# Value Chain Analysis in the Textile Sector of the Uzbekistan Economy

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**Abstract:** In world practice, methods and mechanisms for managing the export potential of textile clusters are widely used. World practice testifies to the intensification of the processes of formation of cluster associations of organizations in the last two decades.

**Key words:** Cost, prime cost, price, added value, economic indicators, profitability indicator, efficiency indicator, light industry.

## Introduction

In developed countries, more than 50% of enterprises operate within clusters, and the share of GDP produced in them exceeds 60%. World experience shows that it is the cluster approach to structuring the national economy, as well as regional economic systems that is an important imperative to improve production efficiency, competitiveness and the well-being of the population. This confirms the importance of the chosen research topic.

The world's leading research institutes, as the most important scientific directions for improving the mechanisms for managing the export potential of textile clusters, propose to improve existing and develop innovative methods and methodological approaches to assessing the effectiveness of the economic activity of textile cluster systems, the transition from the paradigm of "cost management" to the paradigm of "management results", the use of a wide range of methods of economic and mathematical modeling and forecasting in order to improve the efficiency of textile cluster management, the introduction of digital technologies to create an integrated information environment in the textile industry.

**Methods.** The article uses the logical method and modeling techniques, analysis and synthesis, normative approach, systemic and comparative analysis, statistical and econometric.

**Results.** The most important component of the ongoing economic reforms in Uzbekistan is the reform of the national economy as a whole and its transfer to an innovative development path, one of which is the introduction of cluster systems. It is known that in 2019 the contribution of the agricultural sector to the GDP of Uzbekistan amounted to 24.6%, in 2021 it almost reached a quarter of GDP (Fig. 2.6). In 2019, 3.543 million people worked in the agricultural sector (26% of the total number of employed), of which 1.066 million were officially employed and 2.477 million were employed in the informal sector or self-employed. Sales of agricultural products abroad bring Uzbekistan up to 25% of total export earnings.

Span of the share of gross value added of industries in GDP in 2010-2021 amounted to 4.5-5% (from 88.01% in 2010 to 92.80% in 2021). It should be noted that the agricultural sector in the gross value added accounts for about a third of the total value added, while in 2021 the share of the agricultural sector was the smallest among industries, falling to 26%.

According to modern domestic economists, the textile and clothing and knitwear industry of Uzbekistan is one of the dynamically developing sectors of the country's economy, which is largely facilitated by the presence of its own raw material base and the ever-growing demand for manufactured products. Due to its competitive potential, it occupies a leading position in attracting foreign investment when creating new enterprises, providing employment for the population, exporting products, and is also considered one of the strategically important areas in the global specialization of the country's national economy.

Despite the fact that the period of cluster formation in the republic began not so long ago and there are many problems associated with the clustering process, there are a number of achievements in this area.

As noted by the Government of Uzbekistan, over the past few years, the cluster system for the production of textile products has sufficiently shown its effectiveness. However, there are still problems of a systemic nature, for the solution of which the "Association of Cotton and Textile Clusters of Uzbekistan" was established in the republic. The main goal of creating the Association is the introduction of the latest technologies and innovations in the textile industry, the simple volume and quality of exported products, the assessment of economic efficiency, etc. The evaluation of the activity of clusters is carried out according to a point system in the following areas:

✓ the degree of organization of a continuous chain, from the production of raw materials to finished products (50% of the total);

✓ efficient use of land and water resources, the degree of introduction of modern equipment and technologies (30%);

✓ level of consideration of farmers' interests (10%);

✓ other issues related to the efficiency of cotton and textile clusters (10%).

The volume of exports of textile clusters of Uzbekistan in 2021 increased by more than eight times compared to 2019, exceeding 3.2 trillion. sum.

As mentioned above, starting from 2017, the implementation of cluster initiatives began in Uzbekistan, including in the textile industry. In particular, they experimentally introduced a system in which enterprises of the textile industry of the republic directly purchased raw cotton from its domestic producers. This made it possible to create a single production chain covering the process from cotton production to finished products and their sale both on the domestic market and for export. One of the most important advantages of this innovation is the fact that it has reduced the costs of all business entities borrowed in the chain.

**Analyses.** The introduction of a cluster system in Uzbekistan during its existence has shown its relevance and economic efficiency. It is known that in 2020, more than 90 percent of the country's total cotton crop was harvested in clusters. Studies confirm that due to the introduction of cluster initiatives, the cotton yield in the republic increased in 2020 compared to 2017 by 6.2 centners. Most importantly, the volume of products produced by the textile industry increased significantly - about three times, and the share of the textile industry in the country's total product increased by more than 5%, reaching a record value of 12.4% by the beginning of 2021. Thanks to the transition to the production and sale of finished products, we can state the fact of positive structural changes in the production of textiles and clothing itself.

**Table 1. Export of cotton fiber, yarn and textile products in Uzbekistan in 2005-2019 (million sum)**

|  | 2005 y. | 2010 y. | 2015 y. | 2018 y. | 2019 y. |
|---|---|---|---|---|---|
| Fiber | 1 033,3 | 1 572,7 | 736,1 | 222,1 | 281,6 |
| Yarn | 120,7 | 386,8 | 545,9 | 726,7 | 926,1 |
| Ready-made textiles and clothing | 20,8 | 116,5 | 184,0 | 585,7 | 354,5 |
| Knitwear | 4,5 | 31,2 | 46,1 | 65,5 | 84,8 |
| Cotton fabric | 28,3 | 42,0 | 33,8 | 65,6 | 69,2 |

| | | | | | |
|---|---|---|---|---|---|
| Other finished textile products | **6,9** | **12,9** | **15,4** | **42,9** | **51,9** |
| Carpets | **0,1** | **7,3** | **13,6** | **31,0** | **32,0** |
| Wadding, felt and non-woven materials | **9,4** | **17,0** | **16,4** | **26,8** | **108,1** |
| Total cotton products | **190,7** | **613,7** | **855,2** | **1 544,2** | **1 626,6** |

Thus, the introduction of cluster initiatives, which imply the formation of a common production chain with high added value, has made it possible to transform the industry from a raw material industry to one oriented towards the end consumer and export. Thanks to the data presented in Table 1, it can be seen that in 2019 the export of textile products increased by almost 9 times compared to 2005 and more than doubled during the existence of cluster structures. In addition, the geography of exports of the textile industry of Uzbekistan has significantly expanded (Table 2).

