

Export potential of Uzbek textile and apparel

Veronika Movchan, Robert Kirchner, Nodira Kurbanbaeva

German Economic Team Uzbekistan / Berlin Economics



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Motivation

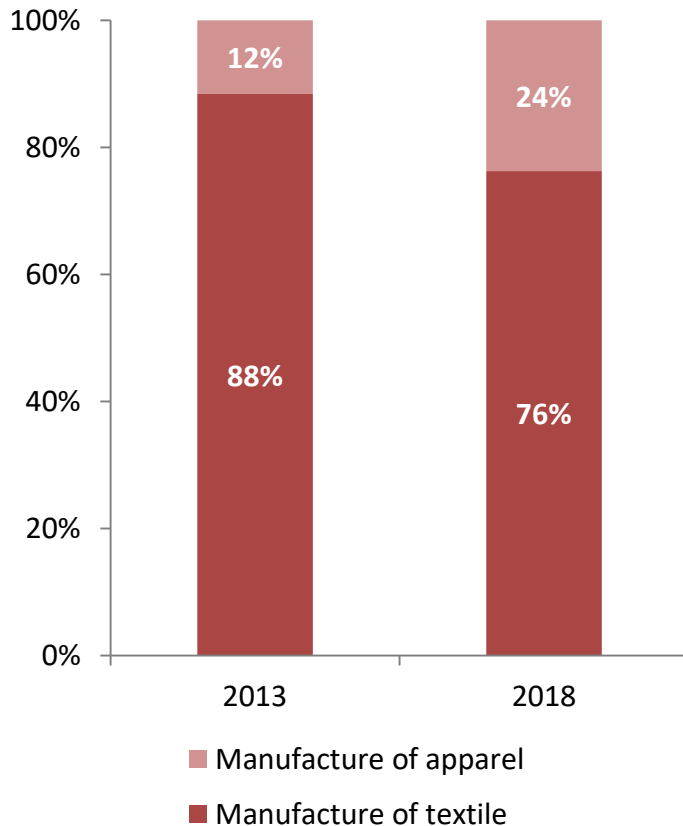
- Uzbekistan launched a comprehensive programme of liberalisation of its foreign trade to foster sustainable economic growth
- Textile and apparel, traditionally being an important sector of the Uzbek economy and its exports, is among the policy priorities for the state. In 2016, the President signed Decree #2687 on measures for boosting the development of textile and apparel manufacture
- **Aim of the policy briefing:** Support facilitation of Uzbek exports of textile and apparel by
 - Identifying products and destinations with the highest export potential
 - Identifying potential for trade costs reduction

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1. The role of the textile industry in Uzbekistan
 2. Uzbekistan's exports of textile and apparel
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1. The role of the textile industry in Uzbekistan

Structure of textile and apparel manufacture



Source: UZ Statistical Office, authors' estimates

Manufacture of textile and apparel (2018 est.):

- Nominal: UZS 30.0 trillion or USD 3.5 bn (*exchange rate: 1 USD = 8.4 thsd. UZS*)
- Real growth: ca 10% (2018/2017)
- Share in manufacturing: 17%
- Share in total employment (for manufacture of textile): 1.3%

➤ Large part of manufacturing

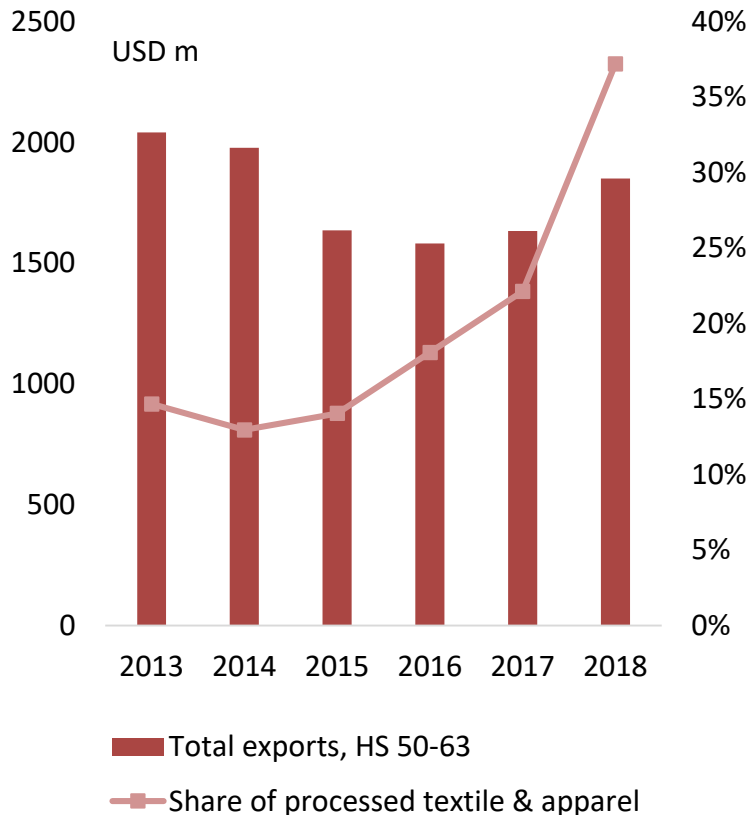
Structure of manufacture of textile and apparel, 2018 (est.) vs 2013:

- Manufacture of textile: 76% (-12 p.p)
- Manufacture of apparel: 24% (+12 p.p.)

