

United States International Trade Commission

Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production

Investigation No. 332-502

USITC Publication 4078

May 2009



U.S. International Trade Commission

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Abstract

This report identifies textile and apparel inputs that can be produced competitively through new or increased investment or other measures in the 40 beneficiary sub-Saharan African (SSA) countries that are eligible for trade preferences under the African Growth and Opportunity Act. Textile and apparel inputs include yarn; knit, woven, and other fabric; carded and combed natural fibers; manmade fibers; thread; and zippers, buttons, and other types of trim.

SSA countries have the greatest potential to be competitive in the production of cotton textile and apparel inputs. Cotton is the primary fiber currently used in the production of yarn and fabric in the subject countries, and it is grown in large quantities in the region. SSA countries also have the potential to competitively produce certain niche textile items.

The competitiveness of many textile and apparel inputs already produced in the SSA countries can be enhanced through new or increased investment or other measures, particularly since production of such inputs is limited and declining in many instances. New or increased investment or other measures could assist the industry in maintaining or expanding current production and export levels of these inputs, as well as increase the potential for production of some new products.

SSA countries face numerous and substantial challenges in their production of yarn, fabric, and other textile and apparel inputs. As a whole, SSA countries have an insufficient apparel base through which to develop and sustain upstream production in yarn, fabric, and other inputs. SSA countries also face severe challenges with their infrastructure, such as inadequate power and water supplies, and inadequate transportation networks. These infrastructure challenges not only raise the cost of existing production, but also deter significant new investment in the capital-intensive textile industry.

Abbreviations and Acronyms

AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
ATC	Agreement on Textiles and Clothing
B2B	Business to business
CEMAC	Central African Economic and Monetary Community
CIA	Central Intelligence Agency
CFA Franc	Franc de la Coopération Financière Africaine (CEMAC) and Franc de la Communauté Financière de l'Afrique (WAEMU)
CMT	Cut-make-trim
COMESA	Common Market for Eastern and Southern Africa
CSP	Customised Sector Programme
EAC	East African Community
EBA	Everything But Arms
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EDBM	Economic Development Board of Madagascar
EIU	Economist Intelligence Unit
EPA	Economic Partnership Agreement
EPZ	Export processing zone
EU	European Union
FAS	Foreign Agricultural Service
FDI	Foreign direct investment
FZA	Franc Zone Africa
GDP	Gross domestic product
GSP	Generalized System of Preferences
HTS	Harmonized Tariff Schedule of the United States
IBRD	International Bank for Reconstruction and Development
ICAC	International Cotton Advisory Committee
ICC	International Chamber of Commerce
IFC	International Finance Corporation
IGAD	Intergovernmental Authority on Development in Eastern Africa
IMF	International Monetary Fund
ITMF	International Textile Machinery Federation
kWh	Kilowatt hour
LTEA	Lesotho Textile Exporters Association
LDC	Lesser-developed country
MFA	Multi-fiber Arrangement
MY	Marketing year
NTR	Normal trade relations
OECD	Organization for Economic Co-operation and Development
OTEXA	Office of Textiles and Apparel
SACU	Southern African Customs Union
SADC	Southern African Development Community
SIPA	Swazi Investment Promotion Authority
SME	Square meter equivalent
SSA	Sub-Saharan Africa
TEU	Twenty-foot equivalent unit
UN	United Nations

UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USDOC	U.S. Department of Commerce
USITC	U.S. International Trade Commission
WAEMU	West African Economic and Monetary Union
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Glossary

Bale—A standard U.S. statistical measurement for cotton is a 480 lb. bale (net weight). One metric ton equals 4.59 bales. Individual bales vary in weight.

Carded fibers—Textile fibers (primarily of cotton, wool, and manmade fibers) that have been partially straightened so the fibers are parallel to each other. Carding is also the last stage of the cleaning process (in the case of cotton and wool fibers) as it removes most remaining impurities.

Combed fibers—Textile fibers that, after having been carded, are further straightened and aligned. Combed fibers are smoother and more lustrous than carded fibers.

Cotton lint—Cotton lint is the fibers that surround the cottonseed.

Cotton staple length—The terms for different lengths are as follows:

Short	Less than 3/16 inch
Medium	3/16 to 1 inch
Medium long	1 1/32 to 1 3/32 inches
Long	1 4/32 to 1 11/32 inches

Cut-make-trim (CMT)—A type of apparel manufacturing where the customer specifies design and sometimes provides the fabric, trim, and packaging, while the contractor supplies the manufacturing expertise to produce the finished garment.

Dyeing—The process of coloring fiber, yarn, or fabric with natural or synthetic dyes.

Factory shells—A structure constructed for industrial production, including apparel manufacturing. Often, governments in SSA will construct manufacturing facilities to attract industrial investment, offering such units at discounted or free rent.

Fast fashion—A merchandising system whereby a retailer introduces small quantities of new, relatively exclusive garments at higher prices and keeps these items in the store for a limited time.

Finishing—Finishing operations are applied to yarn and fabric after bleaching, dyeing, or printing. Such operations include pressing, heat-setting, napping, embossing, and applying chemicals that change the nature of the fabric. In certain instances, finishing may also include bleaching, dyeing, or printing.

Fully fashioned knitwear—Knitwear produced by knitting each component (i.e., sleeves, front and back bodices) to the correct size and shape, and sewing the components together. The machinery to produce these components is much more expensive, and it takes longer to produce this type of knitwear versus cut-make-trim knitwear. Therefore, most commercially available knitwear is not produced this way.

Greige goods—This fabric has not been bleached, dyed, or finished in any way after its initial production.

Knit fabric—A textile fabric produced by interlooping one or more yarns.

Lead time—The time frame needed to complete a production order, from the receipt of a purchase order through the delivery of the goods.

Manmade fibers—Chemically produced fibers created through technological means from chemicals or combinations of chemicals and natural materials.

Manmade-filament fibers—Fibers that are continuous and/or of indefinite lengths; that may be considered yarns, some without much further processing.

Manmade-staple fibers—Fibers that have been cut from filaments usually to the length of natural staple fibers, such as cotton or wool.

Marketing year (MY)—For cotton, the marketing year is August 1 through July 31.

Narrow fabric—Any woven fabric with a width of 12 inches or less.

Natural fibers—Fibers made from natural materials, including animal (silk and wool); vegetable (cotton, linen, jute, and ramie); and mineral (asbestos) sources as opposed to chemical sources. Natural fibers are mostly staple fibers; natural filament fibers come only from silk.

Nonwoven fabric—This fabric is not knit or woven; it is made by an intermingling of textiles fibers in a random manner.

Other fabric—Textile fabric such as nonwoven fabric, coated or laminated fabric, and fabric bonded with plastic.

Parastatal—A corporation that is fully or partially state owned.

Polypropylene fibers—These fibers are a type of manmade fiber. They are extremely light fibers that provide the greatest coverage per pound of any other fiber. They also have high resistance to mechanical abuse and chemical attack.

Seed cotton—Seed cotton is cotton prior to being ginned and it comprises both the cotton lint and the cottonseed.

SSA countries—This group includes the beneficiary SSA countries eligible for AGOA benefits. As of May 15, 2009, the 40 countries were: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Comoros, Republic of the Congo, Democratic Republic of the Congo, Djibouti, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, and Zambia.

Shuttle loom—A loom that uses a shuttle, a boat-shaped device made usually of wood, to carry the filling (or horizontal) yarn across (over and under) the warp yarns (vertical yarns) during the weaving process.

Shuttleless loom—A loom that uses a method other than a shuttle (typically, an air- or water-jet method) to insert the filling (or horizontal yarn) when weaving fabric.

Synthetic fibers—Fibers created from polymers synthesized from chemical compounds, e.g., acrylic, nylon, polyester. Synthetic fibers are a subset of manmade fibers.

Thread—A strong yarn used for sewing the pieces of a garment or some other textile product together.

Trim—Fasteners or accessories to textile and apparel articles, including zippers, buttons, embroidery in the piece, braids, and elastic.

Vertically integrated—Production of yarn through to finished fabric, or through to the finished garment or other textile article by one company.

Worsted—A type of woven wool or wool-blended fabric made with combed, long staple wool fiber yarns and/or from wool fiber blended yarns. The fabric is tightly woven, resulting in a smooth finish.

Woven fabric—A textile fabric produced by interlacing or intertwining two or more yarns in some type of over-under process or technique.

Yarn—A continuous strand of material in various forms, made from natural or manmade fibers, filaments, and other materials, used for knitting, weaving, or otherwise intertwining to form a textile fabric.

Yarn spinning—There are two basic mechanized types of yarn spinning, both of which apply twist to staple fibers to create yarn.

Open-end spinning—Staple fibers go through a continuous process, whereby the fibers enter into a rotor where twist is applied, ultimately creating spun yarn.

Ring spinning—Twist is applied to staple fibers by the movement of a spindle and a metal ring that moves around the spindle (a long, thin stick used in spinning). Ring spinning tends to be slower and more expensive than open-end spinning. Ring-spun yarns tend to be smoother and softer than open-end spun yarns.

Sources: Celanese Corporation, *Man-Made Fiber and Textile Dictionary*, 1974; Hoechst Celanese, *Dictionary of Fiber & Textile Technology*, 1990; Collier and Tortora, *Understanding Textiles*, 1997; *Britannica Online Encyclopedia*, “Carding (Yarn Production),” undated (accessed March 30, 2009); Estur, *Is West African Cotton Competitive?* January 7, 2005; *TextileGlossary.com*, “Open End Spinning Explained,” undated (accessed April 1, 2009); Indotex India, “Spinning Machines,” undated (accessed April 1, 2009); Byte Software, LLC, “Cut-Make-Trim Manufacturing Solution,” undated (accessed April 1, 2009); KilKeel Knitwear, “Terminology,” undated (accessed April 1, 2009); and *Answers.com*, “Lead-time in Supply Chain Management and Lead-time in Manufacturing,” undated (accessed April 6, 2009).

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Executive Summary

This report identifies textile and apparel inputs that can be produced competitively¹ in the 40 sub-Saharan African (SSA) countries that are beneficiaries under the African Growth and Opportunity Act (AGOA) (hereafter referred to as “SSA countries”) through new or increased investment or other measures. Textile and apparel inputs include yarn; knit, woven, and other fabric; carded and combed natural fibers; manmade fibers; thread; and zippers, buttons, and other types of trim.

SSA countries appear to have the greatest potential to be competitive in the production of cotton textile and apparel inputs. Cotton is the primary fiber currently used in the production of yarn and fabric in the SSA countries, and it is grown in large quantities in the region. SSA countries also have the potential to competitively produce certain niche textile products. Production of such products would entail small quantities of rather diverse items for narrow market segments.

Certain SSA countries are currently producing textile and apparel inputs that are exported to, or used in the production of apparel for export to, the United States, the EU, and similar markets. Although these products could be considered competitive, production of such products is limited and is declining in many instances. Generally, the textile and apparel industries in most SSA countries have contracted during the past five years, particularly in the largest textile-producing countries—South Africa, Mauritius, and Nigeria. Industry sources indicated that it has become difficult to be cost competitive in the production of yarn, fabric, and finished apparel compared with large Asian suppliers, such as China, India, and Bangladesh, particularly following an increase in competition after the phase-out of quotas in the U.S. and EU markets at the end of 2004. More recently, industry sources reported a decrease in orders in light of the current global economic downturn. Thus, while this report identifies many textile and apparel inputs that can be produced competitively through new or increased investment or other measures, most of these inputs are already being produced in the subject countries. It is likely that any new or increased investment or other measures would bolster the competitiveness of existing production of textile and apparel inputs, thereby assisting the industry to maintain or perhaps expand current production and export levels of these inputs, as well as possibly increase the potential for production of additional textile and apparel inputs.

One of the biggest challenges facing SSA countries, both for current and potential future production of textile and apparel inputs, is the lack of demand for such products in the region. Generally, SSA countries have an insufficient base of apparel manufacturing through which to develop and sustain upstream production of yarn, fabric, and other inputs. A thriving and relatively stable apparel manufacturing sector is considered an important competitive factor for the production of textile and apparel inputs. Because textile and apparel input manufacturing is relatively capital intensive, textile and apparel

¹ For purpose of this report, “produced competitively” is defined as products that can be produced at sufficient cost, quality, style, and timeliness so as to be exported, or used by downstream commercial SSA apparel or other finished textile producers/exporters. Exports by such downstream entities to the United States or similar markets are central to the Commission’s analysis. Also, to the extent that such information is available, this report identifies textile and apparel inputs that appear to be competitive in downstream production for local and regional markets.

input producers require sufficient levels of consistent demand in order to produce efficiently.

SSA countries also face severe challenges concerning the current state and development of their infrastructure. Infrastructure constraints not only raise the cost of existing production, but also deter significant new investments in capital-intensive yarn- and fabric-producing industries. Such infrastructure constraints include unreliable and costly electricity; insufficient supplies of clean water and lack of waste water treatment facilities for textile finishing operations; and poor road, rail, and port infrastructure.

A number of other factors inhibit the competitive production of textile and apparel inputs in the region. Such factors include the high cost and lack of access to capital; an insufficient supply of skilled workers; a lack of regional and foreign market knowledge; and obsolete machinery and equipment in many of the existing textile mills. Additionally, although cotton is grown in large quantities in the SSA region, the quality of some of the cotton is diminished through contamination. Furthermore, although SSA countries produce primarily cotton-based textile and apparel inputs, in part due to the ready supply of local cotton, AGOA trade preferences offer significantly larger duty savings for manmade-fiber products, which face higher U.S. import tariffs than do cotton products. The underdevelopment of the manmade-fiber textile and apparel sectors in most SSA countries prevents them from taking full advantage of the benefits afforded by AGOA.

This report also notes examples of strategies that textile and apparel industries, and the suppliers of inputs to these industries, have implemented to maintain or enhance the competitiveness of their products. These examples include ongoing efforts by Mauritius to shorten lead times, which allows it to compete in “fast fashion” market segments and provide downstream services such as design and innovative fashion. South Africa has attempted to boost competitiveness by creating industry clusters consisting of firms from the textile, clothing, retail, and other sectors that work cooperatively toward the goals of value chain alignment, world class manufacturing, and human resources development. The report notes additional strategies that industry sources think would benefit the textile and apparel industries, such as developing or reinforcing linkages between textile and apparel suppliers, manufacturers, and retailers through increased exposure at international trade shows and business-to-business events sponsored by the U.S. Agency for International Development (USAID) trade hubs.

Overview and Key Findings

Products That Have the Potential to Be Produced Competitively

Cotton yarn, cotton knit fabric, denim fabric, and to a lesser extent, cotton woven shirting fabric, appear to have the most potential for competitive production in SSA countries either for direct export to, or for use in downstream production of apparel for export to, the United States, the EU, and similar markets. In addition, there appears to be potential for increasing the competitive production of certain niche textile products that are currently produced and exported (or used in downstream production for export) in relatively limited quantities from the region. All of these products may also be competitive in some local and regional markets, as numerous SSA industry sources reported producing textile and apparel inputs for both regional consumption and export outside of the region. Finally, there are some products that appear best suited for local

and nearby regional consumption; however, such production would benefit from many of the same types of investments and other measures that would assist production for export outside of the region. A summary of the key products identified in this report is provided below.

- **Cotton textile products:** Many SSA countries have a comparative advantage in the production of cotton, most of which has favorable fiber characteristics. In addition, many cotton-based products that are large volume basics—T-shirts, polo shirts, denim, and khaki pants—generally are less complex to produce and represent many companies’ initial venture into global textile and apparel trade.
 - **Cotton yarn** (including cotton/manmade-fiber blends) is currently being produced in the region for direct export to the United States, the EU, and similar markets, as well as for use in downstream production of apparel for export to these markets.
 - **Cotton knit fabric** (including cotton/manmade-fiber blends) of the type used in T-shirts, polo shirts, and other similar types of knit shirts is likely to have the most competitive potential. This fabric is generally produced by firms that manufacture the garments, which provide a ready market for the fabric. A few firms indicated that they also sell some of their knit fabric production to other firms. To the extent that there is a thriving apparel sector producing a relatively homogenous line of knit apparel, it is possible that production of knit fabric could expand through new investment.
 - **Cotton denim fabric** is produced in a number of SSA countries, including Mauritius, Lesotho, and South Africa. There appears to be a sufficient base of denim apparel manufacturing in SSA countries to provide a market for some regionally produced denim fabric. Nevertheless, one industry source suggested that the sector faces significant challenges compared with Asian suppliers.
 - **Woven cotton shirting fabric** of a suitable quality for export is produced in Mauritius and Madagascar by two firms for use in apparel shipped to the United States, the EU, and similar markets.
- **Niche products:** SSA countries may be potentially competitive in the production of niche textile products, as these products sometimes garner premium prices that can cover the larger production and transport costs associated with producing in many SSA countries, or they fill a specialized market need. In addition, many of these products require smaller volumes or are unique, hand-produced inputs.
 - **Organic cotton products** (particularly yarn and knit fabric used in T-shirts for export) are currently being produced in SSA countries such as Swaziland, Uganda, and Mauritius. There may be potential for increased production of such niche articles, particularly as global demand for organic and environmentally friendly goods increases.
 - **Certain woven wool fabric and certain high-tech and industrial fabric** are currently produced in South Africa and exported directly to, or used in the manufacture of products exported to, the United States, the EU, and similar markets.

- **Yarn and knit fabric of modal and other specialty manmade fibers** may have some limited potential for use in knit apparel sold at the higher end of the market. Although these fibers are not produced in the region, apparel made from these fibers has larger duty preference margins under AGOA compared with products made of cotton. There are some firms in Mauritius reportedly importing the fibers, from which they spin limited quantities of yarn and knit fabric that are used in apparel for export.
- A small number of Ethiopian companies produce **hand-loomed fabric of cotton and silk** for home furnishings and apparel. The cotton and some of the silk used by these companies are sourced domestically, and the finished articles are consumed both locally and exported to niche markets in the United States, Canada, and Europe.
- Although the vast majority of **African print fabric** is produced for local markets, some U.S. consultants suggested that there may be potential to produce and market such fabric for use in home furnishings for niche U.S. markets. African producers currently face strong competition from imports of Chinese fabric, some of which is alleged to counterfeit trademarked African prints.
- Industry sources indicated that trim production follows apparel production if there is sufficient demand from the apparel sector. Currently, some **zippers and ornamental trims** are being produced competitively for direct export to, and for use in apparel for export to, the United States, the EU, and similar markets, as well as for apparel sold regionally. A few countries produce **specialty buttons** from natural products such as nuts, wood, coconut shell, and horn.
- **Products for local and regional markets:** Products targeting domestic or regional markets are often competitive because they are too costly to import, or because they address specific local or regional needs. In many instances the products are of lower quality.
 - A number of countries produce **cotton, wool, and other woven fabric for use in uniforms and work wear** for local and regional sales. The fabric reportedly is not of a quality or variety desired for uniforms produced for the U.S. market.
 - Some countries, primarily South Africa, produce **knit and woven apparel fabric of various fibers** for use in garments intended for consumption in domestic, regional, and smaller non-regional markets. However, such fabric may not meet the quality or cost demands of consumers in the United States, the EU, and similar markets.
 - A number of SSA countries spin **acrylic yarn** for local and regional consumption, primarily for use as hand-knitting yarn or for use in blankets. Acrylic yarn, particularly hand-knitting yarn, is bulky and therefore costly to ship, so it is more economical to produce it locally than to import it from Asia.
 - A number of countries weave **fabric for blankets** for local and regional consumption, as well as for sale to relief organizations in the region. Other woven products for local and regional consumption included **woven fabric for bedsheets and towels**.

- One industry source suggested that some of the West African countries could potentially increase capacity utilization in their factories and help their cotton sectors by weaving **fabric for cotton bale wrap and cotton picking bags**, to be used in place of the commonly used polypropylene bags and wrap that contaminate the cotton.
- Tanzanian firms knit **fabric for mosquito nets** that are procured by international relief organizations for local and regional consumption.

Competitive Challenges

Certain competitive challenges affected nearly all the SSA countries, as described below.

- **Insufficient demand from the apparel sector**

Industry sources indicated that it is necessary to have a much larger, sustainable apparel sector to encourage new or increased investment in the production of yarn, fabric, and trim. A large and viable apparel sector provides the stable market demand for the textile and apparel inputs sector that is necessary to support capital investments that generally take longer to recoup than investments in the apparel industry.

- **Lack of knowledge of regional and international market opportunities**

Many industry sources identified a lack of marketing and business connections, both within the SSA region and in foreign markets. Industry sources indicated that there is often a lack of knowledge of existing production within the SSA region, which inhibits increased cooperation along the textile and apparel supply chain. In addition, regarding the U.S. market, some industry sources were unaware of what products were eligible for AGOA preferences and how their products could qualify for AGOA trade benefits. Industry sources indicated that the USAID has helped foster regional and international market opportunities, but that greater assistance is required.

- **Insufficient supply of reliable electricity at competitive rates**

The electricity rates in many countries in the SSA region are among the highest in the world, and an unreliable supply of electricity in many countries further adds to producers' costs. Electricity outages also reduce efficiencies and decrease quality in the production of yarn and fabric.

- **Insufficient supply of clean water and wastewater treatment facilities**

Many countries lack an abundant supply of clean water, which is needed for yarn and fabric production, particularly for finishing and dyeing operations. Clean water is particularly important for accurate dyeing results. Many countries also lack the ability to treat the wastewater resulting from the finishing operations.

- **Inadequate transportation infrastructure**

Poor roads, railways, and ports, as well as capacity constraints, cause delays and add to the cost of importing raw materials and exporting finished goods. The lack of sufficient transportation networks within SSA also impedes intraregional trade.

- **Lack of access to capital at competitive rates**

The high cost of capital, when available, not only deters new investment in the production of yarn, fabric, and other inputs, but it also increases the costs of existing production. Industry sources reported difficulties obtaining financing at competitive rates for purchasing equipment and raw materials, as well as for financing trade. The current global financial crisis may further reduce the availability of capital, as international capital flows decrease and international investment declines, especially to developing countries including SSA countries.

- **Prevalence of old machinery and equipment**

Most of the older textile mills that spin yarn and/or weave fabric use dated and inefficient machinery. Finished products made on this machinery, particularly woven products, are generally not of sufficient quality for export to, or for use in downstream commercial apparel production for export to, the United States, the EU, or similar markets.

- **Scarcity of trained/skilled labor**

Industry sources identified an insufficiency of trained workers in both the textile and apparel sectors, particularly in countries that lack a significant manufacturing base. Health problems associated with HIV/AIDS contribute to high worker absenteeism and turnover rates, which reduce the productivity of the labor force.

- **Cotton quality issues**

Although SSA cotton is generally considered to be of good quality in terms of staple length and other physical characteristics, some of it suffers from contamination from polypropylene fibers that are introduced into the cotton during the picking and baling process. The polypropylene fibers negatively affect the dyeing process, and thus, the quality of the finished fabric. The quality of some cotton is also compromised by stickiness resulting from insects, which can cause irregularities in the yarn production, including yarn breakages. Contamination and stickiness limit the downstream potential for textile products.

- **High cost of organic cotton certification**

Some SSA countries have had success in growing organic cotton that is used in downstream yarn and fabric production. However, it is too costly for many cotton farmers to go through the multiyear process to plant, produce, and obtain certification for organic cotton.

Additional Policy Recommendations

Over the course of the investigation, the Commission received numerous policy recommendations to enhance the competitive production of textile and apparel inputs in the SSA countries. Highlights of the recommendations discussed throughout the report are provided below.

