



## CREATING COTTON CLUSTER IN CONDITIONS OF UZBEKISTAN AND ITS ROLE IN THE ECONOMIC DEVELOPMENT

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**Abstract:** This article is devoted to the consideration of the role and essence of cluster in the national economy. In addition, the article studies opportunities of creating cotton cluster in conditions of Uzbekistan and prospects of its application in the national economy. Based on the research results, the author has developed relevant conclusions.

**Key words:** cluster, localization, import, export, industry.

### 1. Introduction.

Uzbekistan is considered to be one of the world's largest cotton-makers and is referred to the world's top five cotton exporters. Cotton trade constitutes a core aspect in the foreign exchange receipts in the economy of Uzbekistan which relies on agriculture.

During the period of ongoing financial and economic crisis and competition intensification, the price for cotton-fiber which was the basic export item in Uzbekistan was gradually reducing and it was not enough to cover its costs. With the aim of increasing locally-produced goods, as well as enhancing export potential, currently it is crucially important to create a cotton cluster designed to ensure efficient processing of the cotton fiber and its transformation to the ready-made goods. In this regard, first of all, it is planned to raise financial profitability of cotton-fiber makers through introducing and implementing market mechanisms for growing cotton-fiber, its sale and processing.

Nowadays based on the relevant experience of advanced countries Uzbekistan has launched implementation of cluster in the economy of agriculture. The main objective of this is to reduce dependence on import, to enhance the volume of import-substituting products, to ensure their diversification and localization, which, in turn, will lead to the development of enhancing national export potential. Under more comprehensive consideration, the country pays a particular attention to the export of cotton fiber, its processing and exports as ready-made products.

It should be noted, that Uzbekistan has launched and has been gradually implementing a complex of measures aimed at establishing manufacturing of variety of high-quality textile and knitted fabric goods, deepening localization of their production, as well as enhancing export potential of local manufacturers. Recently favourable conditions and necessary legal framework aimed at further development of textile and knitted industry have been created and appropriate measure have been worked out (Resolution, 2017).

### 2. Literature review.

In relation to the industry and companies, the concept "cluster" was introduced by the American economist M.Porter in 1990.

In the opinion of Porter (2005), cluster is a group of interrelated companies, specialized deliverers, providers offering services, companies operating in a particular field and the agencies



concerned united in term of geographic location and which are implementing cooperation coincidentally.

Rudneva (2007) expressed the following opinion on this point: “Cluster is the group of interconnected and localized in terms of geography companies, equipment, spare parts, special services, infrastructure, research institutes, universities, some companies complementing each other and other agencies intensifying competitive advantages of the whole group”.

Significance of such sources as development level and competitiveness priority determine the development level of the competition and economic growth models of the states, regions and companies. Industrial enterprises create the basis for raising consumption and national welfare. Thus their competitiveness plays a particular role in the market economy (Yegorova, 2006).

From the point of view of Larionova (2007), the concept of cluster implies a wider and more comprehensive meaning: “Cluster is the complex of interrelated economic entities which operate in various fields united into the single organizational structure with the common aim. Clusters are a form of interaction between organizations and social groups within a shared value chain. Clusters should be distinguished from holdings, professional associations, technology parks, industrial parks and districts, regional innovation systems, territorial-industrial complexes, industrial agglomerations. A cluster has the properties of mutual competition and cooperation of its participants, formation of unique competences of the region, formation of the concentration of enterprises and agencies in a certain territory”.

### **3. Research methodology.**

The research is based on the scientific studies and such research methods as induction and deduction, analysis and synthesis have been widely used in the research for analyzing prospects of the national economy development through clusters.

### **4. Discussion of analysis and results.**

When doing research within the framework set, it is clear that the cluster represents a group of companies and organizations united in term of geography that operate in a particular area and complement each other. In this regard cluster companies can get profit from the concise places connected with the utilization of specialized resources. Successful development of a cluster usually includes high-volume production aimed at the global market. In this regard, cluster development requires transformation of the region into a wider economic area.