➤ Structural shift towards manufacture of apparel

2. Uzbekistan exports of textile & apparel

Uzbekistan exports of textile & apparel, 2013-2018



Uzbekistan exports of textile and apparel (HS 50-63):

- Nominal value: USD 1.9 bn (2018)
- Growth 2018/2017: +13%
- Share in total exports of goods: 11%

➤ Revival of exports in 2018

Structure of exports of textile and apparel, 2018 vs 2013:

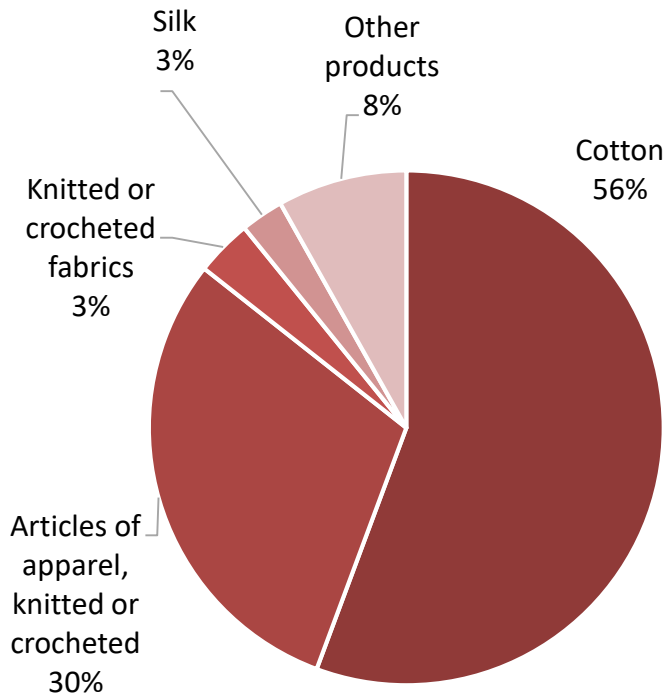
- Raw materials: 16% (-44 p.p.)
- Semi-processed: 47% (+21 p.p.)
- Processed: 37% (+23 p.p.)

➤ Structural shift towards more processed products

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

Product structure of textile & apparel exports

Uzbekistan exports of textile and apparel by products, 2018



Main exported products:

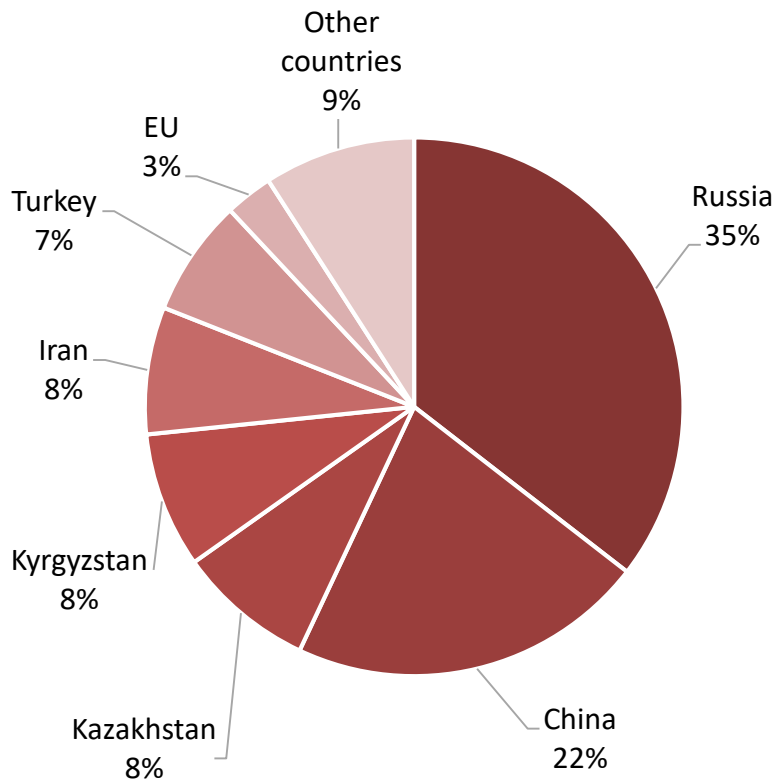
- Cotton (HS 52): 56%, *including*
 - Cotton yarn (5205): 39%
 - Cotton, not carded or combed: 12%
- Knitted/crocheted apparel (HS 61): 30%, *including*
 - T-shirts: 11%
 - Women's suits: 5%
 - Women's or girls' slips: 4%

➤ **Export concentrated on several main products**

Source: UZ Statistical Office, authors' estimates

Textile & apparel export destinations

Uzbekistan exports of textile and apparel by countries, 2018



Key export destinations:

