

Directions For Increasing Export Opportunities Based On Diversifying The Textile Industry

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Abstract. In this article has been examined the use of export diversification strategies and approaches to assessing the level of diversification. The export of textile products by types was analyzed based on intensive and extensive margins. Based on the results of the analysis, proposals and recommendations on export diversification were developed.

Keywords: Export, diversification, intensive growth, extensive growth, textile industry, margin.

1. INTRODUCTION

Uzbekistan, the 6th largest cotton producer, was the 3rd largest exporter of cotton, but in recent years has been reducing the export of raw cotton, focusing on the export of high value-added products.

Textile-garment and knitwear industry is a strategic sector for the economy of Uzbekistan, providing a high level employment of the population, contribution to the economic and industrial potential and the international prestige of the state. The unique geopolitical position of Uzbekistan makes it possible to be in direct economic dialogue with many countries and to pursue mutually beneficial business cooperation with both the countries of Europe and Asia.

Light industry is developing year by year. Introduction of new production technologies, the use of high-performance, modern equipment, combined with efficient management, ensures high productivity of labor at enterprises in the industry, and an increase in industrial production. The Republic, which has long exported only cotton fiber, today has unlimited opportunities for gaining leading position in the global textile market, not only as a supplier of cotton fiber, but also as an exporter of textile products, especially finished products.[13]

Diversification leads to economic growth and countries strive to form a diversified production structure. Depending on the changes in the country's export goods, it is important to diversify the export of products in order to achieve high economic growth. Diversification is divided into two types: extensive and intensive margins. However, the contribution of these margins to economic growth may vary.

The intensive margin of trade refers to changes in the value or quality of existing products that a country exports. It refers to increasing the competitiveness of existing products by factors such as increasing product quality, reducing costs, or differentiating the product in some way. Essentially, it represents the improvement or deterioration of the characteristics of a country's existing export products.

The extensive margin of trade includes changes in the types or assortment of products that a country exports. This refers to a country entering new markets or exporting new products. Such expansion of export activity may contribute to overall export growth.

Many studies conducted by foreign scientists on export diversification have tried to determine the relationship between economic growth and product diversification. In general, export growth is achieved at the expense of new exported products (extensive margin) and increase of existing goods (intensive margin).

2. LITERATURE REVIEW

The concepts of specialization and diversification are two different phenomena. The first line is widely explored in classical economic theories, including those favored by Adam Smith and David Ricardo. They put forward theories that countries with a comparative advantage in the production of goods should specialize in these goods. Heckscher and Olin put forward the theories of the dependence of factor intensity on the level of specialization [1].

However, modern trade theories place more emphasis on the shift from specialization to diversification. For economic growth, the country needs to diversify itself in terms of exports. According to Prebisch and Singer's theories, the composition of exports of developing countries consists mainly of primary goods, and they import more consumer goods, as a result of which they face the problem of worsening terms of trade [2]. Instability in exports remained due to changes in prices of raw materials relative to manufactured goods. Developing countries should diversify their

exports in order to stabilize their terms of trade and export prices in the international market. Export diversification means entering the markets of importing countries with high-value-added goods from raw materials. By exporting more diversified goods, they avoid the deterioration of the terms of trade and reduce the uncertainty of exporting goods. In addition, the intensive and extensive margin of export was also appreciated due to the work carried out in this regard.

To avoid the risk of export price volatility, researchers often prefer a wide margin for export growth. In the model of Armington [3], production and export of existing export goods, i.e. intensive margin, leads to the growth of the country's exports. In contrast, the Krugman [4] model predicts that export growth is caused by the export of new products, i.e. the extensive margin. Furthermore, the Melitz [5] model goes a step further by introducing the concept of firms and insisting that exports should be allowed only for manufacturing firms. Similarly, the concept of a wide margin is described in the Melitz model. In recent years, the number of studies analyzing the importance of the export margin and studying the influence of various economic factors has increased. Studies have mainly studied the export competitiveness of developing countries and observed that the effect of extensive margin is lower than the effect of intensive margin in products. Similarly, Hummels and Klenow [6] studied international trade processes and found that differences in exports between developed and developing countries are mainly related to diversification. In this context, if the share of the country in the world exports has increased, the country's exports will increase to an extensive margin. China's export growth by country is divided into extensive and intensive margins by Amity and Freund [7] and Bingjan [8]. Export margins were determined using different techniques, which may explain why the results are skewed. In particular, the clear separation of export growth into current, new and disappearing products is because the intensive margin is the growth of existing goods and the rest is the comprehensive margin.

A landmark study conducted by Siddiqui [9] for the Pakistani textile market used an AR-DL model to track integration across selected variables. The study assessed the relationship between export diversification (both product and market) and Pakistan's growth. He notes that there is a significant relationship between product diversification and GDP growth, but no relationship between market diversification and growth. Similarly, Gozgor and Can [10] studied the impact of product diversification on real GDP per capita. They concluded that the intensive margin of export diversification was important for increasing the real GDP per capita of low- and middle-income countries.

