

MODERN TRENDS IN DEVELOPMENT OF COTTON PRODUCTION AND PROCESSING CHAIN IN UZBEKISTAN

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Abstract: The cotton production complex of Uzbekistan has high rating comparing other export oriented branches. Cotton fiber value in 2008 share made 12% from total export of the country. The paper observes some trends and policy priorities in cotton industry development.

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Uzbekistan is one of the leading producers and exporters of ginned cotton in the world market. It takes sixth place in worldwide cotton production (after China-25%, USA-25%, India-16%, Pakistan-9% and Brazil-5%) and second place in its export after USA (39%).

Significance of the cotton chain in modern conditions considerably increases: cotton growing forms the base in agriculture where the majority of economic active population is employed and considerable part of GDP is produced. One can distinguish several aspects of cotton significance for the country. From political point of view, effective functioning of cotton complex provides the country with important international reputation and prestige. In social aspect, sustaining dominant position of cotton complex in economic structure provides employment and income generation to majority of rural population. The economic aspect explains essential contribution of cotton chain to national economy development and its sustainability, states role of the industry in earning foreign exchange reserves and supporting competitiveness of aggregate production.

In Uzbekistan, all branches, somehow (technologically, economically) have connections with cotton complex. Due to this complex cotton supply chain and inter-industry connections, the country produces high liquidity products, like ginned cotton, lint cotton, ulyuk (undeveloped cotton seeds) and other products. Export sales of these products constitute one of the main source of foreign currency income. E.g., export of ginned cotton made 12% of national total export in 2008.

In 2008 cotton growers of our country harvested about 3.4 million tons of raw cotton, from that amount 99.1% share belongs to farms. Consequently, the government supports involving farms to cotton production. At the beginning of 2009 there were 105 thousand farms and 46.7 thousand of them are engaged in production of raw cotton.

99 ginning factories are allied under the "Uzpakhtasanoat" Association. The Association together with Government ministries and agencies, research institutes has been carrying out comprehensive program covering projects on modernization and development of cotton industry production and processing chain.

Presidential Decree on "Modernization and reconstruction program of ginning factories at 2007-2011" defined priorities for further development of ginning industry. 41 factories of the industry are expected to undergo modernization and reconstruction within five years. Considering the experience of leading cotton-processing countries the government the document provides measures

on extension of scientific research and development activities of processing units.

The program adopts closing and liquidation 30 low-profit cotton plants in all regions of the country, including enterprises located in large cities. Measures on cutting production and operational costs are being implemented in remained plants to sustain their profitability and competitiveness. Moreover, national anti-crisis program for 2009-2012 also contains measures aimed to sustain stable performance of export-oriented companies. Within the scope of the program, measures are being taken to cut production costs and increase competitiveness of cotton ginning enterprises. Localization, improvement of production technology, closedown of unusable production capacities, decreasing of material costs and optimization of amount of staffers are among these activities. Additionally, government suggest tools of budgetary and credit support for enterprises-exporters, including budget debt delays, bank loans for use of electricity, natural gas and utilities.

Ensuring preparation of high-quality seed-stock of cotton is another topical priority of the government. According to the Government program on cardinal modernization of seeds preparation shop, new shops have been being settled in specialized cotton plants. 31 cotton seed-stock preparation shops were developed during 2005-2007; they are equipped with modern sorting-calibrated equipment and complexes for treatment of sowing seeds, protecting them from diseases and plant pests in initial period of growth. Professionals and farmers recognize that modern seed preparation shops have provided marked increase of seed quality.

Improving sales of cotton fiber is seen important area of reforms on cotton industry. Over 70% produced cotton fiber is shipped to export. Beginning from 2005 "International Uzbekistan cotton fair" has been being conducted in the country: its purpose is promoting direct contracts on delivering cotton fiber to the foreign consumers. In spite of global financial crisis, the demand for the qualitative cotton fiber, knitted goods and yarn remains stable. Investors are still interested in cotton and textile market of Uzbekistan. Such attractiveness is sustained by stable production base, high quality of cotton fiber, low prices on energy resources, system of the privileges and stimulus on taxation.

From the beginning of 21st century, Uzbekistan has approached to maintain key task - increasing of quality of fiber. The modernization of ginning industry enhanced improvement of cotton fiber quality; about 80-85% of all produced lint has higher grades. If in the 90s the country was among quintuple states in delivering to the world

market the cheapest sort of the cotton, in the last five years the country has reached group of high-quality cotton exporters alongside with USA and Australia. Thus, at present Uzbekistan cotton enters into the triplet of the most high-priced "bonus" sorts.

