THE PROBLEMS OF RESTRUCTURING INDUSTRY IN TAJIKISTAN

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In Lieu of an Introduction

In order to create a competitive economy, Tajikistan will have to eliminate the deep-seated existing structural deformations and create a new and improved system of productive forces. This restructuring based on the latest technology should be aimed at providing for society's real needs and creating a qualitatively new mechanism capable of ensuring the efficient functioning of the national economy in market conditions and its integration into the world economy.

Level of Development of Tajikistan's Industry

Industry is the most important production branch and the material foundation of industrialization. It also has a decisive impact on the level of society's economic development. It was precisely an increase in the output of the industrial branches (over the past two centuries) that led to the dramatic changes in human life.

Despite the fact that, in terms of growth rates, the service sphere is the most advanced of the production branches, the role of industry in the economic structure is high. The efficient functioning of industrial enterprises is a key factor in ensuring sustainable economic growth.

Restructuring of Tajikistan's industry is a rather arduous process, which is mainly related to the special features of the national economy.

- First, the Tajik economy, which is predominantly developing in the raw material vector, is inflicted with "illnesses" of its own making. In addition, it has unrelated branches and enterprises which are poorly oriented toward the needs of the domestic market. Today, the available production potential is being used to manufacture intermediate products that are much lower in price than final goods.
- Second, the products manufactured are not competitive; spontaneous market relations and the civil war have generated serious changes in the production structure which led to a reduction in its volume.

The economic reforms should primarily affect the real sector of the economy and its main branch, industry, which accounts for approximately 21.3% of the total volume of commodity production and services. Over the past 8 years, a stable increase in the volume of industrial production has been observed, whereby the highest rates of development are seen in the manufacturing industries; the share of heavy industries amounts to approximately 60%.

The country's participation in the world division of labor, its high export potential, and the income it receives from foreign trade activity depend on the degree of development of the industrial sector of its economy. The export structure is the most important index of the country's specialization in the world division of labor. In Tajikistan, it is predominated by the raw material vector, which predetermines the unequal exchange of goods. An analysis of the commodity structure of the republic's export shows that raw (non-precious metals, cotton fiber), food (fruits and vegetables), and energy commodities (electricity) predominate in it.

The main import commodities are chemical products, mineral and plant products, machinery and equipment, transportation means, construction materials, lumber, metals and items made from them, consumer goods, and so on.

For several years, aluminum and cotton fiber have been the main items exported by Tajikistan to the countries of the Far Abroad. The export of goods to the CIS countries, on the other hand, is more diversified and includes more than 370 different items.

As of today, non-precious metals, textiles (including carpets and carpet items), electricity, tobacco and tobacco commodities, as well as fruits and vegetables (onions, grapes, lemons, apples, pears, quinces, dried fruit, peanuts, juices, canned fruits and vegetables) are the main commodities exported to the CIS countries.

One of the main spheres of the republic's international activity is creating joint ventures and attracting foreign investments. At present, there are more than 120 joint ventures operating in the republic, the authorized fund of which amounts to between 1 and 12 million dollars. In the past 6 years, foreign direct investments have noticeably grown, the volume of which is increasing 1.5-2-fold every year. This is promoted by steady macroeconomic stabilization and an improvement in the country's investment climate.

The level and quality of industrial development are playing a key role in forming the production dynamics of the entire real sector of the Tajik economy. They are having the most noticeable impact on the development of agriculture, transport, the financial sector, and the service sphere. In addition, the level of industrial development is one of the most important factors enhancing the country's investment appeal.

The industrial sector is performing the most important socioeconomic functions; personal prosperity and the amount of budget revenue depend on its efficiency. Eight percent of the total number of hired workers is concentrated in industry. A large percentage of the population is engaged in sectors that support the development of the country's industrial complex.

At present, the development of Tajik industry can be characterized as follows:

- relative stabilization has been achieved at the macro level;
- infrastructure is being created and independent market entities are forming;
- foreign economic activity is being liberalized;
- a high level of openness of the economy has been achieved;
- the production slump has been halted throughout industry as a whole, as well as in the republic's regions.