In the opinion of Porter (2005), “Cluster boarders should be strong for all firms, industry and agencies in terms of horizontal, vertical and systematic relations. All firms, industrial entities and agencies which have weak relations or which don’t have any relations at all must be outside these boarders”.

Porter distinguished three basic types of clusters, i.e.:

- local industrial enterprises;
- enterprises dependent on resources (for example, clusters of oil and gas companies);
- enterprises established with the aim of enhancing competitiveness of enterprises incorporated, united on the professional basis. These companies sell product at both external and domestic markets.



When we consider the impact of cluster on the national economy, over 32% of the entrepreneurship in the economy of the USA are represented by cluster groups. In Sweden the share of the population working in the economic clusters constitutes 39%. Labour efficiency in these sectors averages 44%.

It should be noted, that the government of the Republic of Uzbekistan undertakes a complex of comprehensive measures aimed at overall industry improvement. In this regard, with the aim of ensuring interrelations of processing plants with farm entities, establishing processing of cotton-fiber, providing further improvement of light industry development in rural areas, creating additional value due to quality improvement of goods, raising the export volume of export-oriented production, on January 25, 2018 the Cabinet of Ministers of the Republic of Uzbekistan adopted the Decree №53 “On modern measures to introduce modern forms of organizing cotton-textile production” and on March 31, 2018 the Decree №253 “On additional measures to establish cotton-textile production and create cluster activity”. These Decrees created a legal framework for developing clusters.

With the aim of ensuring timely execution of the Resolution of the President of the Republic of Uzbekistan №5285 “On the measures of the rapid development of the textile and knitted-clothing industry development” as of December 14, 2017, the Cabinet of Ministers of the Republic of Uzbekistan has worked out a number of statutory acts designed for introducing modern methods to establish cotton-processing production, efficient use of production capacities of cotton gin factories located in the area of cotton-textile production. These statutory acts determine the following tasks:

a) The State Committee of the Republic of Uzbekistan for supporting privatized enterprises and development of competition in cooperation with “Uzpaxtasanoat” (“Uzbekistan cotton industry”) Joint-stock company and “Uztukimachilikanoat” (“Uzbekistan textile industry”) Association, the performance of 16 cotton gin factories and 68 cotton preparation stations has been reconsidered and assessed;

b) In compliance with the Resolution of the President of the Republic of Uzbekistan №5285 “On the measures of the rapid development of the textile and knitted-clothing industry development” as of December 14, 2017, there has been established a working group with the aim of working out the draft of the development concept for medium-term perspective. According to the results of the activity of this group:

sale of buildings and constructions of cotton gin factories and cotton preparation stations located in cluster areas to their organizers at the estimated cost under conditions of payment during 5-year period;

in addition, it is recommended to consider the following issues at the General Meeting of Shareholders of companies: opportunities for organizers of cotton-textile production and clusters to use production capacities of cotton gin factories located at the cluster regions on the rental basis for processing raw materials in 2018.

Relying on the sources, on the basis of government decrees, the primary cluster “Khantex Cotton” LLC launched its activity on March 1, 2018<sup>1</sup>.

<sup>1</sup> <http://yengilsanoat.uz/post/andijon-wiloyati-qurghontepa-tumanida-pakhtachilik-tuqimachilik-klasteri-negizida-uz-faoliyatini-boshlagan-yetishtirilgan-pakhta-khom-ashesini-saqlash-wa-dastlabki-qaita-ishlash-uchun-ikhtisoslashgan-khantex-cotton-mchj-tughrisida-malumot>



The overall value of the LLC project constitutes 5,0 million USD and out of this amount the equity of the enterprise accounts for 0,97 million USD (construction and other expenses), a loan of “Ipoteka” bank amounts to 4,03 million USD (for the purchase of necessary facilities). Facilities of the most advanced companies were delivered to the cotton factory, in particular, cotton ginning facilities were delivered from “Lummus” company (USA), and delinter machine was delivered from “Bajaj Steel Industries” company (India). The number of job places constitutes 200 places (including cotton preparation stations).