AGOA-related recommendations:

- Textile and apparel industry sources suggested that one way to encourage further development of the apparel sector (and thus the textile and apparel inputs sector) is to extend AGOA preferences and the allowance for use of third-country fabric beyond the current expiration dates (suggestions ranged from 10 to 15 years, to making the benefits permanent). Nevertheless, there are some textile industry sources who oppose the third-country fabric provision. These sources indicated that third-country yarn and fabric imports compete with SSA production of such items.
- Sources also suggested that the same benefits be extended to all AGOA-eligible countries, including the third-country fabric provision and eligibility for duty-free treatment for textile products (including yarn, fabric, and made-up textile articles, such as bedsheets). Currently, South Africa is the only major textile and apparel producing SSA country that is not eligible for duty-free treatment for textile products and third-country fabric preferences.
- One industry source suggested that AGOA could be amended to encourage the use of regional yarn and fabric by providing a variant of the earned import allowance program that is currently in place for Haiti and the Dominican Republic. Such a program would allow firms to earn the right to use third-country fabric provided they use specified volumes of regional fabric.

Trade policy-related recommendations:

- In written submissions to the Commission, SSA government and industry sources recommended changing the rules of origin for other (non-AGOA) U.S. trade preference programs and free trade agreements to allow apparel made with African fabric to qualify for duty-free treatment into the United States under such programs or free trade agreements.
- Industry sources indicated that the USAID has helped foster regional and international market opportunities, but that greater assistance is required. Industry sources noted that firms need additional assistance to improve SSA supply chain linkages, such as those sponsored through USAID trade hub business-to-business events, as well as assistance in obtaining increased exposure at international trade shows.
- A COMESA representative and industry sources stated that trade policy should focus on regional integration rather than categorizing countries into lesser-developed countries (LDCs) and non-LDCs.

- Industry sources indicated that without duty-free preferences under AGOA, most textile and apparel producers that export to the United States likely would not be cost competitive vis à vis many of the large Asian suppliers. Sources advised caution in expanding duty-free and quota-free treatment to highly competitive textile and apparel producing countries such as Bangladesh and Cambodia.

Other measures:

- Sources indicated a need for significant U.S. government or multilateral support for infrastructure development, particularly with respect to transport, electricity, water, and wastewater treatment. Sources added that Millennium Challenge Corporation (MCC) Accounts should focus on regional programs (rather than just national programs), particularly as they relate to the infrastructure and energy projects.
- Industry and government sources indicated a need for technical assistance in a variety of areas, including worker training, design, marketing, and plant management. One source suggested that the United States could provide funding to firms to assist in hiring consultants that will advise firms on how they can become more competitive, and to co-finance implementation of such recommendations.
- A COMESA representative suggested greater integration of investment policy with trade policy and identified the need to address development aspects rather than focusing solely on trade policy to encourage new investment. He also recommended that there be greater coordination between international agencies and institutions to strengthen public and private institutions, and suggested that such coordination could take place under the MCC.
- The government of Mauritius recommended that the United States provide a line of credit for private sector firms to expand and modernize in the textile and apparel sector. Further, it recommended the United States consider making an equity fund available for co-investment with local and foreign firms in textile and apparel projects.

Country Summaries

For analytical purposes, the 40 SSA countries were placed into four groups; the grouping was primarily based on the value of each country's exports of textile and apparel inputs, but also took into account their level of apparel exports and other available information concerning the countries' industries producing textile and apparel inputs. Countries that are exporting significant quantities of textile and apparel inputs were either assumed to be competitive or to have conditions in place that make them the most likely candidates for competitive production of textile and apparel inputs through new or increased investment or other measures.

- Group 1 countries—Ethiopia, Kenya, Lesotho, Madagascar, Mauritius, Nigeria, South Africa, Swaziland, Tanzania, and Zambia—accounted for the vast majority of total SSA country exports of both textile and apparel inputs (94 percent) and apparel (95 percent) in 2007. Table ES.1 provides a summary of the production of the Group 1 countries, identifies potential competitive textile and apparel

inputs, and highlights key competitive advantages and disadvantages to production.

- Group 2 countries—Botswana, Ghana, Malawi, Mozambique, Namibia, and Uganda—are either the next-largest SSA country exporters of textile and apparel inputs (excluding the major cotton producers), or in the case of Malawi, the eighth-largest apparel exporter from the region. Textile and apparel inputs are primarily produced on outdated machinery, and the products are intended mostly for local and regional markets. Uganda is the one notable exception, having experienced some success in producing and exporting organic cotton T-shirts to the United States (from yarn and knit fabric produced in Uganda).
- Group 3 countries—Benin, Burkina Faso, Cameroon, Chad, Mali, Senegal, and Togo—consist of the major cotton-producing countries in West Africa (excluding Nigeria). Textile and apparel inputs are produced on outdated machinery, and the products are intended almost entirely for local and regional markets.
- Group 4 countries² are the least likely candidates for significant competitive production of textile and apparel inputs in the near future. Available information indicates that they have no recent or current significant commercial production of textile and apparel inputs, and no significant commercial production of apparel.

² Group 4 countries are Angola, Burundi, Cape Verde, Comoros, Democratic Republic of the Congo, Republic of the Congo, Djibouti, Gabon, The Gambia, Guinea, Guinea-Bissau, Liberia, Niger, Rwanda, São Tomé and Príncipe, Seychelles, and Sierra Leone.

TABLE ES.1 Summary of selected SSA textile and apparel input producers

Group 1 countries	Textile and apparel input production	Potentially competitive textile and apparel input products	Competitive factors
Ethiopia	<p>The Ethiopian textile sector includes eight vertically integrated textile mills, along with stand-alone spinning mills for yarn and thread production. Most of the yarn spun in Ethiopia is used in the production of woven cotton fabric. In addition to cotton yarn and woven fabric, Ethiopia's textile sector also produces acrylic yarn, nylon fabric, woolen and waste-cotton blankets, bedsheets, and sewing thread. Ethiopia currently produces cotton and silk yarn for domestic hand-loomed production of niche products, such as home furnishings, for export to the United States, Canada, and Europe.</p>	<p><u>U.S. or similar markets</u></p> <ul style="list-style-type: none"> • Cotton yarn • Hand-loomed silk and cotton fabric <p><u>Local or regional markets</u></p> <ul style="list-style-type: none"> • Woven fabric for blankets • Acrylic yarn • Nylon fabric • Sewing thread 	<p>Competitive advantages:</p> <ul style="list-style-type: none"> • large potential domestic apparel market • domestic production of raw materials (cotton, silk) • stable political and business environment • access to Ethiopian government-supported investment incentives and financial assistance <p>Competitive disadvantages:</p> <ul style="list-style-type: none"> • import competition from used clothing • low cotton production; cotton contamination • poor transportation infrastructure • underutilized industrial capacity • outdated machinery and equipment • low labor productivity • lack of skilled labor
Kenya	<p>The Kenyan textile industry has contracted since the 1990s and currently consists of three vertically integrated firms and a few smaller, nonintegrated firms. Kenya's vertically integrated firms produce cotton (including organic) and synthetic yarn, and knitted and woven fabric for use in apparel exported to the United States and the EU. Some yarn and fabric is also sold regionally.</p>	<p><u>U.S. or similar markets</u></p> <ul style="list-style-type: none"> • Organic cotton yarn • Organic cotton knit fabric • Yarn and fabric of cotton/manmade-fiber blends • Thread <p><u>Local or regional markets</u></p> <ul style="list-style-type: none"> • Woven fabric for blankets • Acrylic yarn 	<p>Competitive advantages:</p> <ul style="list-style-type: none"> • export-oriented apparel industry • relatively skilled labor <p>Competitive disadvantages:</p> <ul style="list-style-type: none"> • poor roads • high-cost electricity • limited and high cost of financing for new equipment
Lesotho	<p>Lesotho has one vertically integrated denim textile mill that spins cotton yarn, dyes the yarn, weaves the fabric, and cuts and sews the finished denim jeans. The mill reportedly produces 10,800 tons of open-ended ring-spun cotton yarn, and 18 million yards of denim fabric a year for regional apparel manufacturers producing for the export market. Lesotho primarily exports woven fabric to other apparel-producing African countries. The vast majority of Lesotho's apparel exports are to the U.S. market.</p>	<p><u>U.S. or similar markets</u></p> <ul style="list-style-type: none"> • Cotton yarn (for knit and woven) • Knit cotton fabric • Denim fabric 	<p>Competitive advantages:</p> <ul style="list-style-type: none"> • export-oriented apparel industry • government investment support for plant acquisitions <p>Competitive disadvantages:</p> <ul style="list-style-type: none"> • poor water/wastewater and internal transport infrastructure • low labor productivity • high HIV/AIDS prevalence rates • lack of skilled labor

TABLE ES.1 Summary of selected SSA textile and apparel input producers—*Continued*

Group 1 countries	Textile and apparel input production	Potentially competitive textile and apparel input products	Summary analysis of competitive factors
Madagascar	<p>The Malagasy textile industry consists of one large vertically integrated woven textile and apparel firm that consumes most of its own fabric production, two small knit apparel firms that produce their own knit fabric, and another firm that weaves fabric for blankets. The Malagasy apparel sector is geared to supply the U.S. and EU markets.</p>	<p><u>U.S. or similar markets</u></p> <ul style="list-style-type: none"> • Cotton yarn • Knit cotton fabric • Woven cotton fabric for shirts • High-end buttons <p><u>Local or regional markets</u></p> <ul style="list-style-type: none"> • Woven cotton fabric for blankets • Supplies and trim such as packaging, hangers, buttons, and other inputs for the local textile and apparel industry 	<p>Competitive advantages:</p> <ul style="list-style-type: none"> • export-oriented apparel industry • availability of skilled and productive labor • government investment incentives and support <p>Competitive disadvantages:</p> <ul style="list-style-type: none"> • diminishing supply of domestic cotton • high-cost, unreliable electricity • political instability • high cost of capital • poor road infrastructure
Mauritius	<p>The Mauritian industry is concentrated among 10 large textile and apparel groups that collectively account for 75 percent of total textile and apparel exports. The textile and apparel input industry in Mauritius produces yarn and knit fabric mostly for vertical operations, but also for local and regional apparel manufacturers. Mauritius exports textile and apparel inputs to the region and finished apparel primarily to the EU.</p>	<p><u>U.S. or similar markets</u></p> <ul style="list-style-type: none"> • Cotton yarn • Knit cotton fabric • Denim fabric 	<p>Competitive advantages:</p> <ul style="list-style-type: none"> • export-oriented apparel industry • market linkages with EU apparel buyers • favorable business environment • government support in product and market diversification • relatively modern machinery and equipment • shorter lead times to the region and to some EU customers • availability of skilled labor <p>Competitive disadvantages:</p> <ul style="list-style-type: none"> • small domestic apparel market • increased labor costs due to labor shortages • long lead times to the United States and to some EU customers • increasing land and energy costs • additional costs associated with geographic isolation

TABLE ES.1 Summary of selected SSA textile and apparel input producers—*Continued*

Group 1 countries	Textile and apparel input production	Potentially competitive textile and apparel input products	Summary analysis of competitive factors
Nigeria	<p>The Nigerian textile industry has contracted since the 1990s and currently consists of 20 or fewer factories. Some larger textile firms are vertically integrated from cotton ginning to spinning, weaving, dyeing, printing, and finishing. The major textile firms produce a variety of products, including polyester staple fiber and filament, yarn, greige cloth, and wax prints. Nigerian printed fabric is sold as loose cloth, rolls, or pieces to the domestic market. Nigerian textile exports are focused on the EU market.</p>	<p><u>U.S. or similar markets</u></p> <ul style="list-style-type: none"> • Cotton yarn • African wax prints as decorative fabric for blinds and curtains <p><u>Local or regional markets</u></p> <ul style="list-style-type: none"> • Ethnic printed fabric for apparel use 	<p>Competitive advantages:</p> <ul style="list-style-type: none"> • large potential domestic apparel market • history of cotton and integrated textile production • availability of skilled labor <p>Competitive disadvantages:</p> <ul style="list-style-type: none"> • lack of a developed apparel industry • increased import foreign competition (ethnic cloth and used clothing) • cotton quality issues • poor infrastructure, particularly electricity
South Africa	<p>The South African textile sector is relatively large and encompasses the full range of manufacturing operations, including production of fiber, thread, yarn, knit and woven fabric, nonwovens, trim and accessories, and dyeing and finishing operations. There are currently 11 firms in South Africa producing yarn. Five firms manufacture nonwovens, and reportedly seven firms produce trim, including elastic, buttons, zippers, and similar items. Approximately 16 firms produce woven fabric, while 15 companies produce knit fabric. Of the country's textile producing firms, nine are vertically integrated, manufacturing either yarn through fabric, yarn through finished apparel, or yarn through household textiles. Cotton, wool, mohair, manmade fibers, and natural fibers are used in the domestic textile industry.</p>	<p><u>U.S. or similar markets</u></p> <ul style="list-style-type: none"> • Cotton yarn • Knit cotton fabric • Technical textiles • Performance fabric • Industrial textiles • Work wear fabric • High-quality worsted fabric <p><u>Local or regional markets</u></p> <ul style="list-style-type: none"> • Carded and combed fibers, yarn, knit and woven fabric, nonwoven fabric, trim and accessories 	<p>Competitive advantages:</p> <ul style="list-style-type: none"> • large domestic apparel industry • developed infrastructure (transport, power, water) • favorable and stable business environment • large and developed textile industry <p>Competitive disadvantages:</p> <ul style="list-style-type: none"> • high labor costs • inflexible labor market • lack of skilled labor in the industry • lack of management, marketing, and technical skills • lack of investment • long lead times from order to delivery • highly volatile exchange rate

TABLE ES.1 Summary of selected SSA textile and apparel input producers—*Continued*

Group 1 countries	Textile and apparel input production	Potentially competitive textile and apparel input products	Summary analysis of competitive factors
Swaziland	Swaziland has one integrated textile producer that dyes, spins, and knits cotton fabric (including organic), and then sews the fabric into apparel for export. The firm produces yarn for internal consumption and for export to the region and the EU. Swaziland has an internationally branded zipper producer that supplies local and regional apparel manufacturers.	<u>U.S. or similar markets</u> <ul style="list-style-type: none"> • Zippers • Cotton yarn • Knit cotton fabric <u>Local or regional markets</u> <ul style="list-style-type: none"> • Knit cotton fabric for uniforms • Zippers 	Competitive advantages: <ul style="list-style-type: none"> • export-oriented apparel industry • government incentives for foreign direct investment in the textile and apparel industry • reliable electricity supply Competitive disadvantages: <ul style="list-style-type: none"> • small domestic apparel market • limited amount of local raw materials • labor unrest • high HIV/AIDS prevalence rates
Tanzania	The Tanzanian textile sector consists of one independent spinning mill and several integrated firms. The industry spins mostly cotton yarns for both knit and woven fabric. A few fabric mills also blend cotton with polyester or other synthetic fibers; however, all synthetic fibers must be imported. Tanzanian textile mills sell these textiles regionally, or minimally process and print fabric to be sold locally as final products.	<u>U.S. or similar markets</u> <ul style="list-style-type: none"> • Cotton yarn • Organic cotton yarn and fabric <u>Local or regional markets</u> <ul style="list-style-type: none"> • Khanga cloth • Kitenge cloth • Knit fabric for mosquito nets • Woven fabric for bedsheets • Printed woven fabric for traditional wear 	Competitive advantages: <ul style="list-style-type: none"> • availability of good-quality domestic cotton • history of cotton yarn exports to the EU • stable political and economic environment Competitive disadvantages: <ul style="list-style-type: none"> • lack of a developed apparel industry • unreliable and costly electricity • port delays and congestion • lack of skilled labor • lack of market knowledge • low labor productivity
Zambia	The Zambian textile sector consists of an estimated four knitting/weaving firms and four vertically integrated firms that spin their own yarn for use in finished textile and apparel production. Zambia's textile sector produces primarily 100 percent cotton yarn, along with small quantities of manmade-fiber yarn, including poly/cotton and acrylic yarn. Most of the yarn produced in Zambia is exported, but a small share is used domestically in the production of woven fabric used to manufacture niche apparel articles such as uniforms and mining work wear, primarily for the local or regional market.	<u>U.S. or similar markets</u> <ul style="list-style-type: none"> • Cotton yarn <u>Local or regional markets</u> <ul style="list-style-type: none"> • Yarn and fabric used in the production of blankets, school and military uniforms, mining protective wear, and hospital scrubs. 	Competitive advantages: <ul style="list-style-type: none"> • domestic availability of high-quality cotton • open trade regime Competitive disadvantages: <ul style="list-style-type: none"> • small domestic apparel market • insufficient access to affordable credit • outdated machinery and equipment • lack of skilled labor • low labor productivity • high transportation costs and time • unreliable electricity supply

CHAPTER 1

Introduction

Purpose of Report

Section 3(c)(1) of Public Law 110-436, An Act to extend the Andean Trade Preference Act, and for other purposes (hereinafter “the Act”), requires that the Commission “conduct a review to identify yarns, fabrics, and other textile and apparel inputs that through new or increased investment or other measures can be produced competitively in beneficiary sub-Saharan African countries.”¹ The Commission must report the results of its review to the House Committee on Ways and Means, the Senate Committee on Finance, and the Comptroller General no later than seven months after enactment of the law, in this case by May 15, 2009.²

Product and Country Scope

The product coverage is defined in the Act as “yarns, fabrics, and other textile and apparel inputs.” For the purpose of this report, yarn and fabric include any items named as such in chapters 50 through 60 of the Harmonized Tariff Schedule of the United States (HTS). “Other textile and apparel inputs” include thread, trim (e.g., zippers, buttons, embroidery in the piece, and elastic), manmade-staple fibers and manmade-filament fibers, and all types of fibers that have been carded or combed (an intermediate stage of production) prior to yarn spinning.³ Yarn and fabric account for most of the production of and trade in these products, and as such, the primary focus of the analysis is on yarn and fabric. Cotton, other than carded and/or combed cotton fibers, is discussed throughout the report as an important raw material to the industry producing textile and apparel inputs, but it is considered a product of the agricultural sector and not a textile and apparel input in this report. Finally, for the purpose of this report, it is assumed that “textile and apparel inputs” include not only inputs that go into the apparel sector, but also inputs that are used as part of other finished textile goods, particularly home furnishings such as sheets, blankets, and towels.

For purpose of this study, the “beneficiary sub-Saharan African countries” are the countries that are eligible for African Growth and Opportunity Act (AGOA) benefits

¹ A copy of section 3(c) of Public Law 110-436 is available in app. A.

² Section 3(c)(2) of the Act requires the Comptroller General, after receiving the Commission’s report, to submit a report based on the Commission’s report and other available information. The Comptroller General’s report is to contain recommendations for changes to U.S. trade preference programs, including the African Growth and Opportunity Act (AGOA) and the amendments to AGOA made by that Act, to provide incentives to increase investment and other measures necessary to improve the competitiveness of beneficiary SSA countries in the production of yarns, fabrics, and other textile and apparel inputs identified in the Commission’s report, including changes to requirements relating to rules of origin under such programs. See copy of the *Federal Register* notice in app. B.

³ “Other textile and apparel inputs” are covered in the following HTS headings: 5004–5007, 5105–5112, 5203–5212, 5306–5311, 5401–5408, 5501–5516, 5603–5606, 5801–5804, 5806–5811, 5903, 6001–6006, 8308, 9606, and 9607.

(hereafter referred to as “SSA countries”).⁴ As of May 15, 2009, the 40 countries eligible for AGOA benefits were: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Comoros, Republic of the Congo, Democratic Republic of the Congo, Djibouti, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, and Zambia (figure 1.1).

Approach

To identify the textile and apparel inputs that can be produced competitively through new or increased investment or other measures, the Commission examined the competitive factors and the current state of the industry in each SSA country and sought the views of industry officials, consultants, and other private- and public-sector officials in identifying products that potentially can be produced competitively in the SSA countries. The list of products identified is likely not exhaustive, and the potential factors of competitiveness vary considerably from country to country.

The end-use market is an important consideration in determining the criteria that make a product competitive. Given that the Commission’s report is to be used by the Comptroller General to make recommendations for changes to U.S. trade preference programs, the primary focus of this report is on products that can be competitive in the United States and similar markets. For purpose of this report, “produced competitively” is defined as products that can be produced at sufficient cost, quality, style, and timeliness so as to be exported, or used by downstream commercial SSA apparel or other finished textile producers/exporters. Exports by such downstream entities to the United States or similar markets are central to the Commission’s analysis.

As part of the analytical process, this report discusses current production of textile and apparel inputs in the SSA countries, regardless of the intended end-use market. Currently, much of the SSA production of textile and apparel inputs is consumed locally or regionally. To the extent possible, this report examines whether such production can also be competitively exported to the U.S. and EU markets, or used in downstream production of goods sold in these markets. Also, to the extent that such information is available, this report identifies textile and apparel inputs that appear to be competitive in downstream production for local and regional markets.

Analytical Framework

The analytical framework was designed to identify the potential for competitive production of textile and apparel inputs at the country and product level. Since many factors of competitiveness depend on situations unique to a country (e.g., geography,

⁴ The SSA countries that currently are not beneficiary countries are the Central African Republic, Côte d’Ivoire, Equatorial Guinea, Eritrea, Mauritania, Somalia, Sudan, and Zimbabwe. Any reference to these countries in the report will name the country specifically.

FIGURE 1.1 Map of SSA beneficiary countries



government policies, and infrastructure), the analysis was conducted on a country-by-country basis.⁵ Data and information were collected to the extent feasible on each of the 40 countries, including trade data on textile and apparel inputs, apparel, and finished textile products (e.g., towels and blankets); and information on the current and historical production of textile and apparel inputs. Data were also collected on key macroeconomic factors for each of the countries, such as factors related to infrastructure and the business environment.

After data were collected, analysis focused on the countries that are already producers and exporters of, or are the most likely candidates for production of, textile and apparel inputs. Focusing on the countries that are currently exporting textile and apparel inputs helps identify the conditions that must be in place to facilitate competitive production of such inputs by new SSA exporters, as well as factors that must be in place for continued competitive production by existing SSA exporters. Examining countries that are successful producers and exporters also helps determine which textile products have the greatest potential for future production in these countries or other, similar SSA countries though increased investment or other measures.

To facilitate this analysis, the 40 SSA countries were placed into four groups; the grouping was primarily based on the value of each country's exports of textile and apparel inputs, but also took into account their level of apparel exports and other available information concerning the domestic industries producing textile and apparel inputs. Group 1 comprises the SSA countries that were the 10 largest exporters of textile and apparel inputs in 2007, excluding Togo and Sierra Leone (table 1.1).⁶ The Group 1 countries accounted for the vast majority (95 percent) of total SSA-country exports of textile and apparel inputs in 2007.⁷ Six of the Group 1 countries (Kenya, Lesotho, Madagascar, Mauritius, South Africa, and Swaziland) are also among the top 10 SSA apparel exporters. Another three of the Group 1 countries (Nigeria, Tanzania, and Zambia) are among the top 10 SSA cotton producers. The Group 1 countries also account for most of the installed capacity for yarn spinning and shuttleless weaving machinery in the SSA region.⁸ Group 2 comprises the next-largest SSA beneficiary-country exporters of textile and apparel inputs (excluding the major cotton producers), as well as Malawi,

⁵ The important role of country characteristics in assessing international competitiveness was addressed at the Commission's hearing. For example, the Secretary General of COMESA stated that "we have the argument that it's countries that compete. It is the firms that are competitive. But for the firms to be competitive there are certain policies by governments. . . that will contribute towards that competitiveness." USITC, Hearing transcript, January 29, 2009, 29 (testimony of The Honorable Sindiso Ngwenya, COMESA).

⁶ Togo is a large cotton producer and is covered in Group 3 with the other major cotton-producing countries. Although trade data used by the Commission indicate that Togo is a large exporter of textile and apparel inputs, there are likely reporting errors in the trade data for Togo. According to the U.S. Department of State, Togo does not have any commercial production of textiles. U.S. Department of State, U.S. Embassy, Lomé, "Togo: Effects of Infrastructure Conditions on Export Competitiveness," October 3, 2008. Although trade data used by the Commission indicate that Sierra Leone is a large exporter of textile and apparel inputs, the Commission has been unable to confirm commercial textile production in Sierra Leone. It is likely that there are errors in the reported trade data.

