

## Export potential for Uzbek textile and apparel

The manufacture of textile and apparel is among the key sectors of the Uzbek economy. In 2018, it accounted for 17% of manufacturing and provided 11% of goods exports. The main destination of Uzbek exports are neighbouring countries. Russia, China, Kazakhstan, Kyrgyzstan and Iran absorb 81% of the sector's exports.

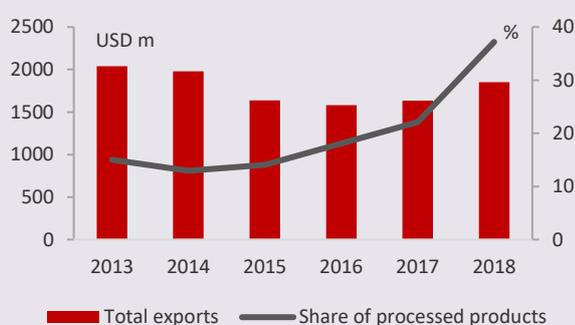
Against this background, we assess the export potential for Uzbek textile and apparel and identify the most promising products and export destinations. The analysis revealed that Top-5 products with the highest export potential are bed and table linen, woven cotton fabrics, not tufted or flocked carpets, knitted women's or girls' suits, and T-shirts.

Under the current trade regime, Russia has remained the most promising export destination, followed by selected EU members, Vietnam, China, India and Ukraine. However, if we assume duty-free access for Uzbek exporters worldwide as a counterfactual scenario, we see the increased attractiveness of EU countries. These findings confirm the importance of reforms needed to obtain the GSP+ status in the EU to capture the export potential of Uzbek textile and apparel in full.

### The role of the textile and apparel sector

The manufacture of textile and apparel is a traditional, but also economically significant sector in Uzbekistan. In 2018, this sector contributed ca. USD 3.5 bn (or 17%) to total manufacturing. Although textiles still accounted for about three quarters of the sector's output in 2018, the importance of the apparel manufacture increased significantly: from 12% in 2013 to 24% in 2018.

### Uzbekistan's exports of textile and apparel



Source: UZ Statistical Office, MTN classification, authors' estimates

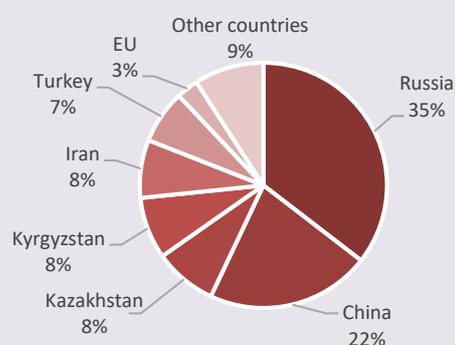
Exports of textile and apparel were USD 1.9 bn in 2018, accounting for more than a half of the sector's output

and 11% of total goods exports. In exports, the shift towards processed products has been even more pronounced, with the share of these products reaching 37% in 2018.

### Export destinations and trade regime

Exports of textile and apparel are mostly concentrated on a few neighbouring markets. Top-5 destinations including Russia, China, Kazakhstan, Kyrgyzstan and Iran absorb about 81% of the sector's exports.

### Exports of textile and apparel by countries, 2018



Source: UZ Statistical Office, authors' estimates

The market access conditions that Uzbekistan sees on the external markets – alongside with the distance – play an important role in the Uzbek export geography. The country has free trade areas (FTAs) with all CIS countries (56% of total exports). Uzbekistan has also concluded most favoured nation (MFN) bilateral agreements with key partners, including China and Iran. Moreover, the EU, Turkey, Canada, Japan and Switzerland have provided preferential access to their markets unilaterally within the generalised system of preferences (GSP). As a result, exports of textile and apparel to countries, with which Uzbekistan has no trade arrangements, account for only about 1%.

### Methodology

The assessment of export potential performed by the German Economic Team is based on the modified International Trade Centre (ITC) methodology. It combines three dimensions:

- i. Supply side dimension: export performance of Uzbek textile and apparel products
- ii. Demand side dimension: import performance of potential partners
- iii. Trade cost dimension: costs associated with Uzbek exports to a particular partner compared to other destinations

In the first stage, we identify the Top-20 products with the highest export potential. In the second stage, we identify the Top-10 importing countries for each of the Top-20 products. The analysis is conducted by attributing scoring values for the three dimensions, and then estimating composite indicators.

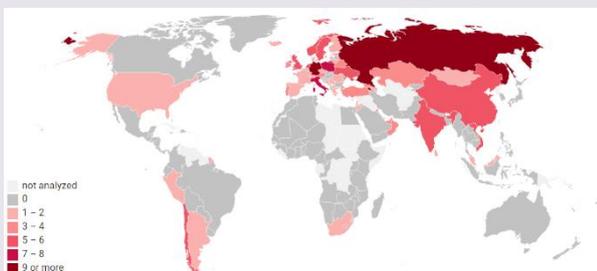
We considered two scenarios: The baseline scenario is based on the existing trade regime with each trade partner, while a counterfactual scenario is built on the assumption that Uzbekistan faces zero duties on textile and apparel worldwide. The application of a hypothetical import regime allows the identification of destinations for which an improvement in market access is most beneficial for Uzbekistan.

**Products and destinations with the highest potential**

The analysis reveals that the highest export potential, i.e. the best combination of supply and demand characteristics, is featured by bed & table linen; woven cotton fabrics; not tufted or flocked carpets, knitted women's or girls' suits, and T-shirts.

The study also confirmed the role of Russia as the most potent export destination under the current trade regime. Other destinations featuring the highest export potential under the existing trade regime are selected EU countries, Vietnam, China, India, and Ukraine.

**Map of world markets with the highest export potential**



Source: own estimates

Note: Baseline scenario

However, a possible removal of import duties, which we analysed in a counterfactual scenario, would increase the attractiveness of other markets, in particular of EU countries, including Sweden, Finland, Austria and the Czech Republic.

**Conclusion and outlook**

The development of textile and apparel, traditionally being an important sector of the Uzbek economy and its exports, is among the policy priorities for the state.

Our analysis on export potential revealed that the highest export potential is featured by bed & table linen; woven cotton fabrics; not tufted or flocked carpets, knitted women's or girls' suits, and T-shirts.

While supplies to Russia has been the most potent export destination under the current trade regime, the reduction of import duties by other partners would increase attractiveness of other destinations, in particular in the EU. The realisation of this potential requires obtaining the GSP+ status, the task on which the government has been working on.

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The German Economic Team advises the Government of Uzbekistan on economic policy issues since 2019. It is funded by the German Federal Ministry for Economic Affairs and Energy and implemented by the consulting firm Berlin Economics.



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