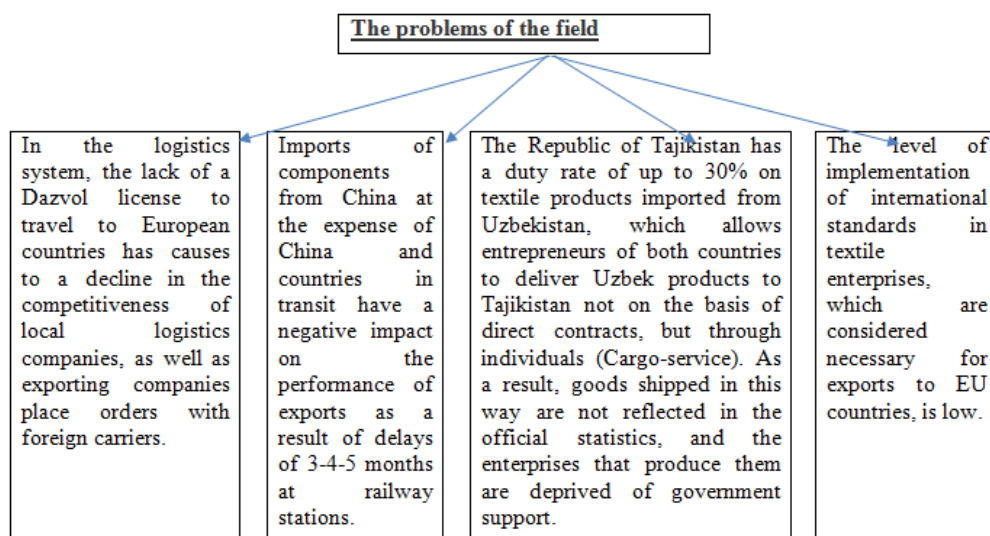
Given the favorable geographical location of Uzbekistan, access to European markets indicates the high demand for natural products from Uzbek cotton. European countries include 50 countries with a population of 748.1 million. Increased demand for Uzbek cotton and the removal of the boycott of cotton will allow the textile industry to reach a new level.

To date, textile products are imported from EU countries to Bangladesh, Vietnam, Turkey and China. If we look at the numbers, Vietnam will have 4.3 billion in 2019\$ 47.8 billion in China in 2018 dollars in textile exports.[8]

Uzbekistan's potential is sufficient to replace these countries. Firstly, the high quality of Uzbek cotton, and secondly, the distance between European countries in the export of textiles from Uzbekistan to Southeast Asia, which affects the growth of production costs and competitiveness. If Uzbekistan exports directly to the European Union and fully meets the requirements set by them, as a result of Uzbekistan's occupation of the European market, the share of exports of finished products will increase by 3-4 times. According to the Uztextile Industry Association, in 2021, thread products worth \$ 1,018.3 billion will be delivered to the world market. These figures will increase by an average of 3-4 times to \$ 3,869.5 billion due to processing and value added.

In achieving these results, and in order to further diversify and increase the processing of export products, it is expedient to eliminate systemic problems in the industry.

1-table



Source: Prepared by the author on the basis of data from the Association of Textile Industry.

## Conclusions and suggestions

Today, the textile industry and clusters play an important role in the development of the industrial economy of Uzbekistan and improving the welfare of the people. In this regard, the ongoing economic reforms not only serve the benefits of entrepreneurship, but also the formation of textile products produced under the Uzbek brand, the region's share in industry and living standards and employment, as well as increase regional exports. In order to further develop the industry and increase the competitiveness of textile products in the world market, to increase exports by local enterprises to \$ 7 billion by 2026, to maintain Uzbekistan's position in European markets, it is necessary to implement the following proposals:

1. As a result of increasing the number of DOZVOLS and taking measures to further simplify and make the mechanism of their distribution more transparent, local carriers will be able to carry out regular export cargoes.
2. In order to ensure the timely fulfillment of export contracts of textile enterprises, to ensure the timely delivery of components imported from China at the railway stations of China and transit countries, based on the study of the volume of cargo for Uzbek consignees, the reasons for stopping. Moreover, accelerate the delivery of goods from China to Uzbekistan on alternative routes (Tashkent-Andijan-Osh-Irkishtam-Kashgar, etc.), as well as the involvement of local carriers in cars. Timely and high-quality execution of orders from foreign customers, including those from the European Union, will be ensured, and an additional 50 mln. dollar products will be exported.
3. Solve the issue of reducing or eliminating customs duties on imports of textile products produced in Uzbekistan to Tajikistan;

Reflection of export statistics of goods exported by individuals to foreign countries and, on this basis, the introduction of procedures applicable to exporting enterprises in relation to producers.

(Note that the average export price of a suit pants is \$ 13-15, after customs duties and transportation costs in Tajikistan increase to \$ 18-20. On the other hand, the average price of a suit pants made in China and Turkey in the Tajik market is \$ 15-17.)

According to the analysis, Tajikistan's annual demand for suits and trousers is about \$ 3.0 million, or about \$ 60 million for other categories of ready-made garments. As a first step, at least one-third of Tajikistan's textile market is expected to account for Uzbek products, and exports of textiles to the neighboring country are expected to triple or exceed \$ 40 million by implementing the above measures.

4. Introduce a simplified system based on the criteria of "Single Window" for obtaining such certificates, as BCI, SEDEX, OEKO TEX, GOTS, Green Button, WRAP, Social Accountability 8000, Nature textile, Soil association and BSCI and take broad advocacy work on this issue. The "Single Window" system will facilitate the acquisition of international certificates by enterprises. The penetration of local textile products into the EU markets will increase and the effective use of the GSP + program will be achieved.
5. Wide promotion of local products in the world through participation in international exhibitions with products of textile and garment enterprises.
6. Ensuring timely refund of value added tax on exports of textile products.

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