



# A textile giant in the making?

A look at the Textile and Apparel Sector in Uzbekistan - 2022



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## Preface Export Guide



Little has been heard of Uzbekistan's recent efforts in transforming towards an economically thriving and modern state at the heart of Central Asia. It had for long lied behind a curtain of bad reputation for censorship, environmental damage and human rights violations. For the last five years however, Uzbekistan has made immense efforts both on private and political scale to combat the challenges and the associated reputation. Since 2017 the government has embarked on a reform agenda that accomplished positive developments in all areas of society, politics and the economy, and prominently also in the cotton and textile sector.

The country has a century long cotton growing tradition, as of today it is still the world's 7th largest cotton producer. The sector offers many opportunities for sustainable change: socially it can provide decent jobs for the immense labour force of Central Asia's most populated country, most of which will target women; environmentally, climate change adaptation and the promotion of sustainable production methods are alternatives to conventional cotton growing with large inputs of chemicals and water; economically, long-lasting business relations to markets with higher sustainability requirements provide the fundament to implement socially and environmentally sound practices. With the reforms, the sector liberalised from a state monopoly to private enterprises that are open for socially and environmentally sustainable approaches, naming the abolition of systemic forced labour by the ILO or the introduction of organic cotton production among many more examples.

The Gesellschaft für internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) assists the reform process by implementing the project "Sustainability and Value Added in the Cotton Economy in Uzbekistan" as part of a global project working on several agricultural supply chains. By working closely together with the private sector, the project caters the needs of the economy by conducting activities and capacity development whilst promoting social, environmental, and economic sustainability along the whole supply chain. Our project activities span from providing trainings in organic cotton production or social compliance in processing, to capacity development in export as well as cooperating with international textile companies to open new markets. By doing so since 2019, the project had the opportunity of gaining first-hand experience of the progress and the remaining challenges.

In your hands you are holding the most recent update on the sector, nurtured from up-to-date data perceived from several interviews conducted with stakeholders from the Uzbek and international industry, the public sector and individual actors. With this report, we aim to provide you with an expertise-driven though neutral perspective from within the sector. The subsequent pages should:

- Inform you about the status quo of the Uzbek cotton and textile sector
- Outline the profound developments of the last years
- Highlight remaining challenges as well as simultaneously address measures (taken or planned) to tackle these.

If this report stimulates your interest in the Uzbek cotton and textile sector, do not hesitate to contact us. The project stands ready to inform, connect, venture together. And with this - O'zbekistonga xush kelibsiz or welcome to Uzbekistan!



## Abbreviations and Acronyms

€	euro
AAFA	American Apparel and Footwear Association
BCI	Better Cotton Initiative
bn	billion
BSCI	Business Social Compliance Initiative
CAGR	Compound Annual Growth Rate
CAPEX	Capital expenditure
CMT	Cut Make Trim
e.g.	for example
ETI	Ethical Trading Initiative
EU	European Union
FDI	Foreign Direct Investment
FIT	Fashion Incubator in Taskhent
GDP	Growth Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GOTS	Global Organic Textile Standard
GRS	Global Recycle Standard
GSP	Generalised Scheme of Preferences
ha	hectare
HS	Harmonised System
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
ITMF	International Textile Manufacturers Federation
k	thousand
kg	kilogram
km	kilometer
KPI	Key Performance Indicator
KUTT	Korean-Uzbek Textile Technopark
KwH	kilowatt-hour
LC	Letter of Credit
m	million
m <sup>2</sup>	Square meter
MMF	Man Made Fibers
OCS	Organic Content Standard
PET	Polyethylene terephthalate
RCS	Recycled Claim Standard
RMG	Ready Made Garments
SAP	Sustainable Apparel Coalition
Sedex	Supplier Ethical Data Exchange
SLCP	Social, Labor and Convergence Program
SMETA	Sedex Members Ethical Trade Audit
TAS	Textile & Apparel Sector
TVET	Technical and vocational education and training
UNDP	United Nations Development Programme
UNDP	United Nations
US	United States
USD	United States Dollar
USDA	United States Department of Agriculture
UZS	Uzbekistani Som
WRAP	Worldwide Responsible Accredited Production



## Table of Content

<b>Foreword</b>	5
<b>1. Snapshot of the Uzbek textile and apparel industry</b>	
1.1. A textile giant in the making?	6
1.1.1 Cotton production	7
1.1.2 Spinning & yarn dyeing	8
1.1.3 Fabric production and processing	9
1.1.4 Apparel and home textile manufacturing	11
1.1.5 Misc. (silk, ancillary industry, etc.)	11
1.2 Ingredients coming together for a new textile leader	12
1.2.1 Labor comes first	12
1.2.2 The environment takes the lead	14
1.2.3 Ready for industrialization	15
1.2.4 Textile clusters: a launching pad	17
1.2.5 Location, location, location	18
1.3 Outgrowing growth	19
1.3.1 Production on the rise	19
1.3.2 Uzbekistan and the World	21
1.3.3 A new fashion hub	23
1.4 The new kid on the block	24
1.4.1 The magic sauce	24
1.4.2 A future leader in sustainability, and transparency	25
1.4.3 GSP+ status	25
1.4.4 New trade agreements	27
<b>2. Some challenges to overcome</b>	
2.1 International reputation	28
2.1.1 The post cotton pledge era	28
2.1.2 An «unknown» new export platform	30
2.2 Product and market mix and diversification	30
2.3 Skills	31
2.4 Environmental challenges	32
2.5 Access to finance	33
2.6 Transport and logistics	33
2.6.1. Uzbekistan is double landlocked	33
2.6.2. Domestic infrastructure is still weak	33
<b>3 The way forward</b>	
3.1 Development scenario	34
3.1.1 Penetrate new markets	35
3.1.2 Import / expand production of raw materials	35
3.2 Positioning	36
3.3 What needs to be done	36
3.3.1 Open up to the world	37
3.3.2 Diversify products	37
3.3.3 Conquer new markets	38
3.3.4 Communicate	38
3.3.5 Improve skills	39
3.3.6 Focus on responsible production	40
3.3.7 Improve ease of doing business	42
3.3.8 Transportation and logistics	43
<b>Reference List</b>	44





## Foreword

*2017 marked the beginning of an impressive transformation for Uzbekistan.*

Since the fall of the Soviet Union, the country remained largely stagnant, struggling to find a place in the global economy. However, over the past 6 years, the government has embarked on a mission of reform that has addressed almost every structural and fundamental challenge in the economy from taxes to child labor, the investment environment, infrastructure, foreign direct investment and the judicial system.

The results are impressive! The numbers speak for themselves, since 2016, FDI tripled to reach USD 25 billion (bn) in 2021 with over 59,000 projects implemented in the period, creating over 2.5 million (m) jobs. Personal income taxes were brought down from 40% to 20%, property tax was cut down from 15% to 5% and the number of taxes was reduced from 13 to 9. During the same period, growth has averaged 5% annually, while industrial growth stood at 8% per year. Even during the pandemic, the country recorded a growth of 7% in 2020 and 7.4% in 2021.

The reforms did not only address monetary policy but also extended to include reforms to laws and regulations to support the business and facilitate the integration into the global economy. The country abolished systemic forced labour and child labour in cotton plantations, embarked on a mission to privatize state owned enterprise and reforms to the judicial system have been implemented.

Uzbekistan plans to reach USD 100 bn GDP by 2030, double its exports to USD 30 bn with 80% of the GDP produced by the private sector. These might look like ambitious targets, however, judging by what has been achieved so far, the country is on the path to possibly meeting those targets in the future.

Uzbekistan now is an attractive investment destination for first movers. Many international companies are seeing the opportunity in the country especially after getting Europe's GSP+ status and the various regional trade agreements the new administration was able to conclude.



The Textile and Apparel Sector (TAS) has been at the heart of this transformation and has been a significant beneficiary from the reforms as well as a key contributor to Uzbekistan's growth. The privatization of the cotton production, the introduction of the cluster model, the abolishment of forced labor and the opening of the economy have all contributed to the attraction of significant investments into the sector.

With over 7,000 textile and apparel enterprises, exports reached USD 3 bn in 2021. Equally important, Uzbekistan has been able to convert 100% of its cotton into yarn in 2021, transitioning towards higher value-added production and eliminating its exports of raw material.

This is, by all means, an impressive achievement and paves the way for Uzbekistan to become a global player, with a unique offering of a fully integrated industry from fiber to finished product, competitive manufacturing costs, duty free access to Europe and a short lead time.

# 1. Snapshot of the Uzbek textile and apparel industry

## 1.1 A textile giant in the making?

In recent years, the industry in Uzbekistan has witnessed large investments in state-of-the-art and integrated manufacturing facilities that are often attached to the cultivation of cotton under a structure known as "cotton and textile clusters".

Thanks to the privatization of cotton production and the establishment of over 120 clusters, the country was able to convert almost 100% of its 1 million tons of cotton production into yarns, fast establishing itself as a major player in the spinning industry. Further clusters are being planned and cotton production is expected to grow even further with the reclamation of additional land earmarked for cotton production.

Today Uzbekistan has over 7,000 companies in the TAS employing more than 400,000 workers with exports of over USD 3 bn in 2021. The vast majority of those companies (over 6,000 enterprises) consists of ready-made garment manufacturers, the balance includes over 150 yarn manufacturers, 130 fabric makers, 250 knitting companies and 110 hosiery manufacturers.

Although the industry has expanded into spinning, weaving, knitting, dyeing and finishing as well as garment making and home textile manufacturing, the sector has largely remained focused on cotton and has yet to grow in the rest of the value chain.

To become one of the leading sourcing destinations for European and potentially US buyers, the industry will need to expand into the manufacturing of products made of Man-Made-Fibers and/or other non-cotton natural fibers as well as elaborate the scope of the weaving, knitting, and manufacturing of finished-products. Thus, this strategy will enable Uzbekistan to provide a higher value-added product and serve the ever-developing needs in the textile industry.

Uzbekistan might also want to attract investments into the Technical Textiles subsector and diversify from its current focus on cotton fibers and basic garment and home textile products.

### Key figures (2021)

Fibre	Spinning	Fabric and processing	Garment / Made ups
Production of 925 k tons in 2021	Production of 1,041 tons of yarns in 2021	Capacity of 1,148 million m <sup>2</sup> of woven fabrics and 309 k tons of knitted fabrics in 2021	Modern CMT operations
Initiatives to supply preferred cotton	Massive investments in state-of-the-art technologies, including compact spinning	Capacity to manufacture a rather large cotton-centric range of fabrics (denim, sportswear, knits, bedlinen, terry, etc.)	Growing production capacities in terry towels, bedlinen, jeans, knitted goods, etc.
Yield level improvement and better water management with new technologies (drip irrigation, seed varieties, new fertilization methods, etc.)			>80% export increase of finished goods (HS61, 62 and 63) from 2019 to 2021
Cotton land regained area (>100,000 hectares)			
3rd largest silk producer in the World			

### 1.1.1 Cotton production

Uzbekistan has been among the world’s largest cotton producers and exporters since the Soviet Union era. Cotton still represents approx. 30% of total agriculture land in Uzbekistan with 1,03 m hectares of cotton cultivated crop land (source: Uztextilprom). In 2017, the government embarked on a mission to privatize cotton production, by 2020, the industry was entirely in the hands of the private sector represented by 100 clusters established in the period.

Almost 2 m people are recruited every year for the annual cotton harvest in Uzbekistan. The country has succeeded in eradicating systemic forced labor and systemic child labor during the 2021 cotton production cycle, according to new ILO findings (Third-Party Monitoring Report of the Cotton Harvest in Uzbekistan).

In 2021, Uzbekistan ranked sixth among the largest cotton producers in the world (China, India, USA, Brazil, Pakistan) producing several varieties of cotton. The choice of cotton variety in agriculture is one of the main factors affecting yields and product quality. Currently, varieties include „S-6524“, „Bukhoro-6“, „Namangan-77“, „Omad“, „Bukhoro-102“, „Bukhoro-8“, „Andijon-35“. At the same time, new promising varieties have been developed with improved fiber quality and yield, e.g. „S-6541“, „Namangan-34“ and „Al-Termizy“.