The following can be classified as the weak points of Tajikistan's industrial development:

- structural disproportions related to intensification of the raw material and underdevelopment of the processing branches;
- unequal technical and technological level of different branches;
- high level of wear and tear on the key assets;
- violation of the integrity of the reproduction process caused by the gap between the financial sector and the real economy;
- drop in state financing of the scientific sphere and its lag behind production;
- technical backwardness of industry, low percentage of output of end scientific-intensive high-tech products;
- low volume and dispersion of the domestic market, underdevelopment of the transport infrastructure.

So Tajikistan must carry out restructuring characteristic of developed countries and aimed at forming a rational production structure that reflects the specifics of the national economy.

The accelerated development of the extractive industries can be considered the most noticeable structural advance, whereby the greatest increase has been achieved in the power industry.

There are a number of objective and subjective factors in the republic's industry that are slowing down sustainable economic growth.

The most important objective factor is the unsophisticated structure of the economy as a whole and industry in particular. Over the past 20 years, the structure of industry as the key sector in the economy has drastically deteriorated. The quality of resources and the level of adaptation of enterprises to the competitive environment lag significantly behind the growth in production volumes achieved in certain branches.

The economy's transfer to world prices has had a strong negative impact on the structure of industry. This has especially had an effect on the primary industries, the product prices of which were several times lower than world prices.

Today, the share of the primary industries (in particular, the power industry) in the Tajik economy is increasing. The republic is rich in energy resources, but their export will only generate real income if the products manufactured have a high added value. However, this is still a pipe dream.

During the years of independence, the greatest slump has occurred in such investment branches as machine-building and the production of construction materials.

The situation that has developed in machine-building is caused by the non-competitiveness of most of the products manufactured by this branch (it is low in quality) and the lack of correspondence of its structure to Tajikistan's economic system. This situation is being aggravated by the economic crisis.

Reorientation of machine-building and creating solvent demand for its products are rather difficult problems which can only be resolved by stabilizing other branches of the economy.

There is no point in trying to resolve the problems of the machine-building industry by means of state contracts (for example, for agricultural machinery, textile equipment, and so on) since consumers will be unable to acquire these products even on lease, and the state cannot shoulder the burden of these expenditures.

In order for there to be an economically substantiated demand for some product, the state must ensure that the branch, the structural share of which it wants to increase, is functioning efficiently. This requires drawing up corresponding measures that envisage an increase in agricultural production, stepping up foreign trade activity for selling domestic equipment abroad, and attracting world-renowned producers of machine-building products as investors (at first this could be assembly shops; the opportunity might appear later for creating enterprises with a full production cycle).

The same can be said for the construction material industry which, compared to other branches, is experiencing the most severe slump (since 1990).

Industries that produce consumer goods are also developing unfavorably. During the years of independence, the standard of living dramatically dropped, which was due to hyperinflation and the closing of a large number of enterprises. As a result, retail commodity turnover abruptly dropped and a slump in the light and food industries began; their products could not compete with the cheap goods from China, Turkey, Iran, and Russia.

For example, in 1999, the production volume of the food industry amounted to 16.4% of the 1990 level and in 2004 to 31.4%.

In 2004, the production volume of the light industry amounted to 62.8% of the 1990 level, but today the situation has stabilized somewhat due to the slowdown in inflation. In 2007, growth in this industry amounted to 196.9% of the 2000 level.[1]

However, there is no point in expecting sustainable growth, since the purchasing power of the population is still rather low.

The production of the country's light and food industries cannot compete with the constantly increasing import of goods of foreign manufacturers. The demand for leather goods, furs, footwear, clothing, and knitwear, as well as locally manufactured hosiery and socks has abruptly dropped; fewer factories are in operation, leading to a reduction in output volume.

[1] See: *Industry of the Republic of Tajikistan, Statistics Collection*, Dushanbe, 2008, p. 12 (in Russian and Tajik).

Since the beginning of the 1990s, the republic's national economy has undergone significant changes associated with the abrupt drop in production volume and compulsory exodus of qualified specialists. The problems that have accumulated have had an effect on the state of all the sub-branches of the light and food industries, which used to be the economy's pride and joy.

