THE KAZAKH COTTON INDUSTRY AND INTERNATIONAL COMPETITIVE ADVANTAGE

Tulemetova AS, Auezov South Kazakhstan State University
Seydakhmetov MK, Auezov South Kazakhstan State University
Mergenbaeva AS, Auezov South Kazakhstan State University
Abdikerimova GI, Auezov South Kazakhstan State University
Kulanova DA, Auezov South Kazakhstan State University
Sadyrmekova N, Auezov South Kazakhstan State University
Durru O, Auezov South Kazakhstan State University

ABSTRACT

Cotton production is an important part of the economy in the Central Asia. However, the collapse of the Soviet Union, destruction of economic ties and financial crisis has entailed a significant decline in the cotton industry. In this connection, the purpose of the research is to develop methodological foundations and guidelines to improve the cotton industry in the context of its impact on the textile industry competitiveness and development in the case of the Republic of Kazakhstan. We have formed ways to improve the cotton industry, proposals to optimize cotton production costs in the current market environment, characterized by a necessity of ensuring public needs in textile manufacture (in particular, cotton production and consumption). These guidelines were substantiated in the framework of production and sales of related companies within the textile industry, within the impact of efficient cotton production and consumption on textile industry competitiveness and development in general.

Keywords: Cotton Industry, Modern Market Economy, Primary Seed-Cotton Processing, Operations Performance, Increase of Production Capacity, Internal Market Saturation, Cost Management System, Textile Industry Competitiveness.

INTRODUCTION

As the world practice shows, textile, clothing and footwear (TCF) industry is inherently the most market-oriented industry, where the capital turnover is the highest and where the manufactured products are classified as commodities. Therefore, the demand for them is unlimited (Kunz, Karpova & Garner, 2016; Alves et al., 2017; Validov & Pulaj, 2016).

Its share in the total industrial production is 6-12% in developed countries (Germany, USA, Italy and France) (Hasanbeigi & Price, 2015). In Korea and Japan, this industry takes the second place by output after the automotive industry (Lee, Yun & Jeong, 2015; Ha, Lee & Ku, 2015). Thus, up to 20% of their budget is made by the garment and textile enterprises. The ready-made clothes, fabrics, knitwear and footwear manufacture fills the domestic demand for 75-85%. In developing countries (China, Turkey, India, Mexico), significant government support of the TCF industry has led to a rapid industry development (Fang & Yuanyuan, 2016, Bhalla,

Sidhu & Kaur, 2017; Lin & Zhao, 2016). Over the past two decades, the manufacture centre (this includes the textile industry) has moved to Asia and South America, gradually displacing the United States and the Western Europe (Kadolph & Marcketti, 2016). Thus, textile industry is attractive for developing countries, such as the Republic of Kazakhstan, in economic terms.

Textile industry of the Republic of Kazakhstan as the leading branch of a diversified textile, clothing and footwear (TCF) industry has significantly lost its economic position in 1990-2000 in comparison to the previous decade (Agency on Statistics of the Republic of Kazakhstan, 2016; Yespolov, 2012). This situation was due to the collapse of the Soviet Union and the subsequent crisis. Nevertheless, cotton continues to occupy the second place after grain in agricultural exports of the country. Thus, cotton export receipt amounted to more than USD 139.3 million (grain- USD 565 million) in 2003, USD 128 million (grain- USD 1 633 800 000) – in 2008 (Tulemetova, 2016).

In-depth analysis of industry problems of recent years has showed that the majority of them are related to drawbacks in development management (Shepeleva & Petrishchenko, 2013; Ortiz, 2013). Thus, state government regulation is still directed mainly at solving current problems and the so-called "growth problems". However, strategic steps to minimize production costs, improve the level of production profitability and competitiveness are not carried out (Melnikov, 2002; Tulemetova, 2016).

Economic stagnation in commodity sector that continues to the present time is one of the main causes of problems in textile industry of the Republic of Kazakhstan (Azhimetova, 2004; Smailov, 2015). Textile industry has almost lost domestic sources of high quality and well-priced raw materials and turned into strategic, financial dependence on foreign sources. Therefore, strategic raw material dependence of the Republic of Kazakhstan on foreign companies in textile production has to be considered in general.

