

Analysis of the current state of the textile industry of Uzbekistan

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Abstract: Light industry is one of the leading branches of the global industrial complex. It accounts for about 6% of the world's GDP and more than 14% of those employed in the industrial complex. As a strategic sector for the economy of Uzbekistan, light industry provides a high level of employment, contributes to the economic and industrial potential and the international prestige of the country. According to its importance, it is necessary to analyze the production process and determine the main obstacles to development. In article the analysis of a state condition of textile industry of Uzbekistan is carried out. According to the results of the analysis the main directions of the development of the sphere are determined.

Key words: Light industry, textile production, totally made product, investment, governmental support.

Introduction

Uzbekistan was known as the sixth largest manufacturer of cotton and the third largest exporter. However, in recent years, exports of raw cotton have been declining, with an emphasis on high value-added products.

As a strategic sector for the economy of Uzbekistan, light industry provides a high level of employment, contributes to the economic and industrial potential and the international prestige of our country. Uzbekistan's unique geopolitical location allows direct economic dialogue with

many countries, mutually beneficial cooperation with European and Asian countries.

The light industry is developing year by year. The introduction of new production technologies, the use of high-efficiency, modern equipment, and at the same time effective management will ensure high labor efficiency in industrial enterprises, growth in industrial production. The Republic, which for many years exported only cotton fiber, today has unlimited opportunities to become a leader in the world textile market, not only as a supplier of cotton fiber, but also as an exporter of textiles, especially totally finished products.

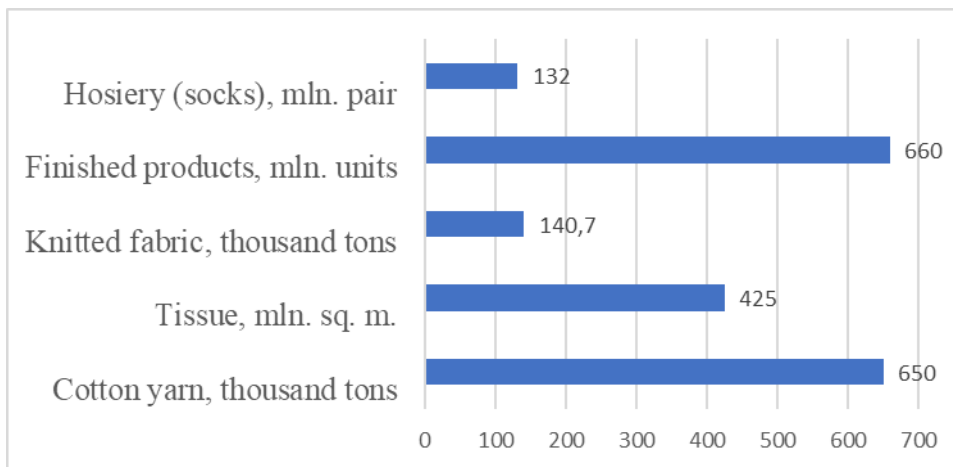
Research methodology

In the article, methods of scientific abstraction, logical thinking, comparative analysis, study in dynamics, data grouping, comparison were used.

Analysis and results

Light industry of Uzbekistan is one of the leading and dynamically developing industries. According to the State Statistics Committee, during the years 2017-2019, the share of the industry in the total industrial volume of the country averaged about 30%, its share in GDP was about 4%, and the volume of production of non-food products - more than 44%. In recent years, annual growth in production has been about 18% and exports 10%.

