



«Reform” of cotton industry in Uzbekistan: backing the wrong horse?

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29 August, 2023

This is the theses of Ilkhamov’s presentation to the conference "Turning Point In Eurasia: Geopolitics, Economics And Civil Society In Central Asia - Current Situation And Future Prospects" held in Almaty, Kazakhstan on August 28-29, 2023

The cotton industry of Uzbekistan has gained a notorious international reputation due to the state- sponsored practice of forced labour. This practice thrived during the Soviet times and remained fully intact under the ruling regime of Islam Karimov. Every autumn, over a million people, including children, students, and workers from both the public and private sectors, were mobilized against their will for cotton harvesting. This practice was driven by Karimov's policy of extracting export revenue from the countryside through price scissors, akin to the resource redistribution policies that were enacted by Stalin from rural areas to industry in 1930s of the last century.

In 2005, an international campaign was initiated to eliminate this practice. Human rights and labour organizations, as well as social investors, joined this campaign. Initially, Uzbek authorities denied the existence of forced labour practices. However, after a boycott of Uzbek cotton was launched as part of the campaign, the authorities gradually began taking measures. Under the new president, Mirziyoyev, the problem was even publicly acknowledged, and commitments were made to address it.

Indeed, by today, the forced mobilization of citizens for cotton harvesting has almost ceased. It seemed that the authorities intended to reform the sector to encourage value-added production, promoting not only raw cotton but also textiles on the global market, while attracting foreign investments. However, the undertaken reform led to the creation of so-called cotton-textile clusters, established in a centralized manner and imposed on farmers from above. This only resulted in new systemic problems, primarily the infringement of farmers' rights and corrupt schemes. Thus, the command economy was preserved, albeit in a different form, still curtailing economic freedoms.

What has changed to this day? Yes, the central authorities began instructing local administrations not to coerce people into cotton harvesting against their will. But hokims were not relieved of the responsibility to deliver cotton. The government also raised the procurement prices for cotton to attract labourers for cotton harvesting. However, the coercion system for farmers to grow and deliver cotton essentially remained unchanged. The

government continues to dictate to farmers what to plant, whom to sell to, and at what price, while still setting cotton prices from above.

Now, it operates through cotton-textile clusters. The idea seems promising – to strengthen value-added chains. But these clusters are appointed from above, by the decisions of central authorities. In a country with 159 rural districts, 134 such clusters have been created, roughly one per each district. And in each district, the top-appointed cluster effectively becomes a monopolist that local farmers must deal with. Moreover, farmers now obtain concessional credits and access to water resources only through these clusters. Understandably, this allows the clusters effectively dictate terms to farmers. It has reached a point where the farmers are compelled to sign contracts for delivering cotton with its price left unspecified therein.

Furthermore, these clusters not only exploit their monopolistic position but also rely on administrative levers, imposing their will on farmers since the local administration aligns with them. Under pressure from the local governors (hokims), farmers are frequently deprived of their land which is transferred to the clusters, forcing the farmers to turn into laborers. This violates the law according to which land is granted to farmers under long-term lease conditions, for a period up to 50 years.

Summing up what's been said, this system has nothing to do with a free market economy, at least not with the conditions of free and fair market competition. It remains a command economy-driven system. Private companies, including those with foreign capital, simply fit into the framework of this command system and start playing by its rules, combining monopolistic privileges with administrative authority.

One might wonder then, on what basis do some international financial institutions, such as the EBRD, provide preferential loans to these clusters? After all, these loans only fuel the command economy system of Uzbekistan, if not its totalitarian tendencies within the cotton industry. I find this to be a highly questionable policy of this international institution.

Recommendations:

To the Government of Uzbekistan:

1. Release farmers from the obligation to grow and sell cotton to clusters and to anyone, make it a matter of their free choice.
2. Abolish the system of centralized assignment of cotton-textile clusters. Such clusters, or simply textile enterprises on the ground, can be created by any company on their own initiative, at their own peril and risk. Farmers should be allowed to enter into contracts for the supply of cotton to any of these firms.

PS. However, there are serious doubts that the leadership of Uzbekistan has the political will to carry out reforms in this way, by liberalizing the cotton industry. One reason is a conflict of interest: a recent investigative report by Ozodlik Radio that exposed the extent of President Mirziyoyev's clan revealed that a number of its members own cotton-textile clusters. That is, this clan can be considered the beneficiary of the established command economy in the cotton sector.

To international financial institutions:

- Take into account the polit-economic analysis of the situation in the cotton and textile industry of Uzbekistan, conduct appropriate due diligence when making decisions on the allocation of loans to this country, particularly to companies running cotton-textile clusters.

To the European Union and the United Kingdom:

- Take a more rigorous approach to providing Uzbekistan with access to GSP+, which allows beneficiary countries to export their products tariff-free to European countries. If the above practice of violating the rights of farmers does not stop, then the European Union and the United Kingdom should suspend Uzbekistan's access to GSP+.