

## FROM FIELD TO MARKET: IMPROVING TRADE AND PRODUCING CHAINS IN UZBEKISTAN'S AGRO-CLUSTERS

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### Abstract

In modern entrepreneurship, the cluster approach serves as an effective tool for developing regional economies and increasing the competitiveness and innovative activity levels of organizations. The experience of economically advanced countries underscores the importance of clustering practices in the innovative development of the economy. This article examines the establishment and operation of agroclusters in Uzbekistan, particularly focusing on cotton clusters. By analyzing the current state and identifying key challenges such as insufficient trade relations, high export costs, lack of tax incentives, regulatory framework issues, and inadequate digitalization, this study highlights the critical areas needing improvement. Addressing these challenges is crucial for enhancing the efficiency and profitability of cotton clusters in Uzbekistan, thereby boosting their global competitiveness and contributing significantly to the country's economic development.

**Keywords:** Agroclusters, trade relations, export costs, tax incentives, regulatory framework, digitalization, competitiveness, economic development.

### Introduction

In modern entrepreneurship, the cluster approach serves as an effective tool for developing regional economies and increasing the competitiveness and innovative activity levels of organizations. The experience of economically advanced countries underscores the importance of clustering practices in the innovative development of the economy.

American economist Michael Eugene Porter, a professor at Harvard School and a specialist in competitive capabilities, first introduced the term "cluster." The term "cluster" means the merging, gathering, or grouping of several similar elements and is understood as an independent unit with certain unique characteristics. Michael Porter mentioned the concept of "cluster" in his 1990 work "The Competitive Advantage of Nations." After analyzing the development history of 10 industrially advanced countries, Michael Porter concluded that

clusters are an integral part of the economic development and industrialization process. Thus, a cluster unites interrelated enterprises, enhancing the competitiveness of the regional economy.<sup>1</sup>

According to its economic essence, agroclusters manifest as entrepreneurial agroclusters within the agro-industrial complex. Specifically, A.V. Glotka defines an “entrepreneurial agrocluster in the agro-industrial complex” as a regionally distinct, innovative-oriented integrative structure. This structure is organized based on the principle of a technological chain, executing the common economic interests of its participants and possessing a certain culture of interaction within the system.<sup>2</sup>

Uzbekistan has initiated the establishment of clusters to further develop agriculture. Notably, the Presidential Decree No. PD-2978, dated May 19, 2017, "On measures to establish a modern cotton-textile cluster in the Bukhara region," resulted in the creation of "VST Cluster" LLC JV in the Bukhara region. Similarly, the Presidential Decree No. PD-3279, dated September 15, 2017, "On measures to establish a modern cotton-textile cluster in the Syrdarya region," led to the formation of "Bek Cluster" LLC JV as an experimental cotton-textile cluster. After observing positive results from the cluster system, our country established various clusters nationwide. Today, cotton-textile, grain, and fruit-vegetable clusters operate throughout the Republic.<sup>3</sup>

### **Relationships between Agro-clusters and the State**

Currently, agro-clusters are established with the status of legal entities. According to current legislation, agro-clusters operate in the form of LLCs (Limited Liability Companies) and benefit from privileges specified by the law. The procedure for allocating land to agro-clusters is outlined in the Law of the Republic of Uzbekistan No. 708, dated August 16, 2021, "On amendments and additions to certain legislative acts of the Republic of Uzbekistan in connection with the improvement of the system of allocation and use of land plots, as well as the accounting and maintenance of the state land cadastre." Clause 3 of Article 46<sup>1</sup> of the law specifies the norms for allocating land to agro-clusters:

- For cotton-textile specialized clusters, at least 2000 hectares.
- For grain specialized clusters, at least 1000 hectares.
- For vegetable and melon specialized clusters, at least 200 hectares.
- For horticulture and viticulture specialized clusters, at least 100 hectares.
- For livestock production specialized clusters, to grow feed crops, at least 0.3 hectares of irrigated land, at least 1 hectare of rainfed land, and at least 2 hectares of pastures and hayfields per conditional livestock unit.

