CURRENT STATE OF THE COTTON AND TEXTILE INDUSTRY IN KAZAKHSTAN

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Abstract: The textile industry of Kazakhstan is presented basically by enterprises created in period of centrally planned economy and as consequence. Low labor productivity, lacking equipment base and technologies, poor marketing are problems of the current state of industry. But, there are also advantages as a vicinity of potential cotton manufacturers - Uzbekistan, Tajikistan, Turkmenistan. A free economic zone (FEZ) "Ontustik" has been established and a program of "Ontustik" FEZ development has been adopted for developing the cotton and textile cluster in Kazakhstan. The law "About development of the cotton branch" has been adopted in Kazakhstan to provide the textile enterprises with necessary raw material and to develop the domestic cotton growing.

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Introduction

Today Kazakhstan has entered into the period of stable economic growth. The economy is on the threshold of large projects and of qualitatively new stage of social and economic development, the perspective goal of which is the integration of Kazakhstan into the free market zone. And textile industry appears as one of important industries having competitive advantages.

Textile industry and cotton manufacture are the principal branches for both developed and developing countries. At present time, a situation has been established in the world textile market when textile industry manufactures moves from Europe to Asian countries. This trend is conditioned by high costs of European manpower that significantly affect the cost value of the finished commodities as well as it is stipulated by desire to approximate the manufacture to the new outlets of the product. Lower prices for cotton relatively other fibers, faster economic growth, popularity and increased offer of cotton product relatively to other fibers resulted in the increase of consumption. Besides, the prices for cotton products were reduced due to the concentration of the textile manufacture in the countries with low manpower.

Textile and light industry is one of the main branches of the economy, providing important share of budget revenues in many countries. The share of these branches in total production volume of industrial products in the developed countries including Germany, France, USA makes 6-8%, in Italy - 12%. This allows the countries to form national budget up to 20% due to assignments from the textile branch and clothes production, to provide 75-85% of domestic market with products of home manufacture.

Textile and sewing industry of Kazakhstan comprises only 10% of the domestic market needs. While for the formation of economic safety of the country, the volume of domestic manufacture shall satisfy at least 30% of the domestic demand.

The textile industry presents a group of light industry branches occupied with the processing of natural, artificial and synthetic fibers into yarn and cloth. According to the state classifier, the textile production of country should be represented by 7 categories and 21 subcategories of economic activity. However, due to close of some large enterprises, many production lines are lacking.

The equipment bases, technologies, supplying branches are lacking components of Kazakhstan textile industry and they require further attention and investment inflows. In the industry there are practically no large companies that are involved into market research activity. But, in spite of the existing problems, Kazakh textile industry still has a large potential for successful development, taking into account the lower production costs, vicinity to the raw material and to potential outlets of manufactured products.

Concept of cluster approach

Today, the clusters' development is a widely acknowledged instrument, accompanying the economic development and competitive recovery.

A rapidly spreading number of the cluster initiatives both in the developed and developing countries and all over the world indicate on their effectiveness and viability. The use of the cluster model in the development of the textile industry of Kazakhstan is an important factor of the competitive ability of separate companies and the whole economy.

Cluster means a geographic concentration of enterprises of one or several interrelated branches competing but at once cooperating with each other and profiting from the specific local assets, joint disposition and social incorporation.

In the world market, clusters present as single agents of network and competition that allows acting on equal grounds and confronting the strong tendencies of global competition. Examples of this may be found in many countries: Silicon Valley in the USA, Montpellier in France, Cambridge in Great Britain, Hagenberg in Austria, Munich, Hamburg and Dresden in Germany (the latter obtained an honorable name of "Silicon Valley of the 21st century") and etc. The innovation policy practicable in the clusters by corporate means allows a significant reduction of the transactional expenses.

High competitive ability and stability of the cluster economic systems are defined first of all by factors stimulating the distribution of new technologies as well as the character and structure of interaction of science, education, financing, state policy and industry. More viable clusters of innovation activity are formed on the basis of the inter-branch ties diversification. The variety and relative accessibility of various sources of technological knowledge inside the cluster and ties facilitates combining of production factors and becomes a prerequisite of effective innovation (Aimenova, 2007).