Daily productive capacity: 110 tons of cotton fiber and 10 tons of lint cotton for example, 29 000 tons of raw materials were completely processed during 88 days. Its activity is focused on storage and primary processing of raw cotton.

It should be noted that the government of Uzbekistan has been undertaking a wide range of comprehensive organizational and legal measures to create clusters. Besides raising the production volume due to cotton clusters the following advantages of using cotton clusters should be mentioned:

1. *Economic sustainability* – represents an economic case related to the production development. Reasonable and adequate arrangement of production can promote regional development and ensuring stability.

2. *Reduction of production costs of textile and light industry products.* The use of cluster will result in the reduction of price for goods and can facilitate fair competition in the current market economy based on the competition.

3. *Cotton clusters can also optimize transport expenses between enterprises dealing with raw materials and enterprises producing finished goods.* As far as we know, transportation costs can also make a significant impact on the price of goods. If availability of enterprises dealing with raw materials and enterprises producing finished goods in one region will facilitate economizing of transportation expenses, excessive expenses can be avoided and these saved funds can remain on the disposal of the enterprise itself.

4. *Ensuring economic potential and infrastructure development of the regions where cotton clusters are located.* It should be noted, that there are a plenty of cotton-growing fields throughout the territory of the Republic of Uzbekistan and the majority of them are located in desert areas. These areas have low economic potential which is directly related to the recent trend of low prices for cotton fibers in the world market. Thus if cheap raw materials can be thoroughly processed through clusters and as a result turn into finished products, in this way it will be possible to create new job places, to reduce unemployment rate and, as a consequence, will enhance economic potential of this region. For example: various conveniences will be created around clusters to improve living standards of workers, new trade and service companies and business centres will be established, as well as wide opportunities for developing tourism sector will be created.

5. *Raising employment rate of the population in the region.* Definitely, the main aim of each production is to get profit and to provide job places for the population. One of the top-priority objectives of the economic policy implemented in the country is enhancing living standards of the population residing in rural areas through production development, providing them with constant jobs with a stable income, as well as ensuring employment of the rural area residents with jobs through cotton clusters.



6. *Revenue, incoming to the state budget from taxes and other compulsory payments paid in the process of manufacturing finished goods from raw materials will promote increase of the revenue part of the state budget.*

In this regard, when creating cotton clusters in these regions, a particular attention should be paid to the organizational issues in any region. If we take into consideration the fact, that cotton is often grown in the desert areas, clusters should be established precisely in these land plots. This fact, in turn, will facilitate direction of the external migration into internal areas and in this way will comprehensively develop this area.

If we analyze the situation in 2018, in the Republic of Uzbekistan Kashkadarya region grew 381300 tons of cotton, Bukhara region – 318300 tons of cotton, Surkhandarya region – 234500 tons and Jizzak region - 208600 tons of cotton<sup>2</sup>. These regions have enough potential for growing cotton thus it is required to improve the employment rate of the residents of these areas through crating cotton clusters, which, in turn, will result in further development of these regions. Taking into consideration high level of population, as well as a big share of the agricultural sector in the economy in these regions, this fact has impacted an unemployment rate. In particular, in January-December 2017, the share of the population employed accounts for 27,3% in the agriculture sector, forestry and fishery, 13,5% - in the industry, 11,0% - in the trade, 9,5% - in the construction and 8,2% - in the education sphere<sup>3</sup>. So we can make a conclusion that through creating cotton clusters the share of industry can be increased in relation to the share of agriculture, and, as a consequence, this fact can make a positive impact on providing the population with jobs.

Moreover, when creating clusters a particular attention should be paid to the training of the appropriate human resources. The basis of each production is featured with qualified and skilled human resources. In this regard it is recommended to establish branches of relevant higher educational institutions in the areas where clusters are created. In future these branches will promote integration of education and production. Furthermore, establishing of new educational institutions will facilitate education and training of highly-qualified human resources and specialists who possess profound theoretical knowledge meeting the requirements of production enterprises operating in the cluster-located areas.