<sup>1</sup> M. E. Porter. Clusters and the New Economics of Competition Online available at: <https://hbr.org/1998/11/clusters-and-the-new-economics-of-competition>

<sup>2</sup> Glotko A.V. Innovative Cluster Development of the Agro-Industrial Complex. Materials of the Interregional Scientific-Practical Conference with International Participation "Problems and Prospects of State-Legal, Economic and Social Development of the Subjects of the Russian Federation" October 3-4, 2008, Gorno-Altai, RIO GAG, 2008, p. 104.

<sup>3</sup> O'zbekiston Respublikasida faoliyat olib borayotgan klasterlar. In Uzbek language online available at: <https://www.agro.uz/agroklasterlar-va-kooperatsiyalar/#1627303649429-5ab98e68-6dfe>

Additionally, agricultural land can be leased for a period of thirty years. Enterprises with foreign investments, international associations and organizations, and foreign individuals and legal entities can lease land plots for up to twenty-five years.<sup>4</sup>

Mutual settlements for raw cotton produced are carried out between farmers and cotton processing enterprises within the agro-cluster. The final settlements for the 2019 cotton harvest are funded by the agro-cluster's own funds, the funds of its member organizations, and commercial bank loans. Consumers purchase cotton fiber, cotton lint, and technical seeds from the agro-cluster through intermediary contracts, direct contracts, and tolling contracts, all in accordance with the established rules of exchange trading. The price difference between the sold price and the price approved by the Ministry of Finance remains with the agro-cluster and is not subject to taxation (if negative differences arise, the costs are covered by the agro-cluster's own funds).

Looking ahead, we should focus on implementing water-saving technologies, improving soil fertility, utilizing moisture-retaining agents, enhancing seed quality while reducing seed usage, applying necessary chemicals timely and effectively, using new organic fertilizers efficiently, and adopting double-row planting systems for cotton.

The agro-cluster and its member organizations were exempt from customs duties (except for customs fees) until July 1, 2022, for importing equipment, special vehicles and machinery, components, raw materials, and materials, construction materials, greenhouse complexes, animals, seeds and plants, veterinary drugs, and mineral fertilizers and PPPs that are not produced in the Republic but are needed for their production needs.

### **Relationships between Agro-clusters and Farmers**

In agriculture, particularly in sectors like cotton farming or other fields, cooperative relationships align with democratic principles. They serve as the primary organizational and legal mechanism ensuring that all members have equal rights to participate in management and production processes.

Farmers and other legal or physical entities that are members of a cooperative retain their independence and ownership of their property and land plots. Cooperatives can be organized either as production cooperatives, focused on producing goods, or as service cooperatives, focused on providing various services related to the production process.

A production cooperative involves joint efforts in producing, preparing, packaging, and selling agricultural products. In contrast, a service cooperative unites all enterprises that provide various services at different stages of the production process. Thus, the main tasks of cooperative relationships are to protect and prevent the bankruptcy and decline of economic entities operating in a collaborative system, and to create equally beneficial conditions for stable operation in competitive internal and external markets.

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<sup>4</sup> Law of the Republic of Uzbekistan No. O'RQ-708 dated August 16, 2021, "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with the Improvement of the System of Allocation and Use of Land Plots, as well as the Accounting and Maintenance of the State Land Cadastre"

According to the advanced experiences of developed countries, it is advisable to form and develop “cooperative relationships” within the cluster system to ensure the efficient operation of farms specializing in the production of similar types of products in a particular region or adjacent regions based on market relations. This should be based on the principles of self-responsibility, self-management, mutual practical assistance, and cooperation, aiming to create a democratic management system. This system should coordinate their production and consumption directions and provide mutual practical assistance.

In this context, farms specializing in the cultivation of raw cotton should operate on a cooperative basis, including preparation, processing, and sales enterprises, as well as infrastructure service (logistics) entities, within a district or encompassing neighboring districts. They should continuously collaborate in the processes of production, preparation, processing, and sales.

