German Economic Team

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POLICY BRIEFING
UZBEKISTAN

Export potential of Uzbekistan's textiles and apparel on the global markets

by Veronika Movchan and Woldemar Walter

Executive Summary

- The importance of UZB exports of textile and apparel has recently increased, with the sector reaching 22% of the total shipments in 2022
- The export structure has been gradually shifting towards processed/finished products supplied to consumers, but so far, intermediate products dominated
- That is in contrast with the structure of the global trade in textiles and apparel dominated by consumer products, shipped primarily to the EU and the USA
- UZB exports geography largely correlates with the network of existing preferential trade arrangements, including FTAs, GSP granted by partners and bilateral MFN agreements
- The study aimed to examine UZB export potential globally to identify both products and markets with the highest potential under existing market access conditions and if import duties are removed (counterfactual)
- The analysis showed that the top 20 products with the highest UZB export potential comprised mostly knitted or crocheted apparel and fabrics
- The current top markets for these goods are the EAEU and the EU, but the Middle East and South Asian markets demonstrate a strong potential given that they would liberalise access to their markets – unilaterally or through bilateral agreements
- To realise UZB's export potential, especially in wearing apparel, UZB should focus on improving its price advantage through decreasing costs of production and trade and developing its own brand justifying higher prices

Outline

1. Motivation

- Textiles and apparel, a very traditional sector of the Uzbekistan economy, have always been among the state's policy priorities for export promotion
- In 2019, GET Uzbekistan analysed the export potential for the sector (PB/01/2019), demonstrating the strong potential of the EU market, especially if import duties are removed
- As Uzbekistan’s exports expand and the global economic landscape changes, we aim to support further the facilitation of Uzbek exports of textiles and apparel

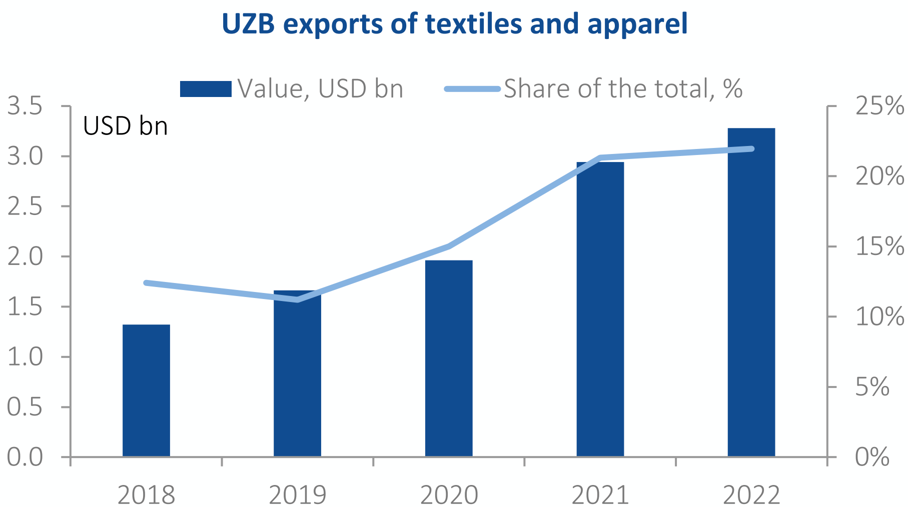
Aim of the study:

- Among UZB textile and apparel products, identify the top 20 products with the highest export potential in the global market, considering changed economic conditions and available trade routes
- For each of the selected top 20 products, identify the top 10 destinations under the existing trade regime
- Identify the destinations for which import duties liberalisation would be the most beneficial for UZB exports of textile and apparel

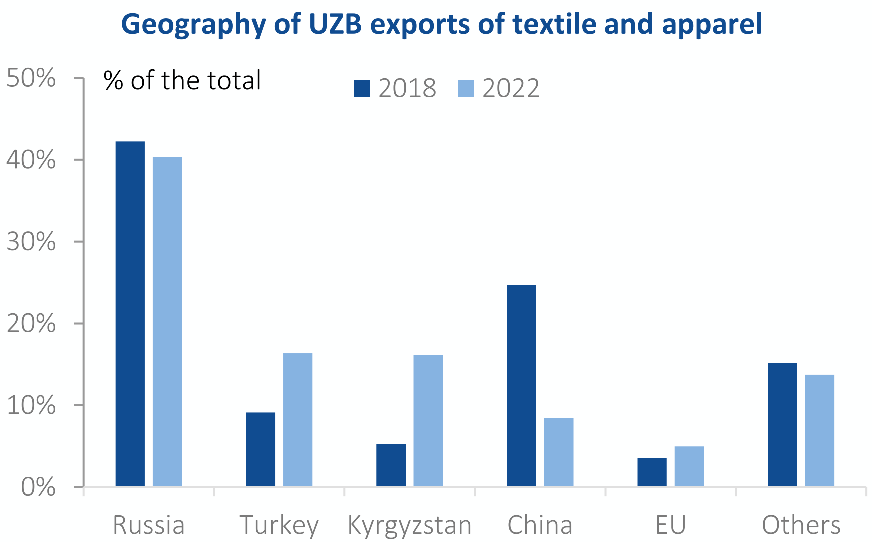
Disclaimer: The results of this policy briefing are based primarily on trade data. An in-depth market analysis is recommended to fine-tune findings before making export decisions.