Uzbekistan is one of the largest producers of natural textile fibers, yarn and knitwear in the world. There are more than 7,000 textile enterprises in the country, with annual capacity of:



Picture 1. Annual production capacity of textile enterprises of the Republic of Uzbekistan

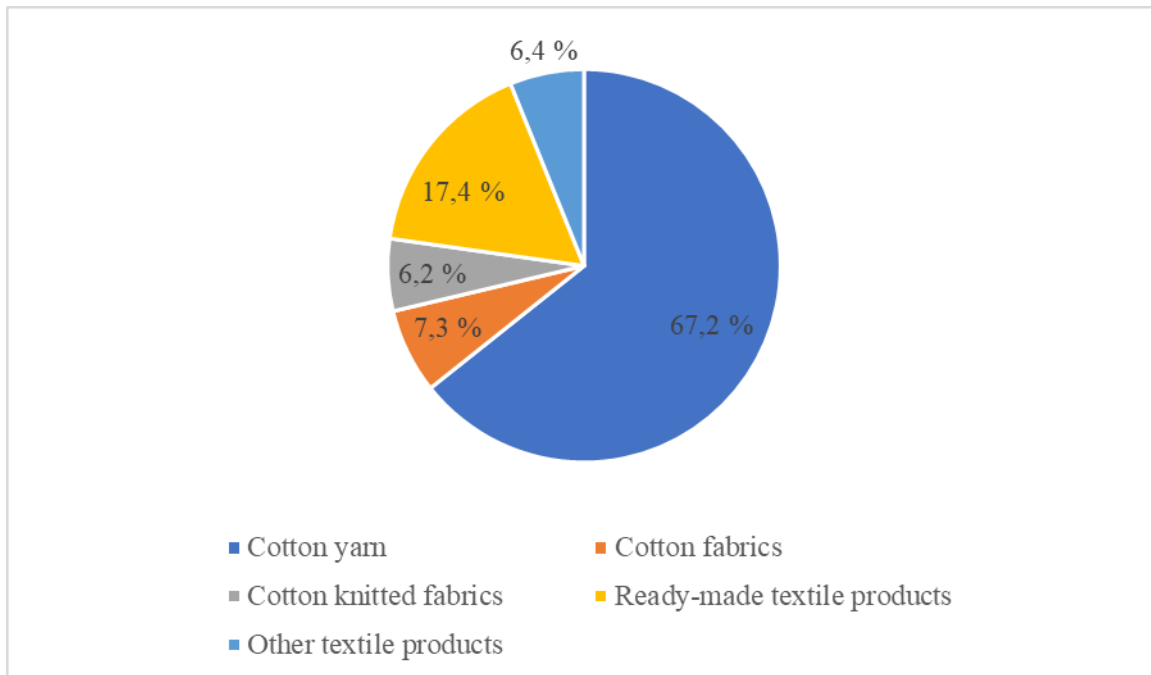
Additionally, enterprises of the textile industry have mastered the production of mixed fabrics, cotton fabrics and ready-made polyester fabrics. New products such as seat covers for cars, filters made of non-woven materials for technical purposes have also been mastered, work has begun on the production of women's underwear (bras) with innovative design, as well as the production of peignoirs made of bamboo yarn.

Effective measures are taken to further develop textile industry. One of the such measures is the Decree of the President of the Republic of Uzbekistan of 14.12.2017. No. DP-5285 by which JSC “Uzbekyengilsanoat” was liquidated and “Uztuqimachilik sanoat” (Uzbekistan Textile Industry) Association was created. These reforms and the correctly chosen strategy and competent management of “Uztuqimachilik sanoat” Association allowed domestic textile companies to demonstrate positive growth dynamics. Nowadays, the Association unites more than 1,400 manufacturers in the textile market of Uzbekistan. 156 of these textile enterprises were established with the participation of state investors from South Korea, India, Singapore, Germany, Switzerland,

Italy, Japan, the United States. Reprocessed cotton fiber and various types of cotton fabrics constitute a significant part of the products produced by the existing textile factories.

Given the importance of the textile industry in the economic development of the country, Uzbekistan is implementing a Program of measures for further development of the textile and clothing industry. According to the Program, it is planned to increase the production of yarn by 2.5 times, finished fabrics - by 2.8 times, non-woven materials - by 1.5 times, knitted fabrics - by 2.7 times. It is also planned to increase the production of garments by 3.2 times, knitwear by 2.1 times and silk by 2.1 times. If the volume of fabrics production in 2011 amounted to 85.63 million square meters, in this year the figure will exceed 459.2 million square meters, ensuring a growth in production by 5.4 times.