⁷ Testimony at the Commission's hearing highlighted the limited number of countries currently placed to potentially produce competitive textile and apparel inputs. For example the Secretary General of COMESA stated that few countries were well positioned to benefit from AGOA, and added that, with exception of Mauritius and Kenya, few countries in the COMESA region are globally competitive. Mr. Ryberg also stated that "The production of export-quality textiles is largely concentrated in just a handful of countries: South Africa, Mauritius, Kenya, and Lesotho." USITC, Hearing transcript, January 29, 2009, 7, 13 (testimony of The Honorable Sindiso Ngwenya, COMESA), and 114 (testimony of Paul Ryberg, African Coalition for Trade).

⁸ See app. C for tables on installed capacity and shipments for spinning and weaving machinery, and shipments of knitting machinery for the SSA countries.

TABLE 1.1 Exports of textile and apparel inputs and apparel by SSA country, 2007 (1,000 \$)

Country	Exports of textile and apparel inputs	% change (2003-07)	Exports of apparel	% change (2003-07)
Group 1 countries:				
South Africa	300,457	1.1	206,913	-49.9
Mauritius	63,104	97.6	942,147	-2.9
Nigeria	20,654	-28.3	503	-37.3
Tanzania	20,349	122.4	7,984	55.1
Lesotho	19,224	2,929.2	413,792	-3.2
Zambia	14,532	-44.0	582	500.6
Madagascar	10,560	23.7	695,774	91.9
Swaziland	9,803	-31.9	143,184	-6.4
Kenya	7,998	-10.8	269,584	29.8
Ethiopia	3,059	-62.9	5,886	180.2
Subtotal	469,740	8.3	2,686,348	5.7
Group 2 countries:				
Ghana	2,812	-40.0	9,341	77.2
Uganda	1,833	533.6	1,608	-51.5
Mozambique	1,754	655.7	960	-77.5
Namibia	1,550	1,268.8	31,452	-30.2
Botswana	1,096	5,994.8	43,109	199.7
Malawi	252	94.1	37,455	-11.2
Subtotal	9,296	69.4	123,923	8.2
Group 3 countries:				
Togo	5,470	39.2	5,907	152.9
Burkina Faso	2,470	38.8	1,293	1,695.1
Benin	2,118	-47.6	89	-33.7
Mali	1,411	133.8	3,900	836.3
Senegal	1,337	116.1	2,605	375.6
Cameroon	1,137	-27.7	2,724	34.2
Chad	33	-30.6	71	-84.0
Subtotal	13,977	11.0	16,590	177.3
Group 4 countries:				
Sierra Leone	3,424	305.0	2,781	-56.3
Djibouti	324	1,013.6	86	403.5
Niger	292	-5.2	411	88.2
Seychelles	248	2,498.7	381	228.6
Gambia	238	58.3	449	81.0
Congo, Dem. Rep.	221	333.4	248	34.4
Guinea	168	2.5	336	452.5
Burundi	144	-79.5	127	-36.6
Cape Verde	143	2,058.2	7,887	5.3
Comoros	108	884.9	303	384.2
Liberia	65	-33.3	357	-66.6
Rwanda	58	-77.5	10	-97.3
Gabon	45	-24.5	347	291.3
Sao Tome and Principe	43	-73.7	56	-90.1
Congo, Rep.	20	-8.7	25	298.8
Angola	14	-54.5	38	-58.9
Guinea-Bissau	5	153.2	5	306.7
Subtotal	5,561	91.1	13,847	-19.4
Grand Total	498,573	9.6	2,840,709	6.0

Source: World Bank, WITS Database.

which is included because it is the eighth-largest apparel exporter from the region. Group 3 comprises the major cotton-producing countries in West Africa (excluding Nigeria).⁹ Finally, Group 4 comprises SSA countries that are the least likely candidates for competitive production of textile and apparel inputs in the near future. Information available on these countries indicates that they have no recent or current commercial production of textile and apparel inputs, and no significant commercial production of apparel. While data and information were collected and analyzed for all of the countries, the primary focus of the analysis is on the countries in Group 1, followed by the countries in Groups 2 and 3. The Commission also identified the most important competitive factors related to a country's ability to competitively produce textile and apparel inputs. In order to analyze the factors affecting the competitive production of textile and apparel inputs, it was necessary to examine not only factors affecting production of the inputs themselves, but also those related to the entire textile and apparel supply chain.¹⁰

Textile and apparel inputs are intermediate, generally capital-intensive products that are produced from raw material such as cotton, and are used in the production of final goods such as apparel. Since the retail and apparel sectors decide whether to use SSA country-produced textile and apparel inputs, the Commission's analysis began by examining the factors affecting retailers' and apparel manufacturers' demand for textile and apparel inputs. Next, the factors affecting supply were examined, including factors affecting the production of the inputs themselves and the availability of raw materials. Finally, the factors that affect the entire supply chain were examined, including the business environment and factors affecting trade and the physical movement of goods (such as trade preferences, duties, logistics, and transportation infrastructure) (figure 1.2).

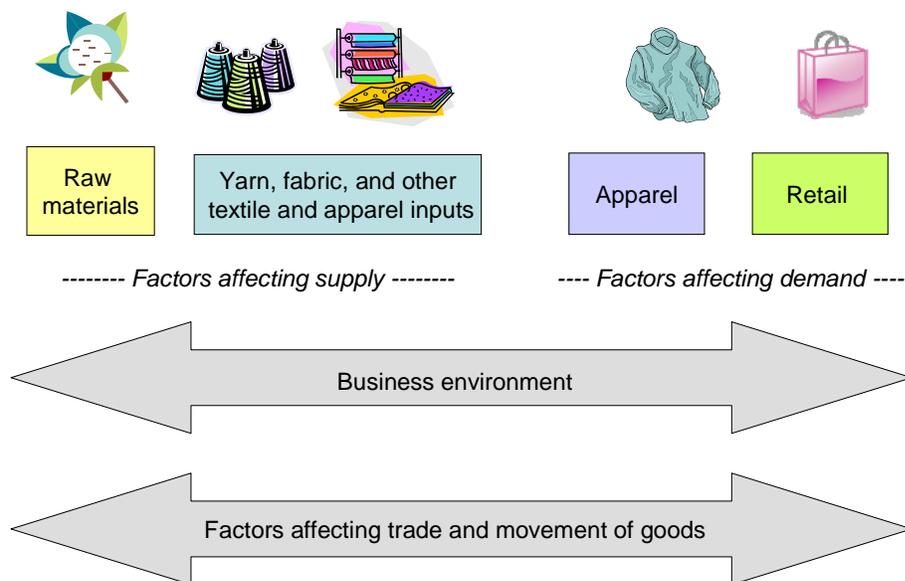
Fieldwork and Data Sources

The Commission used a variety of sources and information to determine which textile and apparel inputs can be produced competitively in SSA countries, and the key factors underpinning the competitive production of such products. Primary research included gathering information through fieldwork, in-person and telephone interviews, and e-mail communications with a variety of stakeholders. As part of this process, Commission staff interviewed industry officials from all parts of the textile and apparel supply chain, including the retail sector, apparel manufacturers, yarn and fabric producers, and representatives of the cotton sector. Commission staff interviewed SSA textile industry consultants, including consultants that work on behalf of the U.S. Agency for International Development (USAID), the World Bank, and the private sector.

⁹ Nigeria, along with the other major cotton-producing countries, Tanzania and Zambia, is included in Group 1.

¹⁰ A traditional value chain analysis accounts for the value that is created in a product as it is transformed from raw inputs to the final product consumed by end users. The key steps in the value chain analysis include choosing the sector(s) to assess, analyzing the market, mapping the value chain, measuring the performance of the chain and establishing benchmarks, analyzing performance gaps, and establishing recommendations for policy changes with potential downstream implementation. FIAS, *Moving Toward Competitiveness*, August 2007, ix, 2-9, and 2-10. While it was beyond the scope of this study to determine the costs associated with each step of production and movement across the textile and apparel supply chain, the analysis in this report attempts to identify the most important factors that contribute to or inhibit the competitiveness of the industries or firms in each country.

FIGURE 1.2 Competitive framework for textile and apparel inputs production



Source: Commission staff.

In addition, Commission staff traveled to Ethiopia, Mauritius, Tanzania, and South Africa to meet with industry and government officials, as well as private-sector consultants. Commission staff interviewed SSA government officials regarding their countries' textile and apparel input industries and efforts their governments have made to support and expand competitive production of textile and apparel inputs. Commission staff also met with officials of firms from Cameroon, Ghana, Mauritius, Madagascar, Swaziland, South Africa, and Uganda exhibiting at a U.S. trade show, as well as officials from USAID, who organized and helped sponsor the African representation at the show. In total, Commission staff contacted over 130 industry and government officials in the United States and SSA countries.

This report also relies on information obtained from prior Commission work and fieldwork to Lesotho, Madagascar, Kenya, Senegal, and Swaziland. Finally, this report draws on testimony at the Commission's public hearing held on January 29, 2009, and written submissions submitted for this investigation.¹¹

Secondary sources of information included various U.S. government agencies, international organizations, and research institutions that deal with SSA trade-related issues. Such institutions include, but are not limited to, U.S. Agency for International Development (USAID), the U.S. Department of Agriculture, the U.S. Trade and Development Agency, the World Bank, the World Trade Organization, the United

¹¹ App. D contains a list of the witnesses who appeared at the Commission hearing. App. E contains summaries of the testimony presented at the Commission hearing, as well as the written testimony and written positions of interested parties.

Nations, the UN Economic Commission for Africa, the African Development Bank, and the International Monetary Fund. Economic and infrastructure measures were assembled from the World Bank's World Development Indicators and Enterprise Survey Indicators databases, and business environment measures were collected from the World Bank's Doing Business database.

The Commission used textile and apparel trade data at the Harmonized System 6-digit level from the World Integrated Trade Solution (WITS) database for 2003–07, the most recent five-year period for which data were available.¹² To increase data accuracy and coverage, textile and apparel export values were based on trading partners' import values (mirror data). Nevertheless, in many cases the data likely underestimate trade, particularly among the SSA countries, because some countries did not report data or reported data only for certain years. In addition, there are likely reporting errors in the data that may under- or overestimate reported trade.

Organization

Chapter 2 identifies the textile and apparel input products that can be produced competitively in SSA countries, based on Commission analysis of the factors of competitiveness and industry views. The chapter also provides an overview of SSA exports of textile and apparel inputs, with a focus on current exports of textile and apparel inputs by type of product. Chapter 3 identifies the factors of competitiveness required for the production of textile and apparel inputs in SSA countries. This chapter identifies demand and supply factors, as well as factors affecting the entire supply chain that are usually associated with competitive production of textile and apparel inputs. Chapter 4 presents the Commission's analysis by individual country profiles. Divided according to four country groupings, Chapter 4 provides a country-by-country analysis of the industries producing textile and apparel inputs and the competitive factors affecting such production.

¹² The database accessed via WITS is the Commodity Trade Statistics database (UN COMTRADE), which is maintained by the United Nations Statistics Division. UN COMTRADE contains annual trade flows (imports and exports) reported by more than 140 countries or areas, with commodity-by-partner detail at the 6-digit level of various commodity nomenclatures. For more detailed information on the underlying sources and definitions of WITS or UN COMTRADE, see <http://wits.worldbank.org/witsweb/>.

CHAPTER 2

Product Summary

In compiling its list of products that can potentially be produced competitively, the Commission used data and information from multiple sources, examined key competitive factors affecting production in each SSA country, and considered SSA textile and apparel input production in the context of the global textile and apparel industry and the current world economic climate.¹ In addition, the Commission examined textile and apparel inputs that the SSA countries are currently producing that are exported to, or used in the production of apparel for export to, the United States, the EU, and similar markets. Many of the textile and apparel inputs that are identified as having the potential to be produced competitively through new or increased investment or other measures are inputs that are already being produced in the SSA countries, and in many cases are already being exported from the SSA countries to other markets. Even though these products could be considered competitive, production and exports of such products are declining in many instances. It is likely that new or increased investment or other measures would bolster the competitiveness of existing production of textile and apparel inputs, thereby assisting the industry to maintain or perhaps expand current production and export levels of these inputs, as well as possibly increase the potential for production of additional textile and apparel inputs.

The list of products identified below that can potentially be produced competitively may not be exhaustive. In addition, each country's competitiveness with respect to the identified factors may vary considerably from country to country, and thus, the potential for each product to be competitive will also vary by country, as will the response of any particular country or industry to new or increased investment or other measures directed at the textile and apparel inputs sector.

Textile and Apparel Inputs That Can Be Produced Competitively

SSA countries appear to have the greatest potential to be competitive in the production of textile and apparel inputs made of cotton. Cotton is the primary fiber currently used in the production of yarn and fabric in the SSA countries, and it is grown in large quantities in the region. Cotton yarn, cotton knit fabric, denim fabric, and to a lesser extent, cotton woven shirting fabric appear to have the greatest potential for competitive production in SSA countries either for direct export to, or for use in downstream production of apparel for export to, the United States, the EU, and similar markets.

In addition, SSA countries also have the potential to increase the competitive production of certain niche products; these niche products are currently produced and exported (or are used in the production of downstream articles for export). These niche products are diverse; their production quantities are small; and they supply narrow markets. Both the cotton textile and apparel inputs and the niche products listed below may also be

¹ A more detailed discussion of the competitive challenges facing the competitive production of textile and apparel inputs is provided in chap. 3, while the individual country industries are discussed in detail in chap. 4.

niche products are diverse; their production quantities are small; and they supply narrow markets. Both the cotton textile and apparel inputs and the niche products listed below may also be competitive in some local and regional markets, as numerous SSA industry sources reported producing textile and apparel inputs for both regional consumption and export outside of the region. Finally, there are some products that appear best suited for local and regional consumption. However, such production would also benefit from many of the same types of investments and other measures that would assist production for export outside of the region. A summary of the potentially competitive products is provided below.

- **Cotton textile products:**

- Cotton yarn (including cotton/manmade-fiber blends) is currently being produced in the region for direct export to the United States, the EU, and similar markets, as well as for use in downstream production of apparel for export to these markets.
- Cotton knit fabric (including cotton/manmade-fiber blends) of the type used in T-shirts, polo shirts, and other similar types of knit shirts is likely to have the most competitive potential. This fabric is generally produced by firms that manufacture the garments, which provide a ready market for the fabric. A few firms indicated that they also sell some of their knit fabric production to other firms. To the extent that there is a thriving apparel sector producing a relatively homogenous line of knit apparel, it is possible that this sector could expand through new investment.
- Cotton denim fabric is produced in a number of SSA countries, including Mauritius, Lesotho, and South Africa. There appears to be a sufficient base of denim apparel manufacturing in the SSA countries to provide a market for regionally produced denim fabric. Nevertheless, one industry source suggested that the sector faces significant challenges compared with Asian suppliers, and that the viability of the industry depends on the level of demand from the apparel sector and the degree to which existing infrastructure is improved.
- Woven cotton shirting fabric of a suitable quality for export is produced in Mauritius and Madagascar by two firms for use in apparel shipped to the United States, the EU, and similar markets.

- **Niche products:**

- Organic cotton products (particularly yarn and knit fabric used in T-shirts for export) are currently being produced in SSA countries such as Swaziland, Uganda, and Mauritius. There may be potential for increased production of such niche articles, particularly as global demand for organic and environmentally friendly goods increases.
- Certain woven wool fabric and certain high-tech and industrial fabric are currently produced in South Africa and exported directly to, or used in the manufacture of products exported to, the United States, the EU, and similar markets. Industry sources indicated that the industry producing such fabric would benefit if textile products from South Africa were covered under AGOA. Currently, South Africa is the only SSA country not eligible for duty-free treatment for textile products.

- Yarn and knit fabric of modal and other specialty manmade fibers may have some limited potential in SSA production of knit apparel sold at the higher end of the market. Although these fibers are not produced in commercial quantities in the region, apparel made from these fibers has larger duty preference margins under AGOA compared with products made of cotton. There are some firms in Mauritius reportedly importing the fibers, from which they spin limited quantities of yarn and knit fabric that are used in apparel for export.
- A small number of Ethiopian companies produce hand-loomed fabric of cotton and silk for home furnishings and apparel. The cotton and some of the silk used by these companies are sourced domestically, and the finished articles are consumed both locally and exported to niche markets in the United States, Canada, and Europe.
- Although the vast majority of African print fabric is produced for local markets, some U.S. consultants suggested that there may be potential to produce and market such fabric for use in home furnishings for niche U.S. markets. African producers currently face strong competition from imports of Chinese fabric, some of which is alleged to counterfeit trademarked African prints.
- Industry sources indicated that trim production follows apparel production, if there is sufficient demand from the apparel sector. Currently, some zippers and ornamental trims are being produced competitively for direct export to, and for use in apparel for export to, the United States, the EU, and similar markets, as well as for apparel sold regionally. A few countries produce specialty buttons from natural products such as nuts, wood, coconut shell, and horn.
- **Products for local and regional markets:**
 - A number of countries produce cotton, wool, and other woven fabrics used in uniforms and work wear for local and regional sales. The fabric reportedly is not of a quality or variety desired for uniforms produced for the U.S. market.
 - Some countries, primarily South Africa, produce knit and woven apparel fabrics of various fibers for use in garments intended for consumption in domestic, regional, and smaller non-regional markets. However, such fabric may not meet the quality or cost demands of consumers in the United States, the EU, and similar markets.
 - A number of SSA countries spin acrylic yarn for local and regional consumption, primarily for use as hand-knitting yarn or for use in blankets. Acrylic yarn, particularly hand-knitting yarn, is bulky and therefore costly to ship, so it is more economical to produce it locally than to import it from Asia.
 - A number of countries weave fabric for blankets for local and regional consumption, as well as for sale to relief organizations in the region. Other woven products for local and regional consumption included woven fabric for bedsheets and towels.
 - One industry source suggested that some of the West African countries could potentially increase capacity utilization in their factories and help their cotton sectors by weaving fabric for cotton bale wrap and cotton picking bags, to be used in place of the commonly used polypropylene bags and wrap that contaminate the cotton.

- Tanzanian firms knit fabric for mosquito nets that are procured by international relief organizations for local and regional consumption.

Exports of Textile and Apparel Inputs

As noted, a number of the textile and apparel inputs identified above are products that SSA countries are already producing and exporting. An examination of textile and apparel inputs currently exported to the United States or similar markets identified trade and production trends, areas of specialization, and patterns of consumption. Countries that were successful exporters during the 2003–07 period were also evaluated for the competitive conditions that likely contributed to their success in export markets. Examining countries that are successful producers and exporters also helps determine which textile products have the greatest potential for future production in these countries or other, similar SSA countries through increased investment or other measures. Finally, exports of textile and apparel inputs were used as one indicator of production of textile and apparel inputs, as comprehensive data on production of such products in the SSA countries are not available on a comparable basis across countries.²

SSA exports of textile and apparel inputs were largely concentrated in a few product areas and fiber types. The leading textile and apparel inputs exported by SSA countries were woven fabric and yarn (tables 2.1 and F.3 and figure 2.1). About two-thirds of SSA's woven fabric exports in 2007 consisted of cotton fabric, including, but not limited to, denim and greige (unfinished) fabric. Mauritius, South Africa, and Lesotho, all denim producers, accounted for the largest share of cotton fabric exports.

TABLE 2.1 SSA exports of textile and apparel inputs, by product group, 2003–07 (Millions of \$)

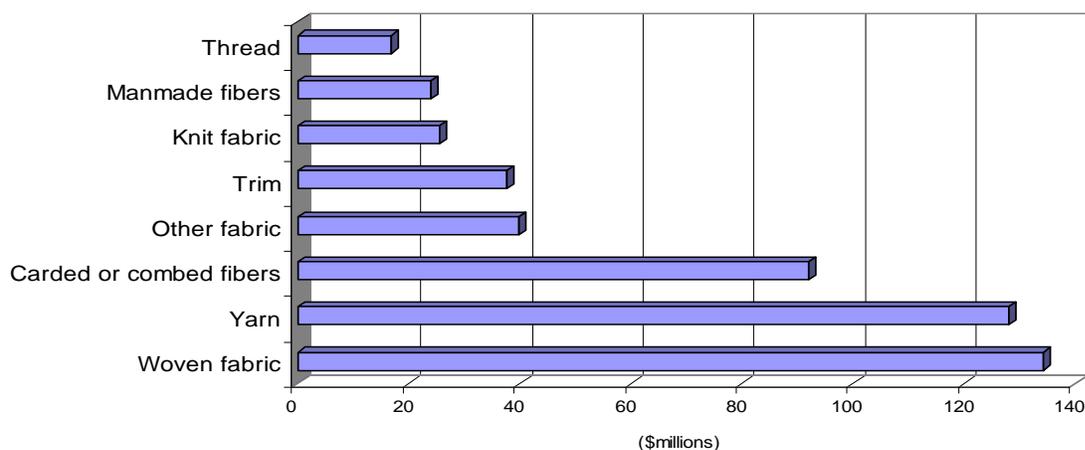
Product group	2003	2004	2005	2006	2007
Woven fabric	116.5	165.7	137.7	123.1	134.2
Yarn	138.7	167.9	150.9	138.4	128.2
Carded or combed fibers	92.0	102.4	85.8	94.2	92.2
Other fabric	26.7	34.7	29.1	33.3	40.0
Trim	27.3	36.1	36.3	36.9	37.6
Knit fabric	13.3	19.3	19.8	22.1	25.6
Manmade fibers	30.7	32.6	31.4	20.6	24.0
Thread	9.6	14.3	17.2	20.9	16.9
Total	454.8	573.1	508.3	489.6	498.6

Source: World Bank, WITS Database (accessed December 3, 2008).

Note: Figures may not sum to total shown due to rounding.

² Although exports were used as one indicator of production, export data do not reflect production of textile and apparel inputs that are consumed within a country. Many of the SSA countries consume at least part of their production of textile and apparel inputs in the production of apparel for export.

FIGURE 2.1 SSA exports of textile and apparel inputs, by product group, 2007



Source: World Bank, WITS Database (accessed December 3, 2008).

Manmade-fiber filament yarn accounted for the largest share of SSA exports of yarn in 2007 (49 percent), followed by cotton yarn (27 percent). South Africa accounted for almost all exports of manmade-filament yarn, but these exports are unlikely to continue at current levels, as the last of South Africa's manmade-filament yarn facilities that produces yarn for apparel recently closed.³ Zambia was the largest exporter of cotton yarn (\$14.2 million), followed by Tanzania (\$4.5 million), Mauritius (\$2.9 million), Kenya (\$2.4 million), and Nigeria (\$2.3 million).

Knit fabric accounted for a comparatively small share of the SSA exports of textile and apparel inputs (5 percent in 2007), because knit fabric tends to be produced by vertically integrated firms that consume the knit fabric in their production of apparel such as T-shirts or polo shirts. Woven fabric mills, by comparison, typically don't consume all of their fabric within vertically integrated firms. Woven fabric mills generally must specialize to be cost effective and thus cannot produce all the different fabric types required for any one apparel manufacturer. An apparel manufacturer, particularly in the case of woven garments, may use hundreds of different types of fabric to achieve the desired results required by its customers.

SSA exports of trim consisted of a variety of different products, including braids and ornamental trimmings; zippers; narrow fabric;⁴ buttons; buckles, eyelets, and clasps; lace; labels; and embroidery in the piece or strip.⁵ South Africa was the largest exporter for most types of trim, including: braids and ornamental trimmings; narrow fabric; buckles, eyelets, and clasps; and labels. Swaziland was the largest exporter of zippers, and Madagascar was the largest exporter of buttons and embroidery in the piece or strip.

³ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009.

⁴ Includes narrow woven and knit fabric, including elastic. Not all narrow fabric is used as trim for garments.

⁵ Embroidery in the strip or piece consists of pieces of fabric that are embroidered. These pieces are later attached to garments.

Carded or combed fibers of wool or animal hair accounted for the vast majority of SSA exports of carded or combed fibers in 2007 (90 percent), almost all of which was from South Africa.⁶ Carded or combed fibers of cotton accounted for another 7 percent of total SSA exports of such products, most of which were from Tanzania, a major SSA cotton producer.

Exports of “other fabric” consisted primarily of nonwoven fabric (70 percent of the total in 2007) and fabric that is coated, covered, or laminated with plastic (21 percent). South Africa supplied the vast majority of SSA exports of other fabric in 2007 (\$40.0 million, or 93 percent).

South Africa also supplied the vast majority of SSA thread exports (93 percent of the total in 2007). Most of South Africa’s thread exports were to the EU (83 percent) and consisted of manmade-fiber filament thread. Many vertically integrated textile and apparel firms in SSA countries also produce thread as part of their spinning operations and consume it in their manufacture of apparel.

⁶ Carded and combed fibers are an intermediate product in the process of producing spun yarn. To produce carded fibers, the bales of fibers are opened, cleaned, aligned, and formed into continuous strands of untwisted fibers called “sliver.” Combed fibers go through an additional “combing” process to remove short fibers in the sliver. Combed wool fibers are commonly referred to as “wool top.”

CHAPTER 3

Factors of Competitiveness

SSA countries face numerous and substantial challenges in their production of yarn, fabric and other textile and apparel inputs. As a whole, SSA countries have an insufficient apparel base through which to develop and sustain upstream production in yarn, fabric, and other inputs. SSA countries also face severe challenges with their infrastructure, such as inadequate power and water supply, and inadequate transportation networks. These infrastructure challenges not only raise the cost of existing production, but also deter significant new investment in capital-intensive yarn- and fabric-producing industries. Other factors that inhibit competitive production of textile and apparel inputs include insufficient and high-cost capital; lack of a skilled workforce; lack of knowledge regarding regional and foreign markets; and outdated machinery and equipment in many of the existing textile mills. Additionally, although cotton is grown in large quantities in the SSA region, the quality of some cotton is diminished by polypropylene fibers that contaminate the cotton during the picking and baling process.

Many factors that affect textile and apparel input competitiveness in SSA countries are addressed below. However, other factors may also affect competitive production of textile and apparel inputs in some SSA countries, including exchange rate fluctuations and differing levels of market access for each SSA country. A full analysis of these factors was beyond the scope of this study. However, to the extent that such factors are important to individual countries, they are discussed in chapter 4 under the relevant country reviews.

Factors Affecting Demand for Textile and Apparel Inputs

One of the biggest challenges facing SSA countries for both current and potential future production of textile and apparel inputs is the lack of demand for such products. The presence of a viable domestic or regional apparel industry, which provides local demand for textiles and other inputs produced in the region, and the influence of foreign retailers and apparel firms on the global supply chain are key factors affecting demand for SSA-produced textile and apparel inputs. As stated by one industry source, “The African apparel industry, the customer base of the textile industry, is too small and too geographically fragmented to easily support a textile industry of sufficient size to benefit from economies of scale.”¹ Further, the SSA apparel industry faces significant competition in both local and foreign markets from large Asian suppliers, and in domestic markets from imports of used clothing.

Large Retailers’ Influence on the Global Apparel Industry

The emergence of global supply chains for textiles and apparel has resulted in retailers increasingly controlling their supply networks, and in increased concentration of

¹ USITC, Hearing transcript, January 29, 2009, 73 (testimony of Paul Ryberg, African Coalition for Trade).

retailers' global buying power.² The sourcing decisions of these large buyers affect the entire textile and apparel supply chain. Retail buyers not only purchase apparel, but also influence or dictate the choice of fabric used in the apparel they buy, based on the price and variety of the fabric (including such things as the hand,³ finish, color, and quality).⁴ One industry source suggested that the selection of fabric is so important to retailers because "clothing is sold based on the fabric."⁵ Retailers and apparel firms also often prequalify textile firms for the production of fabric, a process that can take up to four to six weeks.⁶

Retail competition is intense, particularly since the final phase-out of quotas under the Agreement on Textiles and Clothing (ATC) at the end of 2004.⁷ The increased concentration of global buying power in the industrialized countries has negatively affected SSA textile and apparel export competitiveness. Large buyers in the industrialized countries typically require a wide range of product varieties and large volume sales at low prices. Asian textile and apparel producers and transnational firms (often based in Hong Kong and Taiwan) generally have a competitive advantage in organizing large-scale production runs compared with smaller-scale SSA producers.⁸ Industry sources indicated that it is difficult for SSA producers to be cost competitive in the production of yarn, fabric, and finished apparel compared with many of the large Asian suppliers, such as China, India, and Bangladesh, and that without duty-free preferences under AGOA, most textile and apparel exports to the United States likely would not be cost competitive.⁹

Intense retail competition pushes buyers to focus on low prices and quick delivery times. Shorter delivery times allow retailers to make decisions on styles, colors, and the volume of orders closer to the selling season, allowing for more accurate forecasting and fewer markdowns. The desire for shorter order-to-delivery lead times may increase the incentive to use local or regional SSA fabric in apparel for export.¹⁰ For example, many apparel firms in Mauritius produce their own yarn and fabric, or buy the yarn and fabric inputs locally, to reduce the lead times for the European market. However, retailers' desire for shorter lead times may also reduce the competitiveness of SSA apparel exports vis-à-vis other suppliers that are able to respond more quickly.

² By 2010 it is predicted that the largest 10 retailers in the world will account for 25–30 percent of world textile and apparel trade. World Bank, *Vertical and Regional Integration*, July 2007, 7.

³ The hand of a fabric refers to how the fabric feels and drapes when made into a garment.

⁴ USITC, *Denim Fabric*, 2008, SR-12; SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁵ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁶ USITC, *Commercial Availability of Fabrics and Yarn*, 2007, SR-20.

⁷ The ATC and its predecessor, the Multifiber Arrangement (MFA), governed most world trade in textiles and apparel by providing a framework for quotas to limit imports from developing countries into developed-country markets. The quotas were removed in phases under the ATC, with the final removal taking place after its expiration at the end of 2004. For SSA countries, this meant that its major Asian competitors were no longer subject to quotas in the EU and the U.S. markets, and thus competition for SSA producers increased substantially in these markets. For additional background on the MFA and ATC, see USITC, *Textiles and Apparel*, 2004, 1-8, 1-9.

⁸ Kaplinsky and Morris, "Do the Asian Drivers Undermine Export-oriented Industrialization in SSA?" 2008, 260.

⁹ Ibid., 269; industry consultant, interview by Commission staff, Washington, DC, January 15, 2009.

¹⁰ One U.S. importer indicated that the availability of SSA regional yarn and fabric allowed its SSA clothing supplier to produce garments with shorter lead times and to quickly replenish its customers' stock. U.S. importer, e-mail message to Commission staff, March 25, 2009.

Existence of a Viable Local or Regional Apparel Industry

Consistent demand for inputs from a thriving and relatively stable local apparel manufacturing sector is considered important for the production of yarn, fabric, and other textile and apparel inputs.¹¹ Most SSA countries need long-term, viable apparel sectors to develop sustainable backward and forward supply chain linkages to ensure reliable demand for textile and apparel inputs.¹² Because most yarn, fabric, and other textile and apparel input manufacturing requires relatively large levels of capital investment, in some cases in excess of \$100 million, textile and apparel input producers must run their production equipment at high capacity utilization rates in order to cover their fixed investment costs.¹³ For some SSA countries, local and regional apparel producers have provided a base level of textile and apparel input demand that has helped textile and apparel input manufacturers produce more cost efficiently.¹⁴

Given the importance of the retail sector to the entire supply chain, it is important for yarn and fabric firms to have linkages with downstream apparel manufacturers that, in turn, have sourcing relationships with retail buyers, branded apparel firms, or their agents. Many textile operations in the SSA region are part of vertically integrated firms that produce yarn, fabric, and apparel for export. One industry source suggested that textile (yarn and fabric) mills are better able to succeed if they also have apparel plants to process their fabric, and sales teams to sell the apparel.¹⁵ Other SSA industry sources suggested that firms need assistance in making these linkages, such as through the business-to-business (B2B) events sponsored by the USAID trade hubs, as well as increased exposure at international trade shows where retail buyers are present.¹⁶ The trade hubs hold periodic B2B events at which they bring together all parts of the supply chain (retailer buyers, apparel manufacturers, and yarn and fabric producers) in targeted meetings to help facilitate business across the SSA region and with international buyers.¹⁷

As a whole, the SSA apparel industry is small, and faces intense competition in export and domestic markets, particularly from China, which accounted for nearly 40 percent of the world's total clothing exports in 2007 (table F.4). By comparison, SSA apparel exports account for less than 1 percent of world apparel exports. SSA apparel exports fell by 12 percent in the year following the phase-out of quotas under the ATC, as SSA apparel producers faced increased global competition from Asian producers in many of their export markets.¹⁸ Although SSA apparel exports recovered somewhat in the following years in 2007, export levels were still 7 percent below 2004 levels.

¹¹ Production of export-quality fabric depends on having a strong domestic market for the fabric. USITC, Hearing transcript, January 29, 2009, 64 (testimony of Anthony Carroll, Manchester Trade Ltd.). Reportedly, the number one constraint inhibiting the development of a textile industry in SSA is the uncertainty in SSA apparel industry. Industry consultant, interview by Commission staff, Washington, DC, December 2, 2008.

¹² World Bank, *Vertical and Regional Integration*, July 2007, xi.

¹³ USITC, Hearing transcript, January 29, 2009, 75 (testimony of Paul Ryberg, African Coalition for Trade).

¹⁴ For example, Nigerian textile and apparel plants were built to supply the domestic and regional markets. The collapse of Nigeria's apparel industry has been a factor in the decline of its textile and apparel input industry. Industry consultant, interview by Commission staff, Washington, DC, February 17, 2009.

¹⁵ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

¹⁶ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009; SSA industry representative, e-mail message to Commission staff, February 12, 2009.

¹⁷ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

¹⁸ Not all SSA countries showed apparel export declines in 2005. For example, Nigerian, Ethiopian, and Ugandan apparel exports all increased in 2005. However, SSA countries accounting for the vast majority of SSA country apparel exports showed apparel export declines in 2005 (table F.4).

In addition to competition in export markets, SSA apparel manufacturing has also faced increased competition in local markets from imports of apparel from Asian countries and imports of used clothing, and thus supply a shrinking share of their own local and regional markets. SSA apparel imports increased by over 200 percent during the 2003–07 period, with most of the increase (85 percent) coming from China. Further, over the past 20 years, SSA imports of low-cost used clothing from developed countries have increased substantially.¹⁹ An October 2008 study assessing the impact of used clothing donations on apparel production in Africa estimated that imports of used clothing were responsible for roughly 40 percent of the decline in apparel production in an average African country over the period 1981 to 2000.²⁰ In addition, a 2005 study found that imports of used clothing likely played a role in the decline of industrial textile and apparel production and employment in West Africa.²¹ However, both studies noted that used-clothing imports were not the only cause of the declines, as used-clothing imports likely displaced apparel imports from other countries, particularly Asian producers.

Sales of traditional African print fabric, sold in individual pieces for traditional dress, have also faced increased competition from imports of print fabric from China.²² Chinese exports of textile and apparel inputs to the Group 3 countries, which mostly produce traditional print cloth, increased by 77 percent, from \$211.5 million in 2003 to \$374.3 million, in 2007. In some cases, Chinese producers are alleged to have violated the intellectual property rights of these products by borrowing their copyrights or designs without attribution, or by falsely labeling the print fabric as being of African origin.²³

Factors Affecting the Supply of Textile and Apparel Inputs

Numerous factors affect the competitive production of textile and apparel inputs. The most important factors include the infrastructure to support production of textile and apparel inputs, particularly reliable power supplies and abundant clean water; the cost and availability of capital; the age of existing plants and equipment; the capabilities, cost, and stability of the local labor pool; and the cost and availability of raw materials, such as cotton.

Power and Water

For producers of most textile and apparel inputs, the availability of a steady supply of power is one of the critical factors affecting their competitiveness.²⁴ High electricity

¹⁹ Fraser, “Used Clothing Donations and Apparel Production in Africa,” 2008, 1765.

²⁰ *Ibid.*, 1767.

²¹ Baden and Barber, *The Impact of the Second-hand Clothing Trade on Developing Countries*, September 2005, 2.

²² USITC, Hearing transcript, January 29, 2009, 65 (testimony of Anthony Carroll, Manchester Trade Ltd.).

²³ *Ibid.*; industry consultant, interview by Commission staff, Washington, DC, December 2, 2008; Victor Ahiuma-Young, “Chinese Exporters Destroy Nigerian Textile Industry,” October 27, 2008.

²⁴ USITC, Hearing transcript, January 29, 2009, 94 (testimony of Paul Ryberg, African Coalition for Trade).

costs²⁵ and electricity disruptions reduce productivity and revenue for SSA textile and apparel input manufacturers.²⁶ Most yarn and fabric mills operate around the clock and a disruption in the power supply can ruin an entire production run. In addition, an unreliable supply of electricity adds to production costs, as firms must use back-up generators to operate during disruptions.²⁷ Even with back-up power, productivity may be lower if the back-up power does not allow firms to run their production equipment at full capacity. In this situation, firms shut down part of their production equipment and/or reduce the speed of existing machines.²⁸

SSA's electricity infrastructure is, on average, the least developed, least accessible, least reliable, most costly to operate, and highest priced of any region in the world.²⁹ According to a World Bank enterprise survey of manufacturing firms in selected lesser-developed countries, nearly one-half of the surveyed firms in SSA countries reported that electricity supply conditions are a major production constraint (table 3.1).³⁰ Firms reported that power outages occurred, on average, 14 times per month, reducing sales by 5.9 percent.

Another important factor in the production of yarn and fabric is the availability of an abundant supply of clean water and the ability to treat wastewater.³¹ One U.S. retail buyer indicated that many of the SSA countries lack a sufficient supply of clean water, which is necessary for accurate dyeing.³² Because many retailers buy large volumes of coordinated garments from numerous sources, accurate dyeing results are critical. Improving SSA wastewater treatment capabilities would allow manufacturers to meet the environmental and compliance standards required by international buyers. Industry sources indicated that their U.S. and European customers require certification of social and environmental compliance, such as Worldwide Responsible Accreditation Program certification (WRAP).³³

World Bank data also indicate that freshwater availability varies widely by SSA country (table 3.2). For example, South Africa, the largest SSA producer of textile and apparel

²⁵ For example, the average electricity rate for Kenya is \$0.22/kWh, compared with average electricity rates for Egypt (\$0.04/kWh), China (\$0.09/kWh), and the United States (\$0.06/kWh). SSA industry representative, telephone interview by Commission staff, March 5, 2009.

²⁶ For example, in January 2008, rolling blackouts and load-shedding in South Africa disrupted textile and apparel production schedules, resulting in decreased productivity and revenue losses for textile and apparel manufacturers. One South African firm indicated that it lost 5,000 kg of dyed fabric as a result of the outages. USITC, *Sub-Saharan Africa*, 2009, 6-39. Another source indicated that electricity rates in Uganda are high and the supply is unstable. SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

²⁷ USITC, Hearing transcript, January 29, 2009, 30 (testimony of The Honorable Sindiso Ngwenya, COMESA).

²⁸ Zaidi, "Optimize Spinning Profits During Power Cuts," March 9, 2009.

²⁹ USITC, *Sub-Saharan Africa: Effects of Infrastructure Conditions*, 2009, 5-1.

³⁰ The World Bank enterprise survey data cited in this chapter are based on surveys of manufacturing firms in the selected SSA countries. As such, these data are not specific to textile firms, and may vary by regions within the surveyed countries.

³¹ USITC, Hearing transcript, January 29, 2009, 94-95 (testimony of Paul Ryberg, African Coalition for Trade).

³² This retail buyer also suggested that the dyeing process for denim can sometimes be more forgiving, as denim garments generally go through further washing and finishing operations. Also, denim garments are less likely to be part of coordinated color-matching outfits. U.S. importer, telephone interview by Commission staff, February 2, 2009.

³³ SSA industry representative, interview by Commission staff, Nazareth, Ethiopia, March 4, 2009; SSA industry representative, interview by Commission staff, Dar es Salaam, Tanzania, February 24, 2009. For more information on WRAP, see <http://www.wrapapparel.org/>.

TABLE 3.1 Electricity supply and production constraints: Select SSA countries

Selected SSA countries	Percentage of manufacturing firms identifying electricity supply conditions as a major production constraint	Number of power outages in a typical month	Value lost due to power outages (% of sales)
Group 1 countries:			
Zambia	11.9	4.2	3.6
Swaziland	12.4	2.5	2.5
South Africa	20.8	2.2	1.6
Ethiopia	21.5	5.1	0.9
Kenya	27.6	7.3	6.4
Mauritius	42.9	3.6	2.2
Lesotho	43.7	7.1	6.0
Madagascar	54.6	13.7	7.7
Nigeria	75.9	26.8	8.9
Tanzania	88.4	12.0	9.6
Group 2 countries:			
Namibia	6.5	1.7	0.7
Botswana	6.8	1.7	1.4
Mozambique	24.8	3.1	2.4
Malawi	60.4	76.9	22.6
Uganda	84.2	11.0	10.2
Ghana	86.2	9.7	6.0
Group 3 countries:			
Burkina Faso	48.9	10.1	3.9
Mali	55.7	4.4	1.8
Senegal	57.7	11.8	5.0
Cameroon	61.1	12.7	3.9
Benin	69.2	^(a)	6.5
Group 4 countries:			
Niger	21.6	20.7	2.5
Angola	45.8	7.8	3.7
Sierra Leone	53.4	15.9	6.6
Rwanda	55.0	13.7	8.7
Gabon	57.3	7.9	1.8
Liberia	63.6	5.3	3.7
Cape Verde	65.3	12.5	4.3
Congo, Dem. Rep.	70.3	17.8	5.6
Congo, Rep.	71.1	27.4	15.7
Burundi	72.3	12.0	10.7
Guinea-Bissau	74.1	9.2	5.3
Gambia	78.1	23.8	11.8
Guinea	83.6	33.9	14.0
SSA average	48.1	13.7	5.9

Source: World Bank, IBRD, Enterprise Analysis Unit, Enterprise Surveys Database (accessed April 27, 2009).

^aData are not available.

Note: Data for Congo (Rep.), Gabon, Lesotho, Liberia, Madagascar, Mauritius, and Sierra Leone are for 2009. Data for Ghana, Kenya, Mali, Mozambique, Nigeria, Senegal, South Africa, and Zambia are for 2007. Data for Angola, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Congo (Dem. Rep.), Ethiopia, Gambia, Guinea, Guinea-Bissau, Malawi, Namibia, Niger, Rwanda, Swaziland, Tanzania, and Uganda are for 2006. Data for Benin are for 2004.

TABLE 3.2 Water supply and constraints: Select SSA countries

Selected SSA countries	Average number of water shortages in a typical month (most recent year available) ^a	Renewable internal freshwater resources (cubic meters per capita, 2007)
Group 1 countries:		
Swaziland	1.6	2,300
South Africa	2.4	936
Kenya	6.5	552
Ethiopia	8.3	1,543
Madagascar	9.0	17,133
Zambia	9.3	6,728
Mauritius	12.3	2,182
Tanzania	12.4	2,078
Nigeria	18.5	1,493
Lesotho	^(b)	2,607
Group 2 countries:		
Namibia	0.9	2,961
Mozambique	2.3	4,693
Uganda	3.9	1,261
Malawi	4.3	1,159
Ghana	10.6	1,291
Botswana	^(b)	1,276
Group 3 countries:		
Mali	5.8	4,865
Senegal	6.9	2,079
Burkina Faso	11.8	846
Cameroon	12.6	14,731
Benin	^(b)	1,141
Group 4 countries:		
Guinea-Bissau	3.6	9,441
Burundi	7.8	1,184
Congo, Dem.	7.9	14,423
Angola	7.9	8,696
Gambia	8.4	1,758
Niger	8.4	247
Cape Verde	12.8	566
Guinea	15.7	24,093
Rwanda	17.7	976
Congo, Rep.	^(b)	58,937
Gabon	^(b)	123,291
Liberia	^(b)	53,852
Sierra Leone	^(b)	27,358
SSA average	8.3	5,062

Sources: World Bank, IBRD, Enterprise Analysis Unit, Enterprise Surveys Database (accessed April 27, 2009); World Bank, World Development Indicators Online (accessed April 27, 2009).

^aData for Madagascar and Mauritius are for 2009. Data for Angola, Ghana, Kenya, Mali, Mozambique, Nigeria, Senegal, South Africa, and Zambia are for 2007. Data for Burkina Faso, Burundi, Cameroon, Cape Verde, Congo (Dem. Rep.), Ethiopia, Gambia, Guinea, Guinea-Bissau, Malawi, Namibia, Niger, Rwanda, Swaziland, Tanzania, and Uganda are for 2006. Data for Benin are for 2004.

^bData are not available.

inputs, reported a relatively low number of average monthly water shortages (2.4). Alternatively, Nigeria's relatively high number of average monthly water shortages (18.5) reflects the recent deterioration in Nigeria's basic infrastructure. Madagascar, which has been relatively successful in developing an apparel sector, reported the largest per capita supply of renewable internal freshwater resources of the Group 1 countries. However, as noted above, the World Bank enterprise survey data cited in this chapter are not specific to textile firms, and may vary by manufacturing sector and region within each surveyed SSA country.

Finance

The cost and availability of capital is an important factor affecting investment in new plants and equipment. Additionally, firms need access to working capital to cover operating costs such as purchasing raw materials and financing trade.

According to the secretary general of the Common Market for Eastern and Southern Africa (COMESA), COMESA countries have problems accessing financing, and the cost of capital in COMESA countries is generally greater than 10 percent.¹ Other SSA textile and apparel industry sources indicate the rates for borrowing are as high as 15–17 percent in South Africa and even higher in other SSA countries.² World Bank data indicate that 2007 lending rates for the reporting countries in Groups 1–3 ranged from 13 percent for Namibia to 45 percent for Madagascar, averaging 19 percent.³ By comparison, the U.S. lending rate (prime) was 8 percent in 2007.⁴ One SSA textile and apparel industry source suggested that, with borrowing rates as high as 15–17 percent, a borrower would require a 20–25 percent return on investment.⁵

Given the relatively high lending rates in SSA countries, SSA firms finance investment primarily through internal funds, and generally finance only a small share of their investment through bank loans. Figure 3.1 indicates that, in general, private sector firms in SSA countries with higher lending rates financed a smaller share of their investment through bank loans. For example, Madagascar, The Gambia, and Sierra Leone reported relatively high lending rates and low levels of bank-financed investment, whereas South Africa and Cape Verde reported relatively low lending rates and accompanying high levels of bank-financed investment. This relationship is not evident in all cases, as Mauritius and Malawi financed a relatively large share of their investment through bank financing, despite relatively high lending rates.