Note: GET is grateful to the Association for Development of Business Logistics and other interview partners for their kind support of this study

2. UZB exports of textiles and apparel



Sources: WITS, own estimates



Source: WITS, own estimates

UZB exports of textiles and apparel*, 2022:

- » Nominal: USD 3.3 bn
  (+ USD 2 bn compared to 2018)
- » Share in total exports: 22%
  (+10 p.p. compared to 2018)
- » Growth, 2022/2018: +148%
- ➢ **Strong export expansion**

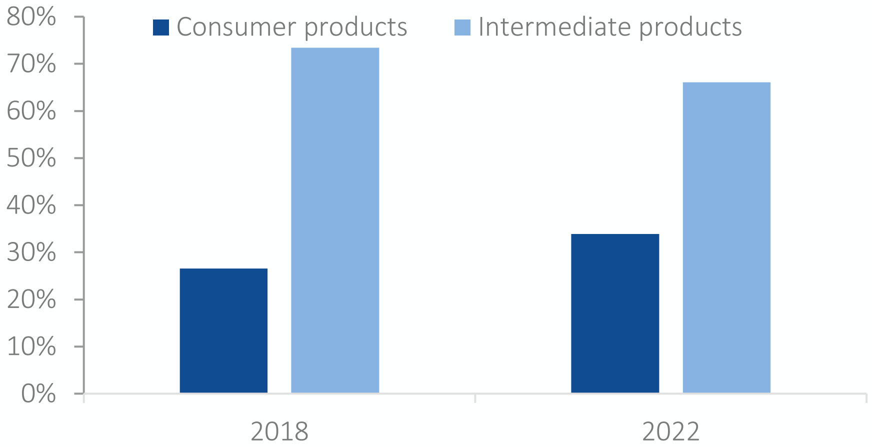
Key export destinations, 2022:

- » EAEU: USD 1.9 bn (59% of total), incl.
  - Russia: USD 1.3 bn
  - Kyrgyzstan: USD 0.5 bn
- » Turkey: USD 0.5 bn (16%)
- » China: USD 0.3 bn (8%)
- » EU: USD 0.2 bn (5%)
- ➢ **EAEU remains a dominant destination**

Note: *see Annex 1 for HS codes covered by the analysis*

Product structure of UZB exports of textiles and apparel

The structure by UZB exports of textiles and apparel by end-use



Sources: WITS, own estimates using BEC6 classification; CONS/INT is merged with CONS; INT/CONS is merged with INT

The product structure by UZB exports of textiles and apparel

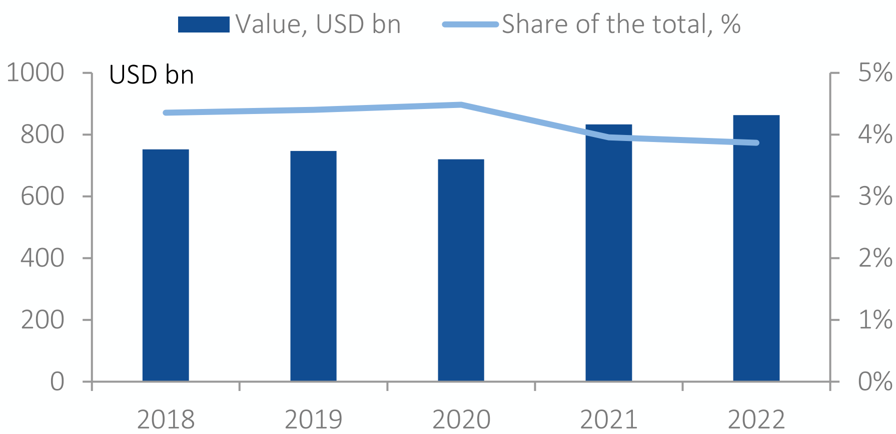
	2018		2022	
	USD m	Share	USD m	Share
Cotton yarn	727	55%	1,410	43%
Fabrics, knitted or crocheted	55	4%	290	9%
T-shirts	94	7%	269	8%
Woven fabrics of cotton	66	5%	149	5%
Bed & table linen	29	2%	125	4%
Others	350	27%	1,037	32%
Total	1,322	100%	3,280	100%