Currently, major consumers of textile products in Uzbekistan are Russia, China, Kazakhstan, Turkey, and the countries of the European Union. In total, the industry's enterprises carry out export deliveries to more than 55 countries around the world. The volume of exports of products amounted to \$ 1.6 billion in the last year. The number of exporting enterprises amounted to more than 780, 120 new enterprises were involved in export activities.



Picture 2. The nomenclature of textile exports

The share of cotton fiber processing by domestic consumers reached up to 50% of the production volume.

Modern textile enterprises have been launched, which include the production of dyeing, processing, weaving and sewing.

For 15 years, within the framework of implementation of 300 investment projects, about \$2.5 billion USD were attracted in the textile industry, including over the last 3 years – 575.3 million dollars. Over 80% of attracted foreign investments accounted for countries such as China, South Korea, Switzerland, Singapore, the United Kingdom, Germany, India and Turkey.

Indicators of technical equipment of industrial premises increased. More than 1.6 million spinning spindles were put into operation, 100 thousand chambers, which accounted for 89.3% of the existing park of technological equipment.

In our opinion, the main reasons of increasing investments in textile companies are the followings:

- an easily accessible market that will grow in the future with development of an organized retail

chain, favorable demographic indicators, rising income levels and a change in preferences for the quality of brand products;

- preferences and incentives for manufacturers, including exemption from tax and customs payments for up to 10 years, depending on the amount of investment;

- privatization and lease of state property on favorable terms and at low prices for foreign investors, with the obligation to invest funds;

- abundance and availability of raw materials for production, such as cotton, wool, silk, jute and artificial fibers;

- comparative advantages in terms of skilled labor and production costs on major textile manufacturers around the world;

- State policy aimed at protecting investors' investments and private property rights;

- the presence of the entire value chain for textile products, starting with the production of natural fibers and ending with production of yarn, fabric and clothing in the country, which creates an advantage over countries such as Vietnam, Bangladesh, etc;

- presence of sectors of traditional craftsmanship, i.e. loom and crafts.

The main directions of the policy aimed at regulating relations in the field of direct investment

and investment activities carried out by investors in the textile industry enterprises are followings:

- implementation of continuous technical and technological re-equipment of existing and creation of new high-tech industries, including through attracting foreign direct investment;
- creating conditions for increasing the level of processing cotton fiber;
- expansion of competitive finished products, saturation of the domestic market with finished products;
- increasing the export potential of the industry, creating new jobs, improving the system of training and retraining of personnel;
- restoration of textile machinery production;
- creation of additional capacities in the production of denim, terry fabrics, hosiery products, technical textiles.

For stimulating and increasing production for export in the republic, an integral system of tax benefits and preferences for enterprises-exporters has been created. For example, the sale of excisable goods for export by their producers is not subject to excise tax, with the exception of certain types of excisable goods determined by the Cabinet of Ministers of the Republic of Uzbekistan. Turnover on the sale of goods (excluding precious metals) for export for foreign currency is subject to zero-rate value-added tax. For exporting enterprises (excluding the sale of commodities) the tax rates on profits and property decrease depending on the share of exports of goods (works, services) of own production for FCC in total sales: with a share of exports from 15 to 30% – by 30%; with a share of exports of 30 percent or more – by 50%. In the same volumes, the single tax rate for micro firms and small enterprises is reduced. In addition, micro firms and small enterprises are exempt from the mandatory sale of 50% of foreign exchange earnings from the export of goods (works, services) of their own production. This allows directing foreign exchange funds remaining at the disposal of enterprises to strengthen and effectively develop their production.