One more significant aspect of the cluster development is a wide application of innovations because currently it is impossible to imagine any production process without application of innovation technologies thus it is crucially important to pay a particular attention to innovations.

Industrial cluster for finished cotton products can be successfully implemented only in line with the development of the sale of the products manufactured thereof. However, currently our republic processes slightly over 1/3 part of the cotton fiber grown. The issue of processing the rest 2/3 of the cotton fiber in the nearest future has been determined as a top target.

Under current conditions of the world market, the quality of knitted-wear products and their brands remains one of the most significant issues. In this regard the issue of creating national brands deserves a particular attention because it is practically impossible to export textile products without creating national brands.

<sup>2</sup> [https://pikdo.net/p/kun.uz/1890843584803361826\\_1412527749](https://pikdo.net/p/kun.uz/1890843584803361826_1412527749)

<sup>3</sup> <https://stat.uz/uploads/docs/bandlik17-uz.pdf>



The majority of producers offer the goods manufactured using the brands famous all over the world. Taking into consideration high opportunities of light industry in our country the issue of setting appropriate requirements to the production capacities on the basis on the importance between consumers in the world and domestic markets because it is not a secret that nowadays internal demand is satisfied not only due to products manufactured from the natural fiber, but due to synthetic goods produced in China and Turkey.

When carrying out comprehensive analysis of the market we can witness the trend that consumers of the domestic market prefer buying the products of famous foreign brands. A certain part of the local consumers of famous foreign brands are more interested in brands themselves of foreign products. The rest part of the local consumers prefer foreign products because they are either fashionable or the price of synthetic goods manufactured abroad is cheaper than products manufactured from natural cotton fiber. We have all opportunities which can satisfy all the requirements, however, the lack of experience of current market analysts results in inadequate level of making our local opportunities more available to the general public.

It should be noted that the quality of the light industry products manufactured in our country can compete with any product produced abroad in the foreign market. However, in the majority of cases consumers don't have even the slightest idea about these products. To make these products be known to the general public, these products, should, first of all, be familiarized to the consumers. Our products can be of high quality, competitive in terms of fashion, however, their delivery to consumers will take time.

Furthermore, when implementing these activities, the role of the advertisement or commercials is rather high. Under market conditions the advertisement services are becoming increasingly important and as a result the advertisement has turned into a certain branch of entrepreneurship and is typically arranged in compliance with special rules and regulations. The reason for focusing on the advertisement is that it is considered one of the most significant tools for presenting the products of brands manufactured at light industry enterprises to the general public because brands cannot be famous and well-known by themselves, they can be communicated to the consumers through advertising campaigns. Thus it is highly recommended to use advertisement opportunities to present the goods manufactured by small businesses and private entrepreneurs operating in the light industry. Nowadays our republic is producing a wide range of light industry products. However, taking into account its share in terms of population, this share appears relatively low in comparison with market demand. With the aim of raising this share it is necessary to meet such requirements as brand, fashion and cheap products. In this regard having created national brands it is crucially important to popularize them through advertisement.

## **5. Conclusion and proposals.**

In the process of our research we have found out that with the aim of developing cluster in our country the government of Uzbekistan is undertaking comprehensive measures. First of all, it is required to create cotton clusters in the regions with high potential for growing cotton. As a result of this measure, processing cotton fiber on the spot will promote light industry sector in this very region, which, in turn, will enhance living standards of the population residing in this area (for example, Jizzakh and Surkhandarya regions are considered to the most favourable areas to create clusters).



In addition, it is highly recommended to ensure integration of production and education as it is inherent to the peculiarity of the cluster itself. Application of innovation technologies in the process of integration of production and education also supplements the peculiarities of clusters.

Taking into account high importance of the agriculture sector in the economy of Uzbekistan, there is a fact that the majority of population is engaged in seasonal works which justifies unstable employment in these regions and it may cause a population migration. However, creating clusters can ensure industry development and provide employment of the population. In this regard it is possible to ensure internal migration of the population, which, in turn, can cause regional infrastructure development.

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