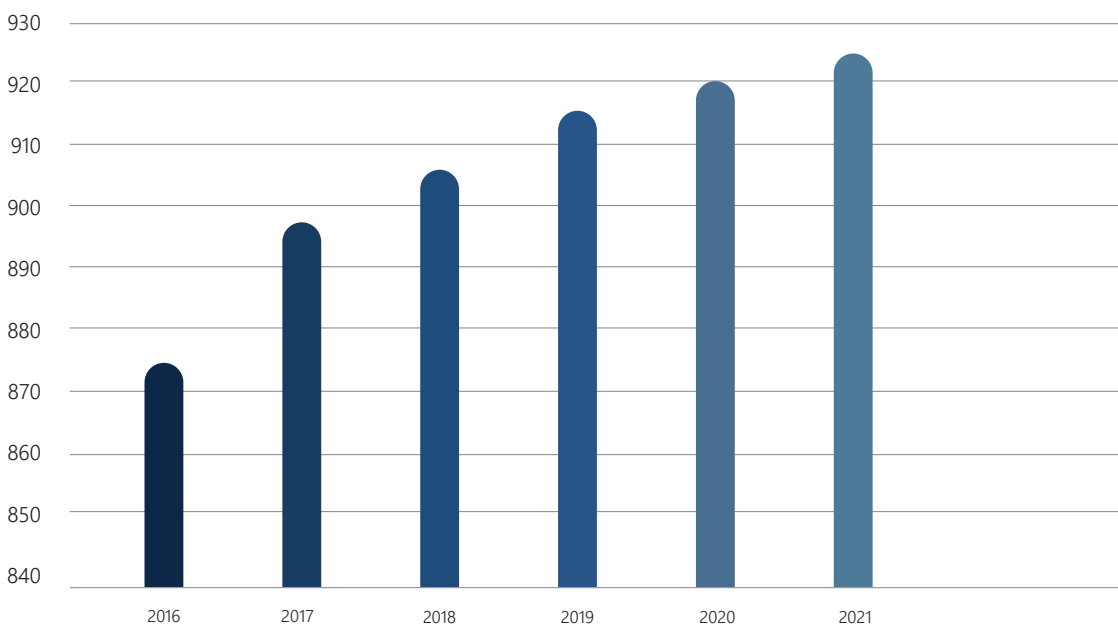
The average cotton yield in Uzbekistan increased to 647 kg/ha in 2020/21 (USA – 957 kg/ha; Egypt – 720 kg/ha; Turkey – 1,804 kg/ha; Brazil – 1,720 kg/ha; and China – 1,976 kg/ha, source USDA)) after a long stagnation in the late 1990s and 2000. The USDA report (USDA-GAIN, 2020) attributes the recent improvements in Uzbekistan’s cotton productivity to improved resource use efficiency, adoption of modern technology, and improved agronomic practices in cotton clusters.

#### Key figures (2021)

Cotton crop area	1.03 million hectares
Cotton crop area allocated to clusters	100%
Cotton fibre production	925,000 tons
Export of cotton fibre	73,200 tons

Source: Uztextilprom

#### Cotton fibre production (k tons)



Source: Uztextilprom

## 1.1.2 Spinning & yarn dyeing

There are over 150 spinning companies in Uzbekistan with 3.7 million spindles and 239,000 rotors installed. Yarn production reached 862,000 tons in 2021, with around two thirds (562,000 tons) going to exports. The industry largely focuses on 100% cotton yarns with a small production of cotton blends. The local industry has to rely on imports for its needs of Man-made-fibers (MMF) and non-cotton natural fibers. Some future investments in yarn production intend to expand into MMF and other fibers.

The yarn dyeing capacity in Uzbekistan remains small and is estimated at 52,000 tons in 2021 (source: Uztextilprom) mainly due to the current product focus of the local textile industry. This may change with further investments into the sector, especially focusing on higher value-added products.

Yarn imports are also quite small and stood at around 30,000 tons in 2020 and 2021, growing at a CAGR of 4% in the last five years. Imports of cotton yarn grew at a CAGR of 3% while imports of MMF yarns grew at 7% CAGR in the same period.



### Key figures (2021)

Number of spinning companies	160
Installed capacity	3.7 million spindles and 239,000 rotors
Annual yarn production capacity	1,04 million tons
Yarn production	862,000 tons
Export of yarns	562,000 tons
Import of yarns	30,000 tons

Source: Uztextilprom

Export of yarns	Volume k tons	Value m US\$	Import of yarns	Volume k tons	Value m US\$
2017	207,7	529,1	2020	30.683	46
2018	282	725	2021	29.476	61
2019	381	881			
2020	455	947			
2021	563	1.618			

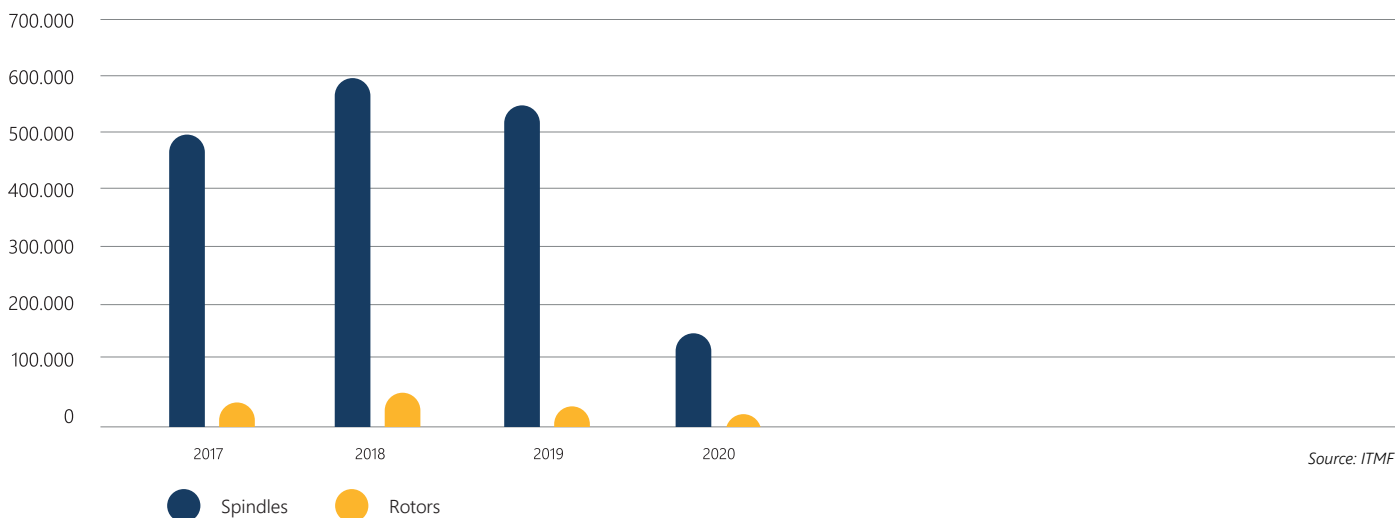
Partner countries: Russia, China, Turkey, Kyrgyzstan, Kazakhstan, Poland

Source: Uztextilprom

Source: Uztextilprom



## Shipment of short-staple spindles and rotors



### 1.1.3 Fabric production and processing

There are 218 weaving companies in Uzbekistan producing over 1.1 million m<sup>2</sup> of fabric. Although exports stood at around 320,000 m<sup>2</sup> - or less than 30% of total production volumes have been growing and almost quadrupled since 2017.

The number of knitting factories exceeds 250 manufacturers producing over 309,000 tons of fabric. Similar to weaving, exports of knitted fabrics were quite small compared to production with 46,000 tons exported in 2021 and – again like woven fabrics – exports have quadrupled since 2017.

Exports of both woven and knitted fabrics have gone primarily to neighboring countries and regional markets such as: Russia, China, Turkey, Kyrgyzstan, Kazakhstan and Poland. The industry is currently dominated by cotton production and basic fabrics. Uzbek producers have yet to move towards higher value-added production and more sophisticated fabrics.

This focus on cotton has the local industry to rely on imports for their needs of MMF fabrics and more complex products leading to imports of 318 million m<sup>2</sup> of woven fabrics and around 50,000 tons of knitted fabrics.

### Key figures (2021)

Number of weaving companies	218
Number of knitting companies	250
Installed capacity - shuttleless looms	9,500+
Installed capacity - knitting machines	2.829
Annual capacity of woven fabric	1,148 m <sup>2</sup>
Annual capacity of knitted fabric	309,400 tons
Number of processing units	105
Export of woven fabrics	318 m <sup>2</sup>
Import of woven fabrics	492 m <sup>2</sup>
Export of knitted fabrics	46,100 tons
Import of knitted fabrics	50,700 tons



Source: Uztextilprom

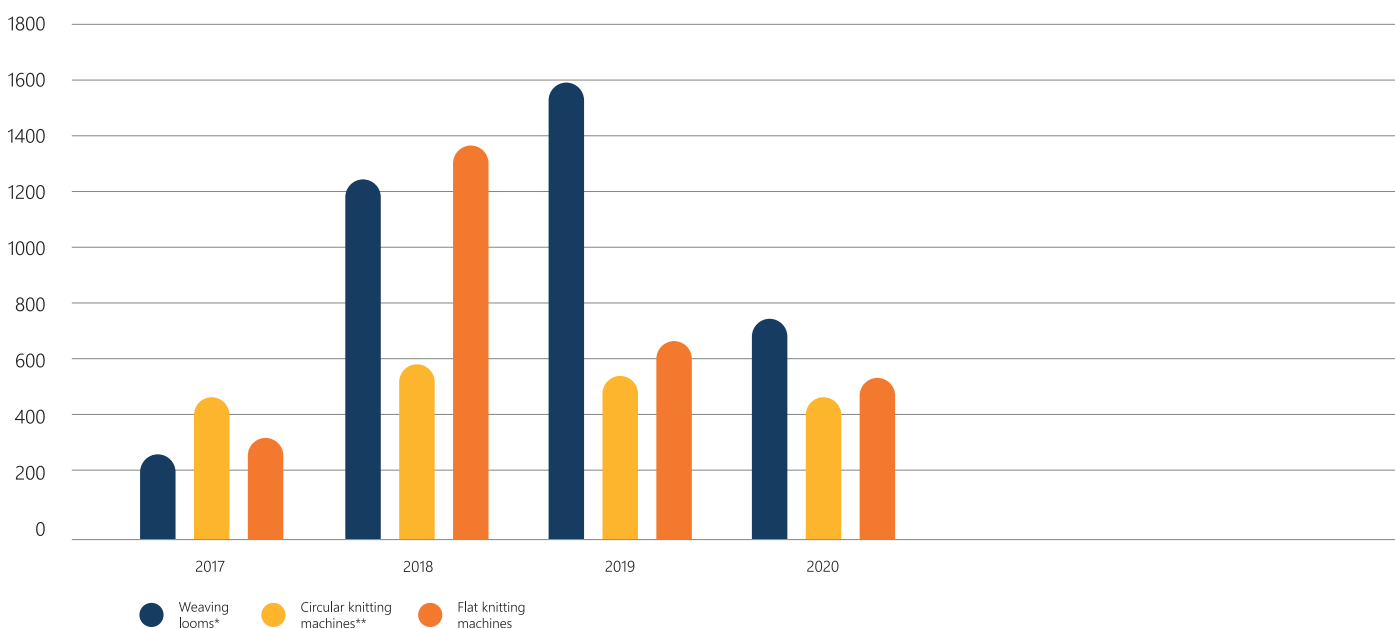
Export of woven fabrics	Volume m m <sup>2</sup>	Value m US\$
2017	87	40
2018	185	75
2019	216	74
2020	297	104
2021	319	146

Export of knitted fabrics	Volume k tons	Value m US\$
2017	11	43
2018	16	63
2019	20	79
2020	33	140
2021	46	238

Partner countries: Russia, China, Turkey, Kyrgyzstan, Kazakhstan, Poland

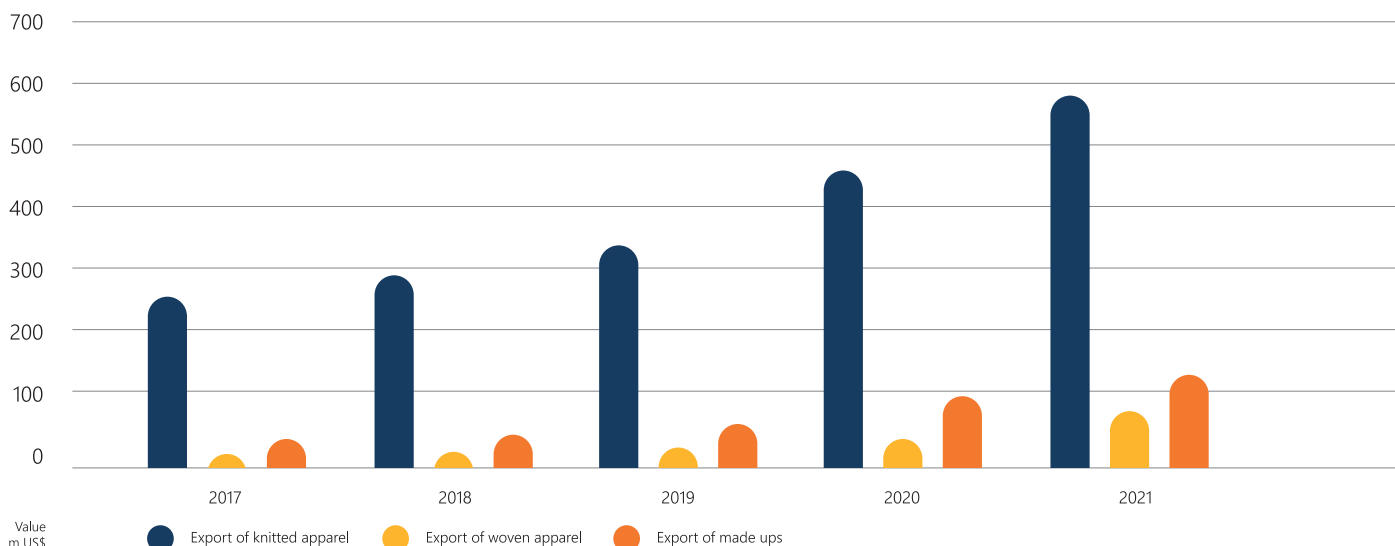
Source: Uztextilprom

### Shipment of shuttleless looms and knitting machines



### 1.1.4 Apparel and home textile manufacturing

There are over 6,000 Ready-Made Garments (RMG) and home textile manufacturers in Uzbekistan producing over 2 bn pieces in 2021. Exports of the sector have seen significant growth since 2017 growing from USD 228 m to over USD 880 m in 2021, almost a fourfold increase. The industry is largely focused on basic cotton products and exports are mainly going to neighboring countries. Although strategically positioned close to European markets, exports to Europe have been very limited so far.