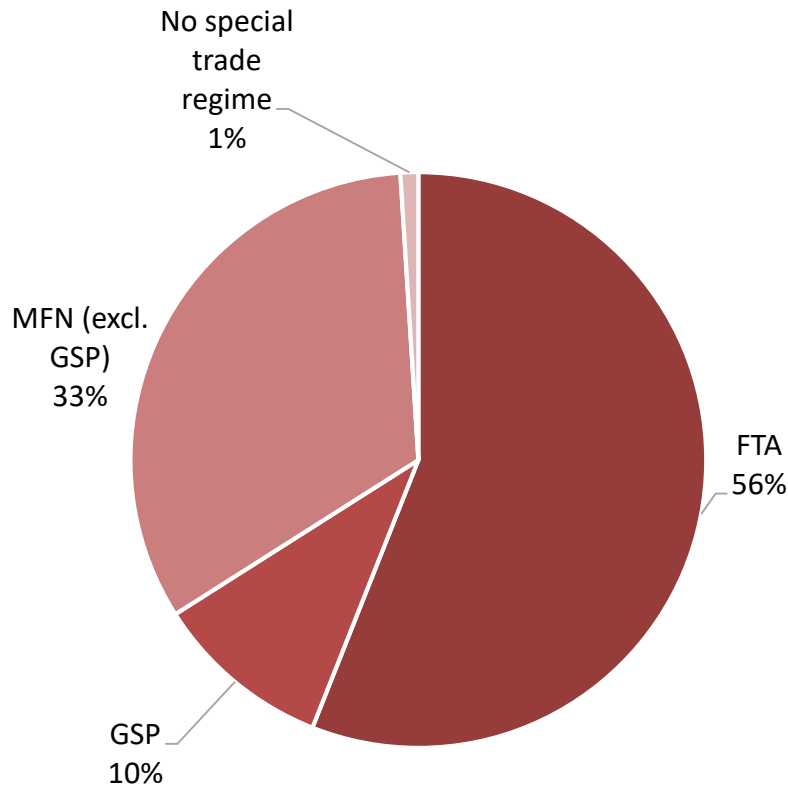
- CIS*: 56%, including
 - Russia: 35%
 - Kazakhstan: 8%
 - Kyrgyzstan: 8%
 - China: 22%
 - Iran: 8%
 - Turkey: 7%
 - EU: 3%
- **Export concentrated on several neighboring markets**
 - **Traditional destinations dominate**
 - **Potential for diversification**

Source: UZ Statistical Office, authors' estimates

Note: * including Georgia

Market access for Uzbek textile and apparel

Uzbekistan exports of textile & apparel by trade regime, 2018



Source: UZ Statistical Office, authors' estimates

UZ exports of textile & apparel by trade regime, 2018:

- Free trade (CIS, Georgia): 56%
 - Generalized system of preferences, GSP (EU, Turkey, Canada, Japan, Switzerland): 10%
 - MFN bilateral agreements, excl. GSP (e.g. China, Iran, Bangladesh): 33%
- **Most of UZ exports is under various preferential arrangements**
- **Further opening of markets could stimulate exports**

Trade costs associated with moving products across border in Uzbekistan

Indicator	Assessment
WB Doing Business 2019, Trading Across Border	165 out of 190 countries, 50% of best performer
WB Logistics Performance Index 2018	99 out of 160 countries, 49% of best performer
OECD Trade Facilitation Indicators 2018	0.63 out of 2.00, 40% of best performer

Source: World Bank (WB), OECD

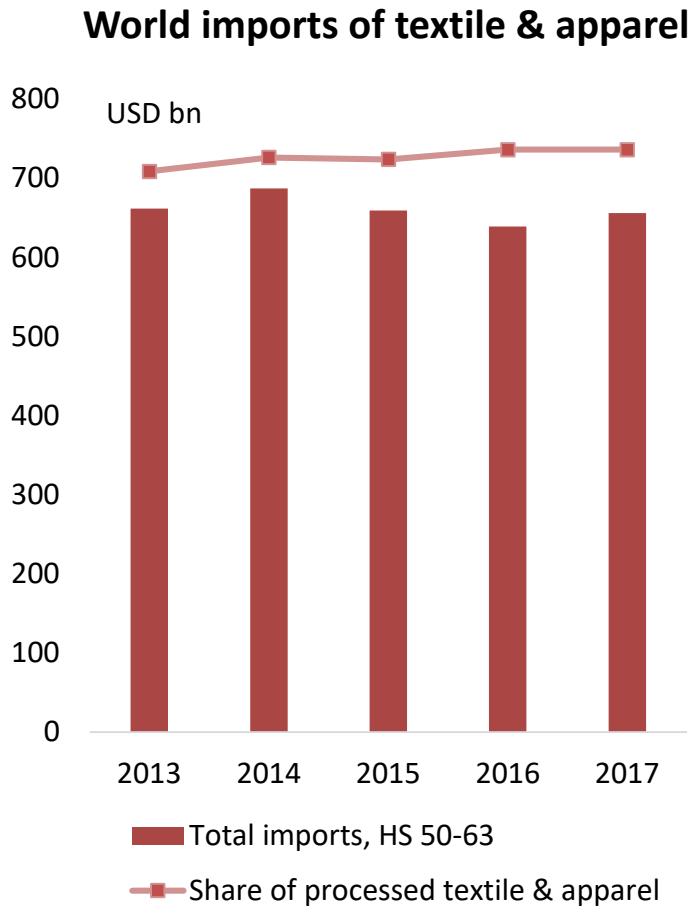
- Uzbekistan performs worse than average in key international indices measuring easiness of trading across border
- Key problem is slow and costly customs formalities (*see Annex*)
- Recently, Uzbekistan launched extensive trade liberalization including still-ongoing customs reform related to ‘single window’, automated risk-management system, and authorized economic operators