Sources: WITS, own estimates

- UZB exports of textiles and apparel have been experiencing gradual structural shifts
- **By the level of processing**, 2022 vs 2018:
  - Raw materials: 4% (-1 p.p.)
  - Semi-processed: 60% (-6 p.p.)
  - Processed/finished: 36% (+7 p.p.)
- **By end-use**, 2022 vs 2018:
  - Consumer products: 34% (+7 p.p.)
  - Intermediate goods: 66% (-7 p.p.)
- **By product headings**, 2022 vs 2018:
  - Cotton yarn: 43% (-12 p.p.)
  - Knitted or crocheted fabrics: 9% (+5 p.p.)
  - T-shirts: 8% (+1 p.p.)
- **The increased role of processed/finished products, mostly for final consumers**
- **Still, UZB supplies mostly industrial consumers with semi-processed products**

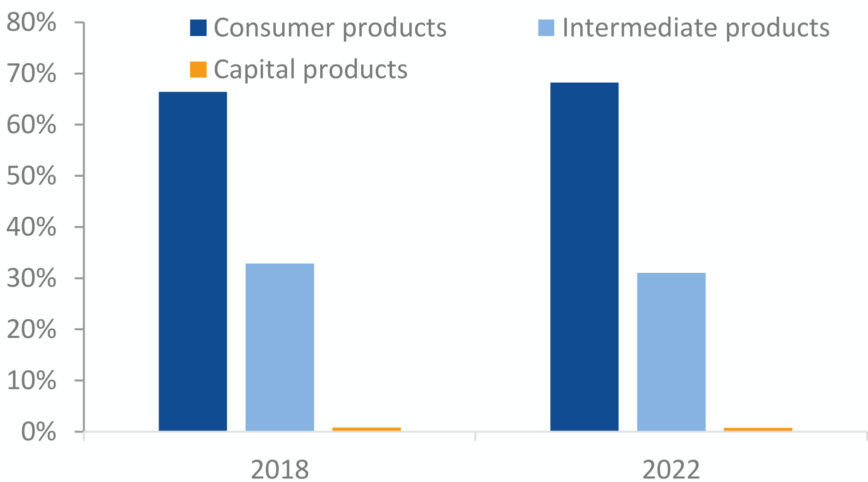
3. Global trade in textile and apparel

Global exports of textile and apparel



Sources: WITS, own estimates

The structure of global trade in textile and apparel by end-use



Source: WITS, own estimates; CONS/INT is merged with CONS; INT/CONS is merged with INT

Global trade in textile and apparel, 2022:

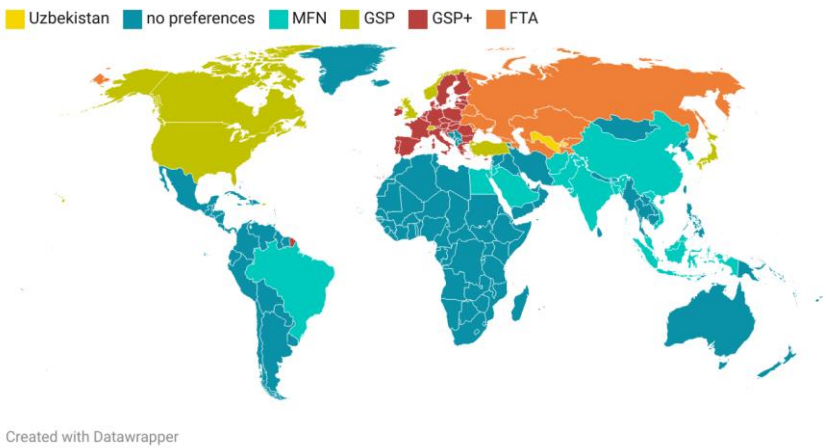
- » Nominal: USD 863 bn
- » Share in total exports: 4%
- » Growth, 2022/2018: +15%
- » Top exporters: CHN (39%), EU (25%)
- » Top importers: EU (36%), USA (19%)
- ➢ **Large and growing trade**

The structure of global trade by end-use, 2022 vs 2018:

- » Consumer products: 68% (+2 p.p.)
- » Intermediate products: 31% (-2 p.p.)
- » Capital products: 1% (no change)
- ➢ **Most trade occurs in consumer products**
- ➢ **Considerable difference from UZB export structure**

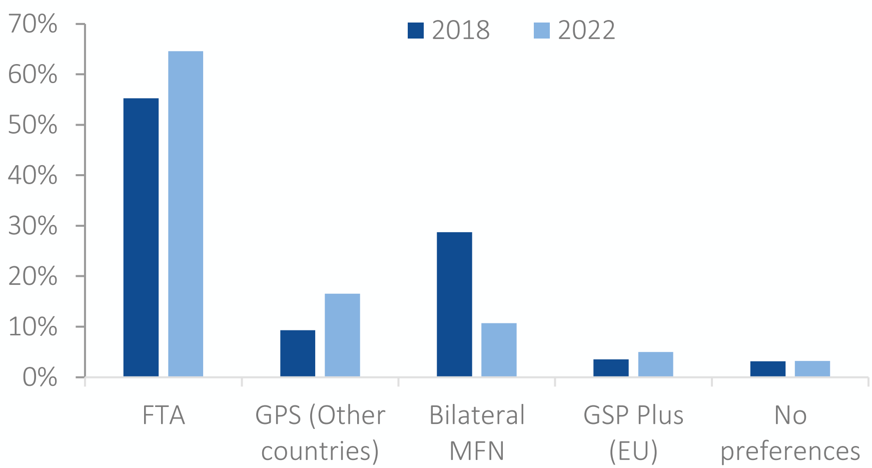
4. Market access

Map of UZB partners by the preferential treatment



Sources: WITS, WTO

UZB exports of textiles and apparel by trade regime



Sources: WITS, own estimates; GSP (other countries) include UK, USA, Canada, Switzerland, Japan, Norway, Turkey