Cotton planting has such unsolved problems as low integration and low cooperation of farms with other participants of cotton-textile market. In this situation, new approaches to effective cotton complex performance are required (Aidarova et al., 2016; Shtaltovna & Hornidge, 2014; Rey et al., 2016). In particular, this is relevant to its resource base sustainable development and to advanced cotton consumption, enterprise interaction improvement on cotton goods production, consumption and sales, their competitiveness improvement, government support and regulation (Azhimetova, 2004; Yespolov, 2012; Tulemetova, 2016).

In terms of these problems, the study of cotton industry of the Republic of Kazakhstan that provides textile industry with raw materials, as a factor affecting textile industry development in the country is relevant. This requires organizational, economic and managerial guidelines, approaches and areas for cotton production and consumption development in the cotton industry of the country. This determines the contribution of this paper in science, its scientific and practical value.

The purpose of the study is to develop methodological foundations and guidelines to improve enterprises of cotton industry in the context of its impact on textile industry competitiveness and development in the Republic of Kazakhstan. The objectives to achieve this goal are the following:

- Analysing and sizing up the current state of textile industry in the Republic of Kazakhstan;

- Developing ways on improving cotton industry;

- Developing proposals on optimizing cotton production costs in current market environment, characterized by a necessity of ensuring public needs in textile manufacture (including cotton production and consumption).

METHODS

Methodological basis of this article involves research developments of domestic and foreign scholars on enterprise development management, its operation improvement in a market economy.

We have also used the following methods:

- Economic and statistical analysis to determine the relation between certain indicators that characterize enterprise performance on cotton production and consumption in the Republic of Kazakhstan, as well as their dynamic performance trends;

- Comparative analysis and synthesis–in making scientific and practical conclusions on enterprise development problems and prospects in cotton industry;

- Generalization and specification–in comparing foreign and domestic experience;

- Optimization methods to determine the optimal way to influence cotton production costs in the market economy environment.

Primary and reporting statistics, published in periodicals, materials of the Agency on Statistics of the Republic of Kazakhstan and the Ministry of Agriculture of the Republic of Kazakhstan, enterprises of cotton industry and textile industry of the Republic of Kazakhstan, periodicals and online publications, scientific conferences, standards, specifications, guidelines and background papers have formed the information base of the research.

RESULTS

Modern market economy imposes entirely new requirements for turn out and consumable products due to a number of competitive products determining the stable position of the company and the industry in general. In turn, competitiveness depends on a few tens of factors, two main of which are product price and quality.

The latest scientific approach to management involves the understanding that the quality of an effective means of meeting consumer requirements and reducing production costs (OECD, WTO and World Bank, 2014).

Textile industry has an important role in the economy, employment and living standard improvement. Nevertheless, despite all the favourable conditions, this industry remains undeveloped in the Republic of Kazakhstan. At the same time, there are favourable conditions for textile industry development due to the following factors (Yespolov, 2012):

1. Natural advantages: the Republic of Kazakhstan is located near the regions that produce raw materials (Turkmenistan, the Republic of Uzbekistan and the Republic Tajikistan). The Republic of Kazakhstan is also located near potential market channels for TCF products (countries of Asia, Europe, Russia, etc.);

2. Resource base with significant potential for TCF industry development in cotton regions;

3. State support of textile industry development – a legislative framework through the adoption of certain laws: "Law on Special Economic Zones in the Republic of Kazakhstan", "Questions of free economic zones in the Republic of Kazakhstan"," Law on Development of Cotton Industry".

Cotton is the main type of plant material, consumed by domestic textile industry.

According to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, textile industry afforded USD 291.7 million in 2012, while Index of Physical Volume of Production amounted to 108.3% in comparison with 2011–USD 116.7 million (index of industrial production–107.1%). In terms of separate sectors, ready-made

clothing production has afforded USD 147.1 million (index of industrial production–109.2%), leather goods–USD 27.9 million (the index of industrial production–120.2%) (Tulemetova 2016).

Main sources of this increase are cotton fibre and yarn production, knitted fabric production, production of outerwear, caps and hats, sweaters, turtlenecks, cardigans, vests, sportswear and related products. Positive trend continued in the first quarter of 2013: index of textile production amounted to 149.1% in January-March 2013 in comparison with the same period of 2012. The increase for this period was recorded in all categories. The increase in leather and related product production has amounted to 130.5%, clothing production–116.8% in comparison with the previous year.

Retrospective analysis of cotton production shows that the available natural and other development resources are not used completely. The reasons are common to the whole value chain "Cotton planting – cotton processing – textile manufacture – intermediate seller-consumer": sales slowdown and violation of established manufacturing relations, cooperation ties and partnerships.