Trade costs reduction: points of attention

Interviews with market operators and international comparisons highlighted the following suggestions:

1. Maximum application of “green” corridor for textile & apparel exports
2. Reduction in queuing time at the border (currently queuing time could be up to 2 days for exports and more than 2 days for imports)
3. Faster issuance of needed certificates
4. Alignment of electronic documents with international standards, e.g. regarding weight reporting

3. World imports of textile & apparel



Source: WITS, MTN classification, authors' estimates

World imports of textile and apparel (HS 50-63):

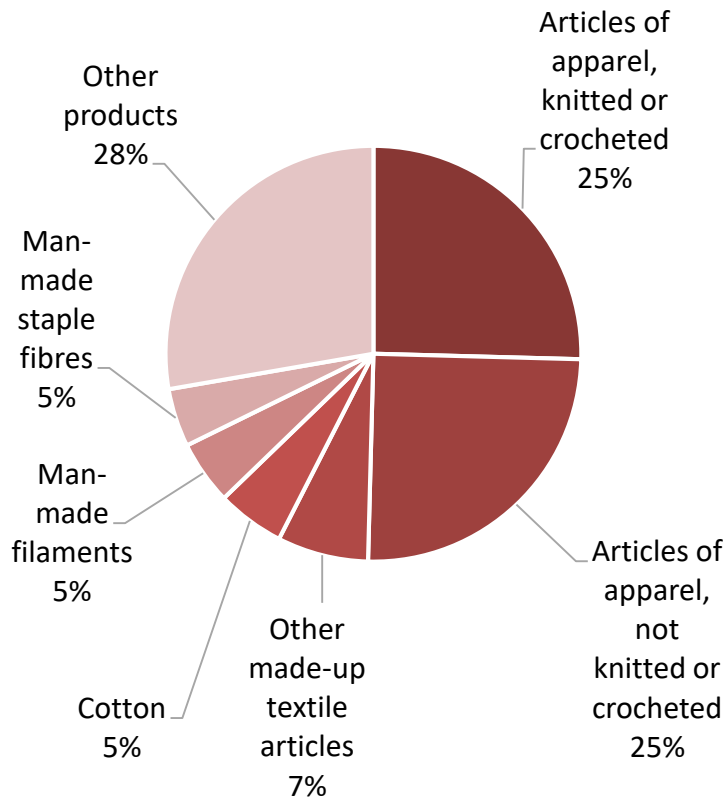
- Nominal value: USD 656 bn
- Growth 2017/2016: +3%
- **Imports of textile & apparel revived in 2017**

Structure of imports of textile and apparel, 2018:

- Raw materials: 6%
- Semi-processed: 21%
- Processed: 73%
- **Most of world import value in textile & apparel is generated by processed products**

Product structure of world textile & apparel imports

World imports of textile and apparel by products, 2018



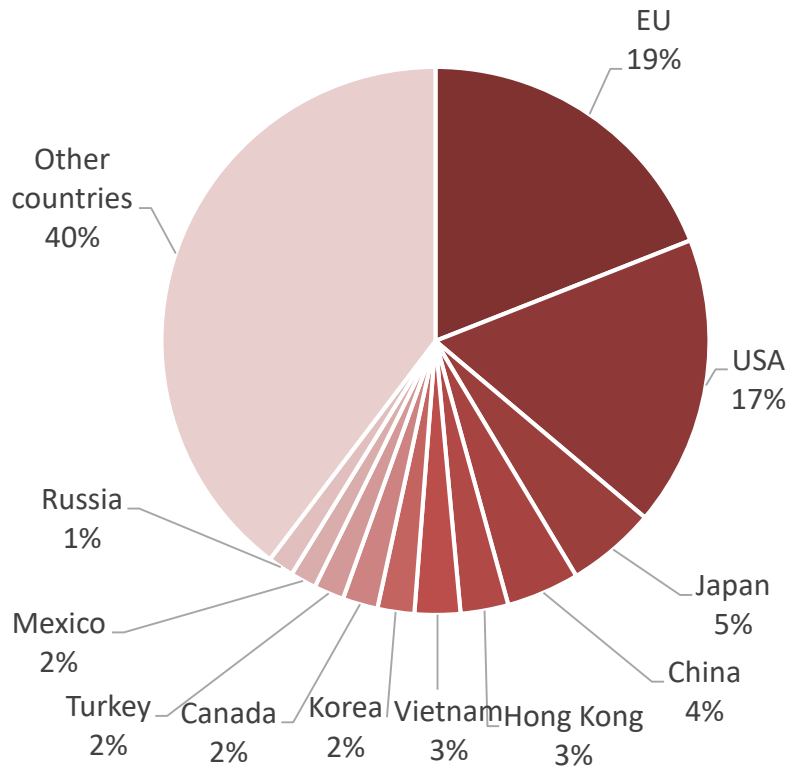
Source: WITS, authors' estimates

Main imported products:

- Knitted/crocheted apparel (HS 61): 25%, *including*
 - Jerseys, pullovers, cardigans: 8%
 - T-shirts: 6%
 - Women's or girls' suits: 4%
 - Apparel, not knitted/crocheted (HS 62): 25%, *including*
 - Women's or girls' suits: 8%
 - Men's or boys' suits: 6%
 - Women's or girls' overcoats: 3%
- **Articles of apparel account for a half of total imports**