» UZB exports of textiles and apparel have preferential access to partners' markets through several mechanisms:

- **Free Trade Area** (FTAs), signed with the CIS countries, Georgia and Ukraine
- **Unilateral preferences** granted by partners: GSP+ by the EU, GSP by other countries (UK, USA, Canada, Switzerland, Japan, Norway, Turkey)
- **Bilateral MFN Agreements** (China, Iran, Bangladesh, etc.)

» UZB exports by trade regime, 2022 vs 2018:

- FTA: 65% (+9 p.p.)
- GSP+ (EU): 5% (+1 p.p.)
- GSP (other countries): 17% (+7 p.p.)
- Bilateral MFN (if not GSP): 11% (-17 p.p.)
- No preferences: 3% (no change)

➢ **UZB supplies textiles and apparel mostly to markets with preferential treatment**

➢ **Further market opening would be beneficial**

Trade logistics

- RUS war of aggression against UKR and the counteracting sanctions introduced by the EU, USA and others have significantly affected trade routes within the region
- The main changes include:
  - The closure of many border crossing points for road transport between the EU and RUS, resulting in longer queues at the open ones
  - More extensive use of the Middle Corridor through the Caspian Sea and Caucasus to reach the EU market
  - The intensified use of Iran and Pakistan ports
- The changes in routes resulted in longer/much less predictable transportation time, causing an increase in prices for transportation services. Businesses estimate the transport price increase at up to +30%
- Still, shipment through RUS has remained the most efficient
- Other logistic obstacle: insufficiency of (modern) storage facilities in UZB
- **While long-distance shipments have become more challenging, trade with Europe has not stopped**
- **International coalitions to invest in alternative routes/modes of transport would help to reduce long-term risks**

Trade facilitation performance

OECD Trade Facilitation Indicators

	UZB 2017	UZB 2019	UZB 2022	Best practice, 2022
Average trade facilitation performance	0.60	0.71	0.85	1.66
A-Information availability	0.60	0.68	0.79	1.67
B-Involvement of the trade community	0.86	1.14	1.29	1.75
C-Advance rulings	1.33	1.33	1.33	1.91
D-Appeal procedures	1.29	1.29	1.29	1.62
E-Fees and charges	0.88	0.92	1.00	1.86
F-Documents	0.13	0.63	0.88	1.78
G-Automation	0.31	0.31	0.31	1.69
H-Procedures	0.42	0.76	0.86	1.60
I-Internal border agency co-operation	0.36	0.36	0.46	1.27
J-External border agency co-operation	0.27	0.27	0.46	1.27
K-Governance and impartiality	0.14	0.14	0.75	1.89

Sources: OECD

- UZB has improved its trade facilitation performance since 2017, with the most significant progress achieved in documentation and governance
- Still, UZB has remained well behind best practices, thus has many opportunities for improving customs and other procedures and reducing trade costs for exporters
- OECD key recommendations include advancing the development of the Single Window and pre-arrival processing of import documentation; expanding Authorized Operator programs' coverage and the application of Post-Clearance Audits (PCAs); further simplifying procedures in terms of associated time and costs

5. Methodology for export potential assessment (1/2)

- The assessment covers 151 products (see Annex 1) and 166 countries
- Three dimensions of export potential assessment are considered (see Annex 2):
  1. *Supply side dimension*: export performance of UZB
     - Indicators: Product export value, product export growth, revealed comparative advantage, world market share, and trade specialisation index determine the export potential
  2. *Demand side dimension*: import performance of the partners (globally and by individual country)
     - Indicators: The size and growth rates of the world/individual markets for the products
  3. *Trade cost dimension*: indicators for costs associated with UZB exports to a particular partner compared to other destinations
     - Indicators: Price compared to competitors, proximity to export market, relative proximity of export market to source market, average tariff protection of export market and protection towards UZB compared to average protection determines the export potential
- For each indicator, the normalised score is calculated based on the ranking. The score ranges from 0 to 100, with rank 1 being equivalent to score = 100
- The dimension score is the simple average across scores of indicators
- Period: 2018 – 2022; Sources: WITS, Market Access Map, Trade Map