At the same time, agricultural and process industries have significant problems with the quality of raw materials and production efficiency that have not been solved for the last 20 years. They resulted in low competitiveness of domestic cotton, enterprises and industries, involved in cotton planting and processing. Enterprises were not ready to operate in the context of an open and globalized economy with a high competition.

Currently, the main problem of textile industry resides in the fact that almost the entire volume of cotton fibre (92-95%) is exported due to the lack of advanced processing. Currently, textile enterprises of the Republic of Kazakhstan consume 10-15 thousand tons of Kazakh fibre.

At the same time, cotton exporters have large financial losses in exporting cotton fibre. They are related to the loading into rail cars, shipping and customs paperwork (about USD 15/ton), rail transportation from Turkestan to Posin, including costs at border stations (USD 60/ton), the insurance of goods during transportation (starting from 1%, which is approximately USD 20 per ton). They are also related to the insurance of rail rates in Latvia, the services involving cotton storage, loading and unloading (starting from USD 20/ton), freight for transportation from the Riga port to northern European ports (starting from USD 25/ton). Total cost for only one delivery is not less than USD 140 dollars/ton.

In addition to the above-mentioned pricing conditions and delivery costs for cotton delivery to Northern European ports, such factors as volume, quality, delivery and payment terms, positive covenant, seasonal fluctuations and strategic vision of world demand for cotton are important in determining transaction price.

Numerous studies show that cotton cultivation in crop succession increases the yield level (Bhaskaran, 2013; Brander & Brouwer, 2013; Diamandis, 2015). It is stated that rational crop succession with respect to each edaphic-climatic zone is one of main elements of successful agriculture. In this regard, current cotton-medick crop succession methods do not meet the requirements of agriculture intensification and the market economy. Agro-ecological and landscape-based land arrangement for crop succession requires an optimal crop area structure, new succession cropping systems and their location with due account for economic potential of the land.

The South Kazakhstan Region (SKR) is the main cotton region of the Republic of Kazakhstan (Tulemetova, 2016), in which Makhtaaral district occupies the first place producing 65% of the seed-cotton gross collection (Table 1).

No.	Districts and Cities	Cotton processing plant	Commercial weight	Which includes			
				1 variety	2 variety	3 variety	4 variety
1	Maktaaral	Cotton processing plant "Myrzakent" LLP	37213	25951	8269	2783	210
2	Maktaaral	"Ak-Altyn Corporation" LLC	18573	11300	5729	1544	
3	Maktaaral	«Bagara-Makta» LLC	4093	2186	1569	338	
4	Maktaaral	«Khansuar Invest Company» LLC	1740	1699	41		
5	Maktaaral	«Maqtakelisimshart» JSC	20315	8690	9608	2018	
6	Maktaaral	«Aiig Kazarhstan» LLC	24823	10471	14011	341	
7	Maktaaral	"Eurasia Corporation" LLC	9063	3162	5504	397	
8	Maktaaral	«Makhtaly» LLC	5253	2502	2235	516	
9	Maktaaral	«Khlopkoprom-Yug» LLC 1436	968	468			
	Total on Makhtaaral district		122510	66929	47434	7937	210
10	Shardara	«Aiig Kazarhstan» LLC	125528	4398	5700	1907	523
11	Shardara	"Shardara-Makta" AO	6130	1577	3645	908	
12	Shardara	«Uzyn ATA Makta» LLC	11664	3111	8553		
	Total on Shardara district:		143322	9086	17898	2815	523
13	Turkestan	«RoadText LTD» LLC	1514	1160	204	56	94
14	Turkestan	«Karteks» LLC	1800	800	700	300	0
15	Turkestan	«Turkestan-Makta» LLC	5521	1575	3519427	0	
	Total on Turkestan city:		8835	3535	4423	783	94
	Total amount		161667	79550	69155		

In 2014, "Myrzakent" LLP had the highest level of capacity utilization–62%, LLP "Aiig Ḳazakstan" LLC–41%, "Cotton Contract Corporation" JSC–33%. At the same time, the level of capacity utilization in majority of cotton-processing organizations is 25-30%. This indicates the low profitability of primary seed-cotton processing. Low loading capacity of cotton plants indicates a decline of cotton areas and therefore, of seed-cotton in recent years.

"Myrzakent" LLP realizes cotton fiber thought "SoutsTextLein" LLP–the next link in the process chain combined into a single holding company.