The light industry unites several sub-branches, among which the textile, clothing, and leather-footwear branches can be singled out. It should be noted that in terms of production volume growth rates, the clothing industry is far ahead of the light industry (as well as of its sub-branches).

The production slump in all the sub-branches of the Tajik light and food industries (including the clothing industry) was the reason for the essentially complete absence of Tajik consumer goods in the domestic market. Their demand is met by means of import.

The increase in import of textile materials and clothing is explained by the reduction in the share of the state sector in the overall volume of retail commodity turnover and by the fact that it is impossible to keep a full account of the goods imported into the republic by entities of the unorganized market.

The increase in growth rate of commodity turnover is helping to develop trade in the non-state sector, the share of which amounts to 98%. It is mainly growing due to the unorganized market.

It is fair to say that, in unorganized markets, the necessary market research is not carried out, the regulatory sanitary-hygiene requirements are not observed, the generally accepted standards are not taken into account, and measures to protect consumer rights are not undertaken. Consequently, Tajikistan's domestic market is full of consumer goods, the price of which does not always correspond to their quality and mainly depends on the prices in the world markets, foreign exchange rates, and, to a lesser extent, consumer price indices in the republic, which are relatively low due to the low standard of living.

So the economic crisis has generated a sharp production drop in the sub-branches of the light industry, a breakdown in economic ties, limited investment opportunities, and so on.

The potential of the light industry is not in demand due to the lack of material resources, corresponding interests, and motivation for rapid technological renewal. The market mechanisms are not working to their full capacity, cooperation has not been established with raw material suppliers, and reliable clients cannot be found. All of these factors are predetermining the need to carry out economic reforms.

The dynamics of the cutback in industrial production (in terms of branches) are extremely unequal, which indicates an increase in structural disproportions. When analyzing the reasons for the industrial crisis, it should be noted that the current situation is a result of the influence of macroeconomic factors of the external environment (for example, tax and customs policy) and the technical state of the enterprises. Degradation of resource potential (key resources, circulating assets, personnel, finances, and innovation possibilities) is intensifying and adaptation to the competitive environment is extremely low. In addition, unattractive market branches predominate in the structure of the industrial complex, where there are no investment resources in the financial market necessary for enterprises to reach the necessary competitive level.

There are numerous problems in the labor market associated with the overall economic situation and amorphous nature of the social structure. Spontaneous, frequently economically unjustified shifts in workforce are occurring in the employment sphere. The qualification level of workers is not taken into account, the potential of the advanced branches is squandered, and there is no professional training of new workers. Problems with work motivation and the social and professional movement of the workforce have increased. In this respect, it can be concluded that economic and institutional reform of labor relations has still not been completed.

Negative changes have also occurred in the qualitative characteristics (social and production) of the workforce, and new stereotypes of behavior (labor and psychological) are slow to form.