In addition, Lyoboyi [11] studied export diversification in Nigeria. They study the relationship between economic diversification and macroeconomic factors. The results show that real GDP and diversification have a negative and significant relationship with each other even for the intensive margin. Thus, GDP promotes diversification rather than concentration.

Based on the above, product diversification or specialization can be solved by evaluating the impact on export growth and economic growth of developing countries. Accordingly, it is necessary to focus on the links between product diversification and economic growth based on time series data. In order to divide export products into different product margins and to study the importance of new and existing products in the export basket, it is appropriate to focus on the export of textile products as one of the most developed industrial sectors of Uzbekistan.

3. ANALYSIS AND RESULTS

Light industry of Uzbekistan is one of the leading and dynamically developing industries. According to the State Statistics Committee, in 2017 the industry accounted for about 30% in the total industrial volume of the country, its share in GDP was about 4%, and in the production of non-food consumer goods – more than 44%. The annual growth in the industry's output in recent years has amounted to about 18%, and exports – 10%.

Uzbekistan is one of the world's largest producers of natural textile fibers, cotton yarn and knitwear. In the republic there are more than 7,000 textile enterprises, the annual capacity of which is:



The Decree of the President of the Republic of Uzbekistan of 14.12.2017. No. DP-5285 provides for liquidation of JSC “Uzbekyengilsanoat” and creation of “Uztextil” (Uzbekistan Textile Industry) Association. These reforms and the correctly chosen strategy and competent management of “Uztextil” Association allowed domestic textile companies to demonstrate positive growth dynamics. Today, the Association unites over 1,600 major manufacturers in the textile market in Uzbekistan, which account for a substantial part of light industry production, in particular, the processing of 706 thousand tons of cotton fiber and production of 510 million square meters of fabrics of various assortment, including:

- knitted fabric – 89 enterprises;
- finished knitwear – 495 enterprises;
- garments – 354 enterprises;
- hosiery – 54 enterprises;
- textile haberdashery – 20 enterprises.

At the same time, 300 textile companies were created with participation of foreign investors from such countries as China, South Korea, Russia, India, Singapore, Germany, Switzerland and others.

Association enterprises also produce other products of a wide range and specific profiles, including medical products, nonwovens, satisfying the need for wadded products, special working clothes, terry products, as well as ensure the development and introduction of new generation products into production – new innovative products.

The largest increment of value added in the chain of production of the textile industry from cotton is in the sphere of sewing knitwear and garments.

Based on the importance of the textile industry for the economic development of the country, Uzbekistan is implementing a Program of measures for further development of the textile, garment and knitwear industry for 2017-2019. According to the Program, by 2020 the production of cotton yarn is planned to increase by 2.5 times, finished fabrics – by 2.8 times, silk fabrics – by 2.7 times, nonwoven materials – by 1.5 times, knitted fabric – by 2, 7 times. It is planned to increase the output of garments by 3.2 times, knitwear by 2.1 times, production of raw silk by 2.1 times. If the volume of fabrics production in 2011 amounted to 85.63 million square meters, in 2020 this figure will exceed 459.2 million square meters, ensuring a growth in production by 5.4 times.

To determine the role of extensive and intensive margins in the growth of exports, it is appropriate to rely on the methodology proposed by Amity and Freund [12]. Based on this methodology, the country's export growth was divided into margins, that is, extensive and intensive margins. In this method, a country's extensive and intensive margin is based on the value of its exports, but the import market share is not considered in this method. Hence, Amity and Freund's cross-country comparisons are more helpful in assessing the growth of a country's exports over time.

They divided an economy's year-over-year export growth into three parts:

- i. "increase in total country export growth (intensive margin) due to increase in exported products over the years".
- ii. "Decrease in export growth due to products exported in the base year but not exported in the final year (disappearing goods)."
- iii. "Increase in export growth due to export of new products (new goods)".

In our opinion, as a new product, it is appropriate to evaluate it according to the types of products according to TIF TN codes according to the commodity nomenclature.

In this case, the extensive margin is the export of new products, and the intensive margin is the increase in the export of existing products.

Formally, it can be formulated as extensive (EM) and intensive (IM) borders of the country.

Considering the above, it can be expressed by the following mathematical formula

Extensive Margin = Intensive Margin+Extensive Margin

The extensive margin is defined by Amity and Freund as the difference between the "Component of new goods and the component of lost goods".

This equation shows that the total growth in a country's exports is the sum of growth due to improvements in existing products (intensive margin) and growth resulting from entering new markets or exporting new products (extensive margin).