### 1.1.5 Misc. (silk, ancillary industry, etc.)

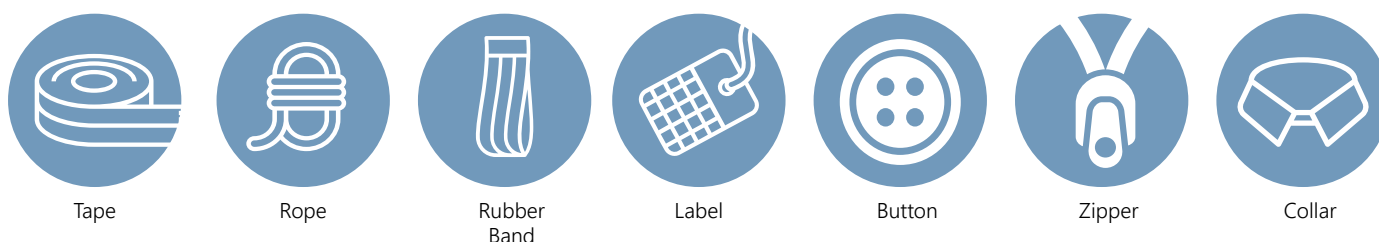
#### Silk

Uzbekistan’s silk-production tradition dates back to ancient times and is a point of national pride. Today, the sector is strictly controlled by the government, but delivering the annual harvest has a family feel. Ranking as the world’s third-biggest silk producer, Uzbekistan harvests approx. 23,000 tons of raw cocoons annually.

According to Uzbekipaksanoat Association, the sector employs 850,000 persons (mostly seasonal). In 2021, the country exported more than USD 86 m of silk-related products (silk wool, raw silk, silk fabrics, waste, etc.) mainly to China, Tajikistan, Iran and Vietnam (>85% of total exports). The country has great ambitions to boost the silk sector through dedicated investments for mulberry seedlings growing areas, modernization of the existing processing units and silk fabric production.

#### Accessories

Approx. 40 companies (50% in the Tashkent region) representing 1,000 employees are involved in the local production of accessories for the garmenting industry which includes the following:



## 1.2 Ingredients coming together for a new textile leader

The government has introduced several regulations to protect labor rights, to raise minimum wage, enforce existing labor laws in place since 1995 and to eradicate an existing tradition of employing child labor in cotton collection. The country took serious steps – in cooperation with the ILO – and was successful in completely eradicating forced labor in cotton fields. On March 10th, 2022, the Cotton Campaign has officially lifted the boycott on Uzbek cotton.

Combined with the inherent competitive advantages in Uzbekistan, the reforms have put the country in a position to become a major player in the sector and potentially one of the few game changers in this ever-evolving industry.

What is even more impressive, is the fact that many of those policies, incentives and regulations are in-tune with global contemporary trends, giving Uzbekistan the opportunity to position itself as one of the most modern textile manufacturing countries.

Those changes include addressing labor rights, the environment, infrastructure, export and investment incentives as well as logistics and transportation.

### 1.2.1 Labor comes first

The government has introduced several regulations to protect labor rights, to raise minimum wage and to enforce existing labor laws in place since 1995: Moreover, in recent years, the country has taken several serious steps to enforce already existing laws as witnessed by several organizations and on March 10th, 2022, the Cotton Campaign has officially lifted the boycott on Uzbek cotton.

*The 2021 ILO Third-Party Monitoring Report of the Cotton Harvest in Uzbekistan found that Uzbekistan had eradicated systemic forced and child labor during the 2021 cotton harvest. The ILO has been working with Uzbekistan since 2013, to reform agricultural and economic practices in the cotton sector. The work included changing attitudes as well as behaviors and making child and forced labor unacceptable in both law and practice. There has also been progress in establishing social dialogue and collective bargaining practices in the cotton sector. In 2021 civil society representatives were trained to take part in the cotton harvest.*

*ILO article – March 2022*

The lifting of the boycott and the recognition of the ILO of the efforts made by the Uzbek government marks the abolishment of one of the key challenges that the TAS was facing, preventing it from integrating into the global industry. Moreover, this recent development will open European and US markets for Uzbek exporters at a time where importers around the world are actively looking to diversify their sourcing portfolio away from China.

Key laws	Legislation name	Date	Summary
	Labor code	1995	Labor code for the Republic of Uzbekistan
	Labor law	2016	Law no: ZRU – 410 - Labor protection law and protection of child labor
	Minimum wage	2022	Minimum wage set at 822'000 UZS (approx. USD 75)

Source: Uztextilprom

With the lifting of the boycott, a shift has happened towards decent job creation free of forced or underpaid labor. However, some challenges still exist as identified by local stakeholders in the Cotton-Textile Clusters: such as the lack of awareness of legal requirements, lack of management systems at the farmer clusters, limited forecasting of required labor force, lack of standard protocols on recruitment, lack of grievance mechanisms and worker communication channels. Overall, there is a broad lack of understanding concerning the Labor Code and other requirements of fair recruitment or grievance handling and redressal.

There is a six-step Grievance Redressal Mechanism (GRM) for external stakeholders, such as civil society organizations and farmers' households, operated by the Ministry of Employment and Labour Relations (MELR) (<https://www.mehnat.uz/>). Yet, a separate mechanism for workers is still in the process of being planned as mentioned by the World Bank Group. There is a hotline through which anyone - including workers - can raise grievances, and workers can bring their issues to labor inspectors. However, this process can be long and cumbersome and better process is needed within the cotton textile clusters to handle the complaints at the source.

The legislation translates into concrete provisions the way companies must comply with their due diligence obligations in the field of human rights. This involves analyzing human rights-related risks, taking measures to prevent and mitigate human rights violations, setting up grievance mechanisms and reporting on their activities. (The new Supply Chain Act (bundesregierung.de))



*The lifting of the boycott and the recognition of the ILO of the efforts made by the Uzbek government marks the abolishment of one of the key challenges that the TAS was facing.*





## 1.2.2 The environment takes the lead

In its efforts to move towards a modern industry the government of Uzbekistan has in recent years introduced a number of legislations aimed at protecting the environment. In addition to a number of Private Public Partnerships to build waste management facilities in several cities in Uzbekistan serving the industry at large and the TAS in specific. The package of laws and regulations includes:

Source : [https://ewdata.rightsindevelopment.org/files/documents/01/ADB-54282-001\\_Oz6Aww6.pdf](https://ewdata.rightsindevelopment.org/files/documents/01/ADB-54282-001_Oz6Aww6.pdf)

### List of environmental laws

Uzbekistan has created a legal framework designed to protect the environment as well as make available the tools to manage it. The legal framework includes over 100 laws and 50 decrees, by-laws, and regulatory documents. The list includes – but is not limited to - the following:



#### Constitution of Uzbekistan

Defines land, subsoil, water, flora, fauna and other resources as national wealth subject to the protection of the state.



#### Law on Environmental Expertise

State Environmental Expertise (SEE) is the state body responsible for assessing environmental impact of the various activities within the country and is regulated by decree No. 949 of 2018.



#### Law on Nature Protection

This law regulates the relationships between the various bodies within the Uzbek government and the private entities regarding all aspects of environmental protection and the use of natural resources. The law also addresses, education, research, principles in environmental management, standards and limits to be enforced. It also covers greenhouse emissions, cooperation and integration with international bodies with the purpose of preserving the environment.



#### Law on Water and Water Use

This law regulates the use of water as well as defines the rights and obligations of users as well as manages the administration of water rights, licensing and monitoring of water use as well as enforcement of regulations.



#### Law on Air Safety

This law is concerned with protection of the atmosphere from human activities. It defines maximum concentration of pollutants and gas emissions.



#### Law on Waste

Law No. 362-II (2002, modified 2011) addresses minimizing the production of waste, re-use treatment and disposal. The law also involves citizens through active participation in the discussions relating the waste.

Moreover, to encourage companies to meet international standards, the government has provided companies with a program that covers 100% of the cost of certifications with no ceiling on the number of certificates per company. This program has yielded prompt results with several companies in the sector holding international certificates. The program is ongoing and is expected to encourage many more companies to obtain international certifications in both environmental and social compliance. Considering the growing requirements from consumers and international buyers for responsibly sourced goods, such an initiative is of significant importance to Uzbekistan as it integrates in the global economy and sets itself up as a key regional and international production hub. It is also worthy to note that all Uzbekistan prohibits the use of Genetically Modified Organisms (GMO) and therefore all cotton grown in the country is GMO free.

Certificate Name	No. of companies
OEKO-Tex	56
BSCI	10
GOTS	11
ISO	500

## Key Message

*Uzbekistan has put together some of the most modern laws to protect the environment that are up-to-date with global trends and international standards. Additionally a number of incentives are put in place to encourage manufacturers to produce responsibly and to certify their products as such.*

### 1.2.3 Ready for industrialization (Industrial infrastructure / Service land)

There are 22 Free economic zones and 100 economic zones for light industry. Industrial land is often allocated through a bidding process where the effectiveness per square meter is used as a criterion for allocating the land. Bidders have to provide information about their intended project(s) with clear KPI's (Investment, job creation, value added production, size of exports, etc.).

For larger projects, the government could negotiate with investors and possibly provide the entire infrastructure for the project as well as in some cases provide CAPEX contribution of up to 10%, in addition a state fund was established that could invest up to 30% of capital in strategic projects. Several decrees were passed in recent years designed to support the industry with focus on exporting sectors. The decrees offer several benefits for industry at large and the TAS in specific which include:

	Legislation name	Date	Summary
1.	Support for export activities	2021	Decree No. 6306 – Up to \$5 Million in support for working capital and other benefits for exporting companies
2.	Support for export activities	2021	Decree No. 6091 - Various tools for short-term financing for export orders
3.	Measures to realize the export potential	2021	Decree No. 4949 – support with 50% of the total cost of establishing an international presence
4.	Measures to further liberalize foreign trade	2017	Decree No. 3351 – allowing companies to export without the need for Letters of Credit and other paperwork
5.	Exempt equipment from fees	2021	Cabinet Resolution No. 352 – exempt exporting companies from VAT and custom duties on selected manufacturing equipment
6.	Expand list of exempt equipment	2020	Cabinet Resolution N. 750 – procedure for the inclusion and expansion of list of equipment exempt from customs and VAT
7.	Expand production of competitive products	2021	Decree No. 5262 – raw materials for certain exported products are exempt from customs until January 2024
8.	Support to light industries	2019	Decree No. 4453 – property tax benefits for exporting companies (more than 60% of their revenues)
9.	Stimulate export potential	2018	Decree No. 5587 – tax benefits and reductions for companies with exports exceeding 15% of their total revenue
10.	Stimulate deep processing and export	2022	Decree No. 53 – various financing and grant schemes for companies investing in fabric production and processing

Within the above decrees there are several specific incentives that are designed to promote exports such as:

- Transportation support (50% of the cost up to 3,000 km – this might increase to 70% this year)
- Certification cost (fully covered by the government)
- Establishment of international presence (the government will pay 50% of the rent cost for an international office)
- Marketing campaign (the government will cover a significant portion of the cost of an international marketing campaign)
- Participation in trade fairs (the government will cover the cost of participation in international trade fairs)
- Cost of sending samples fully covered by the government
- Membership in some international selling platforms (such as: Alibaba, Amazon, etc.) are covered by the state as well
- Registration in international organizations as well as participation in business seminars, training and international forums is also covered by the government
- Cost of insurance for goods
- Cost of participation in international tenders
- Foreign consultants advising “Uztekstilprom” and “Uzcharmsanoat” associations, as well as foreign experts working in textile, sewing and knitting will pay 50% of the established rate
- Korean-Uzbek Textile Technopark (KUTT), a research and training center for textiles and apparel, has been granted customs benefits until January 2023, for all its imports of training machinery, testing equipment and other educational tools.



Korean-Uzbek Textile Techno-Park

## Key Message

*The Uzbek government has put together a long list of benefits and incentives to support the development of its textile and apparel exports for both local and international investors.*

### 1.2.4. Textile clusters: a launching pad

In 2018 Uzbekistan passed the law on the formation of cotton and textile clusters aimed at developing the textile industry. The concept aims at giving incentive for companies to combine cotton production with manufacturing of textiles. The scheme works towards consolidating a previously fragmented industry with the objective of reducing the role of government in the trade and manufacturing of cotton as well as encourage the private sector to lead the growth in the industry. As of 2022, there are 134 clusters representing 100% of the production of cotton in Uzbekistan.

Clusters can grow cotton either on the land that was allocated and leased to them or by contracting farmers and cotton growers directly and buying their production. A cluster organization has been established to oversee the development of the clusters, organizing their work and facilitating procedures. The adoption of the cluster system follows reforms that were implemented in 2020 through the presidential decree (PP-4633), liberalizing the cotton sector which was previously a government monopoly.