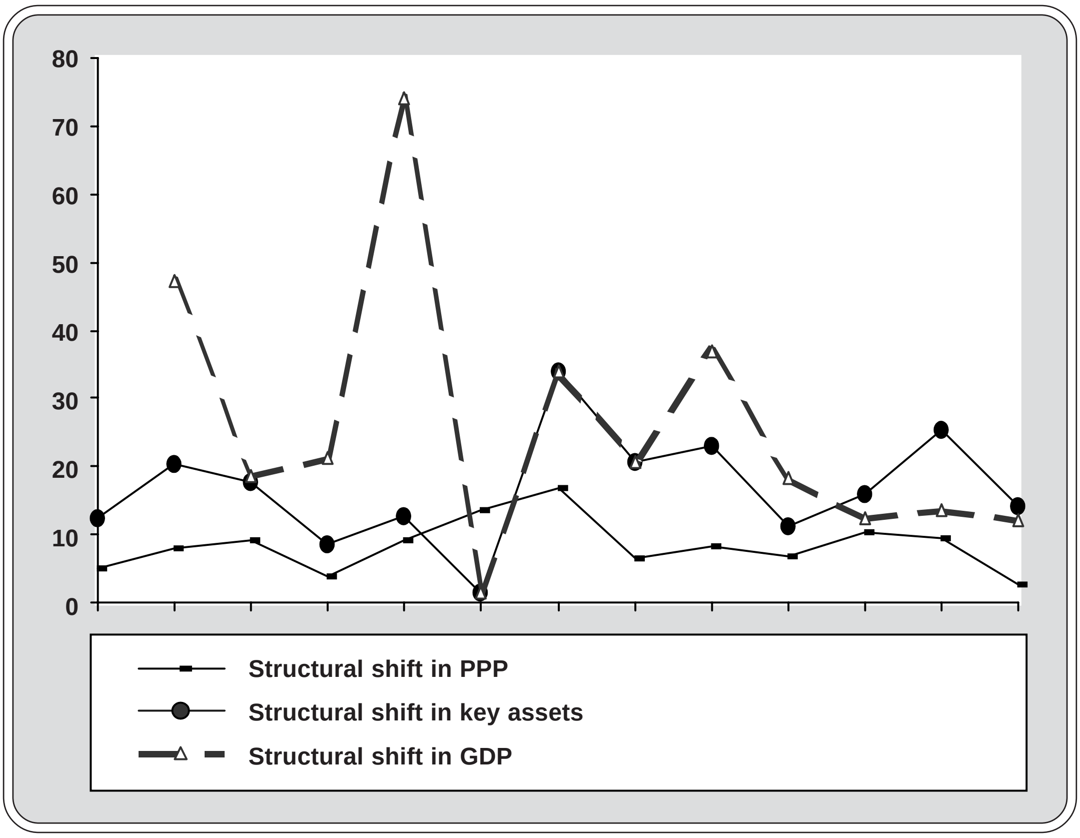
Intensity of the Structural Changes in Industry

The author of this article calculated the intensity of the structural shifts that have occurred in the branch structure of industry. The GDP indices, number of industrial-production personnel, and dynamics of the key assets for 1991-2008 were taken as the basis of the calculation.

The data of the graph (see Fig. 1) show that the branch structure of industry formed unevenly. Many branches of industry have changed the vectors of their development, which indicates deformations and an industrial crisis.

Figure 1

Dynamics of the Annual Structural Shift[2]



The greatest overall and average shift occurred in the structure of the key assets (if we compare the intensity of its development with the number of people employed in production).

Fluctuations in the structure of the key assets are stronger than in the GDP or employment structures, where such fluctuations are less severe.

[2] See: *Industry of the Republic of Tajikistan, Statistics Collection*, State Statistics Committee of the Republic of Tajikistan, Dushanbe, 2009, pp. 17, 31, 37 (in Russian and Tajik).

In addition, according to our estimates, the structural shifts that occurred between 1990-2008 were economically ineffective and caused a drop in output quota throughout industry (for example, in 1999 by 0.9%; in 2003 by 7.86%; in 2004 by 13.61%; in 2005 by 11.87%, in 2006 by 6.71%, and in 2008 by 10.45%).

Structural changes have had the most negative influence on the development of machine-building, the light and food industries, as well as the production of construction materials.

The trends and laws governing structural dynamics can be studied by means of generalized inter-branch proportions: the ratio of the share of industry to the share of agriculture (the t_α index) and the ratio of the contribution of service production to the share of industry in the gross product (the t_β index).

An increase in the share of industry compared to agriculture and in the share of service sector compared to industry represents a general long-term trend in the changes in the economic structure of developed countries, which is shown by the increment in values of both structural indicators, whereby the increase rate of the "industry/agriculture" ratio (t_α) is much higher than the increase in the "services/industry" ratio (t_β).

In Tajikistan, the value of the t_α index amounted to 1.32% in 2000 and to 0.99% in 2006; while the t_β index was equal to 0.94% in 2000 and to 1.91% in 2006, and we see that in 2000, the growth rate of t_α (1.32%) was higher than the increase in the t_β index (0.94%). At the current stage, however, the opposite is seen: t_β (1.91%) is higher than t_α (0.99%).

Technical refurbishing of the manufacturing industries aimed at putting out competitive products is complicated by the absence of domestic investors. The shortage of investments is leading to the branch's technological backwardness.