In accordance with the Tax Code of the Republic of Uzbekistan, enterprises that attract

foreign direct private investment, specializing in manufacturing products in sectors of the economy according to the approved list, are exempt from: income tax on legal entities; property tax; tax on improvement and development of social infrastructure; single tax payment; mandatory contributions to the Republican road fund. According to the approved list, enterprises specializing in the production of industries in economy include enterprises whose share of proceeds from production in sectors of the economy according to the approved list in the total sales volume amounts at least 60% for the reporting year. Following benefits apply in general to enterprises specialized in manufacturing products in sectors of the economy according to the approved list:

a) are provided when the volume of private foreign direct investment is equal to (equivalent):

- from 300 thousand USD to 3 million USD inclusive – for a period of 3 years;
- over 3 million USD up to 10 million USD inclusive – for a period of 5 years;
- over 10 million USD – for a period of 7 years.

b) provided after the following conditions:

- location of enterprises in all cities and rural settlements of the republic, except for the city of Tashkent and Tashkent region;
- implementation by foreign investors of private direct foreign investments without provision of a guarantee to the Republic of Uzbekistan;
- ensuring the share of foreign participants in the authorized capital of the company at least 33 percent;
- foreign investment in the form of freely convertible currencies or new modern technological equipment;
- direction of not less than 50 percent of income received as a result of provision of these benefits during the period of their use, to reinvest with the aim of further development of the enterprise;

c) are valid for the entire period for which they are granted, with deterioration of investment conditions by subsequent legislation.

Enterprises that meet the established criteria for granting benefits are exempt from paying taxes and mandatory contributions to the Republican

road fund from the date of state registration. If an enterprise meets the established criteria for granting benefits in subsequent period after its creation (state registration), it has the right to apply benefits from the date of occurrence of circumstances confirming the compliance of this enterprise with the established criteria for granting benefits. In this case, the term of the use of benefits begins from the date of occurrence of circumstances confirming the compliance of the given enterprise with the established criteria for granting benefits, but not more than seven years from the date of the start of benefits application.

The right to privileges is granted only to enterprises that have formed authorized capital (funds) within the terms established by law. At the same time, the enterprise has the right to apply benefits in the period during which, in accordance with the law, it must form its authorized capital (fund).

At least 50 percent of the income received as a result of provision of concessions on taxes and compulsory deductions to the Republican Road Fund, during the period of their use, are directed to reinvestment in order to further develop the enterprise. At the same time, reinvestment refers to the direction of income received as a result of benefits provided for the development of an enterprise without distributing it among the founders. Under the income received as a result of benefits, refers to economic benefits (increase in profits remaining at the disposal of the enterprise) due to the release of funds as a result of exemption from taxation.

At the same time, if the enterprise using the benefits during the period of application of benefits, the share of a foreign investor decreases below 33 percent in the authorized capital of the enterprise, if the amount of direct private investment made is not reduced, as well as other requirements established in this Regulation for such enterprises is preserved.

If a foreign investor decides to repatriate profits and export capital during the term of the benefits, the repatriation of profits and the export of capital by a foreign investor is carried out only after reimbursement to the budget of the amount of

benefits provided for the period prior to the repatriation of profits and the export of capital by a foreign investor.

Conclusion

Based on the results of the analysis carried out above, we can conclude that the textile industry is one of the leading sectors of the country, and the products produced in the industry are directed not only to meet the demand of the domestic market, but also to export. As a result of the effective activity carried out over the years, the production of other new types of products, in addition to cotton yarn, is being launched at textile enterprises. In particular, systematic work is being carried out on the production of finished products with high added value. However, the share of finished products in the structure of textile exports is only 17.4%. This, in turn, indicates that the existing opportunities are not fully used. In our opinion, in order to further develop the country's textile industry and increase the nomenclature of products produced in the field, it is desirable to formulate processes for the production of the following products:

- production of men's shirts (woolen overcoats; painted and finished products; ready-made clothing);
- production of jeans (pneumatic yarn; jeans fabric; jeans products);
- production of waxy products (card yarn; waxy material; painted and finished products; products made of wax)

The production of these products in the regions, in the first place, increases the employment of the population with the formation of new jobs, as well as increase foreign exchange earnings to the country through the export of products.

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