Foreign direct investment (FDI) has been an important source of capital for certain SSA textile and apparel firms, particularly for some of the larger textile and apparel exporters. Textile and apparel production facilities in Lesotho are largely foreign owned, and the Madagascar apparel industry has attracted investment from France, Taiwan, China, and

¹ USITC, Hearing transcript, January 29, 2009, 36 (testimony of The Honorable Sindiso Ngwenya, COMESA). The 19 members of COMESA are Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

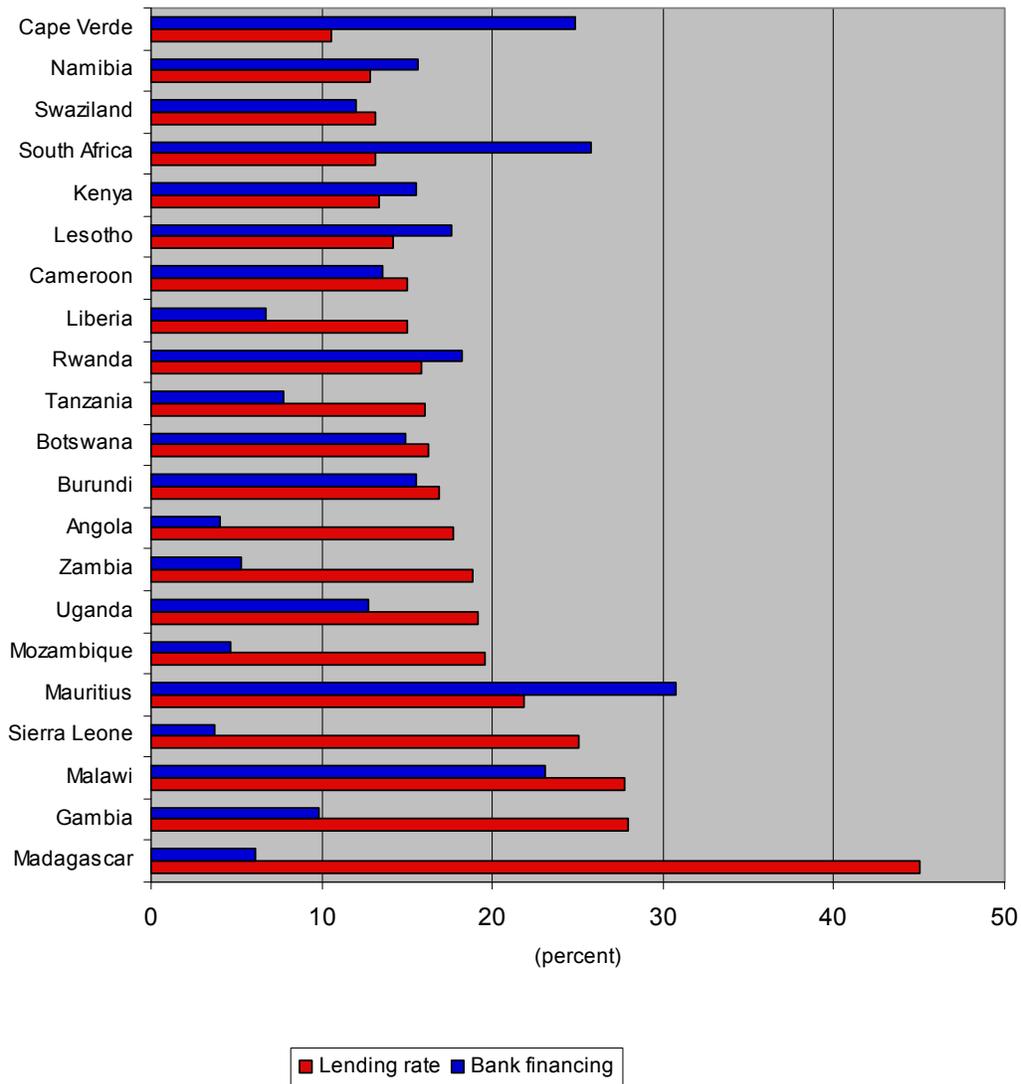
² SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

³ World Bank, World Development Indicators Online (accessed February 5, 2009). The reported lending rates are nominal interest rates, which are not deflated to account for inflation rates of the SSA countries.

⁴ IMF, International Financial Statistics Database. Events of the current financial crisis have likely increased lending rates and reduced available capital worldwide.

⁵ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

FIGURE 3.1 Manufacturing firms' share of investment accounted for by bank financing and lending interest rates in selected SSA countries



Sources: World Bank, IBRD, Enterprise Analysis Unit, Enterprise Surveys Database (accessed April 27, 2009); World Bank, World Development Indicators Online (accessed April 27, 2009)

Note: Bank financing data for Madagascar and Mauritius are for 2009. Bank financing data for Ghana, Kenya, Mali, Mozambique, Nigeria, Senegal South Africa, and Zambia are for 2007. Bank financing data for Angola, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Congo (Dem. Rep.), Ethiopia, Gambia, Guinea, Guinea-Bissau, Malawi, Namibia, Niger, Rwanda, Tanzania, and Uganda are for 2006. Lending interest rate data for all selected SSA countries are for 2007.

Mauritius.³⁹ The ownership structure in the Swaziland textile and apparel industries is concentrated among Taiwanese, Japanese, and, to a lesser extent, South African investment. In Ethiopia, several recent new FDI projects involve Canadian, Indian, Japanese, Swedish, and Turkish investors.

It appears, however, that most of the foreign investment in textile and apparel production facilities took place before the removal of quotas at the end of 2004. Since 2004, textile and apparel FDI has shifted out of a number of SSA countries. For example, in Mauritius, the industry is now largely domestically owned (80 percent), as the industry underwent significant restructuring and consolidation since 2004, when 30 foreign firms (mostly from Hong Kong) left Mauritius. In 2008, Ramatex, a Malaysian company, closed all of its textile and apparel factories in Namibia.

Age of Existing Plant and Equipment

The age of existing plant and equipment can affect not only the cost of production, since older machinery is less productive than newer equipment, but also the quality and variety of products manufactured.⁴⁰ Less than 20 percent of installed weaving machines in SSA countries are shuttleless looms.⁴¹ Compared with shuttle looms, shuttleless looms generally weave fabric with fewer defects, in wider widths, and at reduced costs, owing to faster operating speeds. Shuttleless looms also require less power, space, and labor.⁴² According to International Textile Manufacturers Federation data, all of the installed capacity in Mauritius, Swaziland, and Lesotho consists of shuttleless looms, and virtually all of the installed capacity in South Africa consists of shuttleless looms. By comparison, most or all of the installed capacity in Nigeria, Ethiopia, Tanzania, Zambia, and the Group 2 and Group 3 countries consists of shuttle looms.⁴³ According to COMESA, existing plants within the region were unable to capitalize on AGOA because plants “are using old technologies where the quality is not good,” and added that the African Cotton and Textile Industries Federation has a program to upgrade older SSA textile plants.⁴⁴ In addition to quality issues with dated equipment, servicing the existing machinery can be a problem in the region due to the lack of both skilled technicians and spare parts. Delays in servicing machinery and receiving spare parts often result in idle machinery.⁴⁵

³⁹ The examples of FDI in this section are drawn from the individual country reviews in chap. 4 of this report.

⁴⁰ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁴¹ Based on ITMF, *International Textile Machinery Shipment Statistics*, 2007, app. C.

⁴² USITC, *Textiles and Apparel*, 2004, 1–22.

⁴³ Stephen Lande of Manchester Trade Ltd. commented that, “it was unbelievable to me to see how little textile machinery is currently in Africa as a percentage in world production and how the share of the new purchases of textile machines, the African share, is even going down.” USITC, Hearing transcript, January 29, 2009, 60 (testimony of Stephen Lande, Manchester Trade Ltd.).

⁴⁴ USITC, Hearing transcript, January 29, 2009, 121 (testimony of The Honorable Sindiso Ngwenya, COMESA).

⁴⁵ Industry consultant, interview by Commission staff, Washington, DC, January 15, 2009.

Labor

Labor is another important consideration in the production of textile and apparel inputs. Many countries have identified the lack of skilled labor as an inhibiting factor.⁴⁶ Because the production of most textile and apparel inputs is capital, rather than labor, intensive, the labor pool generally must be more educated and have specific technical, marketing, design, and/or managerial skills. Some foreign investors employ expatriates to fill these positions, which can also add to the cost of production if the firm must pay room and board for the employees. One industry source indicated that the management structure can have a significant effect on the overhead costs of a firm.⁴⁷ This source indicated that many SSA firms, particularly in South Africa, have multiple tiers of management compared with the flatter (and less costly) management structures found in many Asian firms.

Low labor productivity is an inhibiting factor for SSA textile and apparel input producers. Labor costs in production are a function of both wage rates and labor productivity. With the exception of South Africa, wage rates paid by SSA textile and apparel input producers are comparable to those paid by Asian producers.⁴⁸ However, available data on SSA countries' labor productivity for all manufacturing suggests that SSA labor productivity is low relative to labor productivity in other developing countries. For example, value added per worker in a medium-sized manufacturing firm in Zambia (\$1,773), Uganda (\$3,321), and Nigeria (\$4,413) was far lower than in India (\$15,238) and China (\$14,198) (figure 3.2). Value added per manufacturing worker in Kenya (\$9,303) and Tanzania (\$11,037) is closer to that of China and India. These data illustrate the range of differences across SSA countries and some major competitors; value added per worker in the textile and apparel and related inputs industries likely vary to some degree from these aggregate manufacturing sector figures. For example, several textile manufacturers reported low productivity rates among workers in the textile and apparel industry in Tanzania. Some firms reported importing textile workers from neighboring Kenya.⁴⁹

In some SSA countries, the workforce is reportedly not formalized and ready for working Western working hours.⁵⁰ The textile and apparel input workforce often comes from an agricultural base, is not used to working with machinery, and requires more training.⁵¹ Health problems, particularly related to HIV/AIDS, also affect the productivity of the labor force, resulting in high worker turnover and absenteeism rates.

⁴⁶ For example, one industry source maintained that there is a lack of textile industry experts in Ethiopia. SSA industry representative, e-mail message to Commission staff, March 18, 2009. Another industry source maintained that it is difficult to find qualified people to work in textile plants in South Africa because of the skills deficit. SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 27, 2009.

⁴⁷ Industry consultant, interview by Commission staff, Washington, DC, January 15, 2009.

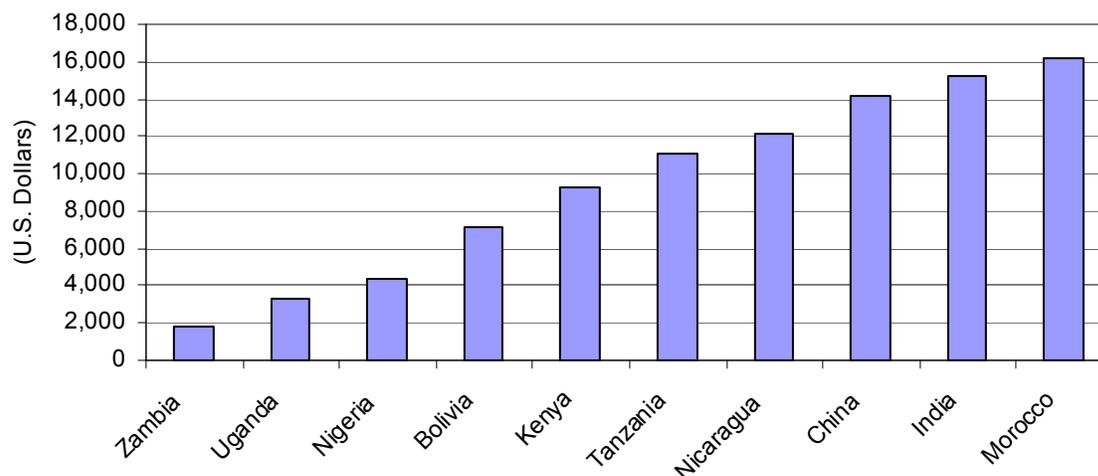
⁴⁸ Kaplinsky and Morris, "Do the Asian Drivers Undermine Export-oriented Industrialization in SSA?" 2008, 266; Maliti, "Rise and Fall of African Textile Industry," March 15, 2005.

⁴⁹ The secretary general of COMESA acknowledged that textile and apparel producers in China, Pakistan, and other Southeast Asian countries may be more competitive overall, but maintains that, in terms of factory level labor costs, African textile and apparel producers compare favorably with China. USITC, Hearing transcript, January 29, 2009, 9–10 (testimony of The Honorable Sindiso Ngwenya, COMESA); Tanzanian government official, interview by Commission staff, Dar es Salaam, Tanzania, February 23-24; and industry representative, interview by Commission staff, Arusha, Tanzania, February 26, 2009.

⁵⁰ Industry consultant, interview by Commission staff, Washington, DC, January 15, 2009.

⁵¹ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

FIGURE 3.2 Value added per worker in medium-sized manufacturing firms



Source: Subramanian and Matthijs, “Can Sub-Saharan Africa Leap into Global Network Trade?” January 2007, 8.

Note: Medium-sized is defined as 50–199 workers.

Raw Materials

Except for cotton, and some wool and mohair, SSA producers of yarn, fabric, and other textile inputs import nearly all raw materials, including manmade fibers, dyes, and chemicals. Therefore, the cost and efficiency of producing textile and apparel inputs are affected by the ease and cost (such as tariffs and transportation) of importing raw materials.

SSA countries have a competitive advantage in the production of cotton, which is used by many SSA countries in the production of yarn and fabric.⁵² However, the majority of the cotton produced, particularly from Group 3 countries, is exported outside the region.⁵³ In addition, SSA cotton production declined by approximately one-third from 2003 through 2007, in large part due to lower cotton prices and increasing costs of agrochemicals and seeds.⁵⁴ Financing is an issue for the cotton sector, as access to short-term financing directly affects the ability of producers to purchase fertilizers, seeds, and other farm supplies.

Cotton grown in SSA generally has favorable fiber characteristics, due in part to growing conditions and being handpicked. However, the quality is often compromised by contamination, particularly from polypropylene that contaminates the cotton from the picking bags and bale wrap. Polypropylene results in defects in the cotton yarn or fabric after the dyeing process. Besides contamination from polypropylene, the quality of some cotton is compromised by factors such as stickiness resulting from insects. Sticky cotton, in particular, can cause irregularities in the yarn production, including yarn breakages.⁵⁵ Sophisticated mills use complex systems that employ acoustic, optical, or color sensors to

⁵² See app. G, table G.1.

⁵³ See chap. 4, Group 3 discussion for additional information.

⁵⁴ See app. G, table G.1.

⁵⁵ Industry consultant, interview by Commission staff, Washington, DC, February 17, 2009.

remove contamination. Less sophisticated mills manually remove contamination or use bleaching or scouring methods. Application of the more sophisticated systems in SSA countries is hampered by the same factors that inhibit plant and equipment investment (e.g., cost and availability of finance, and lack of skilled labor).

In 2006, the United States launched the West African Cotton Improvement Program, which is intended to increase the yields of and incomes from West African cotton, particularly in Benin, Burkina Faso, Chad, Mali, and to a lesser extent, Senegal.⁵⁶ Among other things, the program is designed to improve cotton quality.⁵⁷ The program is scheduled to end in 2010.

Some SSA countries have had some success in growing organic cotton for use in downstream yarn and fabric production. However, industry sources indicated that it is too costly for many farmers to go through the multiyear certification process for organic production.⁵⁸

Finally, while it is an advantage to have a local supply of cotton for use in textile and apparel inputs, the duty savings on U.S. imports of apparel made of cotton, available through AGOA duty preferences, are significantly less than the duty savings for apparel that is primarily of manmade fibers. For example, the U.S. normal trade relations (NTR) duty rate for a cotton T-shirt (HTS subheading 6109.10.0000) is 16.5 percent ad valorem. By comparison, the U.S. NTR duty rate for a manmade fiber T-shirt (HTS subheading 6109.90.10) is 32 percent ad valorem. Therefore, under AGOA preferences, there is greater incentive, in terms of duty savings, for SSA apparel producers to export apparel made with manmade fibers than apparel made with cotton.

Factors that Affect the Entire Supply Chain

A number of factors affect the cost and ease of doing business and the ability to attract new and increased investment along the entire supply chain. Such factors include the business environment (including political stability) and government policies that affect the business environment. Transportation infrastructure also has an enormous effect on the ability, time, and cost to import raw materials and export finished goods. Preference programs, such as AGOA, and regional trade agreements provide incentives to produce and export goods for certain markets.

Business Environment

The business environment in a country affects the cost of doing business and the time required to conduct business and trade. For the apparel sector, one study found a direct correlation between a country's rank in the World Bank's Doing Business Indicators and

⁵⁶ U.S. Department of State, U.S. Embassy, Ouagadougou, "West Africa Cotton Improvement Program Should Be Extended," March 5, 2009.

⁵⁷ Ibid. USAID, West Africa Cotton Improvement Program (WACIP)—Program Description, July 2006.

⁵⁸ SSA industry representative, interview with Commission staff, Port Louis, Mauritius, March 3, 2009; SSA industry representative, telephone interview by Commission staff, March 5, 2009.

increases in SSA exports of certain apparel from 2001 to 2004.⁵⁹ In general, 28 of the 40 SSA countries rank in the bottom third of 181 countries surveyed in terms of ease of doing business, based on the 2009 World Bank's Doing Business Indicators (table 3.3). The indicators reflect the impact of SSA government policies on specific factors related to starting a business, obtaining construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. The top-ranked SSA country in 2009 was Mauritius (ranked 24th out of 181 countries), followed by South Africa (32nd) and Botswana (38th). Of the Group 1 countries, only Mauritius' indicators are comparable to China's and better than India's indicators in terms of rank, time, and cost of trading across borders. In general, the cost and time associated with trade for SSA countries substantially exceed the major world exporters of textiles and apparel (table 3.3).

Political stability is a major concern for businesses deciding whether to invest in textile and apparel input production facilities in SSA countries or to buy textile and apparel inputs produced in SSA countries. Figure 3.3 indicates that the incidence of political troubles in selected SSA countries generally declined during the 1996–2007 period, although there was an increase in political instability in 2007. There have also been more recent reports of political unrest in some SSA countries, such as Kenya and Madagascar.⁶⁰

Factors Affecting Movement of Goods

The cost and time for importing and exporting goods affects total production cost, as well as the ability of firms to meet the increasingly tight lead times demanded by retailers. Transportation infrastructure, customs clearance procedures, and certain other government policies affect the import of raw materials for each segment of the supply chain, the movement of goods within the region, and the export of finished goods to countries outside of the region. These factors include the quality and density of road, rail, and port infrastructure. In general, landlocked countries are at a disadvantage compared with those countries that have a port, unless the roads and rail transport between the landlocked countries and ports are good. Lesotho, for example, is a landlocked country, but it is able to take advantage of South Africa's more developed infrastructure.⁶¹ Based on World Economic Forum survey data, South Africa, Mauritius, and Namibia have the most developed road, rail, and port infrastructure of the SSA countries (table 3.4). Industry sources indicated that lengthy port delays were a deterrent to sourcing from certain SSA countries. The cost and time it takes to export or import varies considerably by country, with Mauritius ranked the highest in terms of trading across borders indicators (20th out of 181 countries) and the Republic of the Congo ranked the lowest (176th) in 2009 (table 3.3).

⁵⁹ De Melo and Portugal-Perez, "Rules of Origin, Preferences, and Diversification," December 2008, found a correlation between a country's business environment (represented by the country's rank in the World Bank's Doing Business Indicators) and that country's apparel exports under the third-country fabric provision of AGOA.

⁶⁰ Lough, "Death Toll Nears 40 from Madagascar Unrest," January 28, 2009; USITC, *Denim Fabric* 2008, SR-12. Madagascar is not included in the index in figure 3.3.

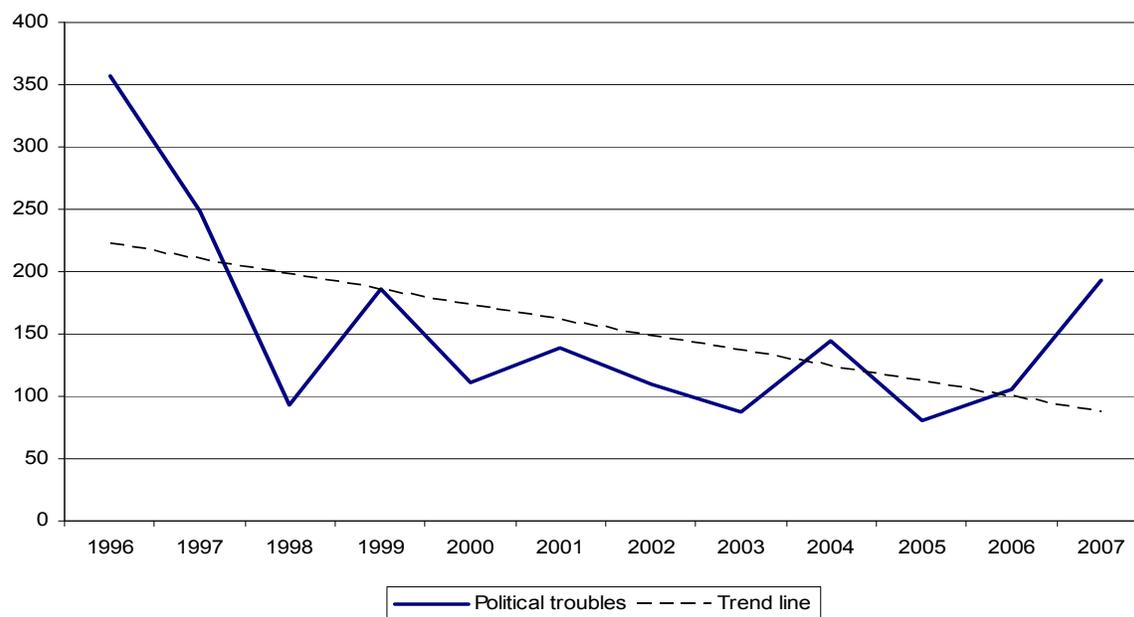
⁶¹ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

TABLE 3.3 Selected business environment indicators, 2009

Economy	Ease of doing business rank	Trading across borders				
		Exports			Imports	
		Rank	Time <i>Days</i>	Cost <i>US \$ per container</i>	Time <i>Days</i>	Cost <i>US \$ per container</i>
Group 1 countries:						
Ethiopia	116	152	46	2,087	42	2,893
Kenya	82	148	29	2,055	26	2,190
Lesotho	123	141	44	1,549	49	1,715
Madagascar	144	109	23	1,279	27	1,660
Mauritius	24	20	17	725	16	677
Nigeria	118	144	25	1,179	42	1,306
South Africa	32	147	30	1,445	35	1,721
Swaziland	108	154	21	2,184	33	2,249
Tanzania	127	103	24	1,262	31	1,475
Zambia	100	153	53	2,664	64	3,335
Group 2 countries:						
Botswana	38	149	31	2,508	42	3,064
Ghana	87	76	19	1,003	29	1,130
Malawi	134	167	45	1,671	54	2,550
Mozambique	141	140	26	1,200	32	1,475
Namibia	51	150	29	1,686	24	1,813
Uganda	111	145	39	3,090	37	3,290
Group 3 countries:						
Benin	169	129	32	1,237	40	1,393
Burkina Faso	148	173	45	2,132	54	3,630
Cameroon	164	137	27	995	33	1,672
Chad	175	159	78	5,367	102	6,020
Mali	166	166	38	2,012	42	2,902
Senegal	149	60	14	1,078	18	1,920
Togo	163	84	24	940	29	963
Group 4 countries:						
Angola	168	172	68	2,250	62	3,325
Burundi	177	170	47	2,147	71	3,705
Cape Verde	143	56	19	1,325	18	1,129
Comoros	155	129	30	1,073	21	1,057
Congo, Dem. Rep.	181	160	46	2,607	66	2,483
Congo, Rep.	178	176	50	2,490	62	2,959
Djibouti	153	35	19	1,058	16	978
Gabon	151	128	20	1,945	22	1,955
Gambia	130	73	24	831	23	922
Guinea	171	110	33	720	32	1,191
Guinea-Bissau	179	111	25	1,545	24	2,349
Liberia	157	115	20	1,232	17	1,212
Niger	172	169	59	3,545	64	3,545
Rwanda	139	168	42	3,275	42	5,070
São Tomé and Príncipe	176	88	27	690	29	577
Seychelles	104	90	17	1,839	19	1,839
Sierra Leone	156	132	29	1,450	34	1,535
Selected other non-SSA countries:						
Bangladesh	110	105	28	970	32	1,375
Cambodia	135	122	22	732	30	872
China	83	48	21	460	24	545
India	122	90	17	945	20	960

Source: World Bank, Doing Business 2009 Database.