Supporters of the cluster structure see that it can lead the growth of the industry and provide a better living standard for farmers. The perceived benefits of the cluster system include:

<p>Improving the cultivation of cotton by using modern technologies (such as drip irrigation, which also reduces the consumption of water), a more scientific approach to agriculture promising higher yields. And rightfully so, to date, 126,000 hectares have been modernized with drip irrigation and 143,000 hectares of previously abandoned land have been reused. This represents already a quarter of the total cotton planted land in 2021.</p>	<p>Improving the livelihood of farmers through creating an open market for cotton where farmers are free to go into contractual agreements with the highest bidder.</p>
<p>Large clusters that are well invested are more capable of meeting international social and environmental standards as well provide a more consistent flow of orders.</p>	<p>Clusters introduced modern high-yielding and disease-resistant cotton seed varieties in the supply chain and, for the first time, tried out organic cotton production that is certified by the European Union in 2019 (USDA-GAIN, 2020).</p>

Critics of the cluster structure fear that the industry from cotton production to finished goods will be concentrated in the hands of a small number of companies who will eventually control the entire sector. However, the government continues to give licenses to new clusters with some established to reclaim previously abandoned agricultural land.

Other critics view that clusters have a complex transactional relationship with cotton farmers. The cluster model is a farmers' 'bondage' by private cotton textile companies rather than the emergence of liberalized cotton markets. Clusters are state-designed monopolies because the private textile companies control the access to almost every production and marketing resource needed for cotton supply (like agricultural loans, seeds, fertilizers, fuel, cotton gins, and export licenses). However, the cluster structure allows farmers to contract with other clusters outside of their immediate region, a rather recently introduced mechanism which has to be consolidated and streamlined.

## Key figures (2021)

Number of clusters	134
Total investment	USD 1.8 bn
Number of cluster employees (textile production)	~390,000
Jobs created	>150,000
Sown cotton area in Uzbekistan	100%

Source: Uztextilprom

## Key Message

The cluster scheme is a unique approach to developing the textile industry that combined cotton and textile production under one roof. The regime has proven successful in attracting large investments in state-of-the-art manufacturing facilities.

### 1.2.5 Location, location, location

Uzbekistan sits at a critical intersection between Asia and Europe with land access to a number of CIS countries, Turkey, South Asia, and Europe and in recent years several projects were launched to facilitate trade between Uzbekistan and its neighbors, moreover, air transport has gained importance.

Today goods exported from Uzbekistan can reach markets within remarkable times and at competitive costs as shown below:





The recent war in Ukraine has closed the main route to Europe through Russia, however the government along with the industry were able within a relatively short period to develop new routes to Europe via Pakistan, Iran and Georgia.

Moreover, to encourage exports the government has created a program to cover 50% of the cost of transportation for exporting companies, with no ceiling on the budget. The program is still ongoing, and it has been discussed that the portion covered by the government could go up to 70% in 2023.

### Examples of main logistics routes (trucks)

Route	Costs (USD) Container (40')	Costs (USD) Container (40')
Tashkent - Warsaw (Poland)	3,000-5,000	4-5 weeks
Tashkent - Berlin (Germany)	4,000-4,500	5-6 weeks
Tashkent - Istanbul (Turkey)	2,500-3,000	4 weeks

Source: Uztextilprom

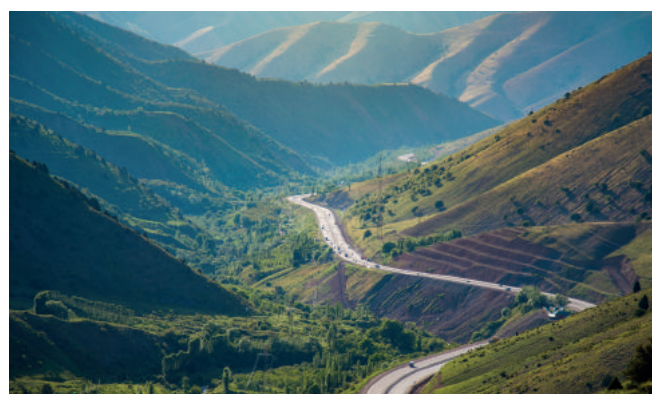
### Key Messages

*Uzbekistan sits at an important intersection between Asia and Europe with quick access to both allowing it to become both a manufacturing and trading hub for textiles and apparel.*

## 1.3 Outgrowing growth

Uzbekistan has managed over the past few years to develop its economy and open its doors to the world. The reforms were speedy and addressed several long-standing challenges which resulted in the modernization of the business environment.

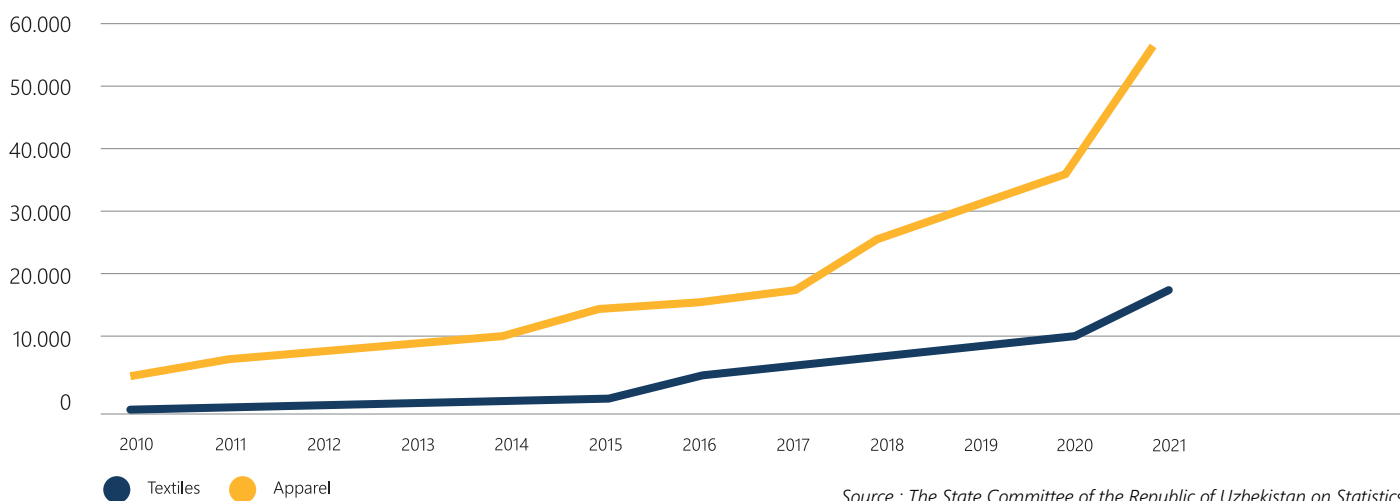
The results of those recent changes have started to bear fruit which can be seen through the increase in both the country's production and trade figures.



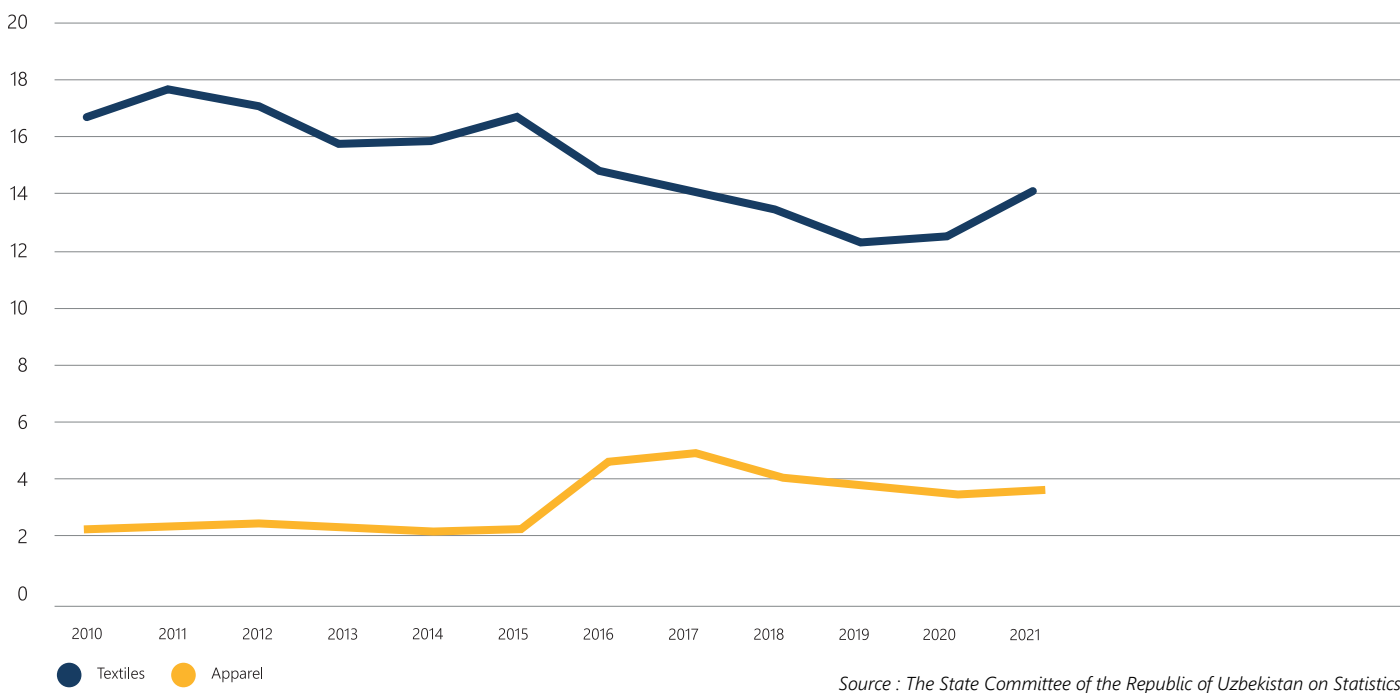
### 1.3.1 Production on the rise

As mentioned in various previous sections, the country's production of cotton, textiles and apparel has been growing exponentially over the past 5 years with additional capacity, improved cotton production and growing export markets. Uztextilprom is eyeing USD 9-10 Bn in exports within 5 – 7 years; a challenging but achievable target. The growth is expected to come from expanding trade volumes with existing regional partners, growing in new markets with more focus on Europe – leveraging the newly acquired GSP+ status – and introducing more complex products with higher unit value.

### Production of textiles and apparel (m m<sup>2</sup>)



### Importance of the textile and apparel sector in the Uzbek manufacturing sector (% of production value)

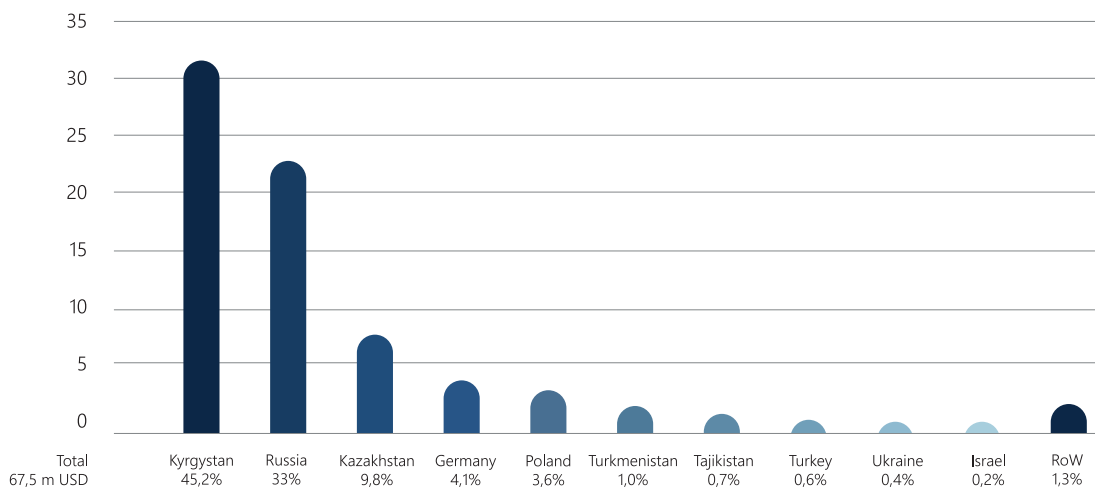


### Key Messages

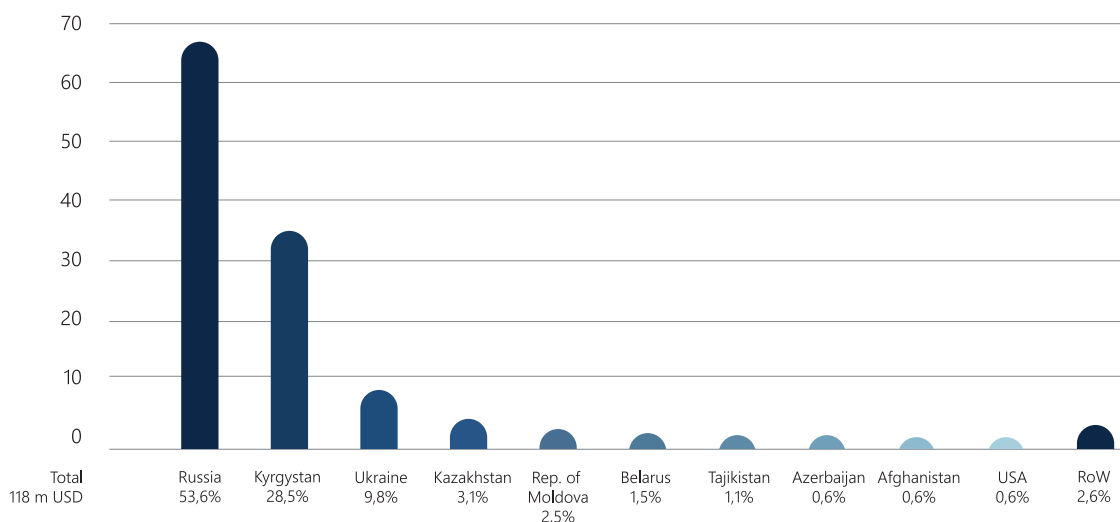
*In the past decade, Uzbekistan managed to grow its production in textiles and apparel over 10 folds. The impact of the reforms in the last 5 or so years can be seen in the exponential growth in production.*