Conditions of the cotton and textile cluster's development in Kazakhstan

A free economic zone (FEZ) "Ontustik" was established in South-Kazakhstan region by Presidential decree (No1605, dated 6 July 2005) on developing the textile industry. This zone is the basis of cotton and textile cluster development in Kazakhstan. South Kazakhstan is the only region of Kazakhstan where the cotton, basic raw material for the textile industry, is cultivated.

"The development program of "Ontustik" FEZ for 2007-2015" has been approved by resolution of the Government (No 895 dated 21.09. 2006). The program takes into consideration the opportunities of the region and eventually provides the general strategy of FEZ development by defining the resource base, specialization in the international market, optimal rate and quantity of manufacture, technology requirements. So, the program determines the basic outlines of textile industry development and ways of its competitive ability improvement.

It is planned to build about 15 textile enterprises in the territory of FEZ, which will provide the processing of 100 thousand tons of cotton per year and creation of more than 10 thousand work places.

It should be noted that textile manufacture is one of the capital-intensive manufactures, and textile equipment is one of the most expensive one. The validity term of "Ontustik" FEZ is prolonged until 1 July 2030 (Presidential decree No 683, dated 23.10.2008) so that the textile enterprises might come out to self-repayment and develop its manufacture. Besides, it is expected that an integrated service and technological center (ISTC) will emerge on the territory of FEZ. ISTC will provide training and professional development of specialists using high technology, conducting research, certification according to the international standards of textile products. It is also planned to establish a laboratory and research center under ISTC, where research works and experimental manufacture will be carried out.

Prospects for creation a cotton and textile cluster in South-Kazakhstan region

The raw materials base of textile industry is divided into natural (cotton, wool) and synthetic (polyester, acrylic, viscose and etc.) fibers. The raw materials base is generally provided by domestic market (basically cotton), while the chemical raw materials are mostly imported.

At present time several new enterprises that have invested funds in modernization of existing textile manufactures as well as in construction of new ones are working in South-Kazakhstan region. Some of them: "Alliance Kazakh Russian Textile" LLC which consists of Kazakh Cotton Company "Myrzakent" LLC and Russian Corporation "Russian Textile", "Yutex" JSC, "Melange" JSC that integrated in 2006 into "Textiles.KZ" Corporation and "AHBK-Nimax" Joint Venture (JV)".

"AHBK-Nimax" JV has been established by incorporating the production and intellectual capacity of the textile and cotton subdivisions of the two holding companies - a group of companies of Resmi Group and "Nimax" Corporation. The cotton enterprises Alatau Cotton Plant (Almaty) and Ust-Kamenogorsk Textile Mill "Nimax - Textile" have acted as the integrators.

The activity of "AHBK-Nimax" JV will be concentrated on cotton manufacturing and processing, development of spinning and weaving finishing manufacture both of the mixed and natural fabrics of the sewing line. Besides, the company assets will include qualified personnel, modernized equipment, brand building, effective system of administration, sales and distribution management, client base and school of domestic design.

The emergence of these companies in the cotton and textile market of Kazakhstan has stimulated the country's cotton production indicators growth for the last years (Table 1). However, analysis shows that the volume of the manufactured ginned cotton goes mainly for export and the share of ginned cotton used by the local textile enterprises is very low.

It is planned to increase the share of ginned cotton consumption in domestic market by creating a vertically integrated structure of the cotton and textile industry at "Ontustik" FEZ.

TABLE 1. DYNAMICS OF THE GINNED COTTON PROCESSING BY LOCAL ENTERPRISES OF KAZAKHSTAN

	Indicator	2004	2005	2006	2007	2008
1	Ginned cotton production, tons	140 100	156 300	145 000	110 500	133 300
2	Calculated yield of yarn, tons (on the basis of the formula: out of 100 tons of ginned cotton comes out 90 tons of card yarn), (p.1*0.9)	126 090	140 670	130 500	99 450	119 970
3	Actual output of yarn, tons	4 219	8 717	13 391	11 678	12 661
4	Percent of using ginned cotton by local enterprises (p.3/p.2*100)	3.3	6.1	10.2	11.7	10.5

Sources: "Industry of South-Kazakhstan region for 2004-2008," Statistics Department of South-Kazakhstan region, 2009.