FIGURE 3.3 Index of political troubles for certain SSA countries, 1996–2007



Source: OECD and AfDB, *African Economic Outlook 2007/2008*, 2008, 48.

Note: The index is calculated on the basis of 18 SSA countries: Botswana, Burkina Faso, Cameroon, Chad, Ethiopia, Gabon, Ghana, Kenya, Mali, Mauritius, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Uganda, and Zambia. The index is based on the frequency of newspaper reports on indicators of political troubles, such as the occurrence of strikes, demonstrations, violence, and coups d'état. Newspaper reports are taken from the weekly newspaper *Marchés Tropicaux et Méditerranéens*.

Another factor affecting the ability of firms to do business, particularly within the region, is the ability for people to travel to and within a country. The more difficult it is to reach a location, the less attractive it will be for foreign buyers of textile and apparel inputs to visit, unless there is a critical mass of business within a concentrated area. Mauritius scored the highest of the SSA countries in terms of quality of domestic transport network and road density (table 3.4)

U.S. and EU Tariffs and Trade Preference Programs

Both the United States and the EU offer trade preference programs for exports of SSA textiles and apparel.⁶² AGOA provides unilateral trade preferences for exports of SSA textiles and apparel to the U.S. market through 2015. Twenty-six of SSA countries are eligible to receive preferential treatment under AGOA for exports of yarn, fabric, and finished textile articles (such as bedsheets) provided the products originate entirely in one

⁶² The U.S. Generalized System of Preferences excludes most textile and apparel products.

TABLE 3.4 Selected infrastructure indicators

Country	Quality of roads ^a	Quality of railroad infrastructure ^b	Quality of port infrastructure ^c	Quality of domestic transport network ^d	Road density ^e
Group 1 countries:					
Ethiopia	2.5	1.4	^f 4.1	4.6	4
Kenya	2.5	2.1	3.4	4.2	11
Lesotho	2.1	1.5	^f 2.8	3.6	20
Madagascar	2.7	1.6	2.4	4.2	9
Mauritius	4.4	(^g)	4.7	5.9	99
Nigeria	2.2	1.7	2.7	5.1	21
South Africa	4.7	3.4	4.4	4.8	30
Tanzania	2.8	2.4	3.2	5.0	9
Zambia	2.3	1.7	^f 3.7	4.8	12
Group 2 countries:					
Botswana	4.2	3.4	^f 4.1	4.7	4
Mozambique	2.0	1.8	2.7	5.1	4
Namibia	4.9	3.8	5.0	5.3	5
Uganda	2.5	1.5	^f 4.0	5.2	36
Group 3 countries:					
Benin	2.7	1.5	2.9	2.8	17
Burkina Faso	2.4	1.9	^f 3.9	4.6	6
Cameroon	2.0	1.9	2.6	4.1	11
Chad	1.5	(^g)	^f 2.8	3.7	3
Mali	2.7	1.7	^f 3.7	5.3	2
Senegal	2.6	1.5	3.6	5.6	7
Group 4 countries:					
Burundi	2.0	(^g)	^f 3.0	3.9	48
Gambia	3.5	(^g)	4.1	5.1	37
Mauritania	2.1	1.9	2.6	5.7	1

Source: Blanke and Chiesa, *The Travel & Tourism Competitiveness Report 2008*, 2008, 416–20.

Note: Not all Group 4 countries were covered in the Blanke and Chiesa report.

^aQuality of roads: Roads are (1 = underdeveloped; 7 = extensive and efficient by international standards).

^bQuality of railroad infrastructure: Railroads are (1 = underdeveloped; 7 = as extensive and efficient as the world's best).

^cQuality of port infrastructure: Port facilities and inland waterways are (1 = underdeveloped; 7 = as developed as the world's best).

^dQuality of domestic transport network: Does the national transport network (domestic flights, buses, trains, taxis, etc.) offer efficient, accessible transportation to a wide range of travelers to key business centers and tourist attractions? (1 = no, not at all; 7 = yes, it is equal to the best in the world).

^eRoad density: Kilometers of road per 100 square kilometers of land in 2004.

^fIndicates landlocked countries. For landlocked countries, port infrastructure measures the ease of access to port facilities and inland waterways.

^gData not available.

or more of the eligible SSA countries (table 3.5).⁶³ South Africa, the largest SSA exporter of textile and apparel inputs, is not eligible for this textile preference. Twenty-seven of the 40 SSA countries (including South Africa) are eligible for duty-free preferences for apparel under AGOA. Qualifying apparel includes apparel made of U.S. yarn and fabric; apparel made of SSA yarn and fabric; and apparel made in designated lesser-developed SSA countries from third-country (typically Asian) fabric.⁶⁴ Apparel made with third-country fabric is eligible for duty-free treatment through 2012 for 26 of the 40 SSA countries. Over 90 percent of the quantity of U.S. imports of apparel under AGOA consisted of apparel made with third-country fabric in 2008.⁶⁵ In addition to the above-mentioned textiles and apparel, other products that are eligible for duty-free treatment under AGOA include certain cashmere and merino wool sweaters; eligible hand-loomed, handmade, or folklore articles; and ethnic print fabric.

One of the factors considered by many industry sources to be critical to the health of the textile and apparel manufacturing sectors in SSA countries is the long-term stability of AGOA trade preferences. A healthy apparel sector provides a demand incentive for new or increased investment in yarn, fabric, and other textile and apparel input production. As stated by one industry representative, “there is a role to be played by trade policy in encouraging the development of vertically integrated industry, but it needs to be a consistent policy that takes a long-term approach and does not change from year to year.”⁶⁶ Industry sources suggested that AGOA be made permanent, or extended for at least 10 years, to allow sufficient time to recoup the large investments necessary to build a textile plant that will have the economies of scale to be competitive, which can run over \$100 million.⁶⁷

At the same time, industry sources recommended that the third-country fabric preference provision be extended along with AGOA, to allow apparel manufacturers to meet the needs of their customers and increase the stability of the apparel sector.⁶⁸ Without the ability to use third-country fabric, buyers may turn to other regions, resulting in the loss of business for the apparel sector, as well as the local yarn and fabric sectors.⁶⁹

⁶³ As of December 20, 2006, the African Investment Act of 2006 (known commonly as AGOA IV) expanded AGOA coverage to include textiles and textile articles originating entirely in one or more lesser-developed beneficiary countries. Mauritius was not eligible for such benefits until October 31, 2008. In order for countries to be eligible for textile and apparel benefits, they must have in place an effective visa system to prevent illegal transshipment and use of counterfeit documentation, as well as effective enforcement and verification procedures. USDOC, “Trade Preference Programs: The African Growth and Opportunity Act,” undated (accessed May 7, 2009). For additional information, see USDOC, OTEXA, “Trade Preference Programs: The African Growth and Opportunity Act (AGOA).” <http://www.otexa.ita.doc.gov/>.

⁶⁴ For purposes of AGOA, lesser-developed countries are those with a per capita gross national product of less than \$1,500 in 1998, as measured by the World Bank. In addition, Botswana and Namibia are provided lesser-developed-country status, and Public Law 110-436 signed in October 2008, granted Mauritius lesser-developed-country status.

⁶⁵ USDOC, OTEXA, “Trade Preference Programs by Category, 1/2009 Data.”

⁶⁶ USITC, Hearing transcript, January 29, 2009, 73–74 (testimony of Paul Ryberg, African Coalition for Trade Ltd.).

⁶⁷ *Ibid.*, 75.

⁶⁸ SSA industry representative, telephone interview by Commission staff, January 28, 2009; industry consultant, interview by Commission staff, Washington, DC, January 15, 2009.

⁶⁹ Nevertheless, there are some textile industry sources who oppose the third-country fabric provision. These sources indicated that third-country yarn and fabric imports compete with SSA production of such items. Industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009; industry representative, interview by Commission staff, Mauritius, March 4, 2009.

TABLE 3.5 Eligibility for AGOA apparel and textile preferences

Country	Eligible for apparel preferences	Eligible for third-country apparel preferences	Eligible for textile preferences
Group 1 countries:			
South Africa	Yes	No	No
Mauritius	Yes	Yes	Yes
Nigeria	Yes	Yes	Yes
Tanzania	Yes	Yes	Yes
Lesotho	Yes	Yes	Yes
Zambia	Yes	Yes	Yes
Madagascar	Yes	Yes	Yes
Swaziland	Yes	Yes	Yes
Kenya	Yes	Yes	Yes
Ethiopia	Yes	Yes	Yes
Group 2 countries:			
Ghana	Yes	Yes	Yes
Uganda	Yes	Yes	Yes
Mozambique	Yes	Yes	Yes
Namibia	Yes	Yes	Yes
Botswana	Yes	Yes	Yes
Malawi	Yes	Yes	Yes
Group 3 countries:			
Togo	No	No	No
Burkina Faso	Yes	Yes	Yes
Benin	Yes	Yes	Yes
Mali	Yes	Yes	Yes
Senegal	Yes	Yes	Yes
Cameroon	Yes	Yes	Yes
Chad	Yes	Yes	Yes
Group 4 countries:			
Sierra Leone	Yes	Yes	Yes
Djibouti	Yes	Yes	Yes
Niger	No	No	No
Seychelles	Yes	Yes	Yes
Gambia	No	No	No
Congo, Dem. Rep.	No	No	No
Guinea	No	No	No
Burundi	No	No	No
Cape Verde	Yes	Yes	Yes
Comoros	No	No	No
Liberia	No	No	No
Rwanda	Yes	Yes	Yes
Gabon	No	No	No
São Tomé and Príncipe	No	No	No
Congo, Rep.	No	No	No
Angola	No	No	No
Guinea-Bissau	No	No	No

Source: Based on information from the USDOC, "Trade Preference Programs: The African Growth and Opportunity Act," undated (accessed March 17, 2009).

With respect to EU trade preferences for SSA countries, the EU grants duty-free and quota-free access to apparel originating in least developed countries under its “Everything But Arms” (EBA) initiative, part of the EU Generalized System of Preferences. However, the EBA rules of origin for textiles and apparel require double transformation (i.e., two significant production processes, such as fabric production and sewing of the garment, must be performed within the country), which makes it difficult for goods made in SSA countries to qualify. Formerly, the EU also granted preferential treatment to African, Caribbean, and Pacific countries (including the SSA countries, except South Africa) under the Cotonou Agreement. However, because the trade preferences under the Cotonou Agreement discriminated among WTO members, the EU had to obtain a WTO waiver to continue the preferences, which ultimately expired on December 31, 2007. The EU envisioned replacing the Cotonou preferences with bilateral free trade agreements, called Economic Partnership Agreements (EPAs), by January 1, 2008. However, negotiations on the EPAs have been slow, and currently only 17 of the SSA countries have signed interim EPAs.⁷⁰ The rules of origin under some EPAs allow for apparel using third-country fabric to receive duty-free treatment.

Whereas U.S. and EU average tariffs on all manufactured goods are below 3 percent, the average applied tariffs on imports of textiles are 6.7 percent in the EU and 7.5 percent in the United States, and are higher for imports of clothing, at 11.5 percent and 10.8 percent, respectively.⁷¹ However, for many textile and apparel items, the tariffs in the United States and the EU exceed 20 percent.⁷² Therefore, preferential access offered by the United States and the EU offers significant competitive advantages to eligible countries in terms of duty savings.⁷³ For example, 70 percent of U.S. imports of woven apparel from the AGOA beneficiary countries consisted of woven cotton trousers (mostly denim), which had an NTR duty rate of 16.6 percent.⁷⁴ However, AGOA trade preferences offer significantly larger duty savings for manmade-fiber products compared with cotton products. The underdevelopment of the manmade-fiber textile and apparel sectors in most SSA countries prevents them from taking full advantage of the benefits afforded by AGOA.

Regional Integration

As competition in the global textile and apparel market is based on price and a number of other factors related to the efficient management of both production and logistics, regional integration could help relatively small SSA textile and apparel producers compete with larger, more integrated global competitors. Greater regional integration could facilitate access to materials, product specialization, production sharing, and speed to market. Cross-country integration could also enable producers to access larger apparel markets or to reduce costs associated with transport, storage, border delays, and tariffs.⁷⁵ Industry sources indicated that because the SSA textile and apparel supply chain is

⁷⁰ SSA countries that have initialed or signed interim EPAs are Botswana, Burundi, Cameroon, Comoros, Ghana, Kenya, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, and Zambia. For additional information on the EPAs, see European Commission, “Bilateral Trade Relations,” January 27, 2009.

⁷¹ World Bank, *Vertical and Regional Integration*, July 2007, iii. In 2008, U.S. trade-weighted average tariffs for U.S. imports of products entered under NTR rates of duty were 6.4 percent for textiles and textile products (SITC 65) and 14.5 percent for apparel (SITC 84). USITC, Dataweb.

⁷² World Bank, *Vertical and Regional Integration*, July 2007, iii.

⁷³ World Bank, *Vertical and Regional Integration*, July 2007, iii.

⁷⁴ HTS subheadings 6204.62.40 and 6203.42.40. The rate of duty for men’s and boys’ trousers of synthetic fibers (subheading 6203.43.40) is 27.9 percent ad valorem.

⁷⁵ World Bank, *Vertical and Regional Integration*, July 2007, 20.

dispersed and fragmented across the continent, there is often a lack of knowledge of existing production within the SSA region, which inhibits increased cooperation along the textile and apparel supply chain.⁷⁶ As noted above, USAID trade hubs are attempting to improve SSA supply chain linkages through B2B exchanges to facilitate trade and create better integration along the textile and apparel supply chain in the SSA region.⁷⁷

There are numerous agreements and organizations in SSA to help facilitate economic cooperation and trade between members. The member countries and stages of implementation of the agreements vary considerably. To the extent that the agreements result in integrated goods, services, labor, or capital markets, or a common currency, they may encourage trade among the member countries by reducing production costs or exchange rate risk. Duty-free preferences or reduced rates of duty also encourage regional trade. In addition, regional integration may also expand the apparel market base available to regional producers, thereby encouraging investment in textile and apparel input production. Appendix H provides a brief summary of some of the free trade agreements and regional organizations that include SSA parties as members.

⁷⁶ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁷⁷ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

CHAPTER 4

Country Review¹

Overview

To identify the potential for competitive production of textile and apparel inputs, the factors of competitiveness outlined in chapter 3 were applied on a country-by-country basis, since many of the factors are dependent upon situations unique to a country (e.g., geography, government policies, and infrastructure). In analyzing the factors affecting the competitive production of textile and apparel inputs, factors affecting production of the inputs themselves were examined, as well as factors affecting how the sector fits into the entire supply chain.

To present an overall picture of the state of the textile and apparel inputs industry in each country and how the industry fits into the domestic, regional, and global supply chain, the country reviews provide general country information, an overview of the textile and apparel producing sectors, a presentation of trade data and information, and a discussion of the factors affecting competitive production. SSA countries were grouped primarily on the current level of their exports of textile and apparel inputs, their level of apparel exports, and other pertinent information, such as production of textile and apparel inputs or cotton. Production of textiles, primarily yarn and fabric, of a quality suitable for export to the United States, EU, and similar markets, is largely concentrated in a limited number of countries,² namely Group 1 countries. Group 1 countries are presented in the greatest detail, as they are the most likely locations for competitive production of textile and apparel inputs through new or increased investment or other measures. The countries in Groups 2 and 3 are generally not producing textile and apparel inputs for export to, or for use in downstream production of apparel to be exported to, the United States, the EU, and similar markets; however, to the extent applicable, textile and apparel inputs that could be produced competitively are identified for some of these countries. Group 4 countries have limited or no recent or current commercial production of textile and apparel inputs, or have limited or no commercial production of apparel, and they are least likely locations for competitive production of textile and apparel inputs in the near future.

Group 1 Countries

Together, the Group 1 countries (Ethiopia, Kenya, Lesotho, Madagascar, Mauritius, Nigeria, South Africa, Swaziland, Tanzania, and Zambia) accounted for the vast majority of total SSA country exports of both textile and apparel inputs (94 percent) and apparel (95 percent) in 2007. The countries in Group 1 were the 10 largest SSA exporters of

¹ Unless otherwise noted, all trade statistics are from World Bank, WITS Database, retrieved December 3, 2008 (textile and apparel inputs), and December 16, 2008 (apparel).

² USITC, Hearing transcript, January 29, 2009, 113 (testimony of Paul Ryberg, African Coalition for Trade).

textiles and apparel inputs in 2007.³ Six of the Group 1 countries (Kenya, Lesotho, Madagascar, Mauritius, South Africa, and Swaziland) are also among the top 10 SSA apparel exporters. Another 3 of the Group 1 countries (Nigeria, Tanzania, and Zambia) are among the top 10 SSA cotton producers.

Ethiopia

Potential Competitive Products

Ethiopia is a cotton-producing country with a history of producing woven cotton fabric and hand-loomed finished textile home furnishings and apparel. However, Ethiopia's textile and apparel sector is characterized by significantly underutilized capacity and the production of woven fabric that is not generally of export quality. Ethiopia has the potential to become a competitive producer of woven cotton fabric, provided the industry can obtain upgraded machinery and equipment and factory technical assistance. Poor infrastructure remains a significant impediment to the development of Ethiopia's textile and apparel inputs sector.

Country Overview

Ethiopia is located in the northeast horn of Africa. It is the second-most-populous SSA country with a total population of 79.1 million. In 2007, Ethiopia's GDP was \$19.4 billion, with a GDP per capita of \$245 (table 4.1). Since the fall of the military regime in 1991, Ethiopia's economy has undergone an extensive transformation that has included market-opening economic reforms, privatization, and the creation of a domestic economic environment designed to encourage foreign trade and foreign investment.⁴ Development of the textile and apparel sector is an important component of the Ethiopian government's economic development strategy.⁵ Textile and apparel production ranks as Ethiopia's largest formal sector manufacturing activity, accounting for about 36 percent of the country's total manufacturing output⁶ and employing nearly one-third of the country's total manufacturing labor force of 100,000 individuals.⁷

³ Togo and Sierra Leone appear among the top 10 exporters in the trade data used by the Commission. However, there are likely reporting errors in the data. According to the U.S. Department of State, Togo, which is covered in Group 3 with the other major cotton-producing countries, does not have any commercial production of textiles. U.S. Department of State, U.S. Embassy, Lomé, "Togo: Effects of Infrastructure Conditions on Export Competitiveness," October 3, 2008. Likewise, the Commission has been unable to confirm commercial textile production in Sierra Leone.

⁴ The Ethiopian government still reportedly retains control over key economic sectors. EIU, *Country Profile 2008: Ethiopia*, 2008, 30; U.S. Department of State, U.S. Embassy, Addis Ababa, "Ethiopia AGOA Country Eligibility Recommendations 2008," October 8, 2008.

⁵ U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

⁶ Agridev Consult, *Cotton-Textile-Apparel Value Chain Report for Ethiopia*, 2005, 13.

⁷ U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

TABLE 4.1 Ethiopia: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	19,395
GDP growth (annual %, 2007)	11.1
GDP per capita (current US\$, 2007)	245
Population (millions, 2007)	79.1
Goods exports (current US\$, millions, 2007)	1,284
Goods imports (current US\$, millions, 2007)	5,395
Inflation, consumer prices (annual %, 2006)	17.2
Literacy rate, adult total (% of people ages 15 and above, 2004)	35.9
Labor force, total (millions, 2006)	34.4
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	364
Gross capital formation (current US\$, millions, 2007)	4,840
Lending rate (% , 2006)	7.0
Manufacturing value added (current US\$, millions, 2007)	923
Prevalence of HIV, total (% of population 15–49, 2007)	2.1

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

Industry and Trade Overview

Ethiopia is a cotton-producing country with a long history of cottage industry-based production of hand-woven cotton textiles for the domestic population. Ethiopia's textile and apparel industry consists of approximately 80 textile and apparel firms in operation as of July 2008, up from 39 in 2007,⁸ of which an estimated 43 were medium- and large-scale manufacturing enterprises producing textile and apparel articles for the domestic market and for export.⁹ The sector includes eight vertically integrated textile mills, as well as stand-alone yarn and thread spinning mills, blanket and sack manufacturing factories, and an increasing number of private apparel assembly firms mostly operating with foreign investment partners.¹⁰

Like other sectors of the economy, Ethiopia's textile and apparel sector currently is made up of a combination of publicly and privately owned enterprises, and the Ethiopian government has stated its commitment to increasing the role of the private sector in future economic growth.¹¹ Several recent new foreign investment projects involve Canadian, Indian, Japanese, Swedish, and Turkish investors.¹² Most of this investment is by foreign vertically integrated textile enterprises that appear to be outsourcing their labor-intensive

⁸ U.S. Department of State, U.S. Embassy, Addis Ababa, "Ethiopia AGOA Country Eligibility Recommendations 2008," October 8, 2008. According to Ethiopian data, there were 40 textile firms (18 public, 22 private) and 29 apparel firms (3 public and 26 private) operating in Ethiopia in 2004–05 and employing a total of 23,307 workers. Government of Ethiopia, Central Statistics Agency, *2008 National Statistics (Abstract)*, 2008, table F.1.a.

⁹ Data reported by the Government of Ethiopia, Ministry of Trade and Industry. U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

¹⁰ Government of Ethiopia, Ministry of Trade and Industry, Textile and Leather Industry Development Department, "The Ethiopian Cotton-Textile Sector," slide 10, March 22, 2005; Agridev Consult, *Cotton-Textile-Apparel Value Chain Report for Ethiopia*, 2005, 13–14.

¹¹ Government of Ethiopia, Ministry of Trade and Industry, Textile and Leather Industry Development Department, "The Ethiopian Cotton-Textile Sector," slide 10, March 22, 2005; U.S. Department of State, U.S. Embassy, Addis Ababa, "2008 Investment Climate Statement," January 14, 2008.

¹² Park Consulting P.L.C., "List of Foreign Investment Projects," undated (accessed March 15, 2009).

operations to Ethiopia to remain internationally competitive, with production geared for export to Europe.¹³

Textile and apparel inputs

Textile production in Ethiopia includes yarn spinning, fabric weaving and knitting, dyeing and finishing of mainly 100 percent cotton articles produced primarily for the domestic market.¹⁴ Most of the yarn that is spun in Ethiopia is produced by vertically integrated firms and is used in the production of woven cotton fabric. In addition to cotton yarn and woven cotton fabric, Ethiopia's textile sector also produces acrylic yarn, nylon fabrics, woolen and waste-cotton blankets, bedsheets, and sewing thread.¹⁵ Several sources that rely on domestically produced fabric reported that the quality of fabric produced in Ethiopia is not adequate for use in apparel exports to the U.S. market.¹⁶ Textile mills also supply cotton yarn to Ethiopian hand-loom weavers and cottage industries.¹⁷

Ethiopia's hand-loomed industry produces textile home furnishings (such as tablecloths, napkins, and table runners) and apparel using local cotton and small quantities of domestically sourced raw silk (box 4.1).¹⁸ These hand-loomed cotton and silk articles are sold locally, as well as exported to niche markets in the United States, Canada, and Europe for customers seeking handcrafted textile articles. Ethiopia has the potential to expand production of these articles and to domestically supply raw material inputs including both cotton and raw silk.