According to the above methodological approach, diversified export is determined according to the value of the extensive margin. However, in order to substantiate these hypotheses, it is necessary to establish specific threshold values of the level of diversification. It is appropriate to determine the impact of intensive margins and extensive margins on the growth of exports over the years in determining the threshold values based on percentages, including:

if:

$0 \% \leq H \leq 1\%$ lower level of diversification;

$2 \% \leq H \leq 5\%$ medium level of diversification;

$6 \% \leq H \leq 10\%$ and a high level of diversification;

$11 \% \leq H$ diversified exports (extensive growth)

if:

H — extensive margin;

In order to determine the level of diversification of the export of textile products of the Republic of Uzbekistan in 2017-2023, the values of the extensive margin are determined based on the following formula:

$H = \text{annual export growth} - \text{share of existing products.}$

TIF on export diversification of textile products of Uzbekistan is carried out on the products of "No. 55 Artificial staple fibers" according to the TN code. The export of artificial staple fibers by product types in 2017-2022 of Uzbekistan is presented in Table 1. According to Table 1, during the period of 2017-2022, in the textile industry of Uzbekistan, a total of 13 positions of the product type "No. 55 Artificial staple fibers" were exported by the assortment group. According to Table 1, in 2017, the total export of this product category amounted to 7,089,000 US dollars, and in 2022, it reached 58,841,000 US dollars. The total volume of exports increased by 8.3 times. The average annual growth was 47 percent.

According to Table 1, products under code 5508 were exported in 2018, products under code 5515 were exported in 2020, and products under code 5512 were exported from 2020. So, some work has been done on diversification of the export composition.

Table 1 Export of artificial staple fibers of Uzbekistan by product types in 2017-2022, thousand US dollars

№	Product type	2017-y.	2018-y.	2019-y.	2020-y.	2021-y.	2022-y.
'5503	Synthetic staple fibres, not carded, combed or otherwise processed for spinning	6005	7286	16689	15535	30428	44448
'5509	Yarn of synthetic staple fibers (except sewing	484	1385	1947	5533	3996	9162

	thread and yarn put up for retail sale)						
'5508	Sewing thread of man-made staple fibers, whether or not put up for retail sale	0	1	27	400	2318	1917
'5504	man-made staple fibers not carded, combed or otherwise processed for spinning	0	0	0	0	0	1064
'5510	Man-made staple fiber yarn (except sewing thread and yarn put up for retail sale)	5	2	145	120	521	765
'5515	Woven fabrics, containing mainly but less than 85% by weight of synthetic staple fibres, other...	0	0	0	457	725	677
'5516	Fabrics woven from man-made staple fibers	0	0	0	13	735	237
'5502	artificial filament drawer	0	0	312	0	20	228
'5514	Mixed yarns, containing predominantly but less than 85% by weight of synthetic staple fibers	0	20	2	0	55	201
'5505	Man-made staple fiber waste, incl. noils, yarn waste	0	0	17	33	8	73
'5506	Synthetic staple fibers carded, combed or otherwise processed for spinning	571	19	2	124	75	35
'5512	Woven fabrics containing \geq 85% by weight of synthetic staple fibers	0	0	0	55	64	34
'5511	Yarn (other than sewing thread) of man-made staple fibers put up for retail sale	24	10	0	5	0	0
total		7089	8723	19141	22275	38945	58841

According to the above-mentioned methodology, 2017 is considered as the base year, and during these years, products under the code "5503, 5509, 5510, 5506, 5511 are considered as existing assortment, and the rest are considered as diversified products until 2022. Accordingly, Table 2, compiled on the basis of Table 1, represents the volumes of diversified exports and non-diversified exports.

Table 2 Export of new types of textile products, thousand US dollars

Indicators	2017-y.	2018-y.	2019-y.	2020-y.	2021-y.	2022-y.
available products	7065	8692,0	18783,0	21312,0	35020,0	54410,0

Compared to the previous year	100	123,0	216,1	113,5	164,3	155,4
Share	99,66	99,64	98,13	95,68	89,92	92,47
Share of the total, %						
new products	24	31,0	358,0	963,0	3925,0	4431,0
Compared to the previous year	100	129,2	1154,8	269,0	407,6	112,9
Share of the total, %	0,34	0,36	1,87	4,32	10,08	7,53
Total	7089	8723	19141	22275	38945	58841

In 2017, the share of the new pans position should have been 0. However, over the years, the export of some goods has been stopped and they have been replaced by new products.

4. CONCLUSIONS

According to the results of the analysis, the share of new goods in the total export in 2022 is 7.53 percent. In this situation, the share of the new product range in the total export increased by 10.08% in 2021, and in 2023 this figure was 7.53%. When paying attention to the proposed scale, the value of the extensive margin in the range of $6\% \leq H \leq 10\%$ was accepted. It is understood that this situation is similar to the policies and goals aimed at expanding the export markets of the textile industry of Uzbekistan by the type of product "Artificial staple fibers". For this purpose, economic efficiency and competitiveness will be increased by ensuring a high level of diversification.

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