Geography of world textile & apparel imports

World imports of textile and apparel by countries, 2018



Source: WITS, authors' estimates

Key importers of textile & apparel:

- EU: 19%, including
 - Germany: 8%
 - United Kingdom: 5%
 - France: 4%
 - USA: 17%
 - Japan: 5%
 - China: 4%
 - Hong Kong: 3%
- **Developed countries – EU, USA and Japan – consume 42% of world imports of textile & apparel**
- **Opportunity for export diversification for Uzbekistan**

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

- Export potential assessment is based on the modified International Trade Centre (ITC) methodology
- Three dimensions of export potential assessment; see next slides
 - Supply side dimension*: export performance of Uzbekistan semi-processed and processed textile and apparel products
 - Demand side dimension*: import performance of potential partners
 - Trade cost dimension*: indicators for costs associated with UZ exports to a particular partner compared to other destinations

Stage I (based on dimension i. and ii.)

- Identification of Top-20 products with the highest export potential

Stage II (based on dimension ii. and iii.)

- Identification of Top-10 importing countries for each of Top-20 products

Methodology for export potential assessment (2/2)

Two scenarios

1. Baseline: assessment is done on actual data

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

2. Counterfactual: identification of export potential under assumption that UZ faces zero import duties worldwide

Stage I: same as for baseline scenario

Stage II: hypothetical import duties are applied

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

Stage I: Top-20 products (1/2)

Rank	Score Stage I	HS code	Description	UZ exports, 2018, USD m	UZ exports volume CAGR 2018/2014	WLD imports, 2017, USD m
1	71	6302	Bed linen, table linen, toilet line	35	38%	17,599
2	66	5205	Cotton yarn	723	8%	10,210
3	64	5208	Woven fabrics of cotton	58	16%	6,522
4	62	5702	Carpets and other textile floor coverings, not tufted or flocked	27	13%	3,856
5	61	6104	Women's or girls' suits, ensembles	94	34%	25,169
6	61	6109	T-shirts, singlets and other vests	201	11%	37,193
7	59	5904	Linoleum, whether or not cut	2	85%	288
8	59	6305	Sacks and bags, for the packing of goods	7	10%	4,346
9	58	5802	Terry towelling	3	70%	187
10	58	6111	Babies' garments and clothing accessories	27	32%	7,209

Source: authors' estimates, CARG – compound annual growth rate

Stage I: Top-20 products (2/2)

Rank	Score Stage I	HS code	Description	UZ exports, 2018, USD m	UZ exports volume CAGR 2018/2014	WLD imports, 2017, USD m
11	57	6108	Women's or girls' slips, petticoats	70	10%	10,612
12	57	6304	Other furnishing articles	0.5	58%	3,159
13	56	5703	Carpets and other textile floor coverings, tufted "needle punched"	3	111%	6,410
14	56	6201	Men's or boys' overcoats, car-coats	2	14%	13,047
15	55	6004	Knitted or crocheted fabrics of a width of > 30 cm, containing >= 5% by weight elastomeric yarn	12	22%	4,974
16	54	6106	Women's or girls' blouses, shirts	5	29%	4,953
17	53	6110	Jerseys, pullovers, cardigans	49	7%	51,052
18	53	6211	Track suits, ski suits and swimwear	0.5	41%	10,099
19	53	6203	Men's or boys' suits, ensembles	14	23%	39,551
20	53	6202	Women's or girls' overcoats, car-coats	2	116%	17,138

Source: authors' estimates, CARG – compound annual growth rate

Stage II baseline: Destinations with the highest potential

Result of Stage II: individual tables containing Top-10 countries for each product; see TN/01/2019

Due to space limitations: here only table with most promising export destinations for the Top-20 products* as a group

Countries ranked by the export potential for Top-20* UZ textile & apparel products