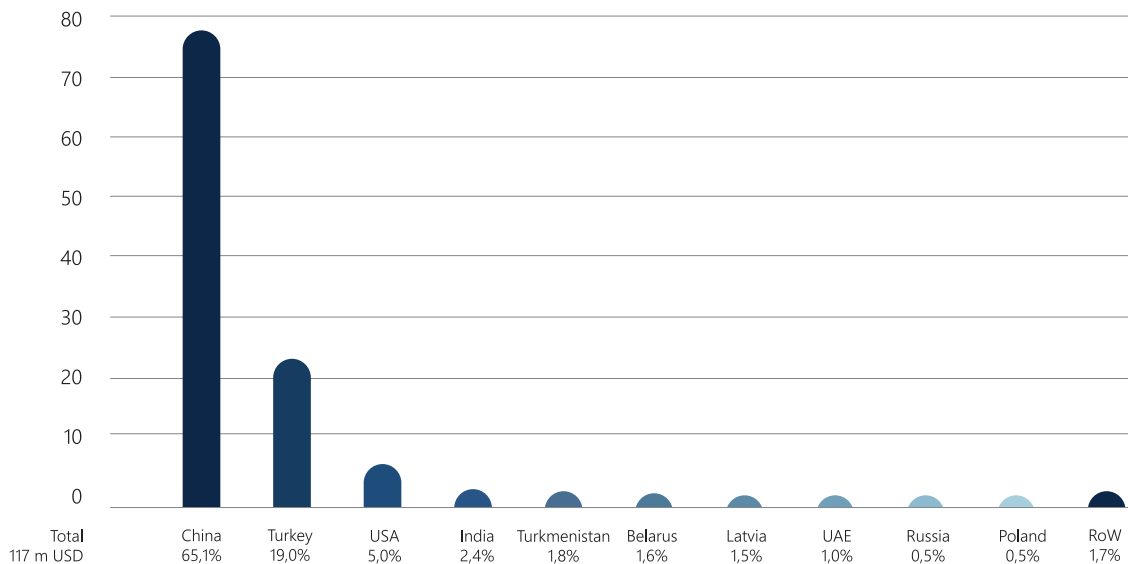
### Export of woven garment (HS 62) in 2021 (m USD)



### Export of made ups (HS 63) in 2021 (m USD)



### Import of made-made filaments (HS 54) in 2021 (m USD)



## Export of cotton products (HS 52) in 2021 (m USD)

HS 5201	Cotton; not carded or combed	136,5	7,1%
HS 5202	Cotton waste (incl. Yarn waste and garnetted stock)	44,6	2,3%
HS 5203	Cotton , carded or combed	n.a.	n.a.
HS 5204	Cotton sewing thread, whether or not put up for retail sale	0,001	0,0%
HS 5205	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	1.603,2	83,2%
HS 5206	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, measuring 714.29 decitex or more (not exceeding 14 metric number), not for retail sale	10,1	0,5%
HS 5207	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, put up for retail sale	0,06	0,0%
HS 5208	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m2	110,8	5,8%
HS 5209	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200 g/m2	17,7	0,9%
HS 5210	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing not more than 200 g/m2	0,03	0,0%
HS 5211	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing more than 200 g/m3	0,6	0,0%
HS 5212	Other woven fabrics of cotton, n.e.c. in chapter 52	2,4	0,1%
		Total	1.926

## Key Message

*Combining its unique location with its competitive production costs puts Uzbekistan in a unique position to become a fast and price competitive supplier to European as well as Asian buyers.*

### 1.3.3 A new fashion hub

Domestically, the Uzbek local market has continued to develop and take shape. Statista published research estimating the size of the fashion retail market at USD 456 m in 2022 and a projected growth rate of 20% per annum is expected to drive that figure to USD 805 m by 2025. The research also projects online (?) user penetration to grow from 24.7% to 30.2% in the same period with around 10.7 m users in 2025.

The retail market in Uzbekistan is growing on the back of both international and local brands. While some of the world's largest retail brands are present such as LC Waikiki, Armani Exchange, Pimkie and Celio, domestic fashion brands have also started carving a space in the market such as Fratelli Casa, Anor, Lali and Suzani Kasimbaeva. The local designers offer a mix of western and traditional fashion often fused together.

The growth in the local design scene is largely attributed to the presence of fashion institutions and universities such as the University of Uzbekistan with its bachelor and Master programs in styling, the National Institute of Arts and Design through the Department of Fashion Design and the Management Development Institution of Singapore in Tashkent which offers fashion education through its School of Fashion and Design, the University of Uzbekistan with its bachelor and Master

programs in styling and the National Institute of Arts and Design through the Department of Fashion Design. Other institutions with more focus on textiles and apparel are also active such as the Textile Institute. This myriad of academic institutions with focus on both Fashion and Textiles have produced a sizeable number of graduates with both the knowledge and the aspiration to be part of the fashion industry.

Moreover, Uztekstilprom in cooperation with the GIZ has launched the Fashion Incubator in Tashkent (FIT), a center dedicated to supporting young fashion brands and designers through their journey to establishing viable and sustainable businesses. The FIT provides a number of services to help fashion entrepreneurs develop their ideas as well as support them in the early stages of establishing their businesses. The services include mentorship and training with plans to include small scale production, promotion and advice among others.



## 1.4 The new kid on the block

Uzbekistan is a recent comer to an already crowded industry with manufacturing capacities competing globally for key markets.

However, the country comes with a set of advantages that could easily position its textile and apparel industry among the top performing in the world and as a key sourcing partner for European, Asian and US buyers.



### 1.4.1 The magic sauce

Despite being a newcomer to the industry, Uzbekistan managed within a short period to attract significant investments in the sector. A significant number of clusters have built ultra-modern spinning, weaving, and knitting facilities with state-of-the-art technologies. The reasons for these new investments are many and range from a healthy investment environment to attractive trade agreements and a growing economy.

One of the key advantages is significantly competitive manufacturing costs. The country's labor wages, utilities and raw material costs are some of the most competitive in emerging economies. With a young and growing population, wages are expected to remain competitive for a significant period in the future. Benchmarked against its regional and global competition, the country fares quite attractively:

#### Key figures

	Unit	value
Monthly net wage (€)	€	225
Minute production cost	€	1,2
Electricity	€/KwH	0,035
Water	€/m3	0,2
Uzbekistan - Germany	€/40' container # days	2,230 - 14+
Uzbekistan - Turkey	€/40' container # days	1,770 - 14
Sewerage	€/m3	0,12
Fuel	€/liter	0,45
Industrial space rental	€/m2	2.5-12

Source: Uztextilprom

#### Key Message

*Combining its unique location with its competitive production costs puts Uzbekistan in a unique position to become a fast and price competitive supplier to European as well as Asian buyers.*

## 1.4.2 A future leader in sustainability, and transparency?

Over the last decade it has become apparent that it is no longer sufficient to be a cost competitive and quality supplier. Responsibly produced products are no longer targeting a niche market but have become a basic requirement at par with quality and price.

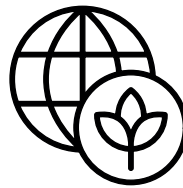
As explained above Uzbekistan has made several leaps in terms of sustainability with several decrees and initiatives directed at improving working conditions, conserving water, and addressing environmental issues. In addition, the government has offered incentives for textile companies to get international Environmental and Social certifications by covering 100% of the cost of certification for any international certificates. The results were quite positive with tens of companies benefiting from the program and according to Uztextilprom many more are on the way. Moreover, with the support of the GIZ and other donor and development organizations, the industry is getting a significant exposure to the importance of certifications for penetrating the EU and US markets with Uzbek products.

However, certification tells only part of the story, what makes the country quite unique is the fact that due to its strong fiber production (cotton), tracing products through value chains within Uzbekistan is significantly easier than in many other competing countries where raw materials are imported and monitoring a product through its manufacturing stages is either more difficult, more costly or both. Moreover, one of the positive impacts of the

Cotton Pledge was that in its efforts to lift the ban, the industry and the public sector became more open to sharing information transparently with international bodies.

The ability to track products through the value chain and the openness to share such information are becoming a key requirement for many retailers in Europe; due to an increasing set of laws and regulations requiring European business to exercise due diligence on their entire supply chain.

Additionally, businesses are responding to what is fast becoming a core demand for consumers to buy only products that were source responsibly by both monitoring their entire value chain and publicizing their sources of supply. In terms of traceability and transparency, Uzbekistan is well positioned to be ahead of many of its competitors by promoting the cluster regime. Although additional mechanisms need to be put in place and more companies need to join the effort, a good start for establishing both concepts (i.e. traceability and transparency) in Uzbekistan is expanding certification for Social and Environmental compliance.



## 1.4.3 GSP+ status

On April 10th, 2021, Uzbekistan became the 9th country to be granted the GSP+ status by the EU. This preferred access to the EU will give Uzbek products a significant advantage over many of its competitors. With textiles and apparel being one of the largest exporting sectors in the country, the GSP+ status is expected to benefit tremendously the industry and the country's international trade volumes. It is also expected to encourage manufacturers to look at Europe as a market as opposed to its traditional partners such as Russia and CIS countries, Turkey and China (of around USD 2 bn in exports in 2020, only around USD 60 m went to Europe).

To Uzbek manufacturers, supplying Europe could mean a variety of advantages and benefits including increased value per product, bigger volumes, higher efficiency and quality, long term commercial relationships and a more disciplined performance. It will also encourage companies to switch towards more complex products with higher value addition, contributing further to Uzbekistan's returns from international trade.



For many EU buyers having a producer of duty-free products, competitive production costs and relatively short transit times could be a game changer, especially as importers are looking to diversify their sourcing away from China specifically and the Far East generally in search of suppliers closer to home.

The GSP+ status could provide quite an attractive incentive for European buyers to invest in developing a solid supplier base in Uzbekistan. GSP+ provides also a good opportunity to speed up the compliance efforts of Uzbek textile companies to demanding social and environmental standards in order to maintain the status as long as possible.

### What is GSP +

"The GSP+ is a special incentive arrangement for Sustainable Development and Good Governance that supports vulnerable developing countries. Next to fulfilling the eligibility requirements of the Standard GSP, GSP+ countries are required to ratify 27 international conventions on human rights, labour rights, environmental protection and climate change, and good governance.

In order to ensure effective implementation of the conventions as well as compliance with reporting obligations, the EU engages in monitoring activities with the GSP+ countries. GSP+ beneficiaries can benefit from complete duty suspensions for products across approximately 66% of all EU tariff lines."

Source : <https://gsphub.eu/country-info/Uzbekistan>

### List of GSP+ beneficiary countries (as of 1 January 2022)



Bolivia



Cabo Verde



Kyrgyzstan



Mongolia



Pakistan



Philippines



Sri Lanka



Uzbekistan

Source : European Commission

## 1.4.4 New trade agreements

Uzbekistan has 12 trade agreements in force (including the most recent one signed with the UK end of 2021), 0 signed agreements pending ratification, and 0 trade agreements under negotiation. Of the economy's total exports, 37.4% are directed to its trade agreement partners, while 43.6% of its total imports come from trade agreement partners.

### Trade agreements of Uzbekistan

	Status	Year in force
Russian Federation-Uzbekistan	in force	1993
Commonwealth of Independent States (CIS)	in force	1994
Uzbekistan-Republic of Moldova	in force	1995
Azerbaijan-Uzbekistan	in force	1996
Tajikistan-Uzbekistan	in force	1996
Ukraine-Uzbekistan	in force	1996
Kazakhstan-Uzbekistan	in force	1997
Kyrgyzstan-Uzbekistan	in force	1998
Economic Cooperation Organisation Trade Agreement	in force	2008
Georgia-Uzbekistan	in force	2010
Uzbekistan-Belarus	in force	NA

Source : WTO

## 2. Some challenges to overcome

There is no doubt that Uzbekistan has been able to implement a number of hard reforms that yielded impressive results in an exceptionally short time. However, the industry still faces several challenges that are curbing its ability to meet its full potential. Some of these challenges are being addressed by the government and the industry while others will still require additional focus.

### 2.1 International reputation

For several years, Uzbekistan's economy has been shielded and stagnant. The country suffered from either a bad reputation for corruption and violations of human rights or – at best – has largely been kept outside of the global arena leading many to know little about the country. The recent progress achieved by the current administration has yet to be communicated to the rest of the world.