**Table 2. Export of textiles and clothing and knitwear in Uzbekistan in 2019-2020**

| 2019 year | | № | Destination country | № | 2020 year | | |
|---|---|---|---|---|---|---|---|
| **Th. Doll.** | **Oud. weight, %** | | | | **Th. Doll.** | **Oud. weight, %** | **Height, %** |
| **1 541 140,5** | **100** | | Total: | | **1 868 415,4** | **100** | **121,2** |
| 596 371,4 | 38,7 | 1. | Russia | 1. | 665 488,5 | 35,6 | 111,6 |
| 389 922,8 | 25,3 | 2. | China | 2. | 403 441,4 | 21,6 | 103,5 |
| 192 642 | 12,5 | 3. | Turkey | 4. | 212 212,8 | 11,4 | 110,2 |
| 89 837,3 | 5,8 | 4. | Kyrgyzstan | 3. | 284 451,8 | 15,2 | 316,6 |
| 41 657,8 | 2,7 | 5. | Iran | 7. | 20 604,2 | 1,1 | 49,5 |
| 29 229,1 | 1,9 | 6. | Ukraine | 6. | 34 251,2 | 1,8 | 117,2 |
| 24 505 | 1,6 | 7. | Poland | 5. | 43 437 | 2,3 | 177,3 |

In 2020, a third of domestic textiles were exported to the Russian Federation, with a large share also accounted for by Kyrgyzstan and Ukraine. From far abroad countries, China, Turkey, Poland and Iran are the leaders among consumers of textile products in Uzbekistan. In general, the number of countries importing our textiles and clothing has increased from 60 in 2016 to 71 in 2020. However, the fact that more than 90% of exports of ready-made garments and knitwear produced in Uzbekistan falls on the CIS countries, may indicate a continued low level of diversification in the geography of exports.

Let us turn to the concept of value added and trace the production chain of value added in the textile industry of Uzbekistan.

The value chain of textile products is a chain managed by suppliers (manufacturers) of raw materials and materials (Fig. 1).



**Fig. 1. The process of forming the cost of textile products**

The cluster model of organization makes it possible to achieve a complete value chain, which in the field of textile production can be conditionally divided into four stages: growing cotton (raw material for the textile industry), then refining the raw material, resulting in cotton fiber, followed directly by textile production, and finally, production of finished products.

Studies by domestic scientists confirm that before the formation of cluster structures, one kilogram of cotton fiber was exported at a price slightly higher than one US dollar, but now finished products of the knitwear and textile industry are sold at almost twenty times more expensive, which allows increasing the income of business entities, the state, and also the population.

The author proposes to develop the missing or underdeveloped links in the chain that will improve the efficiency of cluster structures - these are the links: "Analysis of the economic efficiency of the cluster", which requires the development and updating of data on the activities of clusters, as well as "Marketing and brand", which includes knowledge of the product, its characteristics, customer needs and benefits, feedback for the development of new products and product promotion. In order to analyze the economic efficiency of the cluster, we propose to determine the quality of the value added of a textile enterprise based on the use of the following groups of indicators: the dynamics of value added, the structure of value added, and the efficiency of using enterprise resources.

The calculation of the above indicators will allow you to compare the structural elements of added value, as well as the overall dynamics, which we recommend to calculate using the formula:

Thus, the introduction of clustering in the textile industry of Uzbekistan made it possible to achieve high results, in particular, there was a qualitative increase in production, the export potential of the industry increased, and the competitiveness of textile products increased significantly. However, the export potential of the textile industry in Uzbekistan has just begun to unfold. The country has huge opportunities for further growth. Most importantly, market conditions at the global level are practically aligned with Uzbekistan's comparative advantages, which need to be turned into a competitive advantage for the textile sector.

On the one hand, the introduction of cluster initiatives in the textile industry of Uzbekistan has made it possible to increase the share of finished products, increase its competitiveness in the domestic and foreign markets, increase the replenishment of the revenue base of the state budget, and increase employment and profitability of the population.

On the other hand, the study made it possible to identify a number of problems in managing the export potential of textile clusters in the Republic of Uzbekistan, which can be divided into two groups: low competitiveness of textile products in the world market and maintaining a low level of diversification of the geography of exports of textile products.

## Discussion

Based on the results of the analysis of the textile industry in Uzbekistan, it is possible to propose a set of organizational and economic measures aimed at developing existing and creating additional competitive advantages of the country's textile sector. These activities will be divided into five blocks:

Improving the efficiency of managing textile clusters in the country, including working with new markets, increasing the share of government purchases, and introducing new brands;

improving the access of textile producers to sales markets, expanding the range of exported goods in existing foreign markets and promotion to new ones, promoting the promotion of republican textile products to the regions of Uzbekistan;

analysis to assess the level of competitiveness and localization in order to identify comparative advantages in the textile market;

increase in labor productivity in the textile industry due to the growth of R&D and innovation, the use of opportunities to attract funds from international financial organizations and institutions%

development of missing or underdeveloped links in the chain, which will improve the efficiency of cluster structures (analysis of the economic efficiency of the cluster and strengthening

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