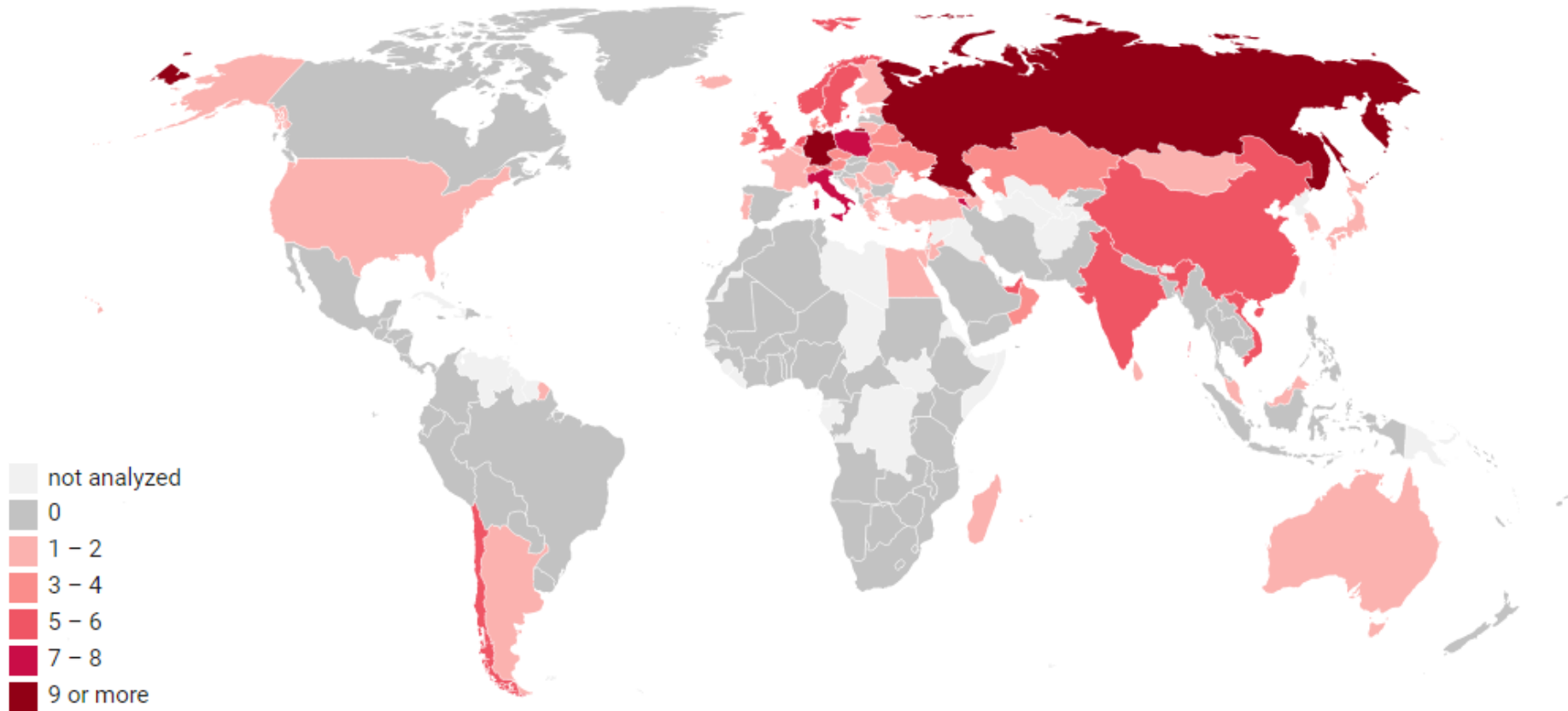
Countries	Frequency
Russia	13
Germany	10
Armenia, Poland, Italy	7-8
China, Sweden, Chile, Norway, India, Vietnam, Netherlands, United Kingdom, United Arab Emirates	5-6
Austria, Ukraine, Kazakhstan, Denmark, Cyprus, Oman, Lebanon, Switzerland, Georgia, Ireland, Czech Republic, Belarus	3-4
France, Iceland, Estonia, Greece, Israel, Argentina, Kuwait, Lithuania, Mongolia, Portugal, Belgium, Azerbaijan, Australia, Bosnia and Herzegovina, Egypt, Finland, Jordan, Korea, North Macedonia, Madagascar, Malaysia, Romania, Serbia, Sri Lanka, Turkey, United States, Japan	1-2
All other countries	0

Source: authors' estimates

Note: * due to data mismatch, top destinations were not identified for HS 5208, 5802, 6304

Stage II baseline: Destinations with the highest potential

Map of world markets with the highest export potential for UZ textile & apparel products



Sources: Own estimates

Note: The value assigned to each country refers to how often the country was mentioned in the Top-10 destinations calculated for each of the Top-20* textile and apparel

Stage II counterfactual: Destinations with the highest hypothetical potential

Counterfactual experiment: for products with the highest export potential we assume that Uzbekistan faces zero import duties worldwide

