ANALYSIS OF THE FORMATION AND ECONOMIC DEVELOPMENT OF TEXTILE CLUSTERS IN UZBEKISTAN

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ABSTRACT

This thesis analyzes the formation and economic development of textile clusters in Uzbekistan as one of the central directions of industrial modernization and agrarian reform. The study examines the transformation of the cotton sector from a state-order system toward vertically integrated cotton-textile clusters, where cotton cultivation, processing, spinning, weaving, garment production and export operations are increasingly connected within a single value chain. The thesis considers the institutional origins of the cluster model, its economic effects, its contribution to value-added production, employment, export diversification and regional industrialization.

Introduction

The textile industry has traditionally occupied a strategic place in the economy of Uzbekistan because the country possesses a long historical connection with cotton cultivation, fibre processing and textile production. For many decades, however, the economic model of the cotton sector was based mainly on raw material production and state-controlled procurement. Such a structure limited the development of higher value-added production, weakened private investment incentives and reduced the economic return obtained from cotton resources. The transition to textile clusters became one of the most important institutional reforms aimed at changing this structure. It was intended to connect agriculture with industrial processing, stimulate investment, increase employment and gradually transform Uzbekistan from a supplier of raw cotton into a producer and exporter of processed textile and garment products.

Main part

The formation of cotton-textile clusters in Uzbekistan began in the context of broad economic liberalization after 2016. The first official cluster initiatives were launched through presidential resolutions on the establishment of modern cotton-textile clusters in Bukhara and Syrdarya regions in 2017 [2; 3]. These documents created a legal and organizational basis for pilot projects in which private enterprises assumed responsibility not only for industrial processing, but also for cooperation with cotton producers, investment in agricultural technologies and development of processing capacity. The Bukhara and Syrdarya projects became experimental models for testing a new approach to the cotton value chain. The legal acts establishing these pilot clusters were adopted in May and September 2017 respectively.

The rapid expansion of clusters demonstrates that the reform was not limited to isolated regional experiments. According to the World Bank's analysis, Uzbekistan had 15 cotton-textile clusters in 2018, while their number increased to 75 in 2019; in the same year they operated in 86 districts and covered 63 percent of cotton-growing areas [4]. The same report notes that clusters produced 73 percent of total cotton output in 2019, which indicates that the cluster model quickly became the dominant organizational form in the cotton sector. This transition reflected the state's intention to reduce the fragmentation between agriculture and industry and to create a production mechanism capable of attracting private investment into cotton cultivation, processing and textile manufacturing.

A decisive institutional change occurred in 2020, when Uzbekistan introduced market principles in the cotton sector through Presidential Resolution No. PP-4633 [5]. This reform formally abolished the state production targets and state procurement mechanisms that had shaped cotton production for decades. The World Bank also recorded that Resolution No. 4633 eliminated state production targets and state procurement, transferring greater responsibility to farmers and clusters in cotton production and marketing [4]. The legal basis of the reform was directly connected with the transition from administrative planning toward market-oriented relations in cotton production.

The economic logic of textile clusters is based on value-chain integration. Under the former model, raw cotton production, ginning, spinning, weaving and garment manufacturing were often weakly coordinated. This created losses in quality, logistics and investment planning. The cluster model sought to overcome these weaknesses by linking agricultural production with industrial processing. In theory, the cluster organizer has an incentive to improve cotton quality, introduce drip irrigation, mechanization, soil analysis, seed selection and modern agronomic practices because the quality of raw material directly affects the efficiency of subsequent industrial stages. The World Bank report emphasizes that investment proposals for clusters were prioritized when enterprises had deep processing facilities and commitments to improve yields, soil fertility, water management and mechanization [4]. Such requirements show that the cluster system was designed not merely as an administrative redistribution of cotton areas, but as a mechanism for technological modernization.

The first economic effect of the cluster model is related to productivity and raw material efficiency. In 2019, areas with cotton clusters generated higher yields than non-cluster areas, while the average raw cotton yield in clusters reached 2.9 tons per hectare, exceeding the non-cluster level by 0.53 tons per hectare [4]. This result was associated with private investment in technology adoption and better agricultural practices. Although Uzbekistan still faced limitations connected with water scarcity, soil degradation and mechanization gaps, the cluster model created stronger incentives for investment in production efficiency. At the same time, this effect should not be interpreted as an automatic outcome of clustering. Productivity growth depends on the quality of management, access to finance, fair contractual relations with farmers and real technological upgrading.

The second economic effect concerns industrial processing and the reduction of raw material dependence. Textile clusters were intended to shift the structure of exports from raw fibre toward yarn, fabrics, knitwear, garments and finished products. This is a crucial transformation because the economic value of cotton increases substantially when it moves through deeper stages of processing. In recent years, Uzbekistan has achieved significant progress in converting domestic cotton into yarn and expanding textile manufacturing capacity. The World Bank reported in 2025 that Uzbekistan had been able since 2023 to convert 100 percent of raw cotton into yarn, reflecting a transition toward higher value-added apparel production [6]. This fact indicates a structural change in the sector: the country is no longer limited to the role of raw cotton supplier, although the next challenge is to increase the share of finished garments and branded products rather than remain dependent on yarn exports.

The third economic effect is employment creation. Textile clusters influence the labour market not only through cotton cultivation, but also through ginning, spinning, weaving, dyeing, sewing, packaging, logistics and export services. The expansion of processing capacities creates jobs closer to rural and semi-urban areas, where employment opportunities are often limited.

Conclusion

The formation of textile clusters in Uzbekistan represents a major institutional and economic transformation of the cotton-textile sector. Beginning with pilot projects in 2017, the cluster model rapidly expanded and became a dominant mechanism for organizing cotton production and textile processing. Its main economic purpose was to overcome the limitations of the raw-material model, attract private investment, improve productivity, create jobs and increase domestic processing of cotton. The reforms of 2020, especially the introduction of market principles in the cotton sector, strengthened the transition from administrative state procurement toward a more market-oriented framework.

The economic development of textile clusters has produced visible results: expansion of processing capacity, growth of employment, deeper integration of the value chain and strengthening of textile exports. Yet the model still faces important challenges.

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