#### 2.1.1 The post cotton pledge era

*"The Cotton Campaign is a coalition of human and labour rights non-governmental organizations (NGOs), independent trade unions, brand and retail associations, responsible investor organizations, supply chain transparency groups, and academics who work to end forced labour in cotton production"*

In 2011 the Cotton Campaign called for a boycott of Uzbek cotton after monitoring child and forced labor during the cotton harvest. 331 brands and retailers joined the campaign and signed a declaration that became known as the "Cotton Pledge". Exports of Uzbek cotton were affected dramatically, even companies that did not officially sign the pledge stopped sourcing products made of Uzbek cotton.



In response to the Cotton Pledge, the Uzbek government started taking steps to eliminate forced labor from its cotton production and picking, working directly with partners such as the ILO, who monitored practices in the industry as well as provided technical support and training to help eliminate forced and child labor from the industry. The numbers of violations kept dropping in the following years until in 2021 when the country was declared free of forced and child labor. The Cotton Pledge was lifted on March 10th, 2022.

“Our collaboration has yielded good results – because after 7 years, this year’s report shows that Uzbek cotton is free from systemic child labour and systemic forced labour,” said ILO Director-General Guy Ryder. “There is now an opportunity for Uzbekistan to realize its goal of moving up the value chain and to create millions of decent full-time jobs in textile and garment manufacturing.”

Source :ILO March 2022



An estimated two million children have been taken out of child labour and half a million adults out of forced labour since the reform process of the Uzbekistan’s cotton sector began. The results of the reforms can be seen in the development of cotton prices as monitored by the ILO.

A significant step in the reforms was the privatization of the cotton industry, removing decade long control of the government over the production and trade of the fiber. The state then switched roles from being a producer to its proper role of a legislator and a monitoring body to ensure compliance of cotton growers with regulations. The new system – through the development of textile clusters – also benefits to cotton growers who saw their wages paid per kg increased thanks to a new competitive environment.

The lifting of the cotton ban marked the removal of one of the biggest challenges that were facing the Uzbek textile and apparel industry. However, a significant effort is still needed to rebuild the country’s international reputation which remains significantly affected by the years of boycott.

### Wages and forced labour percentages (2015-2021)

	2015	2016	2017	2018	2019	2020	2021
Forced labour (% of total picker workforce)	14%	14%	13%	7%	6%	4%	1%
Wages for cotton pickers (som/kg)	200	280	450-700	700-1,300	800-1,400	1,000-1,500	1,200-1,900

Source : 2021 third-party monitoring of child labour and forced labour during the cotton harvest in Uzbekistan (ILO)

### Key Messages

*The recognition by the ILO of the eradication of forced labor has led to the removal of the cotton pledge and has granted Uzbekistan a fresh start that will require the industry to put effort in rebuilding the country’s reputation internationally.*

## 2.1.2 An «unknown» new export platform

In addition to the impact caused by the cotton campaign, Uzbekistan until 2016 remained largely secluded from the global economy. Few in the western world know much about it. Even with the leaps that the country has taken in the last 6 years, few buyers in Europe are aware of the presence of a significant textile industry in Uzbekistan. The country needs to do more to educate the world.

In a survey conducted by Gherzi in 2022 with a number of European buyers, only a few were aware that Uzbekistan had a textile industry. The small number who had some knowledge, were still ignorant to the advantages that the country could offer them. The Cotton Pledge has over the years also created a negative impression of Uzbekistan even if the average person is unaware of the reasons why. Uzbekistan will need to work hard to be able to communicate to the world, especially European importers, brands, buyers and retailers that Uzbekistan is not only free of those negative associations but that it is also capable of delivering products at competitive prices and conditions. The results of those recent changes have started to bear fruit which can be seen through the increase in both the country's production and trade figures.

### Key Messages

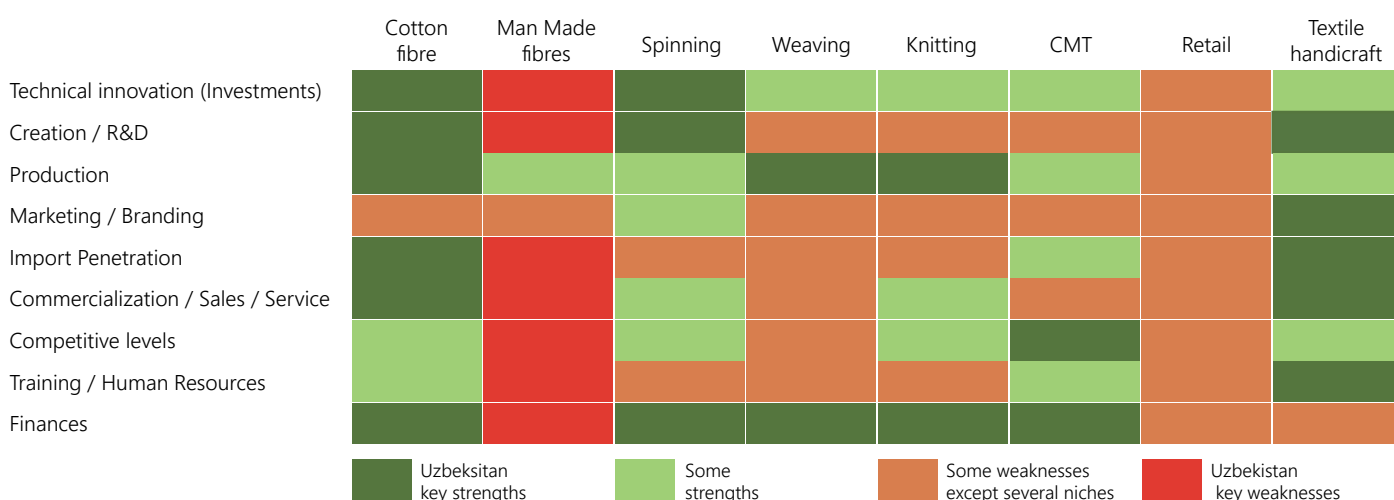
*Uzbekistan's Textile and Apparel industry with its significant potential, remain unknown to a large portion of buyers and traders in the sector. More efforts will be needed to educate the world about the opportunities in sourcing from Uzbekistan.*

## 2.2 Product and market mix and diversification

Although it was mentioned earlier in several parts of this report, the focus on cotton and basic products is one of the key challenges for Uzbekistan and resolving this risk should be a priority for the near future. With its proximity to Europe, Uzbekistan has a significant opportunity to become a short lead-time supplier to European importers. This entails the ability to deliver fashionable products, in good quality and a variety of materials, workmanships and finishes. The current focus on cotton will make it difficult for buyers to place their orders for products with the highest value addition in Uzbekistan and will – if anything – just focus on cheap and basic cotton products.

This is possibly one of the biggest challenges facing the Uzbek Textile and Apparel sector; the industry is almost exclusively focused on cotton and cotton products. While the global consumption of fibers is quickly shifting towards Man Made Fibers and cotton's share is shrinking to around 20%, the Uzbek industry is positioned as a supplier of basic cotton products. Moreover, the relatively young and nascent industry has focused largely on simple products that are exported to neighboring countries, which has further positioned the country as a supplier of cheap and basic goods. Nevertheless, there are several state-of-the-art manufacturing facilities that – with little help – could become world-class manufacturers and exporters of higher value-added and complex products. As of now, manufacturers rely on imports for their needs of MMF yarn and fabrics, however, there are discussions about investments in synthetic fibers that are fast coming to Uzbekistan supported by a focus from the industry to make available locally produced MMF products.

### Uzbekistan Matrix 360° snapshot





In addition to the challenges imposed by a cotton-focused product mix, the country's exports have – so far – been largely targeting a small number of destinations. The country's exports of finished goods (HS 61, 62 and 63) totaled USD 763 m in 2021, of which 56% went to Russia while 33% went to Kyrgyzstan. Although these are natural markets for Uzbekistan due to the language, historic relations, and geography; this concentration of 88% of exports in only two countries is not only risky but also limits the country's product / quality mix as well as puts a cap on its growth potential by forgoing some of the largest consuming markets in Europe, the US and Asia.

## Key Message

*Uzbekistan's product and market mix is quite limited with a strong focus on cotton products and on neighboring markets. The expansion into synthetics and non-CIS countries will give the country a significant long-term growth potential.*

## 2.3 Skills

Although enjoying a significant advantage in terms of labor wages and availability, there is a limited supply of trained and skilled labor. Many factories have invested generously in acquiring the latest technologies and erecting some of the most impressive manufacturing facilities by all global standards, but little has been done in terms of vocational and technical training of machine operators, labor and middle management. With the absence of a sufficient supply of skilled labor, it becomes even more challenging to manufacture complex products with higher value addition. There are some initiatives within the government and donor community, however, a significant gap still persists.

There are 3 main textile institutions in Uzbekistan delivering university education in the Textile and Apparel industry:

<p><b>01</b></p> <p><b>Tashkent city, Almazar college of light industry</b></p>	<p><b>02</b></p> <p><b>Kashkadarya region, Karshi district, Karshi college of light industry</b></p>	<p><b>03</b></p> <p><b>Tashkent Textile Institute, including:</b></p> <p>Faculty of Cotton Industry Technology; Faculty of Technology of the Textile Industry; Faculty of Light Industry Technology and Design; Faculty of Printing Technology</p>
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In addition, a number of private academic institutions deliver design and fashion-oriented courses and diplomas. However, the output in terms of number of graduates remains smaller than what the industry will need to grow its production and exports to meet its plans and targets. The lack of practical training centers – even if significant efforts are currently deployed – will remain a strong Achilles' heel for the Textile and Apparel Sector.

In the survey conducted in 2022 by Gherzi with European buyers, the few respondents that had conducted any business with Uzbekistan have complained of a significant gap in understanding the needs, requirements and business practices of European businesses by Uzbek companies. Issues with communication, meeting deadlines, defining and respecting quality parameters were mentioned several times. Such issues can only be mitigated by training middle management.

Moreover, in a set of interviews conducted in 2022 by Gherzi with the Uzbek manufacturers, it was noticed that a growing number of companies is relying on expatriate calibers for middle and upper management positions. This could be a temporary solution for a transitional period, however, for the long-term development of the industry, Uzbekistan will need to rely on a base of local middle and technical workforce able to manage efficiently and competitively Uzbek companies to a global standard.

## Key Message

*Although labor wages are competitive, there remains a significant shortage of skilled labor and middle management that are capable of driving the country's ambitious export growth and product diversification.*

## 2.4 Environmental challenges

Despite the bundle of regulations and decrees that were passed to protect the environment, as well as the efforts made to educate and bring manufacturers up to international standards, the country still faces some challenges to be able to fully satisfy modern requirements for a more responsible production in terms of environmental sustainability.

### National Agricultural Development Strategy

*"The 2020-2030 National Agricultural Development Strategy and its roadmap made it a priority to implement smartsticks and mini-gauging stations in irrigation schemes across the country. The tools are to be put into use to facilitate effective water delivery and payment for water services nation-wide, helping to alleviate water scarcity. According to this strategy, investment projects are being implemented jointly with international financial institutions in order to introduce water management units, canals and reservoirs, to introduce new technologies, implement water-saving technologies, as well as to implement the public and private partnerships. The roadmap aims to reduce water consumption in agriculture by improving irrigation systems and expanding the use of water-saving technologies."*

Source : ([www.europa.eu](http://www.europa.eu))

### Water scarcity

Uzbekistan was placed 25th out of 164 in the world's most water-stressed countries in a ranking published by the World Resources Institute. Agriculture uses over 90% of total water consumed in Uzbekistan. According to the UNDP in Uzbekistan, out of 3.7 m hectares of irrigated land served by the Uzbek Association of Water Consumers (AWC), 1.28 m hectares were used for cotton in 2016. Uzbekistan's old irrigation system with tunnels is reportedly the cause of 30-60% losses in water. If not addressed, cotton production might be at risk in the future.



### Environmental regulations and the future

Due to the low price of power and gas, companies are not encouraged to reduce their Green House Gas emissions and most manufacturers are unaware of the concept or ways to measure their environmental footprint. Moreover, and although Uzbekistan enjoys a significant advantage in abundance of sun, in a recent limited survey conducted by GIZ, none of the companies were using alternative sources of power (specifically solar), a practice that will soon be required by most European customers.

Additionally, the local regulations allowing companies to dispose of their wastewater to municipal Effluent Treatment Plants is a double-edged sword, on one hand it has forced companies to start treating their wastewater, however, the fines are not a large enough deterrent for companies to respect the effluent water parameters imposed by the government. This could lead to companies choosing to pay a fine over going through the process of pre-treating their water and on the long run having a solution provided by the state will not offer an incentive for companies to recycle wastewater which is a practice that could greatly support the government's efforts to preserve water.

## 2.5 Access to finance

The government has provided two types of financing instruments for use by companies for both their short and long term needs. The financing facilities have lower interest rates (around 11% on Uzbek Som compared to the 17% going rate – and 4% on the USD), however, investors and exporters are still facing difficulties in securing funding for both working capital and investment.

Recently the government has also increased the term of the working capital loans from 6 months in order to cover for a full cycle of cotton production and up to 2 years. In consideration of the usual terms of differed and lengthy payments from most European importers, securing short-term financing for working capital at competitive rates will remain a key requirement to expand exports of textile and apparel products to Europe and other western markets.