5. Methodology for export potential assessment (2/2)

- The analysis is conducted in two stages:
- **Stage I (based on dimensions i. and ii. + sector verification)**
  - Identification of top products based on dimensions i. and ii.
  - Verification of the list of top products using sectoral information, e.g., the state policy priorities
  - Selection of top-20 products with the highest export potential
- **Stage II (based on dimensions ii. and iii.)**
  - Identification of top-10 importing countries for each of the top-20 products
- For each stage, a composite score is estimated as the average of normalised scores for two dimensions
- Products (Stage I) and product-destination pairs (Stage II) are ranked based on their composite score, with a higher score indicating a higher export potential

6. Export potential on global markets

Stage I

» Identification of 20 products with the highest export potential on global markets

Stage II

» Identification of the top 10 destinations globally for each of the top 20 products

Two scenarios:

» **Baseline**: assessment is done on applied import duties

Result: identification of export potential – top products and destinations – for the existing trade regime

» **Counterfactual**: identification of export potential under the assumption that UZB faces zero import duties worldwide (hypothetical zero import duties are applied at Stage II)

Result: identification of destinations that increase their market potential for UZB exporters in case of duty-free access

Stage I: Top 20 products (1/2)

Rank	Composite score (max=100)	HS 2017	HS 2017 Product Description	UZB exports, 2022, USD m	WLD imports, 2022, USD m
1	90	6109	T-shirts, singlets and other vests; knitted or crocheted	269	47,368
2	89	6006	Knitted or crocheted fabrics, other than those of headings 6001 to 6004	211	16,052
3	89	6103	Suits, ensembles, jackets for men's or boys', knitted or crocheted	70	12,897
4	88	6302	Bed linen, table linen, toilet linen and kitchen linen	125	21,221
5	87	6104	Suits, ensembles for women's or girls', knitted or crocheted	77	33,576
6	86	6108	Slips, petticoats, briefs for women's or girls', knitted or crocheted	103	13,131
7	85	6110	Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted	80	66,013
8	85	6107	Underpants, briefs, nightshirts for men's or boys', knitted or crocheted	39	8,486
9	82	6111	Garments and clothing accessories for babies'; knitted or crocheted	105	8,549
10	81	6115	Panty hose, tights, stockings, socks and other hosiery, knitted or crocheted	56	13,187

Sources: own estimates

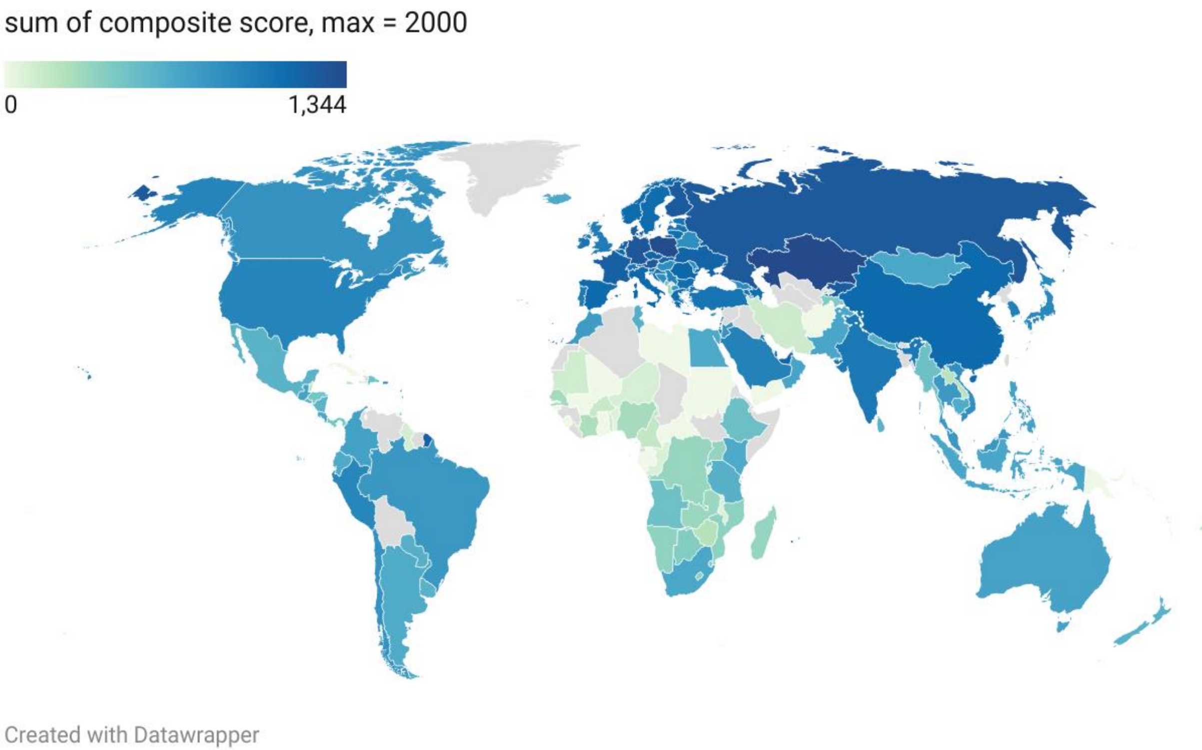
Stage I: Top 20 products (2/2)