In turn, foreign companies (or private individuals) are not interested in investing in Tajikistan's manufacturing industry, since an acceleration in its development rate could deprive foreign goods of an advantageous sales market.

In order to conduct an adequate industrial policy, Tajikistan must understand the gist of the innovation processes going on in the world economy relating to economic globalization, the increase in geo-economic competition, technological changes, and the establishment of post-industrial development (the so-called new economy). All of these trends should be kept in mind when forming a contemporary industrial policy which is characteristic of developed countries and also reflects the specifics of the national economy.

The Main Priorities of Tajikistan's Industrial Policy

Industrial policy implies a set of measures carried out by the state to create and develop contemporary industry that is capable of efficiently functioning in the globalization conditions of the world economy, during intensified integration processes, and in the context of increased international competition.

The long-term strategic task of industrial policy should be to effect a constant decrease in the republic's dependence on imported goods by accelerating the development of branches of the domestic manufacturing industry. Tajikistan must ensure sustainable industrial development and create a balanced industrial complex capable of manufacturing competitive products and meeting the needs of the internal and external markets.

Implementing this strategy in the context of the market economy will help to expand the existing and create new sales markets, increase the profitability of organizations, and raise the level of employment among the population.

Achievement of these goals requires the following:

- forming an economic, institutional, legal, and legislative environment for raising the activity of all the entities of business activity, supporting the establishment and development of the infrastructure of industrial markets, and raising the sustainability of industry during fluctuations in the situation in the world commodity markets;
- maintaining solvent demand of the population;
- creating equal competitive conditions for all market entities;
- raising motivation for rechanneling capital from the financial to the real sector of the economy, including personal savings and the remittances of labor migrants;
- stimulating integration of the scientific-technical sphere and production, commercializing science, developing advance technology and new scientific-intensive industries, assisting in the training of highly professional engineering and technical staff for industry;
- creating new production units for more intense processing of minerals, raising the number of technological conversions of the processing of nonferrous metals to obtain end products;
- raising the competitiveness of the products of the manufacturing industries by drawing up and introducing standards that are in harmony with international requirements, as well as introducing quality and environmental control systems that correspond to world standards;
- carrying out measures designed to save resources and raise the productivity of labor;
- developing capacities for manufacturing agricultural technology and spare parts for it (mounted and trailed implements), as well as putting out equipment for energy and transport complexes;
- developing capacities for manufacturing state-of-the-art construction materials and mechanisms;
- expanding the range of electrotechnical, food, and non-food consumer goods.

Further development of the country's economy depends on the targeted priorities, that is, those branches should be chosen out of the numerous industries in need of support that can create conditions for accelerated growth. The experience of world practice shows that this is a very important measure.

Another major problem is coordinating the branch and territorial aspects of economic development. This is aggravated by the existence of depressed districts in the republic. Another urgent task is to draw up a corresponding strategy of socioeconomic industrial development keeping in mind the possible changes in production structure.

A significant role should be played by branches of the agroindustrial sector in achieving sustainable economic development of industry; this sector could become a driving force behind the republic's economic growth. An increase in demand for end products (for example, foodstuffs) usually leads to an increase in the output of goods in related branches joined by a single technological network. They are prone to a significant multiplication effect. It should be noted that this effect is seen to a much greater extent in the agroindustrial complex than in other sectors of the economy. In addition, an increase in product manufacture ensures a maximum increase in employment.

Demand for products of the agroindustrial complex, in contrast to many other branches, even in conditions of an overall slump, remains quite stable. Therefore, the republic's state structures should increase their support of these enterprises, for example by introducing competitive placement of state contracts (including for foodstuffs).

So the primary tasks of structural policy are:

- raising innovative activity and accelerated development of the high-tech sector of the economy;
- stimulating economic growth and raising the efficiency of production at the micro level by means of import replacement, export contracts, and other indirect tools;
- stimulating the restructuring and reforming of enterprises, raising their efficiency with simultaneous improvement of the consulting service market, and accelerating integration and the formation of large competitive companies with comprehensive assistance to the development of small and medium business;
- forming a competitive environment.

