

# Cotton Industry Reform in Uzbekistan: Implications of Textile Clusters

## Key Messages

- The current government of Uzbekistan is open to major reforms in the cotton sector. An important one is introduction of cotton-textile clusters.
- Cotton clusters are expected to attract investments from private sectors and modernizations. This in return will increase productivity and resource use efficiency and speed-up value-addition.
- Clusters are also expected to improve linkage with farmers, create decent working conditions for cotton pickers, phase-out subsidies and reduce the responsibility of the state.
- An assessment of cotton-textile clusters points out that clusters improve productivity and quality of raw cotton. They provide agronomic advice to farmers and promote adoption of modern technologies.
- Nevertheless, cotton pickers continue to be mobilized through district farmers' councils and the old state-ordered production target continues.
- The enforcement of unrealistic and overestimated production quotas is a hindrance for performance of the textile clusters.
- If the cluster approach is to be encouraged, State production targets should be eliminated and clusters themselves should manage cotton harvest in a socially responsible manner, without forced labor.

## Cotton Reform

Cotton continues to be a strategic commodity for Uzbekistan and its economy. The cotton supply-chain has yet been long criticized for being repressive, state controlled and regulated, inefficient in resource use, and

ecologically unsustainable<sup>1</sup>. This said, the current government is open to changes and has made several major reforms in the sector as of 2018. An important reform is introduction of a new concept of cotton-textile clusters<sup>2</sup>.

The government believes that clusters are the fastest way to reform the sector. This view is echoed in a speech the President of Uzbekistan, *Shavkat Mirziyoyev*, gave at a budget meeting on September 12, 2018, where he highlighted: *"The future of agriculture and its economic efficiency depends on [clusters]. Clusters should become the "locomotive" for the accelerated development of the agricultural sector"*<sup>3</sup>.

## Anticipated Changes in Clusters

The textile cluster model envisages textile enterprises to organize the whole supply chain— from production of raw cotton to processing and production of textile products with high added value. The goal of the model is to vertically integrate and increase foreign direct investment in textile industries.

Clusters are expected to attract investments in modern technologies, innovations and mechanization from private sectors. This in return will increase productivity and resource use efficiency and speed-up value-addition.

Clusters are also expected to improve research-extension linkage with farmers, create decent working conditions for cotton pickers, phase-out subsidies and in the long run reduce the production management and marketing responsibility of the state.

<sup>1</sup> Example: McGuire & Laaser, 2018. 'You have to pick', in Economic and Industrial Democracy; Rudenko, Grote, and Lamers, 2008 "Using a value chain approach for economic and environmental impact assessment of cotton production in Uzbekistan" in Environmental Problems of Central Asia ..., NATO pp.361-380; Abdullaev, Giordano, & Rasulov, 2005 "Cotton in Uzbekistan: water and welfare" Conference on Cotton Sector in Central Asia: economic policy and development challenges.

<sup>2</sup> Resolution No.53 of the Cabinet of Ministers of the Republic of Uzbekistan of January 25, 2018 "About measures to introduce modern forms of organization of cotton-textiles production"

<sup>3</sup> Presidential press, September 12, 2018: <https://www.gazeta.uz/ru/2018/09/12/meeting/>

In view of this, 15 pilot cotton-textile clusters started working in eleven regions (20 districts) on a 164 thousand hectares of cotton land in 2018. In 2019, the number of cotton-textile clusters increased four times and covered more than 500 thousand hectares of land, which is 50 percent of all Uzbek cotton fields. The intention of the government is to increase the number of clusters to 80 and have all of the cotton planting and processing under the management of clusters<sup>4</sup>. The textile and clothing industry association (Uztexileprom), organization that coordinates clusters, plans to consume 78 and 100 percent of the cotton fiber domestically in 2019 and 2020, respectively<sup>5</sup>.

## Implications of the Cluster Model

A rapid performance assessment of cotton-textile clusters carried out during the 2018 harvest points out that clusters have positive results, despite being a new model and at an early stage<sup>6</sup>. The report points out that clusters improve productivity and quality of raw cotton. This is because most clusters are investing not only in textile processing, but also in seed quality and modern agricultural equipment including irrigation, ginneries and harvesters. Findings also show that clusters efficiently use land, water and fertilizer.

More so, the assessment noticed that clusters partly performed the roles of the farmers' council, the body responsible for individual farmers. Clusters provided agronomic consulting and advisory service for cotton farmers and promoted adoption of modern technologies. Clusters encouraged and rewarded efficient farmers by adding price premiums to the state cotton procurement price. Also, clusters assumed management of input-supply from the state, allowing farmers to focus on farm management.

## Challenge: Continuation of Quota

The continuation of the old state-ordered production target and enforcement of unrealistic and overestimated quotas that still sustained in 2019 is a hindrance for textile clusters performance.

Overestimated targets lead to pressures to recruit involuntary cotton pickers and thus the problem of forced labor prevails. Cotton pickers are recruited the traditional way, even if clusters pay pickers timely and above the state rate. Pickers continue to be mobilized

through district farmers' councils and respective cotton pickers' brigades. Brigade leaders, paid by the state, are responsible for mobilizing about 100 cotton picker brigades that have 70 to 100 pickers each, with some involuntary pickers. Overestimation also prevents quality of cotton, while focusing only on quantity. Each cotton picker is obligated to pick 60 kg of raw cotton in first collection, 40 kg and 20 kg in next harvests. Nevertheless, poor quality cotton comes from the third and fourth picking which is associated with the use of forced labor, as few pickers want to do it<sup>7</sup>.

## The Way Forward: Empower Clusters

The 2020-2030 agriculture development strategy of Uzbekistan marks that the government plans to take measures for the promotion of clusters for all agriculture sub-sectors beyond 2020. However, if the cluster approach is to be encouraged and enforced, attention is required as to how production targets are accurately calculated and imposed on clusters.

Despite the textile cluster's early signs of success, the overestimation of production targets and recruitment of cotton pickers by the local governments, limits clusters from achieving their potential. As it is now, state targets allow for poor quality cotton and local government control in the works of the clusters.

As a way forward, State cotton production targets should be phased out and clusters should be supported and empowered to organize cotton picking and manage the harvest themselves, without forced labor. Also, elimination of state production plans will help reduce what forced labor remains

## Conclusion

To conclude, there are signs that cotton-textile clusters have started to transform the cotton supply-chain by injecting private capital and modernization solutions. Nevertheless, clusters need to take over from the state production order system. On the other hand, the state should stop enforcement of the quota system and support clusters achieve their own production targets. More so, clusters should be able to recruit seasonal workers and pickers in an efficient and socially responsible way. It is important and timely that cotton-textile clusters build relationships with farmers and cotton pickers and stop forced labor. If this trend is adopted, the cluster model will help Uzbekistan demonstrate its

<sup>4</sup> Sirtioglu, 2019. *New Textile Investments Reduce Uzbekistan Cotton Exports*, Global Agricultural Information Network (GAIN) Report Number: TR9009; Sirtioglu, 2018. *Uzbekistan Cotton and Products Update*, Report Number: 804;

<sup>5</sup> International Labor Organization (ILO), 2019. *Third party monitoring of child labor and forced labor during the 2018 cotton harvest in Uzbekistan*.

<sup>6</sup> The assessment team was composed of experts from the World Bank and the International Labor organization. The study is supported by contributions from the EU, Switzerland and the USA.

<sup>7</sup> ILO, 2019. *Third party monitoring of child labor and forced labor during the 2018 cotton harvest in Uzbekistan*.

continued social commitment in the cotton industry and beyond.

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