Rank	Composite score (max=100)	HS 2017	HS 2017 Product Description	UZB exports, 2022, USD m	WLD imports, 2022, USD m
11	79	6004	Knitted or crocheted fabrics of a width > 30 cm, containing by weight 5% or more of elastomeric yarn or rubber thread	79	7,257
12	78	6105	Shirts for men's or boys', knitted or crocheted	17	8,913
13	78	6305	Sacks and bags for the packing of goods	16	5,742
14	76	5702	Carpets and other textile floor coverings; woven	24	5,018
15	74	6101	Men's or boys' overcoats, car-coats, capes and similar articles; knitted or crocheted	4	3,959
16	73	6203	Suits, ensembles, jackets for men's or boys' (not knitted or crocheted)	30	44,610
17	71	5208	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m2	129	6,289
18	70	6505	Hats and other headgear	5	8,312
19	69	5209	Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m2	17	4,778
20	69	6204	Suits, ensembles, jackets for women's or girls' (not knitted or crocheted)	14	61,434

Sources: own estimates

Stage II: Destinations with the highest potential for baseline scenario: applied import duties

Map with the highest export potential for UZB products



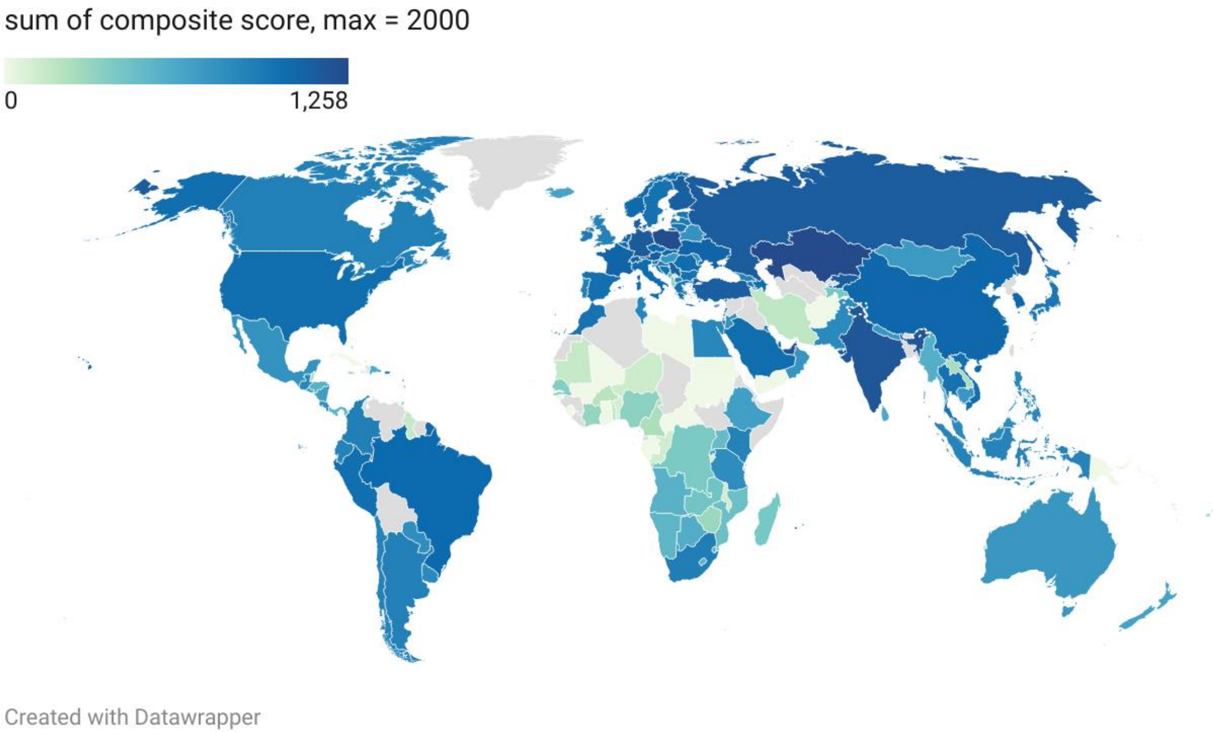
Top-10 countries	Sum of composite scores
Kazakhstan	1,344
Poland	1,331
Germany	1,250
Austria	1,227
Russia	1,225
Finland	1,219
Denmark	1,215
Kyrgyz Republic	1,207
Netherlands	1,188
France	1,183

Sources: Own estimates
Note: The value assigned to each country refers to the sum of the composite export potential score received by the country for the top 20 products

- » The current top markets for UZB textile and apparel are in the EAEU and the EU
- » The list of the top markets changed compared to PB/01/2019:
  - Kazakhstan became the key destination, surpassing Russia
  - The role of the EU countries, especially Poland, significantly strengthened