The structural shifts associated with a change in inter-branch, intra-branch, and macroeconomic proportions should bring about the following changes:

- a reduction in the share of the raw material sector of the economy by raising the share of production of the manufacturing industry;
- modernization of production (including technical-technological) and an increase in the competitiveness of products;
- an increase in the efficient and rational use of natural resources;
- a rise in the level of the republic's export potential by manufacturing scientific-intensive high-tech products;
- creation of conditions for developing innovative activity;
- assistance to the further development of small and medium business.

The development and intensification of multidimensional mutually advantageous relations with Central Asian (CA) countries could play a major role in this respect.

The Role of Regional Economic Cooperation in Restructuring Tajik Industry

Relations among the CA countries are becoming more trusting and reliable with each passing year. These states are searching for new ways to cooperate, which is an objective and legitimate process.

Serious attention should be paid to real projects of economic cooperation, which, in turn, are interrelated with the political situation.

It should be noted that lack of coordination of export policy was and remains the main obstacle on the path to regional integration. It is leading to an increase in competition with respect to various products in third country markets.

In addition, the different rates of economic reform being carried out in the CA countries and biased decisions which infringe on the interests of partners are hindering factors.

The countries of the region need to draw up joint economic projects. One of them should be developing Tajikistan's hydropower resources. Attention should also be paid to enhancing the agroindustrial complex and establishing joint enterprises, financial and industrial groups, free economic areas, and so on.

In our opinion, the main problems hindering the development of regional economic cooperation are as follows:

- the dissimilar approach of certain CA countries to integration of the region's economy and their inadequate assessment of the possible results of intensified regional cooperation;
- the different level of severity of the most serious problems of socioeconomic development in each of the countries;
- the differences in attitude toward regional cooperation of certain countries of the region.

In this respect, a set of measures must be carried out that envisage:

- full understanding of the need for and inevitability of the integration processes;
- forming general political and economic conditions for expanding the scope of regional economic cooperation (simplification of the border operation regime, visa regime, creation of favorable conditions for the transit of passengers and cargo, creation of a single customs duty, and so on);
- gradual expansion of transborder free trade zones, increasing the radius of duty-free movement of goods to the markets of other countries;
- creating a favorable political atmosphere within each country of the region with respect to regional economic cooperation;
- priority development of scientific-technical cooperation, closer interaction in education and culture, as well as elimination of all kinds of obstacles in relations among people;
- support of the private sector, the activity of which should also be aimed at developing business relations with other countries; creating enterprises (domestic or joint), creating favorable conditions for businessmen from neighboring countries in the domestic market.

Resolving the above-listed problems is extremely important since it will promote the strengthening of regional cooperation.

Conclusion

The structure of industrial production is one of its defining factors. Whereby specific sectoral vectors of the structural shifts are inherent in each stage of scientific and technical and economic development. Scientific and technical progress is the main and decisive factor determining the structure of industrial production. It is the driving force behind an intensification in interrelations at all levels of the economy and also changes the appearance of the sectoral, reproduction, technological, foreign economic, and other systems.

But the existing structure of Tajikistan's industry is extremely deformed. As a result of the disproportions in public production, the sectoral ratio has been disrupted.

A lack of correspondence is also seen between aggregate demand and supply, which is causing a drop in production volume, an increase in product prices, and inefficient investment. The structure of the economy is distinguished by instability and is chaotic in nature.

The results of the structural changes that occurred in 1991-2008 are unsatisfactory. There are no mechanisms of intra-branch and inter-branch redistribution of capital, and the prospects for developing the economy's industrial branches are still vague.

In addition, the share of real investments and government spending is decreasing in the GRP structure, and the potential of the manufacturing industry is not being fully tapped. The economic structure is still aggravated, its raw material vector is growing, there are no scientific-intensive production units, and there is stagnation in several traditional branches (the light, food, and other industries).

So a clear structural policy is urgently needed. It should eliminate the problems that have accumulated and ensure the creation of a qualitatively renewed system of productive forces, which, based on state-of-the-art technology, should meet society's real needs, efficiently operate in market conditions, and promote integration of the Tajik economy into the world economy.