Following the goals of the cluster, it is advisable to establish a Cluster Cooperation Council (or Cooperation Council) based on mutual agreement among economic entities cooperating within the cluster. The Council, which is not a separate legal entity, comprises the cooperation of cluster members and collaborating economic entities. It serves as the governing and coordinating body for activities based on cooperative relationships within the cluster.

Tentatively, the following tasks are recommended to be included in the Council's mandate:

- Providing recommendations for the efficient use of natural resources such as land and water.
- Advising farmers on specialization in product cultivation.
- Offering advice and recommendations on selecting cotton varieties and high-quality seeds.
- Assisting with timely implementation of agrotechnical measures.
- Providing practical assistance in obtaining loans from commercial banks.
- Developing and implementing effective mechanisms for product procurement.
- Organizing preparation, processing, sales, and service enterprises through pooled funds from farmers.
- Protecting the rights and interests of farmers in relevant institutions.
- Supplying farmers with legal-regulatory documents and necessary information.

Ultimately, this relationship aims to reduce production costs, increase income, meet the demand for high-quality cotton raw materials or finished products for industrial enterprises, and satisfy the population's need for food products in both domestic and foreign markets. It also seeks to achieve efficient use of natural and material-technical resources through cooperation.

Thus, establishing cooperative relationships and initiating the integration process among economic entities at the cluster level means reducing state interference in the production and financial activities of economic entities and fostering modern, new production-economic relationships among them.

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### Problems in the operation of agro-clusters

In Uzbekistan, the operation of cotton clusters stands as a key activity within the agrocluster sector. Acknowledging the significance of this field, various academics and authorities have highlighted several critical shortcomings that need urgent attention. These issues, if left unaddressed, could hinder the growth and efficiency of the cotton clusters. The problems identified are as follows:

1. Trade with Foreign Companies: Free trade with foreign companies is not well-established, and product advertising is insufficient. This lack of robust international trade relations and marketing strategies limits the global reach and competitiveness of the clusters.
2. Export Costs: Clusters exporting products face high expenses, leading to reduced profits and increased production costs. The significant costs associated with export logistics and tariffs diminish the financial viability of exporting cotton products.
3. Tax Incentives: Textile enterprises lack sufficient tax incentives, resulting in higher production costs. The absence of favorable tax policies places a financial burden on these enterprises, making it difficult for them to compete effectively in both domestic and international markets.
4. Customs Duties and WTO Membership\*\*: The presence of customs duties with other countries and the lack of membership in the World Trade Organization (WTO) pose significant barriers. These factors increase the cost of cross-border trade and limit Uzbekistan's access to global markets.
5. Regulatory Framework: The regulatory and legal framework for agro-cluster activities is inadequately developed. This insufficient legal infrastructure creates uncertainties and inefficiencies in cluster operations, hindering their growth and integration. The main concern is determining whether the cluster operates as a public-private partnership project and whether its operations comply with the acts of the Cabinet of Ministers. If not, clarity is needed on which legal documents should govern the establishment and operation of these clusters.
6. Digitalization: The digitalization of the agro-cluster sector is not sufficiently implemented. The lack of advanced digital tools and technologies hampers the modernization and optimization of agricultural practices within the clusters.

Addressing these challenges is crucial for enhancing the efficiency and profitability of clusters in Uzbekistan. By tackling these issues, the sector can improve its global competitiveness and contribute more significantly to the country's economic development.

### Conclusion

The establishment of agro-clusters in Uzbekistan marks a significant step towards modernizing the agricultural sector and enhancing its competitiveness. Implementing advanced technologies, streamlining regulatory processes, and fostering cooperative relationships among stakeholders are essential strategies for achieving sustainable growth. Ultimately, a well-developed agrocluster system will not only meet the domestic demand for high-quality agro-products but also position Uzbekistan as a competitive player in the global

agricultural market. However, the success of these clusters hinges on addressing several critical issues. The lack of robust international trade relations, high export costs, insufficient tax incentives, regulatory framework inadequacies, and slow digitalization are key challenges that need urgent attention. By resolving these issues, Uzbekistan can significantly improve the efficiency and profitability of its cotton clusters.

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