In this case, cost and profit analysis was conducted in terms of this partnership. Business and operations performance results are presented in Table 2.

Indicator	Seed-cotton processing	Oil production	Textiles production		
			Cotton yarn	Cotton fabric, thousand square meter	Lint cotton
Total cost	127.4	154.0	221.9	133.4	38.1
Material cost	118.5	77.6	210.0	101.4	35.1
Raw material cost	100.4	70.1	175.5	52.5	27.5
Remuneration	5.7	49.3	6.9	9.0	0.7
Taxes and charges	1	8.6	1.2	3.6	-
Other costs	2.1	18.5	2.6	19.4	2.3
Sell price	195.0	207.9	315.0	240.0	49.5
Profit return	67.6	53.9	93.2	106.7	9.9
Level of profitability,%	53.0	34.0	41.9	79.9	26.0

Table 2
BUSINESS AND OPERATIONS PERFORMANCE RESULTS OF "MYRZAKENT" LLP AND "SOUTSTEXTLEIN" LLP IN 2014 (THOUSAND TENGE)

In Table 2, the cost, price, profit and level of profitability are presented per 1 ton of cotton goods and 1000 m^2 of textiles. Tabulated data show that the greatest costs fall on cotton yarn (221.9 thousand tenge), the lowest–on lint cotton (38.1 thousand tenge). The largest material cost ration falls on cotton yarn production (94.6%), the smallest–on oil production (50.4%). The most profitable production is related to cotton fabrics (79.9%), less profitable–to lint cotton (26.0%).

We have predicted the performance of "Myrzakent" LLP for 2016 based on data tracking and analysis (Table 2). The forecast was made based on the following factors:

- Cotton processing enterprises are loaded on 40%. If there are raw materials, the level of capacity utilization will probably amount to 50%. In this case, the fixed costs per production unit will be reduced by 25%;

- Cotton yarn enterprises are loaded on 20%. Their capacity utilization is possible to increase up to 30%. In this case, the fixed costs will be reduced by 50%;

- Cotton fabric enterprises have the same situation with production capacity that the cotton yarn enterprises have. Thus, fixed costs in cotton fabric production will be reduced by 50%.

Base case indicators (except changes due to new equipment) shall correlate in conditions with the indicators of the new version by the following criteria:

- Time for costs and performance;

- Prices for costs and performance expression;

- Nature of costs and performance in terms of ordinary and expanded production;

- Total costs, included in total investments;

- Calculation method for indicator prices, used to calculate the efficiency.

Product cost will decrease in view of capacity utilization, but profit margins and the level of profitability will increase (Table 3).

Indicator	Seed-cotton processing	Oil production	Textiles production		
			Cotton yarn	Cotton fabric, thousand square meter	Lint cotton
Total cost	125.11	134.9	215.35	117.4	36.6
Material cost	118.5	77.6	201.0	101.4	35.1
Raw material cost	100.4	70.1	175.5	52.5	27.5
Remuneration	4.28	36.98	3.45	4.5	0.35
Taxes and charges	0.75	6.65	0.6	1.8	-
Other costs	1.58	13.87	1.3	9.7	1.15
Sell price	195.0	207.9	315.0	240.0	49.5
Profit return	69.89	73.0	99.65	122.6	12.9
Level of profitability,%	55.7	54.1	46.3	104.4	35.2

Table 3
BUSINESS AND OPERATIONS FORECAST OF "MYRZAKENT" LLP IN 2016 (THOUSAND TENGE)

This indicates that:

- Current capacity utilization ratio of cotton processing enterprises is 30-40%. We propose to increase production capacity with minor upgrade costs to 50%;

- Calculations show that product cost decreases from 9.8% to 8.8% under capacity utilization of 50% in cotton fiber processing and cotton fabric production; in cotton yarn production – by 9.7%.

The outdated technological processes are being updated in order to enter the world textile market.

There were two new cotton processing plants put into operation over the last 3 years. In Shardara district–"Uzyn Ata" LLC (production capacity–50,000 tons of seed-cotton per year; budget value–USD 3 million); in Maktaaral district–cotton processing plant "Myrzakent" LLP set into operation a plant based on American technology in 2014 (budget value–USD 5 million; production capacity–60,000 tons of seed-cotton per year).

According to analytical studies, the global demand for TCF products is increasing annually by 2.2%. At the same time, Kazakh garment industry ensures domestic demand only by 7%.