Stage II: Destinations with the highest potential for counterfactual scenario: zero import duties

Map with the highest export potential for UZB products



Top-10 countries	Sum of composite scores
Kazakhstan	1,258
United Arab Emirates	1,229
Poland	1,229
India	1,173
Germany	1,147
Russia	1,137
Kyrgyz Republic	1,131
Austria	1,124
Turkey	1,120
Finland	1,116

Sources: Own estimates
Note: The value assigned to each country refers to the sum of the composite export potential score received by the country for the top 20 products

» If import duties for UZB textiles & apparel are removed, UZB would have much higher export potential in the Middle East and South Asia markets

Summary for export potential assessment

- The top 20 products with the highest UZB export potential include mostly knitted or crocheted apparel and fabrics
- Under the current tariff schedule, the EAEU and the EU remain destinations with the highest export potential. If import duties are eliminated, the attractiveness of the Middle East and South Asia would significantly increase
- Compared to competitors, UZB demonstrates:
  - **Good distance advantage**: in 40% of product-destination pairs, UZB is closer to the target market than competitors (see Annex 4 for the definitions)
  - **Moderate import duty advantage**: import duties faced by UZB are lower than those of its competitors in 25% of product-destination pairs in the baseline scenario. That can be further improved via preferential trade agreements setting import duties at zero
  - **Poor price advantage**: UZB can offer a better price than competitors only in 13% of product-destination pairs, mostly in fabrics and linen. The main strategies to overcome this challenge include:
    - Decreasing prices by improved technologies, introducing economies of scale, and lowering costs of resources and trade costs
    - Justifying higher prices by offering the highest-quality or designer/niche products and pursuing ethical/sustainable/organic production
- To realize export potential opportunities, UZB should focus on improving its price advantage, especially for wearing apparel

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.
**Advisory activities in Belarus are currently suspended.*

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Annex 1: Product coverage

- The analysis is conducted at HS 4-digits using the 2017 edition
- The selection of HS codes was based on their match with the following classes of economic activity according to ISIC Rev.4:

1311	Preparation and spinning of textile fibres
1312	Weaving of textiles
1391	Manufacture of knitted and crocheted fabrics
1392	Manufacture of made-up textile articles, except apparel
1393	Manufacture of carpets and rugs
1394	Manufacture of cordage, rope, twine and netting
1399	Manufacture of other textiles n.e.c.
1410	Manufacture of wearing apparel, except fur apparel
1430	Manufacture of knitted and crocheted apparel
2030	Manufacture of man-made fibres

- The following HS codes were analysed:

5002, 5003, 5004, 5005, 5006, 5007, 5101, 5103, 5104, 5105, 5106, 5107, 5108, 5109, 5110, 5111, 5112, 5113, 5202, 5203, 5204, 5205, 5206, 5207, 5208, 5209, 5210, 5211, 5212, 5301, 5302, 5303, 5306, 5307, 5308, 5309, 5310, 5311, 5401, 5402, 5403, 5404, 5405, 5406, 5407, 5408, 5501, 5502, 5503, 5504, 5505, 5506, 5507, 5508, 5509, 5510, 5511, 5512, 5513, 5514, 5515, 5516, 5601, 5602, 5603, 5604, 5605, 5606, 5607, 5608, 5609, 5701, 5702, 5703, 5704, 5705, 5801, 5802, 5803, 5804, 5805, 5806, 5807, 5808, 5809, 5810, 5811, 5901, 5902, 5903, 5907, 5908, 5909, 5910, 5911, 6001, 6002, 6003, 6004, 6005, 6006, 6101, 6102, 6103, 6104, 6105, 6106, 6107, 6108, 6109, 6110, 6111, 6112, 6113, 6114, 6115, 6116, 6117, 6201, 6202, 6203, 6204, 6205, 6206, 6207, 6208, 6209, 6210, 6211, 6212, 6213, 6214, 6215, 6216, 6217, 6301, 6302, 6303, 6304, 6305, 6306, 6307, 6308, 6501, 6502, 6504, 6505, 6506, 6507, 8804, 9404

Annex 2.1: Supply side

- *Total export value*: the larger the country's total exports, the greater its potential for expansion
- *Total export growth (in fixed prices):* the faster the export growth, the better it is for export potential

  Products with negative growth get a zero score for this indicator
- *Revealed comparative advantage (RCA)*: the RCA is traditionally used to evaluate the competitiveness of exporters. The RCA is defined as the ratio of two shares. The numerator is the share of a country's total exports of the product in its total exports, and the denominator is the share of world exports of the same product in total world exports. The RCA takes a value between 0 and (infinity). The country is considered competitive in products with RCA≥1

  Products with RCA<1 get a zero score for this indicator
- *World market share:* an indicator of the product's competitiveness. While the total export value is biased towards large industries, the world market share could show the potential of smaller industries
- *Trade specialisation index (TSI)*: The TSI compares the net flow of goods (exports minus imports) to the total flow of goods (exports plus imports). The closer TSI to 1, the stronger the country's export specialisation