Development of cotton growing depends on both the world market state and industry needs. The world market of the cotton is developing under conditions of the intense completion with the man-made fiber production, in particular synthetic. The advantages of the synthetic fiber manufacture have intensified due to the reduction of costs for their manufacture, while the cotton is a labour-intensive crop requiring large production expenditures.

In Kazakhstan the cotton is cultivated only in South-Kazakhstan region, since only here there are necessary weather conditions for its cultivation: plenty of sunlight, availability of irrigated land and human resources. The main areas of cotton are located in Maktaaralsk district of South-Kazakhstan region, the share of which comprise 70-75% of the total volume of cotton sown area. More than 40% of the region's irrigated land is concentrated in Maktaaralsk district, where there is much higher water resources supply, significantly better natural conditions for cotton cultivation and large concentration of the cotton processing enterprises. The sown area intended for cotton in 2008 made 110.7 thousand ha, whereas all over the region it made 174.6 thousand ha.

The raw cotton makes more than 50% in the gross output of the region's crop production, where its main manufacturers are farms. At present 41 thousand farms out of 71 thousand or 58% are occupied with the raw cotton cultivation, more than 80% of them have allotments from 5 to 10ha. This is extremely ineffective, since it does not enable to follow agrotechnologies, to use intensive factors in full (application of qualitative seeds, mineral fertilizers, plants protectors and etc.). Non-coordination of the existing farms is one of the major problems influencing on the effective development of the cotton and textile cluster.

The law "About cotton branch development" was adopted in July 2007 with the view of the government support of the domestic cotton growing. The regulations are described in detail in this law, the realization of these regulations enables to subsidize the part of costs on the cotton cultivating from budgetary funds, to create a seed resource, to carry out reclamation and irrigation works on time. Kazakh Research Institute for Cotton Growing began to work in Maktaaralsk district due to the government support, as well as "Cotton of Kazakhstan" JSC, an enterprise on primary processing of raw cotton with capacities of 60 thousand tons of raw cotton per year. This enterprise is obliged to purchase raw cotton at fixed prices established by the state, i.e. to prevent monopoly price collusion between the cotton processing enterprises which could dictate their terms when purchasing raw material from the cotton growers.

With adopting the above-stated law, the system of obligations fulfillment warranty on cotton receipts has been introduced in the country. Cotton receipts are not emitted order securities - double warehouse certificates consisting of warehouse and mortgaging certificates. After carry-over the cotton to storage or processing, the holder of the cotton receipt may sell the cotton or provide it as collateral to creditors. The article 17 of the law "About cotton branch development" imposes cotton processing organizations to comply their obligations before the cotton receipts holders through participating in the warranty provision system. The system assume collaboration agreement between cotton processing enterprises and cotton receipts obligations warranty fund. Cotton processing organization should make annual contributions to warranty fund. The mandatory annual contribution rate was 0.2% of the total volume of raw cotton and it was reduced to 0.1% in 2009.

Many factors influence on the world cotton manufacture and consumption, namely oil prices affecting the cost of artificial fibers, the world economy health and the policy conducted by one or another country. However, the leading factor causing instability in cotton production may become the crop failure owing to weather or other conditions.

In 2008 in South-Kazakhstan region as compared to 2004, the gross amount of raw cotton production reduced by 148.5 thousand tons (Table 2).

TABLE 2. MAIN ECONOMIC INDICATORS OF RAW COTTON PRODUCTION IN SOUTH-KAZAKHSTAN REGION FOR 2004-2008

Indicator	2004	2005	2006	2007	2008
Sown area, thousand ha	223	201.1	196.4	200	174.6
Total yield, thousand tons	466	464.4	435.4	441.7	317.5
Crop capacity, centner /ha	21.3	23.1	22.2	22.1	18.2
Cost value, KZT/ton	33 881	38 353	37 937	44 696	50 825
Selling price, KZT/ton	39 031	39 442	40 923	52 591	49 801
Profitability, %	15.2	2.8	7.9	17.1	-2.0

Note: drawn up on the basis of the statistic data of Statistics Department of South-Kazakhstan region, Republic of Kazakhstan and (Omarov, 2008; Shokamanov, 2009; Meshimbaeva, 2007).