Technologically, textile industry is largely related to agricultural sector. However, according to the Agency on Statistics of the Republic of Kazakhstan, 90% of grown cotton is exported abroad at the lowest prices. In turn, cotton goods (including products made of Kazakh raw materials) are imported into the country at high prices.

Currently, the state policy is focused on cotton-textile cluster formation to improve textile industry. This requires the World Bank to commit eleven million dollars for reclamation project of ten thousand hectares of cultivated land in Maktaaral district. A similar project has been launched after successful commitment of the previous one by credit funds of the Asian Development Bank (ADB). It is focused on land irrigation and reclamation that is about forty thousand hectares.

Created cotton cluster in South Kazakhstan Region (SKR) has obvious potential to compete at the regional and international markets. It is determined by such factors as access to raw materials, produced in SKR, the Republic of Uzbekistan, Turkmenistan and the Republic of Tajikistan.

In the near future, the problems related to barrier elimination for efficient growth (project promotion and financing, advantages in importing equipment for textile industry, advantages and preferences for cotton-textile enterprises) are required to be solved.

In addition, creation of new cotton processing plants and upgrading the old ones are processes of great importance, as well as availability of necessary framework for human resources development, minor production costs, high demand for cotton goods and proximity to potential markets–China, Asia, Russia, Europe and the Middle East. Currently, 80% of profits from cotton processing go abroad. Therefore, the Government of Republic of Kazakhstan is interested in this profit. Thus, is takes certain actions to keep it. Cotton and cotton goods production over the past 5 years is shown in Table 4.

No.	Performance highlights	2010	2011	2012	2013	2014
	Table 4 **COTTON INDUSTRY PERFORMANCE HIGHLIGHTS IN 2010-2014**					
1	Cotton Sown Area, thousand hectares	134.2	154.2	144.7	138.0	126.5
2	Cotton gross collection, thousand tons	240.9	315.4	385.6	396.7	313.3
3	Seed-cotton gross collection, thousand tons (commercial weight)	189.4	267.3	299.4	224.0	161.5
4	Seed-cotton yield, kintal per hectare	18.1	20.4	26.6	28.7	24.8
5	Average farm-gate price for seed-cotton, ton per hectare, thousand tenge	97	104	75.0	92.0	80.0
6	Seed-cotton cultivation cost per hectare, thousand tenge	95	97	115	123	125
7	Number of operating cotton processing plants, units	11	15	17	16	15
8	Average LCA index for September	104.7	116.8	84.1	90.1	70.0
9	Cotton fibre production, thousand tons	59.8	84.1	98.3	71.9	73.8
10	Exports of cotton fibre, thousand tons	60.1	28.8	52.4	81.8	47.3
11	Overall value for exported cotton fibre, USD thousand	89271.3	66661.8	85179.4	137078.2	79253.3
12	Average price for 1 ton of exported cotton fibre, USD thousand	1485	2314.6	1625	1675	1672

According to Table 4, seed-cotton gross collection has been variable from year to year. In 2014, seed-cotton gross collection was higher by 54.5% in comparison with 2010. Seed-cotton gross collection is known to be effected by two factors: sown area and yield per 1 hectare. Statistics show that the sown area has been systematically reducing since 2011. Hence, seed-cotton gross collection has increased due to increased yields. Cotton sown areas are reducing in number; free lands are used for vegetables, fruit and melons, which cultivation provide food security and are no less profitable than cotton. Yield growth depends on certain factors: elite seed planting, timely use of pesticides and herbicides, abundant irrigation with water etc.

Seed-cotton cultivation cost per hectare has increased as a respond mechanism of production system to rapidly changing market factors (Sirtioglu, 2014).

Cotton fibre is the main product from seed-cotton. The table shows that cotton fibre production from 1 ton of seed-cotton in 5 years is varying. Its production was 24.8% in 2010 and 31.5%, 25.5%, 18.1% and 23.6% in 2011, 2012, 2013 and 2014, respectively. Thus, cotton fibre production ranges from 18.1% to 31.5%.

In analysing the current situation in cotton and cotton goods production, we concluded that we are able to predict the product release for the next five years (2016-2020) based on data for 2010-2014. Data for 2014 and the first half of 2015 years were used for forecasting; performance highlights in this period are the most realistic in terms of the further cotton industry development.

Currently, production capacity ratio of cotton processing enterprises (15 units) is 30-40%. Thus, they will cope with the cotton fibre processing stage of if the cotton fiber production increases. Cotton fibre product release under modern process flow will not change. Therefore, we forecast that non-cotton product release will be at the level of 2014 in the long term up to 2020. Calculations are presented in Table 5.