Sources generally reported that Ethiopia currently has no producers of specific textile and apparel inputs such as synthetic thread, yarn, and fabric; interlinings; and accessories and trim.¹⁹ One source reported that there are three recently established button producers (one using cow horns and two using plastic) in Ethiopia, although good quality accessories and trim must be imported.²⁰

¹³ For example, a Turkish textile enterprise, AYKA Textile Industry and Trade Inc., began plans to relocate production from Turkey to Ethiopia in 2007 with the construction of an integrated textile facility (from spinning to garment production) in Ethiopia. The availability of lower-wage Ethiopian labor and Ethiopia's tax and investment incentives reportedly were key reasons for this factory relocation. *Addis Forum*, "Ethiopia: Turkish Textile Giant to Invest in Country," August 19, 2008; *Reporter* (Ethiopia), "Turkish Businesspeople Show Growing Interest in Ethiopia," December 13, 2008.

¹⁴ Government of Ethiopia, Embassy of Ethiopia in China, "Profile of the Textile Industry in Ethiopia," undated (accessed December 8, 2008); Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 6.

¹⁵ Government of Ethiopia, Embassy of Ethiopia in China, "Profile of the Textile Industry in Ethiopia," undated (accessed December 8, 2008); Agridev Consult, *Cotton-Textile-Apparel Value Chain Report for Ethiopia*, 2005, 14.

¹⁶ SSA industry representative, interview by Commission staff, Addis Ababa, Ethiopia, March 4, 2009.

¹⁷ Agridev Consult, *Cotton-Textile-Apparel Value Chain Report for Ethiopia*, 14.

¹⁸ The cotton and raw silk used by these companies are sourced domestically, although some silk is imported due to the current low output of domestically cultivated silkworms.

¹⁹ Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 7. Sources also reported that fabric processing, such as fabric finishing and dyeing, generally was not being done extensively in Ethiopia. SSA industry representative, interview by Commission staff, Addis Ababa, Ethiopia, March 2, 2009.

²⁰ Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 7; SSA industry representative, interview by Commission staff, Addis Ababa, Ethiopia, March 4, 2009.

BOX 4.1 Ethiopia's Hand-loomed Textiles Industry

In addition to the machine-based textile industry, Ethiopia also has a hand-loomed textile industry that produces textile and apparel articles for the domestic market and for export.^a Ethiopia has a long history of cottage industry-based production of hand-woven cotton textiles for the domestic population, as well as a long history of silk weaving. Ethiopia's current handicraft sector includes both a village-based cottage industry of spinning and weaving in individual households and a factory-based hand-loom industry of medium-sized enterprises. Using locally sourced cotton and locally cultivated silk,^b as well as imported synthetic fibers, Ethiopia's hand-loom manufacturing industry produces both semifinished and final products by manual spinning and hand looms.^c The Ethiopian government reportedly has encouraged the growth of hand-loom manufacturing by making available abandoned factories or other large buildings on favorable terms to entrepreneurs in the hand-loom business.^d These hand-loomed cotton and silk articles are sold locally and are exported to niche markets in the United States, Canada, and Europe. Companies typically export finished hand-loomed textile goods in greige fabric state or apply natural dyes.^e Such articles are largely marketed to customers seeking handcrafted textiles produced by Ethiopian companies that support local farmers, artisans, and women entrepreneurs.

^aFor additional information, see Government of Ethiopia, Ministry of Trade and Industry, FeMSEDA, *Ethiopian Handloom Product Export Market Study*, October 2004.

^bEthiopia has a long history of silk weaving using imported silk. Ethiopia's Ministry of Agriculture and Rural Development imported eri silkworms from Japan in about 2003 to explore the possibility of domestic silk production. Industry representative, interview by Commission staff, Addis Ababa, Ethiopia, March 7, 2009.

^cIndustry representative, interview by Commission staff, Addis Ababa, Ethiopia, March 2, 2009.

^dDemessre, Hordofa, and van Duijvenbode, "Fruit of the Loom," January 2005, 13.

^eIndustry representative, interview by Commission staff, Addis Ababa, Ethiopia, March 2 and 7, 2009.

In 2007, Ethiopia's exports of textile and apparel inputs totaled \$3.1 million, almost all of which (99 percent) were shipped to the EU (tables 4.2 and 4.3). Ethiopia's exports of textile and apparel inputs declined by more than one-half since 2003, largely due to a sharp decline in exports to the EU. Woven cotton fabric accounted for almost all (97 percent) of Ethiopia's exports of textile and apparel inputs in 2007, and Ethiopia's exports of woven fabric have declined by more than one-half since 2003.

TABLE 4.2 Ethiopia: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	1	3	31	4	5
EU-27	7,513	6,304	3,414	2,854	3,013
Rest of world	742	593	141	239	41
United States	0	0	10	11	1
Total	8,256	6,901	3,596	3,108	3,059

Source: World Bank, WITS Database (accessed December 3, 2008).

Imports of textile and apparel inputs totaled \$72.6 million in 2007 (table 4.3), and major suppliers included China (\$53.8 million), India (\$5.0 million), and the EU (\$4.9 million). Because Ethiopia's current level of fabric production is low and the woven fabric being produced is generally not export quality, Ethiopia imports a significant amount of woven fabric to support its domestic textile and apparel industry. Woven fabric imports accounted for two-thirds of the value of Ethiopia's imported textile and apparel inputs in 2007, and were approximately 16 times the value of Ethiopia's woven fabric exports. The value of Ethiopia's woven fabric imports more than doubled during the 2003–07 period; imports of knit fabric, manmade fibers, and other fabric also increased significantly.

TABLE 4.3 Ethiopia: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	0	0	101	0
Knit fabric	0	48	4	1	6
Manmade fibers	0	0	0	0	0
Other fabric	0	0	0	1	0
Thread	0	0	0	0	0
Trim	6	4	11	14	16
Woven fabric	7,901	6,320	3,391	2,896	2,975
Yarn	350	528	189	95	62
Total	8,256	6,901	3,596	3,108	3,059
Imports:					
Carded or combed fibers	0	0	1	10	24
Knit fabric	1,905	2,714	4,536	7,556	8,063
Manmade fibers	522	363	861	100	2,748
Other fabric	1,012	1,012	1,981	2,739	5,567
Thread	979	544	602	927	1,489
Trim	783	846	2,600	997	1,673
Woven fabric	22,203	19,431	38,253	43,389	47,526
Yarn	2,590	5,150	5,937	2,944	5,533
Total	29,993	30,060	54,771	58,664	72,624

Source: World Bank, WITS Database (accessed December 3, 2008).

Apparel

Ethiopia's apparel assembly sector uses both domestically produced fabric (integrated textile mills), as well as imported fabric (apparel assembly enterprises), to produce woven and knitted garments, including mesh shorts and tank tops, T-shirts, knitted and woven shirts, trousers, hospital scrubs and gowns, school uniforms, cooks' uniforms, and socks. Most of the apparel factories in Ethiopia are set up to make a mix of woven goods and knitwear, but none make fully fashioned knitwear, such as sweaters.²¹ Typical articles produced for local consumption include men's suits, khaki shorts, and T-shirts, while most other shirts and tops sold in Ethiopia's local market are imported.²²

Ethiopia's apparel exports more than doubled during the 2003–07 period, rising from \$2.1 million to \$5.9 million (table 4.4). In 2007, the leading market for Ethiopia's apparel exports was the United States (\$5.0 million). Most of Ethiopia's apparel exports to the United States entered under AGOA; U.S. imports under AGOA from Ethiopia increased from \$1.7 million in 2003 to \$4.7 million in 2007.²³ Industry representatives estimate that 95 percent of the 35–40 apparel assembly factories currently operating in Ethiopia were established after Ethiopia received AGOA eligibility.²⁴ Ethiopia's apparel imports also more than doubled during the 2003–07 period, rising from \$18.3 million to \$43.6 million. Ethiopia's leading apparel supplier in 2007 was China (\$35.2 million).

²¹ Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 6.

²² SSA industry representative, interview by Commission staff, Addis Ababa, Ethiopia, March 4, 2009.

²³ USITC, *Interactive Tariff and Trade Database (Dataweb)*, March 30, 2009.

²⁴ SSA industry representatives, interview by Commission staff, Addis Ababa, Ethiopia, March 2, 2009.

TABLE 4.4 Ethiopia: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	2,100	4,687	5,219	6,177	5,886
Imports	18,312	18,475	21,894	29,724	43,553

Source: World Bank, WITS Database (accessed December 16, 2008).

Despite reports from sources that Ethiopia has the potential to become a significant global cotton producer,²⁵ cotton ranks behind coffee, cereals, and pulses in terms of importance to Ethiopia's largely agriculture-based economy. Ethiopia produces primarily long staple cotton.²⁶ Sources reported that Ethiopia has excellent cotton-growing conditions²⁷ and a significant amount of land potentially suitable for cotton production.²⁸ Some sources also estimate that, given the relatively limited use of pesticides and chemical fertilizers by Ethiopian smallholder farmers, Ethiopia has the potential to become a producer of organic cotton.²⁹ However, Ethiopia currently has no administrative bodies to monitor and certify organic farm practices and lacks a separate line of ginneries and other processing and handling facilities to manufacture organic cotton-based products.³⁰

Factors Contributing to Competitive Production

Ethiopia has raw materials available domestically, as it is a cotton producer and is beginning to produce commercial quantities of raw silk.³¹ Further, the textile and apparel export sector has priority consideration in the government's economic growth strategy,³² wherein the government is creating a foreign investor-friendly business environment and upgrading the country's physical and transportation infrastructure. Additionally, Ethiopia implemented a major privatization initiative in 2006, which resulted in an increase in the number of foreign-owned and private enterprises.³³

Government incentives for the textile and apparel sector include a loan guarantee program, under which the Ethiopian government guarantees 70 percent of any new textile and apparel sector commercial loan; relatively easy and affordable access to land; tax holidays of up to five years; duty-free import of equipment, fabrics for export production, or other supplies for investment; and a one-stop shop at the Ethiopian customs

²⁵ Agridev Consult, Cotton-Textile-Apparel Value Chain Report for Ethiopia, 2005, 5–6.

²⁶ Opinions vary on the quality of Ethiopia's current cotton production, and different regions of Ethiopia produce different qualities of cotton. Long staple cotton is generally considered to have better characteristics for spinning than short staple cotton. Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 6; Agridev Consult, Cotton-Textile-Apparel Value Chain Report for Ethiopia, 2005, 6.

²⁷ USITC, Hearing transcript, January 29, 2009, 87–88 (testimony of Anthony Carroll, Manchester Trade Ltd.).

²⁸ According to one estimate, Ethiopia has more than 2.5 million hectares of cotton-producing land available for farming, nearly equivalent to that of Pakistan, the world's fourth-largest cotton producer. Agridev Consult, Cotton-Textile-Apparel Value Chain Report for Ethiopia, 2005, 5–6.

²⁹ Thomas, "Organic Cotton Production and Products," 2007; Demessre, Hordofa, and van Duijvenbode, "Fruit of the Loom," January 2005, 11.

³⁰ Demessre, Hordofa, and van Duijvenbode, "Fruit of the Loom," January 2005, 11; Ethiopian government official, interview by Commission staff, Addis Ababa, Ethiopia, March 3, 2009.

³¹ Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 3.

³² U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

³³ EIU, Country Profile 2008: Ethiopia, 2008, 30.

authority.³⁴ The Ethiopian government makes available to exporters an export credit guarantee program, duty drawback provisions, and bonded warehouses.³⁵ The government also finances 75 percent of the cost of bringing in foreign technical consultants to address the shortage of skilled labor.³⁶ Other factors contributing to competitive textile and apparel inputs production in Ethiopia are the country's central geographic location, which offers strategic proximity to the EU, Middle East, and South African markets, and its low wage rates.³⁷ The Ethiopian government is undertaking new investments designed to improve the country's physical infrastructure, including ongoing or planned projects to improve the road network, expand and improve air terminals, and develop new power plants, although these efforts are far from completion.³⁸

Factors Inhibiting Competitive Production

Despite government projects to improve the country's roads and air terminals, infrastructure is still an impediment to the development of Ethiopia's textile and apparel inputs sector. Ethiopia ranked lower than most of the other Group 1 countries in terms of quality of railroad infrastructure and road density (table 3.4). Ethiopia's road network is in poor condition. Poor roads to and from the port of Djibouti add to transportation time and costs and pose significant bottlenecks to international trade for Ethiopia. In addition, although Ethiopia's textile and apparel industry is concentrated mainly around the capital, Addis Ababa,³⁹ several enterprises are located in other regions of the country. One source stated that, given the poor condition of domestic roads, the geographic dispersion of the industry is a significant impediment to future growth and interfirm cooperation in the sector.⁴⁰ Ethiopia's railroad network has been characterized as "almost obsolete because of the lack of maintenance, poor management, the track's inability to accommodate the current transport load demands, and lack of commercial focus."⁴¹

As a landlocked country, Ethiopia currently ships nearly all of its international freight via the port of neighboring Djibouti. The need for overland transportation to ship via Djibouti makes shipping cargo to and from Ethiopia a lengthy and expensive process. Sources reported that it should take only 14–15 days to ship from Ethiopia to the United States; however, the typically small Ethiopian cargo shipments are often routed via Asian ports where they are consolidated with other U.S.-bound cargo, which can double the shipping time.⁴² Ethiopia had the second-longest shipping time (behind landlocked Zambia) among the Group 1 countries, and shipping costs for Ethiopia ranked among the highest for the group (table 3.3).

³⁴ U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

³⁵ U.S. Department of State, U.S. Embassy, Addis Ababa, "Ethiopia AGOA Country Eligibility Recommendations 2008," October 8, 2008.

³⁶ Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 9.

³⁷ *Ibid.*, 3.

³⁸ U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008; U.S. Department of State, U.S. Embassy, Addis Ababa, "Ethiopia AGOA Country Eligibility Recommendations 2008," October 8, 2008.

³⁹ According to Ethiopian government data for 1998, 24 of the country's 42 large/medium scale textile firms (10 or more employees) were located in Addis Ababa, and 25 of the country's 31 large/medium scale apparel firms were located in Addis Ababa. Government of Ethiopia, Central Statistics Agency, *Large and Medium Manufacturing Industries Survey, 2006–2007*, table 3.1.

⁴⁰ SSA industry representative, interview by Commission staff, Ethiopia, March 6, 2009.

⁴¹ U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

⁴² SSA industry representatives, interview by Commission staff, Addis Ababa, Ethiopia, March 2, 2009.

Ethiopia's telecommunications network is also limited, and the government has achieved little progress in upgrading and expanding this important component of business infrastructure, despite increasing demand for telephone and Internet services.⁴³ Similarly, the demand for electricity has outpaced Ethiopia's largely rainfall-dependent hydroelectric power generation capabilities, resulting in periodic power shortages, although the textile and apparel sector reportedly has relatively more reliable access to electricity.⁴⁴

Ethiopia is ranked 116th of 181 economies in terms of the ease of doing business in the World Bank's Doing Business 2009 database, which approximates the average for the Group 1 countries (table 3.3). Although some enterprises were privatized in 2006, remaining state-owned enterprises and ruling party-owned companies continue to receive preferential treatment by the government when it comes to access to foreign exchange and favorable loan terms from state-owned banks. In general, land cannot be privately owned, but it can be leased for 99 years.⁴⁵

Wage rates in Ethiopia are reported to be lower than in most neighboring SSA countries,⁴⁶ and low-wage labor is widely available; however, labor skill levels are low and absenteeism is high, resulting in low labor productivity.⁴⁷ In addition, there are too few skilled workers and a lack of management skills in all areas, causing firms to compete for the small pool of skilled workers.⁴⁸ Ethiopia has no apparel design, technology, or manufacturing training programs.⁴⁹

Lack of demand for textile and apparel inputs from the domestic apparel industry hampers the sector's growth. Ethiopia is the second-most-populous SSA country, giving it a large potential domestic market to support the development of a local textile and apparel industry. However, a significant part of local demand is met through imported apparel items,⁵⁰ with the remainder supplied by local production. Although most apparel production in Ethiopia is for the domestic market, domestic production is challenged by both low-cost imports and illegally imported used clothing.⁵¹

⁴³ U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008; SSA industry representatives, interview by Commission staff, Addis Ababa, Ethiopia, March 2, 2009.

⁴⁴ U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

⁴⁵ U.S. Department of State, U.S. Embassy, Addis Ababa, "Ethiopia AGOA Country Eligibility Recommendations 2008," October 8, 2008.

⁴⁶ Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 22; SSA industry representatives, interview by Commission staff, Addis Ababa, Ethiopia, March 2, 2009.

⁴⁷ *Just-style.com*, "Ethiopia: The Next Sourcing Hot-Spot?" March 1, 2007.

⁴⁸ Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 9; SSA industry representatives, interview by Commission staff, Addis Ababa, Ethiopia, March 2, 2009.

⁴⁹ *Just-style.com*, "Ethiopia: The Next Sourcing Hot-Spot?" March 1, 2007.

⁵⁰ Government of Ethiopia, Embassy of Ethiopia in China, "Profile of the Textile Industry in Ethiopia," undated (accessed December 8, 2008).

⁵¹ Ethiopia officially prohibits imports of used clothing, but this prohibition is often circumvented by private traders. Ethiopian government official, interview by Commission staff, Addis Ababa, Ethiopia, March 3, 2009.

Much of the machinery and equipment in the textile and apparel sector is old and unusable because of a lack of spare parts, resulting in underutilized industrial capacity.⁵² Some sources reported that packaging materials available in Ethiopia generally are not up to international packaging standards.⁵³ However, a representative of an export-oriented apparel assembly enterprise in Ethiopia stated that his company recently began procuring cardboard boxes and polyethylene bags from local manufacturers.⁵⁴

Another issue facing Ethiopia's textile and apparel industrial infrastructure is underutilization of installed capacity. Recently established export-oriented apparel facilities reportedly operate below capacity due to a lack of domestic demand and foreign orders. One source reported that many of Ethiopia's newly built apparel factories "are mainly sitting empty, desperate for export orders."⁵⁵ One reason given for the shortage of foreign orders is a lack of availability of high-quality fabric in reliably consistent quantities.⁵⁶ According to one Ethiopian manufacturer and exporter of home furnishings, the lack of domestically available, export-quality fabric led that firm to stop exports of textile home furnishings to the U.S. market.⁵⁷ Other sources reported that they preferred to import fabric rather than use inferior, locally produced fabric.⁵⁸

Apart from cotton and some raw silk, all inputs into textile and apparel production, including synthetic thread, yarn, fabric, chemicals, and accessories, are imported. Despite the country's significant cotton potential, cotton production is low. Ethiopia also faces the challenges of cotton contamination and the need to improve quality control for its cotton crop.⁵⁹ Cotton contamination reportedly occurs during harvesting and bale formation and through impurities introduced by disease.⁶⁰ The dyed cotton yarn used in the sector is produced by Ethiopian state-owned enterprises and is reported to be of generally low quality.⁶¹ Due to a shortage of domestically cultivated silkworms, the silk weaving company must supplement domestic production with imports of mulberry silk from Uganda.⁶²

Other factors that limit the sector's potential include a lack of awareness among international buyers of Ethiopian apparel producers; manufacturing inefficiency; lack of speed to market; uncompetitive costs; and a shortage of marketing and manufacturing know-how.⁶³ Several sources reported that Ethiopia has been largely overlooked by the

⁵² USITC, Hearing transcript, January 29, 2009, 85 (testimony of Anthony Carroll, Manchester Trade, Ltd.); *Just-style.com*, "Incentives Hope to Entice Garment Makers to Ethiopia," March 6, 2007; and Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 8. Equipment in parastatal enterprises is generally older than that in private enterprises. USAID official, interview by Commission staff, Addis Ababa, Ethiopia, March 3, 2009. Equipment that was 15 years old was considered by Ethiopian industry representatives to be in relatively good condition for the country. SSA industry representative, interview by Commission staff, Nazreth, Ethiopia, March 4, 2009.

⁵³ Demessre, Hordofa, and van Duijvenbode, "Fruit of the Loom," January 2005, 15.

⁵⁴ SSA industry representatives, interview by Commission staff, Nazreth, Ethiopia, March 4, 2009.

⁵⁵ *Just-style.com*, "Ethiopia: The Next Sourcing Hot-Spot?" March 1, 2007.

⁵⁶ SSA industry representatives, interviews by Commission staff, Addis Ababa, Ethiopia, March 2-4, 2009.

⁵⁷ SSA industry representative, interview by Commission staff, Addis Ababa, Ethiopia, March 4, 2009.

⁵⁸ SSA industry representatives, interview by Commission staff, Ethiopia, March 4, 2009.

⁵⁹ Agridev Consult, *Cotton-Textile-Apparel Value Chain Report for Ethiopia*, 2005, 6.

⁶⁰ Demessre, Hordofa, and van Duijvenbode, "Fruit of the Loom," January 2005, 15.

⁶¹ SSA industry representatives, interview by Commission staff, Addis Ababa, Ethiopia, March 2, 2009.

⁶² Demessre, Hordofa, and van Duijvenbode, "Fruit of the Loom," January 2005, 15.

⁶³ U.S. Department of State, U.S. Embassy, Addis Ababa, "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

global clothing and textiles industry. Sources also reported that Ethiopian producers were unfamiliar with international markets.⁶⁴

Kenya

Potential Competitive Products

Potentially competitive export products for Kenya include yarn and fabric from organically grown cotton. Niche products such as these can garner a premium price that helps compensate for Kenya's higher production and transportation costs. Textile and apparel inputs that are currently being produced by Kenya's small but vertically integrated industry include cotton yarn (including organic yarn) and certain synthetic yarn, knit cotton fabric, and woven fabric for blankets. These products are either exported directly or incorporated into products that are exported to the United States and the EU. Although Kenya has been successful in developing an export-oriented apparel industry, high-cost electricity and poor infrastructure hinder Kenya's prospects for increased competitive production of textile and apparel inputs.

Country Overview

Kenya is located in East Africa and has a coastline on the Indian Ocean. In 2007, GDP was \$29.5 billion, and with a population of 37.5 million, Kenya's GDP per capita was \$787 (table 4.5). Manufacturing accounts for about 10 percent of GDP.⁶⁵ Employment in the textile and apparel sector represents 17.5 percent of formal employment in manufacturing.⁶⁶ The textile and apparel industry employed approximately 43,000 workers in 2004, second only to the food and beverages industry among manufacturing industries.⁶⁷ In general, Kenya also has relatively skilled and productive labor. Kenya is a member of the East African Community (EAC) along with Burundi, Rwanda, Tanzania, and Uganda. The EAC has had a customs union (table H.1) since January 2005 and is planning the formation of a common market in 2010 and a monetary union in 2012.⁶⁸ The EAC has negotiated an interim trade deal with the EU to replace the expired market access provisions of the Cotonou Agreement. Kenya has also benefited from apparel trade preferences under AGOA (table 3.5). Kenya's largest city and national capital is Nairobi, but the largest port is in Mombasa, the second-largest city, increasing transport costs for producers in Nairobi.

Industry and Trade Overview

In the early 1980s, the textile and apparel industries were the leading manufacturing sectors in Kenya in terms of output and employment; about 30 percent of the manufacturing labor force was employed in the textile and apparel industries.⁶⁹ At that time, the textile and apparel industries in Kenya were protected by high tariffs, and they primarily supplied the local market.⁷⁰ In the late 1980s and early 1990s, the government

⁶⁴ Tait, "Potential for Ethiopia's Garment and Textile Industry," March 2007, 22; U.S. Department of State, U.S. Embassy, Addis Ababa "USITC Report: Ethiopia's Infrastructure Effects," October 17, 2008.

⁶⁵ EIU, *Country Profile 2008: Kenya*, 2008, 20.

⁶⁶ KAM, *Manufacturing in Kenya*, 2006, 113.

⁶⁷ KAM, *Manufacturing in Kenya*, 2006, 113.

⁶⁸ EIU, *Country Profile 2008: Kenya*, 2008, 11.

⁶⁹ PKF Consulting, Ltd. and International Research Network, *Kenya's Apparel & Textile Industry 2005*, 2005, 1.