Countries ranked by the hypothetical export potential

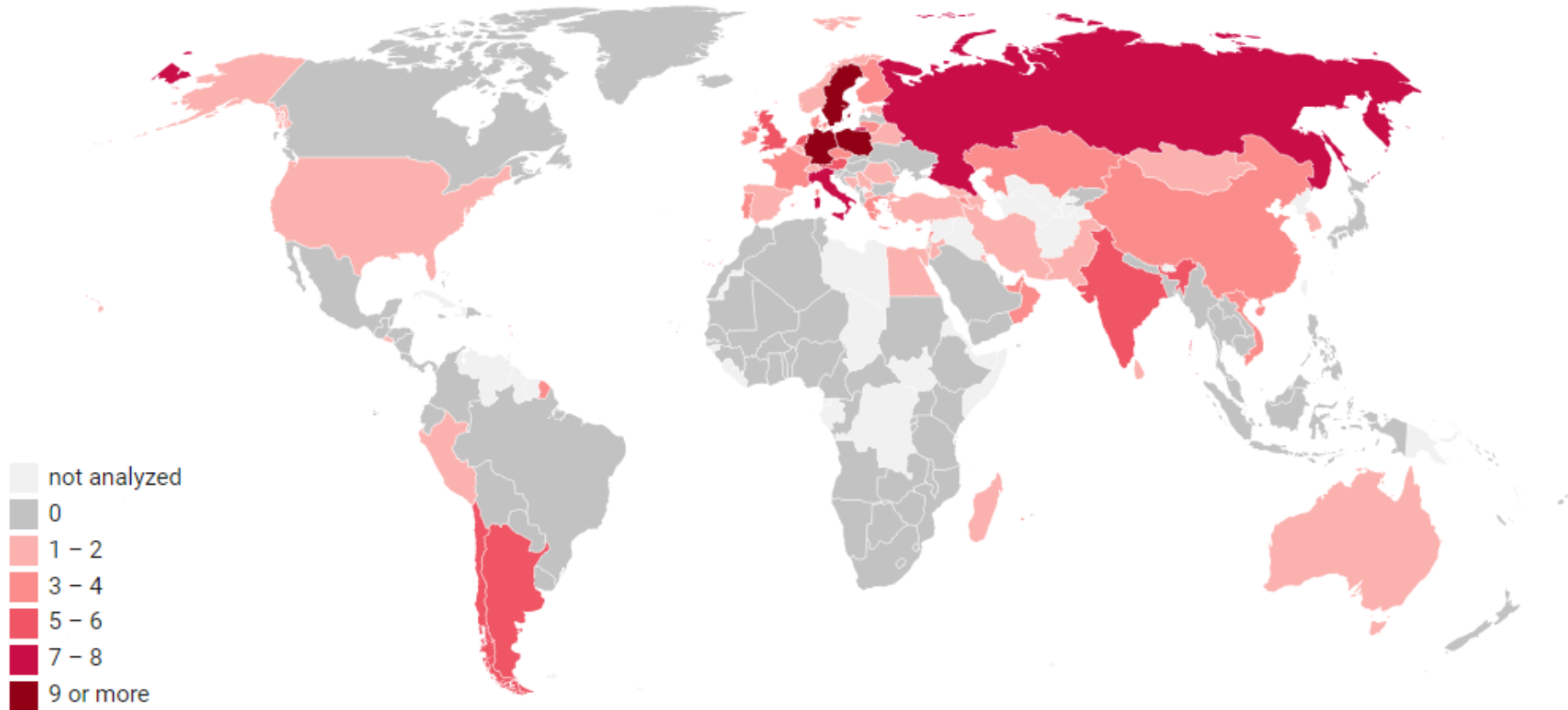
Countries	Frequency
Germany, Sweden, Poland	9-11
Russia, Italy	7-8
Netherlands, India, Argentina, United Kingdom, Austria, Chile	5-6
Lebanon, Czech Republic, China, United Arab Emirates, Armenia, Denmark, Ireland, Lithuania, Greece, France, Finland, Vietnam, Portugal, Oman, Cyprus, Kazakhstan	3-4
Georgia, Egypt, Arab Rep., Estonia, Korea, United States, Kuwait, Turkey, Mongolia, Norway, Israel, Jordan, Switzerland, Peru, Australia, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Sri Lanka, Spain, Romania, El Salvador, Pakistan, Madagascar, North Macedonia, Luxembourg, Iran, Serbia	1-2
All other countries	0

Source: authors' estimates

Note: * due to data limitations, top destinations were not identified for HS 5208, 5802, 6304

Stage II counterfactual: Destinations with the highest hypothetical potential

Map of world markets with the highest export potential for UZ textile & apparel products



Sources: Own estimates

Note: The value assigned to each country refers to how often the country was mentioned in the Top-10 destinations calculated for each of the Top-20* textile and apparel

Counterfactual: change in top destinations

Region	Countries
Higher export potential	
EU	<i>Sweden, Finland, Austria, Czech Republic, Germany, Denmark, Spain, France, Greece, Lithuania, Luxembourg, Netherlands, Poland, Portugal</i>
Middle East	<i>Egypt, Iran, Jordan, Lebanon, Turkey</i>
Latin America	<i>Argentina, Peru, El Salvador</i>
South & East Asia	<i>India, Korea, Pakistan</i>
Other	<i>United States</i>
Lower export potential	
CIS*	<i>Georgia, Kazakhstan, Belarus, Armenia, Ukraine, Russia</i>
South & East Asia	<i>Japan, Malaysia, China, Vietnam</i>
Europe	<i>Switzerland, Iceland, Norway</i>
Other	<i>United Arab Emirates, Chile</i>

Source: authors' estimates

Note: * including Georgia

If import duties for UZ textile & apparel are removed:

- **Export potential increases especially on the EU and Middle East markets**
- **Export potential of traditional CIS markets and China reduces**

Conclusions

- The briefing focused on the analysis of export potential of goods that Uzbekistan has already exported actively
- The highest export potential, i.e. the best combination of supply and demand characteristics, is featured by: **(a) bed & table linen; (b) cotton yarn; (c) woven fabrics of cotton; (d) not tufted or flocked carpets, and (e) women's or girls' suits**
- The study confirmed the role of Russia as the most potent export destination under the current trade regime
- The removal of import duties would increase attractiveness of other markets, in particular of EU countries (Sweden, Austria, Czech Republic, Germany) → important to proceed with reforms needed for GSP+
- While Uzbekistan has launched an extensive customs reform, special attention should be paid to the maximum use of the 'green' corridor, reduction in queuing time and alignment of electronic documents with international standards