No.	Product name	Measurement unit	2016	2017	2018	2019	2020
	Table 5 **FORECAST FOR SEED-COTTON AND COTTON GOODS PRODUCTION IN 2016-2020**						
1	Seed-cotton gross collection	thousand tons	312.9	325.9	339.9	353.7	367.4
2	Cotton fibre production	-//-	73.8	76.9	82.2	83.5	86.7
3	Seeds	-//-	116.7	121.6	126.8	131.9	137.0
4	Lint cotton	-//-	5.3	5.5	5.8	6.0	6.2
5	Motes	-//-	3.4	3.6	3.7	3.9	4.0
6	Cotton oil	-//-	33.8	35.2	36.7	38.2	39.7
7	Cotton seed cake	-//-	73.8	76.9	80.2	83.5	86.7
8	Hull	-//-	60.4	62.9	65.6	68.3	70.9
9	Plywood	-//-	18.1	18.9	19.7	20.5	21.3
10	Industrial alcohol	thousand litres	5.0	5.2	5.4	5.7	5.9
11	Pyromucic aldehyde	thousand litres	9.1	9.5	9.9	10.3	10.7

This indicates that:

- Sown areas will reduce; seed-cotton gross collection will significantly increase due to yield growth. Yield can be increased by elite seed planting, better water security. This requires changes in state support;

- Current capacity utilization ratio of cotton processing plants is 30-40%. However, it can be in the range of 50% due to minor upgrade costs;

- Our calculations show that a larger amount of certain products is possible by 2020.

Forecast implementation will increase seed-cotton processing and improve cotton fibre quality in the Republic of Kazakhstan. It will also make it possible to have new products, to satiate the market with native products and to improve the competitiveness of cotton fibre in the international market.

Competitiveness improvement of cotton industry in the foreign market, as well as its innovative strategy, requires control over the components of its innovation potential and its compliance with demands on the market. Interaction between cotton industry and enterprises on producing and processing products within cluster organizations that have a positive impact on production development and change approaches to management is a characteristic feature of cotton industry innovative development. Cluster models become more advanced revealing important relationships between different branches of textile industry of one or more countries (Bhaskaran, 2013; PP, CIEM, 2013).

A significant part of problems related to textile industry innovative development in the context of current economy can be solved only by joining efforts of certain enterprises. This is the case of investor attraction to innovative projects, the case of marketing, information collection, analysis and storage, specialists training and provision of raw material (in particular, cotton).

The absolute potential of cotton production in combination with effective state regulation and support can provide domestic textile industry with local raw materials, required for tissue production that meets international sanitary and other standards in terms of range, quantity and quality.

The following issues require special attention of scientist and managers:

- Revival priorities development of national cotton industry as a source of raw materials for textile industry, as well as purposes and functions, sectorial policy and priority development;

- Organizational aspect definition of resource sector state regulation, including motive formation for integration processes in resource sectors, cluster policy of economic regulation (Bhaskaran, 2013; PP, CIEM, 2013), integration features and their efficiency assessment;

- Infrastructure support analysis and improvement of recourse sector, building new facilities: agro technological parks, innovation clusters, science parks, etc.;

- Credit and financial support for the production of textile raw materials (economic methods of state regulation, state support in the context of WTO, etc.).

DISCUSSION

Kazakhstan's accession to the WTO provides the opportunities to enter the world market (Agro-business–2020, 2013, State Program of Investment and Innovation Development of Kazakhstan for 2015-2019) and leads to an aggravation of problems, related to internal market saturation. Therefore, domestic agricultural, processing and textile enterprises have to ensure and assess the compliance with international standards in their field, the compliance with world approaches to technical regulation etc. (Allen, 2015; Hasanbeigi & Price, 2015; Kadolph & Marcketti, 2016). Government position is substantial at this stage, especially in matters of national standard harmonization for products of textile industry, for raw cotton in terms of international and European standards, in matters of internal market protection.

The problem of raw material shortage has to be solved, caused by raw material base reduction–only 2-5% of cotton fibre is being processed in the country for final products. According to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, about 95-98% of raw materials (in the form of greasy wool and cotton) are exported abroad, as well as raw materials subjected to primary processing. Clothing industry is forced to use imported fabrics, yarns, threads, accessories, as they are not produced in the Republic of Kazakhstan. This entails a high cost for products and inability to compete on price with the imported products.