  Products with TSI≤0 get a zero score for this indicator

Annex 2.2: Demand side

- *Total value of imports*. It shows the potential size of the market
- *Import growth (in volume).* Higher import growth signals a demand expansion and thus could produce more opportunities for the exporter than a stagnant or declining market

  Products with negative growth get a zero score for this indicator

- In this analysis, the calculations are done separately for:
  - *Stage I*: World market as a whole
  - *Stage II:* Individual countries with a threshold of USD 1 million applied to exclude 'shallow' markets

Annex 2.3: Trade costs

- *Relative unit value*. It shows whether the exporter can supply to the importing market cheaper than its competitors

  To ensure that exporters stay competitive after all trade and logistic costs are covered, we set a minimum threshold at Unit Value Ratio = 2. The maximum threshold is set at 10

  Products with a unit value ratio outside the threshold are scored zero

- *Distance to the country from UZB*. The distance is an important proxy of transportation costs

- *Distance advantage of UZB compared to the country's average distance of imports*. It reveals whether UZB is better placed than its potential competitors if the distance of shipping is compared

- *Average tariff faced by UZB.* It allows comparing different markets, putting the countries with more liberal tariff regimes up

- *Average tariff advantage of UZB compared to the country's applied average*. It reveals the relative competitiveness of the exporter on the importing market

Annex 3.1: Example of Stage I estimates

HS4d 2017	6109	6006	6103	6302	6104
Description	T-shirts, singlets and other vests; knitted or crocheted	Fabrics; knitted or crocheted fabrics, other than those of headings 60.01 to 60.04	Suits, ensembles, jackets for men's or boys', knitted or crocheted	Bed linen, table linen, toilet linen and kitchen linen	Suits, ensembles, jackets, for women's or girls', knitted or crocheted
UZBexp wld score 2022	99	99	93	97	94
UZBexp wld score 2018-2021	99	99	95	97	96
UZBexp wld growth score	74	77	79	75	65
UZB RCA wld score 2022	89	92	86	89	78
UZB RCA wld score 2018-2021	89	93	85	87	80
UZBexp share in WLD score 2022	89	92	86	89	78
UZBexp share in WLD score 2018-2021	90	93	85	87	80
UZB TS score 2022	93	86	89	90	87
UZB TS score 2018-2021	94	82	91	91	89
SCORE SUPPLY	91	90	88	89	83
WLDimp wld score 2022	99	91	89	96	97
WLDimp wld score 2018-2021	99	91	85	96	97
UZBexp wld growth score	72	79	93	66	81
SCORE DEMAND	90	87	89	86	92
COMPOSITE Stage I	94	89	89	91	95
Rank	1	2	3	4	5

Sources: Own estimates

Annex 3.2: Example of Stage II estimates

HS4d 2017	6302	6302	6302	6302	6302
Description	Bed linen, table linen, toilet linen and kitchen linen	Bed linen, table linen, toilet linen and kitchen linen	Bed linen, table linen, toilet linen and kitchen linen	Bed linen, table linen, toilet linen and kitchen linen	Bed linen, table linen, toilet linen and kitchen linen
Reporter Name	Kazakhstan	Finland	Kyrgyz Republic	France	Denmark
score uv ratio 2022	0	0	0	0	0
score uv ratio 2018-2021	0	96	0	87	0
score distance	98	79	99	55	66
score distance advantage	95	69	92	0	68
score duty	100	100	100	100	100
score duty advantage	98	93	99	93	93
SCORE trade barriers	**65**	**73**	**65**	**56**	**55**
score imp value average 2018-2021	75	82	54	98	90
score imp value average 2021	86	82	67	99	90
score imp carg 2020/2017	98	67	96	71	68
score imp carg 2021/2020	88	73	95	63	64
SCORE demand	**87**	**76**	**78**	**83**	**78**
Composite Stage II	**76**	**74**	**72**	**69**	**66**
rank	1	2	3	4	5

Sources: Own estimates

Annex 4: Terminology used in "product-destination" analysis

- *Distance advantage vs average supplier* compares two variables:
  - The distance between UZB and the partner country
  - The average distance of importing countries to the partner country as reported in the ITC Trade Map

  UZB is considered to have a distance advantage if it is closer to the partner country

- *Import duty advantage vs applied duty* compares two variables:
  - The applied import duty that UZB faces in the partner country, incl. all preferential regimes
  - The average applied duty by the partner country as reported in the ITC Trade Map

  UZB is considered to have an import duty advantage if it faces lower tariff barriers than other competitors

- *Price advantage vs average import price* is derived using the unit values ratio comparing the UZB unit value of exports adjusted for transport and other costs and the partner's unit value of imports (see Annex 2.3)

  UZB is considered to have a price advantage if the unit value ratio exceeds two

  The upper bound is set at ten to limit distortions related to comparing different products