Contacts

Veronika Movchan

movchan@berlin-economics.com

Robert Kirchner

kirchner@berlin-economics.com

German Economic Team Uzbekistan

c/o BE Berlin Economics GmbH

Schillerstr. 59, D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

www.get-uzbekistan.de

Twitter: @BerlinEconomics



Annex 1.1: WB Doing Business 2019, Trading Across Border

Indicator	Uzbekistan	Europe & Central Asia
Time to export: Border compliance (hours)	112	22
Cost to export: Border compliance (USD)	278	158
Time to export: Documentary compliance (hours)	96	24
Cost to export: Documentary compliance (USD)	292	98
Time to import: Border compliance (hours)	111	21
Cost to import: Border compliance (USD)	278	162
Time to import: Documentary compliance (hours)	174	25
Cost to import: Documentary compliance (USD)	292	94

Source: WB Doing Business 2019

Annex 1.2: WB Logistics Performance Index

	Overall LPI rank, out of 160 countries	% of highest performer	Customs, rank	Infra-structure, rank	International shipments, rank	Logistics quality and competence, rank	Tracking and tracing, rank	Timeliness, rank
2018	99	49	140	77	120	88	90	91
2016	118	44	114	91	130	116	143	114
2014	129	45	157	148	145	122	77	88
2012	117	47	118	120	127	117	105	101

Source: WB Logistics Performance Index web-site

- Uzbekistan improved its position in Logistics Performance Index in 2018
- Main areas of progress: infrastructure, quality of logistics services and tracking
- But further improvements are needed, especially in customs services

Annex 1.3: OECD Trade Facilitation Indicators

	UZ score	Best practice score
Advance rulings	1.33	1.64
Appeal procedures	1.29	1.62
Fees and charges	1.18	1.71
Involvement of the trade community	0.86	1.63
Information availability	0.60	1.57
Formalities - procedures	0.42	1.51
Internal border agency co-operation	0.36	1.18
Formalities - automation	0.31	1.62
External border agency co-operation	0.27	1.18
Governance and impartiality	0.14	1.89
Formalities - documents	0.13	1.67
Average	0.63	1.56

Source: OECD Trade Facilitation Indicators

Annex 2.1: Supply side dimension

- *Total export value.* The larger the total exports of the country, the greater its potential for expansion
- *World market share.* It is an indicator of the competitiveness of the product. While the total export value is biased towards large industries, the world market share could show the potential of smaller industries
- *Total export growth (in volume).* The faster the export growth, the better it is for export potential
- *Revealed comparative advantage (RCA).* The RCA is traditionally used to evaluate competitiveness of exporters

Annex 2.2: Demand side dimension

- *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

In this analysis, the calculations are done separately for:

- World market as a whole
- Individual countries (threshold at USD 1 million is applied to exclude 'shallow' markets)

Annex 2.3: Trade cost dimension

- *Average tariff faced by UZ.* It allows comparing different markets putting the countries with more liberal tariff regime up
- *Average tariff advantage of UZ compared to the country's applied average.* It reveals the relative competitiveness of the exporter on the importing market
- *Relative unit value.* It shows whether the exporter can supply to the importing market cheaper than its competitors can. Markets with disadvantageous unit value are excluded from consideration
- *Distance to the country from UZ.* The distance is an important proxy of transportation costs
- *Distance advantage of UZ compared to the country's average distance of imports.* It reveals whether UZ is better off placed than its potential competitors if the distance of shipping is compared

Annex 3.1: Examples for Stage I scoring

HS 2012 Product Code	6302	5205	5208	5702	6104
HS 2012 Product Description	Bed linen, table linen	Cotton yarn	Woven fabrics of cotton	Carpets, not tufted or flopped	Women's or girls' suits
Score EXP value average 2014-2017	91	99	97	93	95
Score EXP value average 2018	93	99	96	91	97
Score EXP CARG 2017/2014	81	60	68	66	80
Score EXP CARG 2018/2017	86	84	83	0	82
Score RCA2017	0	98	92	94	0
Score RCA CARG 2017/2013	83	74	74	71	86
SCORE Average share in WLD exp, 2013-2017	81	97	93	94	80
SUPPLY (max = 100)	74	87	86	73	74
Score IMP value average 2013-2016	96	89	84	72	97
Score IMP value average 2017	96	87	81	72	97
Score IMP CARG 2016/2013	82	0	0	0	0
Score IMP CARG 2017/2016	0	0	0	64	0
DEMAND (max=100)	69	44	41	52	48
COMPOSITE Score, Stage1 (max=100)	71	66	64	62	61
Rank	1	2	3	4	5

Source: own estimates

Annex 3.2: Examples for Stage II scoring HS 6302 “Bed linen, table linen, toilet linen”

Country	China	Chile	Norway	Sweden	Russia
Score Unit Value ratio 2017	94	88	91	86	57
Score Unit Value ratio 2013-2016	92	95	93	84	42
Score distance	85	41	75	83	96
Score distance advantage	90	92	91	82	86
Score duty	92	92	99	87	99
Score duty advantage	97	0	97	0	98
INTERCEPT (max=100)	92	68	91	70	80
Score IMP value average 2013-2016	81	88	86	89	90
Score IMP value average 2017	81	89	85	90	88
Score IMP CARG 2016/2013	76	75	0	73	0
Score IMP CARG 2017/2016	87	94	80	79	96
DEMAND (max=100)	81	87	63	83	69
COMPOSITE Score, Stage 2 (max=100)	87	77	77	77	74
Rank	1	2	3	4	5

Source: own estimates