This problem could be solved by curbing the export of raw materials, involving the introduction of high exportation duties for products with poor processing (Tulemetova, 2016; Validov, 2016; Yespolov, 2012). In turn, product exportation with high added value has to be incentivized. Such stimulating method for final product exportation has been successfully undertaken in China.

Current situation analysis in the textile industry of the Republic of Kazakhstan has shown that it has the potential for further development: manufacturing, technical and human resources,

necessary scientific capacity in research institutions, higher education institutions specializing in this area of the economy. However, there is the lack of innovation focus of resource-related production units, the lack of motivation and incentives for rapid production upgrade, the lack of competitiveness in national and foreign markets.

Situation assessment and identified trends in textile industry development of the Republic of Kazakhstan indicate that scientific foundations and proposals on regulation mechanism formation of the state for this industrial sector development are required to be developed in the context of modern open economy. In particular, there are the following relevant issues:

- Improvement of mechanism structure and forms, stimulating textile industry development in the Republic of Kazakhstan, development of new ideas and conceptual elements of the mechanism, state regulation methods and functions, mechanism for industry innovative development;

- Incentive-based instrument development and problem solving in resource sector, improvement of development institutions, system formation for innovative development;

- System improvement for planning and forecasting textile industry development in the Republic of Kazakhstan in the market economy environment, substantiation of strategic planning methods.

Cost management improvement in the cotton industry is important in solving financial problems. It has to be focused on the best combination of interests of the cotton enterprises with due account for challenging effect of technical, organizational and economic factors.

Production costs resulting in production of poor-quality raw cotton cannot be considered as socially necessary, as well as high costs related to quality improvement.

Thus, social use value must meet only the socially necessary labour costs. This condition determines the proper character of cotton production and processing. Cost management concept in relation to cotton industry is based on the following assumptions:

1. The purpose of cost management is to increase the efficiency of the cotton industry; long-term objective–to increase the textile industry competitiveness by more efficient cotton production and processing;

2. Cost is the control object; control parameter – real expenditures-nominal sum ratio;

3. In planning costs, the scope of their control is necessary to determine, namely, boundary noncompliance narrowing towards the nominal sum and adjusting under innovation flows;

4. Cost management system should be based on the principle of feedback, which provides administrative influence under over-increased noncompliance of costs.

CONCLUSION

Motivation of domestic producers to gain a sustainable competitive position in the internal market by improving product quality and research-intensity and by reducing its cost is the main perspective area of textile industry development. Cotton industry improvement as the main supplier of raw materials for the textile industry of the Republic of Kazakhstan is the most important instrument, contributing to success in these areas. Cluster model is necessary to consider as one of the innovative development areas of textile enterprises, contributing to long-term sustainable relations between the suppliers of raw cotton, cotton processing enterprises and sellers of final textile products.

Radical reinventing the economic politics is a possible way out of the current situation in the textile industry, as well as organizational-economic mechanism improvement for economic action towards TCF industry innovative development and simultaneous search for reserves to improve raw cotton production.

Thus, capacity utilization increase in the cotton industry contributes to lower production costs and thus, higher profits. Cotton fibre processing could by higher inside the state. Thus, a large amount of added value will remain in the Republic of Kazakhstan. In addition, the country will get much more products necessary for enterprises and citizens.

REFERENCES

Aidarova, A., Uskenov, M., Zhakeshova, A., Dosmuratova, E. & Kulanova, D. (2016). The economic analysis and prerequisites for creation of a cotton and textile cluster in the Republic of Kazakhstan. *Indian Journal of Science and Technology, 9*(5).

Allen, R.C. (2015). The high wage economy and the industrial revolution: A restatement. *Economic History Review, 68*, 1-22.

Alves, S.E.M., do Nascimento, P.A.T., Paulino, S.T.R., Barroso, S.B.C. & Aguiar, C.R. (2017). UASB type anaerobic reactor in conjunction with Fenton process for removing colour and chemical oxygen demand of synthetic wastewater from textile industry. *Engenharia Sanitaria E Ambiental*, *22*(2), 292-292.

Azhimetova, G. (2004). Cotton industry formation features and development genesis in the Republic of Kazakhstan. *Kazakh journal of "Transitnaya ekonomika" (Transit economy), Hanshayym Publishers, 5*.

Bhalla, N., Sidhu, T. & Kaur, R. (2017). Human resource practices and commitment of employees in India's textile industry in context of management levels. *Journal on Management*, *12*(2).

