

# **Uzbekistan Textile and Garment Industry**

## **1. General information about Uzbekistan**

Uzbekistan is well recognized as a politically stable and safe country. 34 million population (more than half of that from Central Asia) makes Uzbekistan the biggest market and labor resources.

Uzbekistan has Free Trade Agreements with the CIS countries and Georgia, most-favored national treatment with 46 countries, including China, Japan, US, India, Republic of Korea. Negotiations have already been started with China and Republic of Korea to reduce to zero custom tariffs towards Uzbek textile.

On April 2021, for Uzbekistan, the Special system of preferences of the European Union for sustainable development and good governance (“GSP +”) comes into force, where Uzbekistan was admitted as a beneficiary country. The “GSP+” regime gives an opportunity to export 6200 commodity items to the EU countries duty-free.

## **2. Reforms to liberalize the economy and conditions for the business**

For the last years, Uzbekistan has been doing a lot to gain the further confidence of foreign investors, and this can be demonstrated in its implementations of the wide range of economic and structural reforms. Such reforms have made a positive impact on creating more friendly and attractive environment for foreign companies to do business in Uzbekistan.

According to the World Bank's «Doing Business 2020» report, in 2020 Uzbekistan ranked 69<sup>th</sup> place among 190 countries of the world and in terms of the scale and effectiveness of the reforms being carried out, it entered the "top 20" best reformer countries in the world.

As per World Bank report “Global Economic Perspectives”, Uzbekistan is the 5<sup>th</sup> the most intensively growing economy in the world with GDP Growth in 2017 - 7,8%, in 2019 – 5,5% (in 2020 – 1,6%). In 2021, the EBRD improved its economic growth forecasts for Uzbekistan from 4.5% to 5.6%.

Other areas in which Uzbekistan has implemented reforms include liberalization of the foreign exchange market (foreign currency can be easily and freely converted to Uzbek currency and vice versa) and now fully allows foreign investors to repatriate their profits. This should act as a guarantee that rights and investment of foreign entrepreneurs are protected and safeguarded.

## **3. General information about textile industry**

The textile industry is one of the leading and dynamically developing sectors of the economy of Uzbekistan. Today there are more than 7000 textile enterprises in Uzbekistan, employing more than 350 thousand people.

In 2020, the industry accounted for 11,4% of the country's total industrial production, and its share in GDP was about 4%.

More than 80% of the entire parks of technological equipment of the industry are represented by leading European and Asian manufacturers.

#### **4. Examples of successful collaboration**

There are a number of foreign companies which have been successfully doing business in Uzbekistan for a long time.

Companies such as “Indorama Pte. Ltd” (Singapore) with total investment \$ 200 mln., “UZTEX Group” and “Swiss Capital International Group” - \$ 200 mln., “Jinsheng Group” (China) - \$165 mln., “MS Barer Textile” (Turkey) - \$ 56,0 mln., “YoungOne Corporation”, “Rieter AG” (Switzerland), and many others.

#### **5. The competitiveness of the industry**

Uzbekistan also has proven a competitive advantage in the textile sector because of its relatively cheaper skilled labor (100-200 USD/month, depends on the region and qualification), as well as cheap-rate electricity cost being just at \$0,04/kwh, allows manufacturers to reduce total costs of production.

#### **6. Investment potential of the industry**

Uzbekistan integrated a new tax policy to decrease its rates for business and eliminates inefficient taxes.

Enterprises that attract over \$10,0 mln. foreign direct investment to textile industry are exempt from paying number of taxes for a period of 7 years (income tax, property tax, single tax payment for microfirms and small businesses). Production enterprises are exempted from import payments (tariff, VAT) for technical and technological equipment, which are not produced in Uzbekistan.

There are also other subsidies, presented by the Government:

- up to 50% cost of transport costs of export;
- 50% of expenses of exporters related to opening and maintenance of trading houses, stores of national brands, renting office, retail and warehouse premises, as well as advertising campaigns;
- total costs for obtaining international standards and certificates;
- total costs of participation in business seminars, trainings, trade missions and business forums abroad;
- total costs of participation in exhibitions and fairs abroad;
- total costs of sending product samples to foreign buyers, foreign trade houses and exhibition halls of exporters, including diplomatic missions of the Republic of Uzbekistan abroad to assist in finding a buyer etc.

Enterprises with a share of export of finished (ready) products in the total revenue of at least 60 percent according to the results of the reporting period are exempt from property tax for a period up to January 1, 2023.

#### **7. Cotton Clusters in Uzbekistan**

Over the past four years, the field has undergone dramatic changes. For example, creation of cotton-textile clusters for Uzbekistan as a new form of organizing the production chain from raw materials to finished products, reducing the export of cotton in order to provide full processing it by local companies, attracting advanced experience in the production of textile and clothing products, and expanding its presence in foreign markets.

As a result, it enabled to create a solid reserve of stability of industries and to overcome the difficulties in country's economy with minimal losses.

To date, the total number of cotton-textile clusters in Uzbekistan is 122, (100% of all sown areas under cotton) which are located in 135 districts of the country.

In total, more than 600 units of cotton harvesting equipment and over 11,000 modern agricultural machineries were involved in to the clusters.

### **8. Strategy of industry development**

As a part of the reforms being carried out in Uzbekistan, was approved the Strategy of the textile and garment industry development, which is taking into account the opinions and recommendations of international consultants as well.

The Strategy consists of the following tasks:

- export growth - structural changes in production, promotion of a national brand, increased competitiveness in the global market and supply chain;
- active investment policy - implementation of projects on production of value-added goods (fabrics, non-cotton products, innovative products, dyeing and finishing complexes);
- development of agriculture – cotton textile clusters, modern agricultural technology, increasing yields, water saving technology, improving infrastructure, mechanization (incl. harvesting) and international standards;
- technological upgrade - industry 4.0, digitalization, industry specific platforms Automation of resource planning and management based on ERP systems, artificial intelligence;
- transparency and sustainability – conservation of energy and natural resources, international certificates, safe products, social responsibility.