## 2.6 Transport and logistics

Probably one of Uzbekistan's biggest challenges. The country faces two main hurdles when it comes to shipping and logistics:

### 2.6.1. Uzbekistan is double landlocked

Uzbekistan became landlocked after the fall of the Soviet Union in 1991. Its only access to global trade must go through at least two other countries with a small number of options available, each coming with its own costs and challenges. To access the ocean, Uzbek goods will need to cross at least two countries in any direction, while road / railroad options are just as complex.

Until recently, most of the trade was going through the north of Eurasia and crossing Russia, Ukraine, and Belarus. Over 80% of Uzbekistan's trade transits through Kazakhstan, Kyrgyzstan and Russia and these 3 countries combined represent 50% of all of Uzbek's exports of finished goods. Other routes include passing through Iran or Afghanistan, which are - again – regions with high risk.

The limitation increases both the cost and time of transportation. The risks and challenges have been further complicated by the ongoing Russian – Ukrainian war, which not only affected the northern path but also any route options via the black sea. The country is serious about resolving those issues and is working on several solutions simultaneously. However, for the time being, transportation is still a challenge.

### 2.6.2. Domestic infrastructure is still weak

Uzbekistan ranked 99th (out of 160 countries) in the 2018 International Logistics Performance Index. Trade costs are high to the point where farmers and SME's are sometimes paying up to 200% of production cost to deliver their goods. This is due to a poor local infrastructure of roads, railroads, and airports as well as an uncompetitive domestic trucking industry (82% of international trade is carried out by foreign operators). Several initiatives are in place to develop the domestic transportation sector and infrastructure and will be discussed later in this report.

### 3. The way forward

Uzbekistan has made several leaps over the past years in terms of its business readiness in general and with regards to creating an enabling environment for the textile and apparel industry. The reforms have resulted in remarkable growth both in terms of investments as well as international trade. Moreover, the lifting of the cotton pledge, a major hurdle to the country's integration in the global industry, has unleashed new opportunities.

The country is on a growth path and is hoping that its exports from the textile and apparel sector will reach USD 9-10 Bn within the medium term, an ambitious but achievable target considering how investments, production and exports have developed over the past 5 years.

However, the Uzbek Textile and Apparel sector has grown largely on the back of an existing cotton production, delivering basic products to a small number of neighboring countries with natural economic and cultural ties. In order to position itself as a global player in the industry, the next phase of growth will require looking at new markets with a different product and service offering.

Achieving medium and long-term targets is not new to Uzbekistan. In 2017, the industry set several targets for itself in a strategy covering a five-year period. The main objectives of this first strategy were a move towards processing its cotton domestically rather than exporting it in raw form, a goal that was fully achieved in 2021 with nearly 100% of the cotton being processed in Uzbekistan. Other objectives included job creations in rural areas and increasing revenue from exports. Again, both targets were achieved.

Now, in its plans for the next years, Uztextilprom produced another strategy spanning the years 2022 to 2026 with several new priorities including reaching TAS exports of USD 7.6 bn by 2025, product diversification with production of MMF, penetration of new markets including the EU, focusing on transparency and traceability as well as expanding regional and international cooperation an effort which was crowned with the EU award of the GSP+ status.

The challenges that Uzbekistan will need to overcome in the next years have been mentioned earlier in the report and will need to be addressed by the government to be able to achieve their targets. Most of those hurdles are acknowledged by the state as well as the industry and in many cases there are existing or imminent initiatives designed to resolve them.

#### 3.1 Development scenario

In a hypothetical scenario where Uzbekistan is able to convert 100% of its cotton production into finished products and export the entire output, it could in theory reach exports of no more than USD 6-7 Billion. Moreover, if - in theory - it were to continue to focus on the existing markets (predominantly CIS countries), Uzbekistan would also not be able to cross – more or less - the same figures (imports in those markets would not be able to absorb higher volumes. Therefore, to reach its target of USD 9-10 Bn in exports, the country will need to take two key actions:

01

Penetrate new markets



02

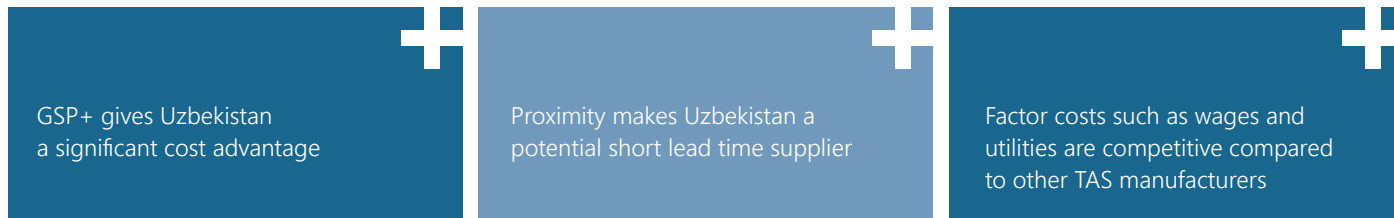
Import / expand production of raw materials





### 3.1.1 Penetrate new markets

One of the most attractive markets for Uzbekistan would be the European market for the following reasons:



Due to the above combination of advantages, matched with a trend towards shorter lead times and a general move by buyers to source closer to markets, Uzbekistan has the opportunity to become a short lead time supplier to European brands, retailers and importers.

To be able to serve this market, Uzbekistan will need to develop its offering both in terms of product as well as service to meet the requirements of European buyers. Some of the key areas that the country will need to focus on are listed in section 3.3 below.

The industry and the state are aware of the need to diversify their markets and have set a target to reach USD 1 bn in exports of garments and home textiles to the EU by 2026. In their current strategy, Uztextilprom has prepared two relevant roadmaps to achieve those plans. The first roadmap has to do with a methodological and consistent marketing effort to reach brands, retailers, and importers in the EU and the second is to focus on bringing local producers up to international standards by helping companies obtain international certificates in social and environmental compliance.

### 3.1.2 Import / expand production of raw materials

To reach a target of USD 9-10 Bn in exports of TAS products, Uzbekistan will need to make available a larger volume of raw materials (fibers, yarns and fabrics) than it is currently producing and importing. Moreover, with Man Made Fibers representing over 70% of the world consumption of fibers, the country will need to be able to integrate synthetics into its offering of products. This will require expanding both the production and processing capacity of its fibers, facilitation of importation of such raw materials.

Uztextilprom and the government are quite aware of this need and in their '21-'26 plans, a clear target is set to reach 1.6 m tons of fiber consumption per year at least 30% of which to be from MMF. Furthermore, to secure a local production of synthetic fibers, the state is granting a 10% rebate on investments in weaving and processing of MMF with a ceiling of USD 0.5 m. Fiber production is also on the list of priorities with the government willing to contribute to the establishment of MMF production facilities with both CAPEX and financing. Moreover, the industry is in high level talks with the Oil and Gas sector as well as international producers of spandex to establish their facilities in Uzbekistan serving both the domestic market and the region. The state and the industry are confident that within 5 years, Uzbekistan will have its own production of MMF to add to its existing facility using recycled PET bottles.



## 3.2 Positioning

To be able to address the EU market (and potentially the US), Uzbekistan will need to position its industry as a reliable sourcing partner with several attributes:

- **Short lead times**  
Flexibility and lean manufacturing to be able to produce orders from sampling to production within a short lead time (sometimes in as little as 4 weeks). Moreover, focusing on improving logistics including the importation of raw materials and accessories as well as shipping and delivery to Europe.
- **Responsible production**  
Training and certifications, be able to meet international standards for responsible sourcing including environmental, social and business practices..
- **Product diversity**  
Expand the existing product offering from basic cotton products to higher value-added fashion garments and home textiles. Production of Man-Made Fibers and more complex products in order to penetrate segments with higher value.
- **Service**  
Develop the industry's offering to include services such as design, product development, sourcing of raw materials and logistics support. Moreover, Uzbekistan will need to ensure that it has a supply of middle management able to handle the complex requirements of European buyers, manage communication and work proactively to develop new products.

## 3.3. What needs to be done

In order to achieve the above targets the industry will need to work on several key issues. Plans and initiatives to address some of those issues are already in motion and others are still to be put in place. Key priorities include the following list and are further detailed in the next section:

- 3.3.1 Open up to the world (imports of raw material, etc.)
- 3.3.2 Diversify products (include strengthening of feeding industries)
- 3.3.3 Conquer new markets
- 3.3.4 Communicate
- 3.3.5 Improve skills
- 3.3.6 Focus on responsible production
- 3.3.7 Improve ease of doing business
- 3.3.8 Transportation and logistics

### 3.3.1 Open up to the world



As discussed earlier in this report, the Uzbek textile and apparel industry is highly focused on cotton and its exports are concentrated in a small number of countries. In order to grow its exports, the industry will need to diversify its products. The sector needs to consider the current trends governing the growth in the global industry (such as the growth in Man Made Fibers, smaller order sizes with higher diversity and shorter turn-around times) as well as address larger markets with finished products such as EU and US to diversify its risks as well as increase its volumes; the country is well positioned to do both. Moreover, the successful implementation of reforms in Uzbekistan is a remarkable story that needs to be told to the world and opportunities made available due to those reforms should be known to investors, traders, and buyers globally.

The government is offering its support to companies and trade organizations to reach a wider audience and has put in place incentives to encourage companies to explore new markets. Support in the cost of participation in trade-fairs, the costs of opening representation offices and rolling out marketing campaigns in foreign markets are a few of the incentives available to Uzbek manufacturers to explore traditional as well as new export markets.

### 3.3.2 Diversify products

Cotton is slowly losing market share to Man Made Fibers. Today, cotton represents somewhere between 20-25% of the world consumption of fibers while MMF take-up over 70% of the world consumption. While Uzbekistan has a clear advantage in manufacturing cotton products fueled by its local production of the fiber, this focus on cotton products is limiting its ability to appeal to a wider base of buyers as well as positions the country as a supplier of basic quality products with lower value addition.

The country will need to expand its focus to value added fibers such as sustainable cotton – where it already has a clear advantage - as well as Man Made Fibers.

The government and industry efforts to draw investments in MMF into the country will be a significant support to the sector's diversification into non-cotton products. Moreover, with the education and training programs in place, the human resources needed to go into higher value-added products should – according to the government plans – be available.



### 3.3.3 Conquer new markets

As mentioned previously, Uzbek exports of finished goods totaled USD 763 m in 2021, of which over 88% went to only two countries. In order to diversify, the industry will need to look at additional destinations for its exports. Europe is a natural nearby market that will find in Uzbekistan an ideal quick sourcing partner if and when Uzbekistan is able to meet the product mix, quality and lead times.

Going forward, the government will continue to support the development of external markets. The bundle of incentives is predominantly targeting Europe as can be safely assumed from the support in obtaining the environmental and quality certificates required by buyers in Europe as well as the support to transportation up to 3,000 km which covers European destinations. Moreover, the GSP+ status recently granted to Uzbekistan will give it a significant preferential access to the European market that the local industry should exploit.

Those factors coming together are starting to yield results, for instance in Spring of 2022, Inditex visited Uzbekistan with a sizeable mission to assess the social and environmental compliance as well as explore the sourcing opportunities in the country. Other buyers and brands have also eyed Uzbekistan as a potential supplier of goods to the EU. Moreover, the industry along with Uztexilprom have visited the US and participated in an AAFA event about sustainability in a first effort to explore the North American market.

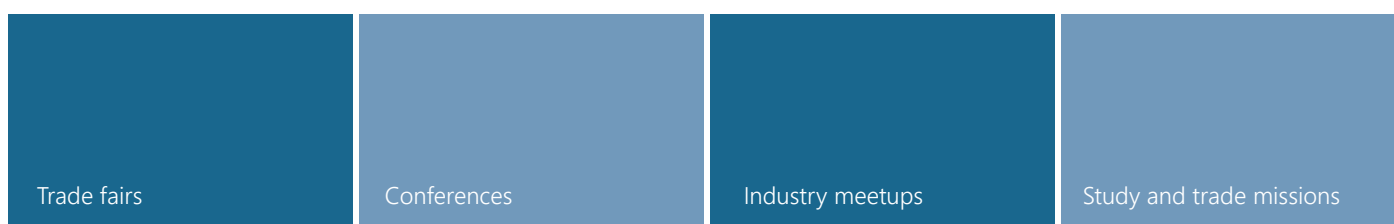
The industry should continue its strategy of communicating with international players in the industry as it helps both educate importers on what Uzbekistan can offer as well as expose the local manufacturers to the dynamics of the global industry.

### 3.3.4 Communicate

For years the local industry has suffered from the cotton pledge which prevented European and US buyers from sourcing from Uzbekistan. This has resulted not only in a smaller accessible market but has also impacted what the international textile and apparel community know about the Uzbek textile and apparel industry. This lack of knowledge combined with a negative reputation needs to be addressed and the significant reforms that were put in place should be communicated to the international community as a first step to attracting new investments and buyers.

Following the lifting of the cotton pledge, the country is now able to participate again in international events, which will open doors for actively marketing Uzbekistan as a sourcing destination for textile and apparel products. With the existing package of incentives supporting companies in participation in events, memberships in international bodies and the cost sharing in marketing campaigns as well as the opening of international offices, the industry has a significant opportunity to be present in new markets at minimal cost.

Uzbekistan should work first on attending and participating in international events such as:



The participation should be both as an industry and as individual companies. And in a later stage, Uzbekistan should be targeting organizing its own events (such as Textile Days) with attendance from international buyers.