Bhaskaran, E. (2013). The productivity and technical efficiency of textile industry clusters in India. *Journal of the Institution of Engineers, 94*(3), 245-251.

Brander, L. & Brouwer, R. (2013). Economic valuation of regulating services provided by wetlands in agricultural landscapes: A meta-analysis, *Ecological Engineering, 56*, 89-96.

Diamandis, P. (2015). *You can manufacture what you want*. The WorldPost.

Fang, N. & Yuanyuan, X. (2016). Cotton textile industry: Abandoning the volume-biased production and focusing on high-end route Interview with Ye Jianchun, vice president of China Cotton Textile Association. *China Textile*, *1*, 5.

Ha, J.Y., Lee, H.O. & Ku, Y.S. (2015). A Study on awareness and responses of Korean textile firms against Korea-US FTA. *Fashion & Textile Research Journal*, *17*(6), 978-987.

Hasanbeigi, A. & Price, L. (2015). A technical review of emerging technologies for energy and water efficiency and pollution reduction in the textile industry. *Journal of Cleaner Production*, *95*, 30-44.

Kadolph, S.J. & Marcketti, S.B. (2016). *Textiles*. Pearson.

Kazakhstan Regions in 2014. (2015). (Ed. Smailova, A.). *Statistical Yearbook*. Agency of the Republic of Kazakhstan on statistics, Astana.

Kunz, G.I., Karpova, E. & Garner, M.B. (2016). *Going global: The textile and apparel industry*. Fairchild Books.

Lee, K.R., Yun, J.J. & Jeong, E.S. (2015). Convergence innovation of the textile machinery industry in Korea. *Asian Journal of Technology Innovation*, *23*(1), 58-73.

Lin, B. & Zhao, H. (2016). Technological progress and energy rebound effect in China′s textile industry: Evidence and policy implications. *Renewable and Sustainable Energy Reviews*, *60*, 173-181.

Melnikov, V.A. (2002). Approach to cost management. *Russian journal of "Ekonomika i Proizvodstvo" (Economy and Production), Interbranch Institute of Communication Technology and Management, 1,* 14-18.

OECD, WTO & World Bank. (2014). *Global value chains: Challenges, opportunities and implications for policy*. Report prepared for the G20 Trade Ministers Meeting, Sydney, Australia.

Operational statistics. Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

Ortiz, D. (2013). Cotton production woes affect Peruvian textile industry.

PP, CIEM. (2013). *Assessing the competitiveness of garment and textiles cluster in Ho Chi Minh city and other surrounding areas Ho Chi Minh. Institute of Public Policy*, Centre Institute for Economic Management, Ho Chi Minh city.

(Agro-Business–2020). (2013). Program for the development of the agro-industrial complex of the Republic of Kazakhstan for 2013-2020. Ministry of Agriculture of the Republic of Kazakhstan.

Rey, I.U., Shakulikova, G.T., Kozhakhmetova, G.A., Lashkareva, O.V., Bondarenko, E.G., Bermukhambetova, B.B., Baimagambetova, Z.A., Zhetessova, M.T., Beketova, K.N. & Anafiyaeva, Z. (2016). Labour factor efficiency in the agricultural industry. *International Journal of Environmental and Science Education, 11*(17), 9679-9691.

Shepeleva, L.S., Petrishchenko, N.M. (2013). Special influence of factors of competitiveness in the textile industry. *Economy and Management: Analysis of Tendencies and Prospects of Development, 2*(2), 209-217.

Shtaltovna, A., Hornidge, A.K. (2014). A comparative study on cotton production in Kazakhstan and Uzbekistan. Department of Political & Cultural Change Centre for Development Research (ZEF), University of Bonn, Bonn.

Sirtioglu, I., (2014). *Turkey cotton and products annual report*, USDA Foreign Agricultural Service, GAIN Report Number: TR4010.

The State Program of Kazakhstan Industrial-Innovative Development for 2015-2019, approved by the Decree of the President of the Republic of Kazakhstan of 08.01.2014, No. 874.

Tulemetova, A.S. (2016). Current situation analysis and assessment in textile industry of the Republic of Kazakhstan and ways to improve seed-cotton processing.

Validov, A.F. & Pulaj, E. (2016). Leadership styles in transitional economies. *Academy of Strategic Management Journal*, *15*, 1.

Yespolov, T.I. (2012). The agro-industrial complex of Kazakhstan: Globalization and innovation. *Almaty*, 123-133.