The inflation and increase of prices for energy supply in the world market in 2004-2008 resulted in the jump of the production and material resources prices. Due to increase of prices on diesel fuel, nitrogen fertilizers, the raw cotton production in South-Kazakhstan region turned out to be unprofitable. This situation was affected negatively by the economic crisis as well as by unfavorable weather conditions, delayed performance of autumn-winter land treatment, acute shortage of water and equipment.

The construction of Koksaray water-storage reservoir has been started in country for providing the cotton fields with irrigating water; winter water drainages will be accumulated in this water-storage reservoir. Moreover, the introduction of moisture-reserving technologies shall become one of the ways for water resources saving (e.g., trickle irrigation). In 2009 an experiment was carried out - one of the limited companies occupied with the cotton cultivating has applied the system of trickle irrigation on 200ha of land. Tillage and cotton seeding were carried out with the help of new equipment performing several operations for one passage. As a result, the crop capacity made 60 centner/ha and the costs for one hectare - 5-6 thousand KZT. Seeing the quantity of cotton bolls on the bush, we can state that 60 centner/ha is not a limit and the cotton potential makes up to 100 centner/ha. In 2010 it is planned to increase seven times the cotton sown areas under trickle irrigation.

Today, one of the goals of cotton growing is increasing the crop capacity that requires crop rotation observance, proper crop cultivation, agrotechnologies and equipment.

The realization of these measures requires merge and growth of farms in sizes. As small land allotments do not enable either using machines in the field or save money sufficient to purchase a combine.

Seeds, crop rotation and fertilizers play significant role in increasing crop capacity. There is a need to create an appropriate infrastructure consisting fertilizers production, and a complex monitoring of soil fertility of lands assigned to agriculture. The efforts on reducing cost of fertilizers through the budgetary subsidies are also important. There is a need for establishing the machine and technological stations of agro servicing centers, bio-factory and contemporary services for pest and disease control of the crop. These structures might be set up on state-private ownership with subsequent privatization.

Kazakh Research Institute for Cotton Growing and its laboratories are called on to direct their efforts to finding and introducing into production new early sorts of raw cotton with high output of fiber, that are high-yielding and resistant to moisture deficit. It is advisable to introduce science-based crop rotations for increasing soil fertility.

The government grants subsidies to support the cotton branch. In 2008 the rate of the subsidy made 6000 tenge per hectare, and in 2009 -7000 tenge/ha. Subsidies were granted 100% at the beginning of the year, i.e. during the beginning of the seeding works. The mechanisms of agriculture manufacturers financing are improved in Kazakhstan. Thus, starting from 2010 the government support in grain manufacture is rendered only to those who observe the recommended agrotechnologies. As for sugar beet, oil-bearing crops and cotton the subsidies will be granted in two stages. The first stage - 70% per 1ha of sown area based on sowing season results. The second stage - 30% per 1 ton based on results harvest collection and transfer to processing enterprises. This measure, on the one hand, enables to aim cotton growers at obtaining maximum crop, and on the other hand enables to load existing cotton processing capacities. As for the cotton growers applying trickle irrigation, the budgetary subsidizing norms will be doubled. Also, state subsidizing of domestically formulated herbicides is allocated in the separate program with the purpose to raise the interest of the commodity producers in developing the chemization of agriculture.

Conclusion

The reality of the present time shows that market mechanisms in agriculture are possible to start up only under the active creative policy of the state. The role of state preeminently must be directed to the creation of the legal and institutional environment contributing to the competitive ability of the country's economy. In this sense the acceptance of the whole package of the normative and legal documents in 2005-2007 has been timely; this secured the legislative basis for the development of cotton and textile industry of Kazakhstan. The country needs to aim all its efforts to create and promote the trade mark "Textile of Kazakhstan" by developing "Ontustik" FEZ as a pivotal component of the cotton and textile cluster.

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