Moreover, the industry should launch a rebranding campaign and establish its own communication tools which will require the allocation of dedicated resources and developing a network of professionals that can assist in the development and implementation of a global marketing campaign and a long-term communication and positioning of the country using a variety of tools such as:

- A YouTube channel
- Sector publications with information relevant to key decision makers in target markets
- A country profile that is updated regularly
- Social media campaigns targeting both sector professionals as well as individual consumers
- Making available trade and investment statistics as well as industry news
- Online resources for buyers such as a database of manufacturers

The above actions will require the allocation of dedicated resources and developing a network of professionals that can assist in the development and implementation of a global marketing campaign and a long-term communication and positioning of the country.

The industry and the government are already putting plans in place and have started with an effort through their diplomatic mission to communicate with buyers, retailers, and importers in various markets.

Moreover, Uztextilprom is working in partnership with a number of organizations such as the Cotton Campaign as well as their Responsible Sourcing Network to communicate the Uzbek success story in the elimination of forced labor as well as their efforts in social and environmental compliance.

### 3.3.5 Improve skills

In order to achieve its objectives, expand its market base and grow its exports, Uzbekistan will need to change its product mix and address clients in new regions. This will require a skilled workforce, modern management techniques and a more sophisticated product and service offering.

It is noteworthy in this section to shed light on the newly established Fashion Incubator (FIT) in Tashkent, an initiative launched to support the development of the local fashion sector by supporting entrepreneurs in creating and sustaining profitable businesses through providing a bucket of services required by early-stage fashion companies and designers. The FIT will support the creation of a modern and vibrant fashion industry that is at par with international brands able to uplift the design capabilities of the Uzbekistan fashion market.

There are currently 3 key institutions offering academic training for textile engineers as well as a number of vocational training programs for machine operators and line supervisors, however, the output in terms of number of graduates and level of skills required is still not matching the current market requirements. A comprehensive vocational training program following an in-depth analysis of the industry's needs is an imperative step to be able to develop the country's product offering to meet European standards and product quality and diversity. In order to expedite the process, the country should consider a special scheme to employ foreign talent to bridge the gap until the local labor and middle management is trained to meet the industry demands, especially where exports to European markets are concerned.

The government as well as the industry are recognizing the challenges in finding and training skilled labor and middle management for the industry. Several efforts through international organizations are put in place such as the TVET program by the GIZ to develop vocational training centers across the country. The Ministry of Labor is also reforming some of its training institutes to cater to various industries with a target of over 80% of the graduates going to the TAS. Moreover, a new administration for the textile institute has been put in place with the objective to develop technical education for middle management, industrial engineers and technicians. Finally, Uzbekistan also joined the World Skills Improvement program working with both India and Germany on the vocational training systems.

The industry is also looking at tools to attract young talent to the industry, positioning the TAS as an attractive employer with rewarding benefits and promising career opportunities.

### 3.3.6 Focus on responsible production

There are no questions that the reforms implemented over the past few years have yielded remarkable results and have positively impacted the business environment, the investment climate and have propelled Uzbekistan into the global economy. However, there are still challenges with regards to the environment and the ease of doing business that will require further efforts from the government and industry in order to fully exploit the country's potential.

#### ESG policy and initiatives as a sector's motto

Uzbek manufacturers in the textile industry are actively moving toward international quality and control standards. The goal of the state policy of Uzbekistan in the field of quality is to ensure the competitiveness of domestic textile products both in the domestic and foreign markets. The following are some of the international standards required for Uzbek manufacturers in the textile industry to enter European markets:

- |   |   |
|---|---|
| 1. Oeko-tex standard 100                        | 7. BCI (Better Cotton Initiative)                       |
| 2. BSCI (Business Social Compliance Initiative) | 8. WRAP (Worldwide Responsible Accredited Production)   |
| 3. META Sedex                                   | 9. OCS 100 (Organic Content Standard)                   |
| 4. GOTS (Global Organic Textile Standard)       | 10. RCS (Recycled Claim Standard)                       |
| 5. GRS (Global Recycle Standard)                | 11. EU Ecolabel – Textiles                              |
| 6. Organic EU                                   | 12. Including traceability and sustainability standards |

In addition to the above, a Better Cotton Initiative (BCI) pilot project is being implemented which will pave the way for a wider adoption of BCI in cotton production, thus opening additional doors for sourcing opportunities from Uzbekistan. Important to notice is organic cotton with 3,000 hectares which is still at an embryonic stage despite an important demand.

More Uzbek textile manufacturers also need to become members of:

- **Social, Labor and Convergence Program (SLCP)**, which provides data on working conditions in global supply chains
- **Sustainable Apparel Coalition (SAP)** - includes 250 members (leading clothing brands, suppliers, trade associations, non-profit organizations, NGOs, academic institutions, whose combined income is USD 845 bn) from 36 countries with headquarters in Amsterdam (Netherlands).
- **Amfori** is an international organization (2,400 members) that is open to retail companies, brands and importers, associations, and associations seeking to improve working conditions in the global supply chain.
- **Textile Exchange** - International organization (USA) (700+ members) that develops, manages and promotes a set of leading industry standards and collects and publishes important industry data and insights that enable brands and retailers to manage and track the use of preferred fibers and materials.
- **Ethical Trading Initiative (ETI)** - The Ethical Trading Initiative (ETI) is an alliance of companies, labor unions and civil society organizations. ETI works around the world to improve the working conditions of those involved in the cultivation of raw materials and the production of consumer goods. The audits are concerned with checking the freedom to form trade unions, the absence of child labor and the provision of healthy working conditions.
- **UN Global Compact** - The UN Global Compact is a UN initiative aimed at promoting the social responsibility of business. It declares ten principles in the field of human rights, labor relations, environmental protection and transparency of activities. The initiative includes 15,000 organizations from 160 countries of the world.

The BCI pilot project is currently being implemented in several clusters, e.g., Tashkent Cotton Textile, Bukhara Cotton Textile, Samarkand Cotton Cluster, etc.

BCI also announced plans to open a branch in Tashkent, however, for this it is necessary to select a team of professionals, specialists in the field, decent work who will be trained in the system of capacity building, monitoring and audit and will start working, specialists from Turkey will be invited to implement the verification processes.

On the issue funding for 2023-2025, where BCI representatives announced that they plan to receive funding from the European Union, but this decision has not yet been made. Better Cotton has the unique business model: Members pay membership fees and non-Better Cotton users pay a service fee to access the platform. There is also a fee for brands and retailers, which depends on how much Better Cotton they consume. It is important to note that it is this fee - the volume fee charged per ton of cotton - that generates the bulk of the revenue, and it all goes directly to support farmer education.

BCI's in-house team is collaborating with Microsoft's team to develop software and a database that will collect process information from the cotton harvest to the finished product. Association „Uztekstilprom“ stated that it intends to take part in this work.

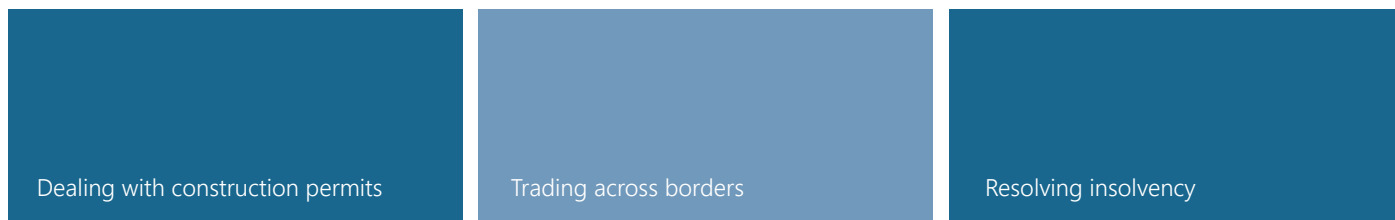
With regards to Water Scarcity, the the Environment Committee of Uzbekistan is working to establish world class environmental standards in the country. It is also encouraging water rationing technologies in irrigation, improving yields and has developed central Effluent Treatment Plants for wastewater from dyehouses and more to come in 5 new districts.

The government is also providing incentives and tax breaks for investments in water treatment plants to encourage companies to recycle their water. Additionally, first initiatives to rely on alternative energy sources are starting in Uzbekistan with one company already investing in 11 hectares of solar energy, 9 windmills and rain collectors.

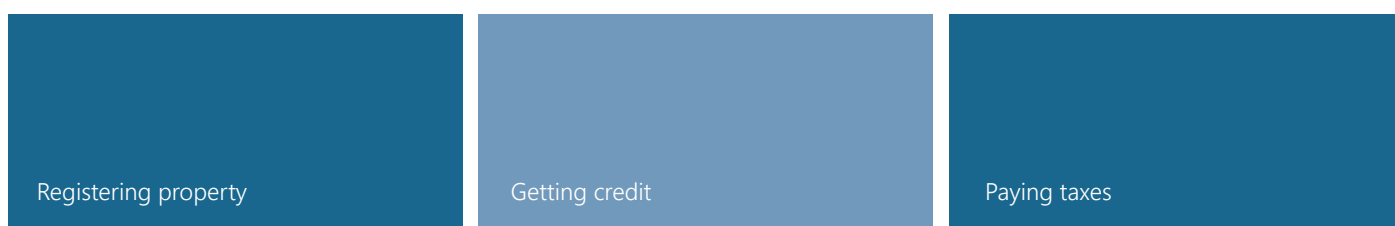


### 3.3.7 Improve Ease of Doing Business

In 2020, Uzbekistan took a score of 69.9 in the Ease of Doing Business report by the World Bank. The country ranked poorly in several categories:



The ranking was slightly better but still needs improvements in the areas of:



The achievement of the ambitious manufacturing and export goals for Uzbekistan will be highly contingent on the country's ability to address some of its structural issues. A comprehensive study of the major regulatory impediments will be required with clear recommendations on specific legislations and procedures that need to be amended to improve the business climate for both local and foreign investors.

Human development index	0.72 score
Corruption perceptions rank	140 rank
Index of economic freedom	58.3 score
Press freedom index	50.7 score
Political rights index	2 score
Civil liberties index	9 score
Prosperity index	54.37 score
Knowledge economy index	3.14 index
Bertelsmann transformation index	4.08 index
Fragile states index	72 index
Global hunger index	5.9 index
Global innovation index	27.4 index
Global peace index	2.06 index
Social progress index	64.98 index
Happiness index	6.06 index

The government is also working to improve some aspects including short- and long-term financing costs for instance companies that will switch to International Financial Reporting Standards (IFRS) will be eligible to international finance which could cost up to 50% less than local domestic finance. Moreover, discussions with international financial institutions such as the IFC are ongoing and some short-term financing schemes should be available within the next year. The government also allowed banks to use LCs as collateral, giving companies the opportunity to seek short-term financing against existing orders.

Although efforts still need to be made to improve the overall ease of doing business, the country is methodologically recognizing the challenges and looking to find solutions.



### 3.3.8 Transportation and logistics

As described earlier the country faces several challenges when it comes to transportation and logistics, primarily the fact that it is landlocked and the domestic infrastructure. Uzbekistan has indeed started to address those issues; first of all, by establishing in 2019, the ministry of transportation which is tasked with the development and implementation of a unified state policy in the development of road, rail, air, river transport, metro, and road facilities.

#### Regional collaboration and joint projects

One of the key actions to be taken by Uzbekistan will be to reach agreements with neighboring countries to secure its transport routes; whether north via Kazakhstan and Russia, west via the black sea, south via Iran or east via Afghanistan and Pakistan. The challenges are shared by many of Central Asian countries and collaborations will be beneficial for everyone. Already today, Uzbekistan has reached some agreements with neighboring countries on the implementation of new infrastructure projects such as road, aviation and rail links with Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan which are in development.



Moreover, Uzbekistan and Tajikistan resumed air traffic and restored the Galaba-Amuzang-Khoshady railway. The operation of eight automobile and one railway checkpoints has been restored. The commissioning of the restored section of the Uzbek-Tajik interstate railway line Amuzang-Khoshady can play an important role in the development of transit traffic, as well as create additional opportunities for Tajikistan to enter Turkmenistan and Afghanistan. Uzbekistan and Turkmenistan have built the Turkmenabad-Farab railway and road bridges, which are important corridors of the Uzbekistan-Turkmenistan-Iran-Oman transport and transit route. This transport corridor has expanded due to the joining of Kazakhstan and India, giving the countries of the region access to the Indian Ocean. The corridor is designed to connect Central Asia with Iranian ports in the Persian and Oman Gulfs. Moreover, Uzbekistan and Kazakhstan have launched bus routes and high-speed rail links. Moreover, the country has put in place a program to support exports with covering a significant percentage of the cost of transportation.

#### Investment in infrastructure

The country developed and is implementing a nationwide strategy under the name „Comprehensive program for improving transport infrastructure and diversifying foreign trade routes for the transportation of goods for 2018-2022“. The strategy includes the development of new transport and transit corridors as well as a network of logistics centers, the expansion of the fleet of vehicles and aircraft, the creation of conditions for efficient transportation and handling of goods in Uzbekistan and in neighboring countries.

In addition, the „Strategy for the development of the transport system of the Republic of Uzbekistan until 2035“ is currently being developed, which envisages the creation of conditions for the growth of volumes and quality of passenger and freight traffic, improvement of the transport sector management system, as well as the introduction of fundamentally new approaches to training, retraining and advanced training of workers in the transport system.

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