Before 2000 main sales market of Uzbek cotton fiber comprised countries of the Europe, their share on export was more than 62%; the share of CIS market was 23% and the share of Asian countries was 15%. Geography of cotton fiber export has considerably changed during the last years. Mainly such transformation was caused by shift of global processing industry from developed to developing countries. Essential reduction of cotton fiber consumption in European countries in 2007-2008 promoted redistribution of Uzbekistan cotton exports to the Southeast Asian countries like China, Bangladesh, Pakistan, Singapore, South Korea, Indonesia, Turkey. As a result, in 2007-2008 delivery of Uzbek fiber to Asian region made more than 70% from the total volume of export, Europe - 20%, Russia and the other countries of CIS -10%.

Domestic consumption of cotton fiber has been increasing. In 1990 only 3% of cotton fiber was processed in the country, in 1995 - 12%, and in 2008 - already 34%. It is anticipated increase of the share up to 51% in 2010 followed with rise of textile production. To provide this aspiring target the Government direct measured on construction of new processing enterprises, implementing technical and technological renovation, modernization of performing enterprises in the textile industry. Intensive investment program in 2008 provided planting into operation 65 productions of light industry and textile enterprises. Only in the first-quarter of the 2009 it is put into operation 54 production textile enterprises.

In perspective, it is planned keeping stable volumes of annual cotton production at level of 3.6 - 3.7 million tons.

It is expected that the country will reduce the supply of cotton fiber to foreign markets approximately to the level of 530-550 thousand tons per annum. Nowadays, there are 100 investment projects on processing of cotton fiber; this portfolio assumes attracting about 1.5 billion USD into the national economy. The program appears to be done within three years and upon completion it will allow increase revenues from export up to 2 billion USD.

Uzbekistan has not a direct access to seaward and therefore has to deliver cotton export through passing territories of countries to reach the sea port. This situation affects export costs and quality of the exported cotton, thus challenging competitiveness of the important national exportable product.

In connection with this, the Government resolution was delivered to create broad network of regional cotton terminals along the whole country. This act appeals to provide:

- developing system that provides optimized and effective monitoring network of chains - production, motion and realization of cotton fiber on internal and foreign markets;
- rendering the high spectrum of the services on transshipment, keeping and shipment of cotton fiber;
- optimizing the infrastructure on delivery of cotton fiber to destination ports by means of creation new transport corridor..

The trade mechanism, organized through regional terminals, is important because it provides favorable

conditions to sellers and buyers to plan their contract and operations. They possess reliable information on sort and volume cotton fiber that is available in one or other region. Besides, all regional terminals have services on granting the certificate of the origin, phytosanitary certification, quarantine services, customs registration. The cotton from terminals goes directly to its consumers according to the terms of delivery.

Organization of effective system of transport logistics of exporting cotton fiber will provide better customer satisfaction in operational delivery of the cargo with acceptable prices and warranties. Today railway traffic is a main type of the transport, which provides transportation of cotton fiber to China, Hong Kong, South Korea, Russia, Ukraine, Byelorussia, Korea, the Baltics, Iran, Bangladesh, Vietnam, Turkey and other countries. Geography of Uzbekistan cotton fiber has expanded and export volumes have increased to the countries of Southeast and South Asia; this process has been followed by intensive development of transportation systems through Iran, China and Turkey. Presently about 70% of Uzbek cotton fiber is transported to the countries of Southeast Asia through Iranian port Bandar-Abbas. Routing Andijan-Osh-Irkeshtam-Kashgar is considered as the most perspective in cotton exporting toward China. The Turkish corridor toward Turkey Farab-Serahs-Razivan-Kayseri also is thought as having good potential in transportation of Uzbekistan exports.

The cotton complex has one of the high ratings amongst national export industries. Developing new production technologies in combination with efficient control will provide increase of productivity. Carrying out this task will require the significant efforts, considering the influence of global financial crisis.

National reformers understand that maximizing benefits requires intensive work in strategic analysis and marketing of advantages and vulnerabilities within each of the main segments of cotton supply chain starting from grower to textile manufacturer. Better understanding of global markets and trends will help to adjust long term path of sector's development and ensure balanced performance.