⁷⁰ Industry representative, interview by Commission staff, Nairobi, Kenya, October, 29, 2008.

TABLE 4.5 Kenya: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	29,509
GDP growth (annual %, 2007)	6.9
GDP per capita (current US\$, 2007)	787
Population (millions, 2007)	37.5
Goods exports (current US\$, millions, 2007)	4,080
Goods imports (current US\$, millions, 2007)	8,989
Inflation, consumer prices (annual %, 2007)	9.8
Literacy rate, adult total (% of people ages 15 and above, 2000)	73.6
Labor force, total (millions, 2006)	16.7
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	51
Gross capital formation (current US\$, millions, 2007)	5,762
Lending rate (% 2007)	13.3
Manufacturing value added (current US\$, millions, 2007)	3,096
Prevalence of HIV, total (% of population 15–49, 2007)	7.8

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

lowered tariffs on textile and apparel products, allowing more imports of these products, as well as used clothing, to enter the market. As a result, capacity utilization in domestic textile mills dropped below 50 percent,⁷¹ and by 2006, most of the 50 textile mills operating in 1990 had closed.⁷²

Textile and apparel inputs

The textile mills currently operating in Kenya are privately owned. Three of the firms are fully vertically integrated. Bedi Investments Ltd. and its subsidiary, Fine Spinners, Ltd., spin cotton, polyester, and blended yarn for producing knitted and woven fabric (see box 4.2).⁷³ Bedi Investments and Fine Spinners use this fabric to make apparel for export to the United States and the EU.⁷⁴ Vertical integration of these firms allows for shorter lead times for delivering orders.⁷⁵ Bedi Investments and Fine Spinners also sell some of their yarn and fabric to other apparel manufacturers in Kenya and the region.⁷⁶ The third vertically integrated firm, Sunflag Group, spins cotton and synthetic yarn, produces knitted and woven fabric, and makes apparel for the domestic and regional markets.⁷⁷ Kenya also has a few smaller textile firms that do not produce apparel. For example, Rupa Mills produces cotton yarn in an export processing zone (EPZ) for export to the EU.⁷⁸ Other small firms spin yarn and weave blankets to sell to relief organizations

⁷¹ PKF Consulting, Ltd. and International Research Network, *Kenya's Apparel & Textile Industry 2005*, 2005, 1.

⁷² Industry representative, interview by Commission staff, Nairobi, Kenya, December 5, 2006.

⁷³ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁷⁴ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁷⁵ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁷⁶ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁷⁷ Sunflag Textile & Knitwear Mills Ltd. Web site. <http://www.sunflagkenya.com/> (accessed March 12, 2009); industry representative, telephone interview by Commission staff, March 5, 2009.

⁷⁸ Industry representative, interview by Commission staff, Nairobi, Kenya, December 5, 2006; industry representative, telephone interview by Commission staff, March 5, 2009.

BOX 4.2 Company Profiles: Bedi Investments Limited and Fine Spinners Limited

Bedi Investments Limited (BIL) began producing apparel in Nakuru, Kenya, in 1976. BIL subsequently added the capacity to spin yarn and weave fabric and is today a fully integrated mill. BIL can produce 1,080 tons of yarn, 2.8 million meters of fabric, and 1.4 million pieces of apparel per year. The yarn and fabric produced by BIL are polyester blends and are primarily consumed in-house, with small amounts sold to other firms in eastern and southern Africa. BIL's apparel unit primarily makes formal and casual pants, which are marketed to the United States and the EU.

Fine Spinners Limited began operations as a government parastatal entity and was sold to private owners in 1996. Fine Spinners is now majority owned by BIL. Fine Spinners is a fully integrated mill that spins yarn, knits fabric, and makes apparel. Fine Spinners is focused on producing high-value apparel for the EU and U.S. markets with organically grown and fair trade cotton imported from neighboring Uganda. The company also manufactures sewing thread under a license agreement with American & Efird, Inc. The yarn, fabric, and sewing thread that are not used in-house are marketed within COMESA. Fine Spinners has the capacity to produce 1,500 tons of yarn, 360 tons of thread, 720 tons of fabric, and 1,800,000 pieces of apparel per year.

Source: Industry official, company literature e-mailed to Commission staff, March 5, 2009.

operating in the region.⁷⁹ Another firm imports acrylic fiber and spins it into acrylic yarn for retail sale in the region.⁸⁰

Kenya is also a cotton producer, although relatively small compared with many other SSA countries. In 2007, it produced 25,000 bales, compared with, for example, 85,000 bales in Ethiopia and 310,000 bales in Tanzania.⁸¹

In 2007, Kenya registered a trade deficit of \$290.3 million in textile and apparel inputs. Kenya's exports of textile and apparel inputs totaled only \$8.0 million in 2007, down from \$10.1 million in 2006 (table 4.6), and consisted largely of yarn and woven fabric (table 4.7). Kenya's largest markets were the EU (\$2.7 million), for which the largest export item was cotton yarn, and Uganda (\$2.4 million). Exports to Uganda are mostly accounted for by one company's shipments of acrylic hand-knitting yarn. By contrast, Kenya's imports of textile and apparel inputs totaled \$298.3 million. The largest suppliers were China (\$153.4 million), India (\$36.8 million), and Hong Kong (\$27.5 million).

Apparel

Kenya was the fourth largest SSA apparel exporter in 2007 (table 1.1). In 2007, Kenya's exports of apparel totaled \$269.6 million, down 12 percent from its peak in 2004 (table 4.8). Apparel made in Kenya is primarily exported to the United States, with smaller amounts exported within the region and to the United Kingdom.⁸² Kenya's apparel manufacturers are highly dependent on AGOA tariff preferences and the third-country fabric provision.⁸³ Much of the fabric needed by Kenyan manufacturers is not

⁷⁹ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁸⁰ The acrylic yarn is typically bought by households for hand-knitted sweaters. Because of the bulk of acrylic yarn, it is expensive to ship; therefore, it is less expensive to import acrylic fibers and spin them into yarn in Kenya than to import the yarn. Industry representative, telephone interview by Commission staff, March 5, 2009.

⁸¹ For more information, see app. G.

⁸² World Bank, *Snapshot Africa: Kenya*, January 2007, 14.

⁸³ Industry representative, telephone interview by Commission staff, March 5, 2009.

TABLE 4.6 Kenya: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	4,661	4,826	3,570	3,935	3,991
EU-27	2,476	4,291	4,248	4,803	2,715
Rest of world	1,539	760	1,003	475	431
United States	292	66	96	886	861
Total	8,968	9,944	8,917	10,099	7,998

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.7 Kenya: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	844	75	54	26	17
Knit fabric	321	496	500	776	369
Manmade fibers	436	389	706	269	90
Other fabric	351	128	349	221	411
Thread	85	81	186	70	72
Trim	690	109	524	278	432
Woven fabric	1,740	2,083	1,228	2,395	1,502
Yarn	4,501	6,583	5,370	6,066	5,106
Total	8,968	9,944	8,917	10,099	7,998
Imports:					
Carded or combed fibers	2,442	2,791	10,626	13,625	3,361
Knit fabric	14,371	38,726	35,539	34,522	40,528
Manmade fibers	10,650	11,573	16,019	17,189	23,166
Other fabric	6,083	11,844	12,074	8,677	11,023
Thread	1,737	2,497	3,094	1,676	2,079
Trim	8,830	12,067	11,326	12,410	12,782
Woven fabric	109,579	159,250	192,878	167,559	183,715
Yarn	11,745	18,513	17,675	16,312	21,608
Total	165,437	257,260	299,232	271,971	298,262

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.8 Kenya: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	207,741	305,190	296,556	287,010	269,584
Imports	25,272	41,287	60,930	60,835	95,072

Source: World Bank, WITS Database (accessed December 16, 2008).

produced in Kenya (e.g., denim), and the high costs of intra-SSA transportation often make fabric from Asia cheaper than fabric from other countries in SSA.⁸⁴

Factors Contributing to Competitive Production

Kenya has a large apparel sector that could provide domestic demand for Kenyan production of textile and apparel inputs.⁸⁵ The government of Kenya has encouraged apparel production by establishing EPZs, which allow apparel and other firms to import raw materials free of duty if the final products are exported. Firms in the EPZ also receive a five-year tax holiday and VAT rebates for exported goods.⁸⁶ At least one textile

⁸⁴ U.S. Department of State, U.S. Embassy, Nairobi, “Kenya Urges Extension of Third Country Fabric Waiver,” October 8, 2008, 3; industry representative, telephone interview by Commission staff, March 5, 2009.

⁸⁵ Industry representatives, interview by Commission staff, Nairobi, Kenya, October 29, 2008.

⁸⁶ Industry representatives, interview by Commission staff, Nairobi, Kenya, October 29, 2008.

firm in Kenya sells fabric and thread to apparel producers in the EPZs.⁸⁷ Generally, this locally produced fabric and trim is less expensive than imported goods.⁸⁸

Instead of trying to compete with Asian firms in the entire U.S. market, Kenyan textile firms are focusing on niche markets. One integrated textile firm has a mill dedicated to the production of yarn and fabric from organically grown cotton.⁸⁹ The premium that the firm can receive for garments made from organically grown cotton compensates for Kenya's higher cost of production and transportation.⁹⁰ This integrated firm also produces cotton/polyester blended yarn and fabric. Since tariffs in the United States are higher for apparel made from synthetic fabric rather than cotton, AGOA tariff preferences provide more benefit for these items if they are primarily made of polyester fibers.

Factors Inhibiting Competitive Production

The major factor inhibiting the growth of a textile industry in Kenya is the high cost of electricity. Electricity in Kenya costs approximately \$0.22/kWh, which is among the highest rates in the region and higher than rates for competitors outside the region.⁹¹ The cost of electricity accounts for about 35 percent of the cost of fabric production in Kenya, compared with 16 percent in India.⁹² High government tax rates reportedly are one reason for high electricity rates.⁹³ One industry official stated that there was no likelihood of the textile industry recovering, despite government efforts to address the industry's issues, unless electricity tax rates were lowered.⁹⁴ Reliability of electricity is also a concern.⁹⁵ In a World Bank survey, 28 percent of all firms in Kenya reported electricity as a major constraint in production (table 3.1). These firms reported that they experienced an average of 7.3 power outages per month, which led to a value loss of 6.4 percent of sales.

Other factors that inhibit competitive production are the lack of financing for new equipment, poor transportation infrastructure, and government corruption. Banks in Kenya reportedly tend to prefer investments in government bonds to private business lending and charge high interest rates (16–18 percent) to businesses.⁹⁶ According to the World Economic Forum, Kenya scored poorly in terms of the perceived quality of existing road, railroad, and port infrastructure (table 3.4). Delays caused by congestion at the port of Mombasa and poor road conditions can lead to cancelled orders from apparel buyers or other penalties incurred by the Kenyan producers.⁹⁷ One industry source noted that it can take up to one week for trucks to travel between the port of Mombasa and Nairobi due to poor road conditions.⁹⁸

⁸⁷ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁸⁸ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁸⁹ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁹⁰ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁹¹ USITC, *Sub-Saharan Africa: Effects of Infrastructure Conditions*, 2009, 6-32; industry representative, telephone interview by Commission staff, March 5, 2009.

⁹² Industry representative, telephone interview by Commission staff, March 5, 2009.

⁹³ The tax is added to the consumer electricity bill.

⁹⁴ *Africa News*, "Kenya: Plans for Power Plant," September 13, 2008.

⁹⁵ USITC, *Sub-Saharan Africa: Effects of Infrastructure Conditions*, 2009, 6-32.

⁹⁶ Industry representative, telephone interview by Commission staff, March 5, 2009.

⁹⁷ USITC, *Sub-Saharan Africa: Effects of Infrastructure Conditions*, 2009.

⁹⁸ USITC, *Sub-Saharan Africa: Effect of Infrastructure Conditions*, 2009.

Kenya is ranked 82nd of 181 economies in the World Bank's Doing Business 2009 database (table 3.3), lower than its rank of 78 in the previous year.⁹⁹ Despite the drop in rank, Kenya improved in the trading across borders measure, moving from 152 to 148. According to the 2009 indicators, importing a standard shipping container for a model company in Nairobi took an estimated 26 days and cost \$2,190. Exporting a container took 29 days and cost \$2,055.¹⁰⁰ By comparison, firms in Madagascar can expect 27 days (\$1,660) for imports and 23 days (\$1,279) for exports (table 3.3). In 2008, Kenya ranked 147th of 180 countries on Transparency International's Corruption Perceptions Index.¹⁰¹ Corruption can cause extra expense and delays in getting textile and apparel products into and out of Kenya.

Lesotho

Potential Competitive Products

Lesotho has the potential to competitively produce cotton yarn and denim fabric for use in downstream apparel manufacturing for the United States, the EU, and similar markets, as it currently produces and exports these textile and apparel inputs. Lesotho has one denim mill that spins and dyes yarn and then weaves fabric for use in the production of apparel for export. The mill also exports yarn and fabric to other apparel manufacturers in the region. Industry sources indicate that Lesotho could benefit from new investment in knit fabric production, as well as laundering and dyeing facilities for the local apparel manufacturing sector. Stabilizing the apparel sector could ensure sufficient demand for current producers of textile and apparel inputs while also creating future demand for further investment in inputs production. However, Lesotho presently has a shortage of factory shells and industrial infrastructure to encourage new investment.

Country Overview

Lesotho is a small country landlocked within South Africa. In 2007, Lesotho's GDP was \$1.6 billion and its total population was 2.0 million, resulting in a GDP per capita of \$800 (table 4.9). The textile and apparel sector is the largest formal sector employer in Lesotho and is vital to the nation's economy. In 2007, approximately 90 percent of all manufacturing jobs were in the textile and apparel sector, and textile and apparel exports accounted for 51 percent of total merchandise exports.¹⁰² The sector employs approximately 40,000 workers, of which 85 percent are women.¹⁰³ Through its membership in the Southern African Development Community (SADC) and the Southern African Customs Union (SACU), Lesotho has preferential market access to many neighboring markets. Lesotho has also benefited substantially from apparel trade preferences extended under AGOA (table 3.5).

⁹⁹ World Bank, Doing Business 2009: Country Profile for Kenya, 2008, 2.

¹⁰⁰ World Bank, Doing Business 2009: Country Profile for Kenya, 2008, 37.

¹⁰¹ Transparency International, "2008 Corruption Perceptions Index," 2008.

¹⁰² U.S. Department of State, U.S. Embassy, Maseru, "Lesotho: Textile and Apparel Production," September 28, 2007.

¹⁰³ LTEA, written submission to the USITC, February 19, 2009, 3.

TABLE 4.9 Lesotho: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	1,600
GDP growth (annual %, 2007)	4.9
GDP per capita (current US\$, 2007)	800
Population (millions, 2007)	2.0
Goods exports (current US\$, millions, 2007)	805
Goods imports (current US\$, millions, 2007)	1,730
Inflation, consumer prices (annual %, 2007)	8.0
Literacy rate, adult total (% of people ages 15 and above, 2001)	82.2
Labor force, total (millions, 2006)	0.7
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	78
Gross capital formation (current US\$, millions, 2007)	577
Lending rate (% 2007)	14.1
Manufacturing value added (current US\$, millions, 2007)	272
Prevalence of HIV, total (% of population 15–49, 2007)	23.2

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

Industry and Trade Overview

The textile and apparel sector in Lesotho was established in the 1980s when South African and Asian investors moved operations to Lesotho to access available quota and also to avoid global trade sanctions placed on South Africa's apartheid government.¹⁰⁴ Textile and apparel production facilities in Lesotho are largely foreign-owned and export-oriented. In 2007, most of Lesotho's apparel factories were Taiwanese-owned, with additional FDI received from China and South Africa.¹⁰⁵ The government of Lesotho promotes the country as an ethical sourcing location, as Lesotho has partnered with the International Labor Organization to improve its labor standards.¹⁰⁶ The government fosters public-private relationships to improve the competitiveness of the industry and in the past has provided factory shells for foreign investors.¹⁰⁷

Textile and apparel inputs

Lesotho has one vertically integrated textile mill, Nien Hsing Textile Co., Ltd., which processes cotton lint, spins and dyes yarn, weaves fabric, and manufactures denim garments. Nien Hsing has invested \$120 million since 2000 in the development of its spinning plant, denim mill, and jeans factories in Lesotho,¹⁰⁸ which together employ 8,000 workers.¹⁰⁹ Nien Hsing's garment factories and denim weaving and yarn spinning mills in Lesotho annually consume 16,000 tons of cotton from Malawi, Zambia,

¹⁰⁴ Morris and Sedowski, "Report on Government Responses," May 2006, 9.

¹⁰⁵ *The Economist*, "Looming Difficulties," July 21, 2007, 61; World Bank, *Snapshot Africa: Lesotho*, January 2007, 6.

¹⁰⁶ U.S. Department of State, U.S. Embassy, Maseru, "Lesotho: Textile and Apparel Production," September 28, 2007.

¹⁰⁷ Ibid.; Lesotho government official, interview by Commission staff, Maseru, Lesotho, May 21, 2008.

¹⁰⁸ USITC, Hearing transcript, April 9, 2008, 30 (testimony of Chia-Liang Han, Nien Hsing Textile Co., Ltd.).

¹⁰⁹ Nien Hsing Textile Co., Ltd., written submission to the USITC, February 23, 2009, 1.

Mozambique, Tanzania, and Benin.¹¹⁰ The company produces about 10,800 tons of open-ended and ring-spun cotton yarn and 18 million yards of denim fabric annually for local and regional apparel manufacturers that produce for the export market.¹¹¹ Nien Hsing also produces denim jeans for the U.S. market.

Nien Hsing indicated that it decided to invest in Lesotho with the understanding that the third-country fabric provision would expire at the end of 2004, as stipulated in the original AGOA legislation.¹¹² One industry source suggested that Nien Hsing, the largest manufacturer of jeans in the world, was able to invest successfully in Lesotho due to its preexisting global linkages in the textile and apparel supply chain.¹¹³ Nien Hsing claims that its business in Lesotho has suffered, as what it saw as a potential market in SSA was taken away with subsequent renewal of the third-country fabric provision.¹¹⁴ Reportedly, Nien Hsing is considering closing its Lesotho operations because of the repeal of the commercial availability provision¹¹⁵ and the “general stress in the market for African textile companies.”¹¹⁶

Apart from Nien Hsing, there are no manufacturers of textile and apparel inputs in Lesotho. Recently, there has been interest in investing in zipper production; however, a lack of factory shell availability currently limits such expansion at this time.¹¹⁷

In 2007, Lesotho’s exports of textile and apparel inputs totaled \$19.2 million (table 4.10), an increase of 52 percent since 2005. This increase largely coincides with the establishment of Nien Hsing’s Lesotho operations. Woven fabric (denim) accounted for 90 percent of Lesotho’s exports of textile and apparel inputs in 2007. Lesotho also exported some small quantities of carded or combed wool fibers and cotton yarn. The bulk of Lesotho’s exports of textile and apparel inputs (92 percent) were destined for other SSA countries, particularly Kenya, Madagascar, and Mauritius (table 4.11). Lesotho reported no exports of textile and apparel inputs to the United States in 2007.

¹¹⁰ Nien Hsing Textile Co., Ltd. Company Web site. <http://www.nht.com.tw/en/about-2.htm> (accessed January 23, 2009); USITC, Hearing transcript, April 9, 2008, 14 (testimony of Chia-Liang Han, Nien Hsing Textile Co., Ltd.).

¹¹¹ LTEA, written submission to the USITC, February 19, 2009, 3.

¹¹² USITC, Hearing transcript, April 9, 2008, 14 (testimony of Chia-Liang Han, Nien Hsing Textile Co., Ltd.); Nien Hsing Textile Co., Ltd., written submission to the USITC, February 23, 2009, 1.

¹¹³ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009; Nien Hsing Textile Co., Ltd. Company Web site. <http://www.nht.com.tw/en/about-2.htm> (accessed January 23, 2009).

¹¹⁴ Nien Hsing Textile Co., Ltd., written submission to the USITC, February 23, 2009, 1.

¹¹⁵ In December 2006, the U.S. Congress amended the AGOA preferences, again extending the third-country fabric provision, but also adding the commercial availability provision, also known as the “abundant supply” provision. The abundant supply provision was repealed by Public Law 110-436 on October 18, 2008. One industry source cautioned that the abundant supply amendments had threatened to lead to the closure of denim garment firms in Lesotho, with the possible loss of 15,700 jobs in the industry, claiming U.S. importers want the freedom to choose the fabrics used in garment production. African Growth and Opportunity Act (AGOA), as amended 19 U.S.C. 3721(c)(2)(C), signed December 20, 2006, http://www.agoa.gov/agoa_legislation/HR%206111%20-%20Title%20VI.pdf; USITC, *Denim Fabric* 2008; and Bennett, “Lesotho Info Pack,” (accessed March 24, 2009).

¹¹⁶ USITC, Hearing transcript, January 29, 2009, 69–70 (testimony of Paul Ryberg, African Coalition for Trade).

¹¹⁷ Industry representative, e-mail message to Commission staff, January 28, 2009.

TABLE 4.10 Lesotho: Exports and imports of textile and apparel inputs, by product group, 2003–07
(1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	0	0	1,280	1,240
Knit fabric	524	0	60	166	0
Manmade fibers	0	0	0	0	0
Other fabric	0	0	0	0	1
Thread	2	0	0	0	0
Trim	14	1	8	18	0
Woven fabric	63	2,579	12,343	14,402	17,288
Yarn	33	0	225	77	695
Total	635	2,580	12,635	15,943	19,224
Imports:					
Carded or combed fibers	0	0	0	0	0
Knit fabric	59,714	131,886	102,485	107,535	90,401
Manmade fibers	0	2	292	1,137	39
Other fabric	3,749	2,660	1,504	1,013	1,575
Thread	1,042	1,820	1,882	3,726	4,293
Trim	3,504	7,812	8,323	8,916	7,777
Woven fabric	31,441	36,007	31,520	25,707	33,324
Yarn	30	2,327	1,896	1,137	2,290
Total	99,479	182,514	147,903	149,171	139,698

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.11 Lesotho: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	68	2,421	12,024	14,488	17,766
EU-27	1	0	2	0	3
Rest of world	566	160	609	1,455	1,455
United States	0	0	0	0	0
Total	635	2,580	12,635	15,943	19,224

Source: World Bank, WITS Database (accessed December 3, 2008).

Except for domestically produced denim, all other inputs must be imported. In 2007, Lesotho imported \$139.7 million worth of yarn and fabric, of which knit fabric accounted for 65 percent. Most inputs are sourced from Asia, namely Hong Kong, Taiwan, and China. Nien Hsing also reported using third-country denim fabric to supplement its own production, since it allows the company to provide flexibility to its apparel customers.¹¹⁸

Apparel

The apparel sector in Lesotho produces almost exclusively for the U.S. market and consists principally of cut-make-trim (CMT) apparel assembly. Apparel production grew rapidly after 2000, when AGOA benefits were extended to Lesotho. From 2000 to 2005, the number of apparel production facilities increased from 6 to 40, and exports of apparel to the United States more than doubled.¹¹⁹ However, following the final phase-out of quotas on textiles and apparel at the end of 2004, the apparel industry in Lesotho became

¹¹⁸ USITC, Hearing transcript, April 9, 2008, 31 (testimony of Chia-Liang Han, Nien Hsing Textile Co., Ltd.).

¹¹⁹ Morris and Sedowski, "Report on Government Responses," May 2006, ii.

highly vulnerable to global competition and contracted.¹²⁰ Further, orders from U.S. retailers have slowed recently due to the global economic slowdown.¹²¹

According to the Lesotho Textile Exporters Association (LTEA), there are currently 11 firms involved in woven garment production, 28 firms specializing in knit garments, and 6 garment-finishing operations performing screen printing and/or embroidery.¹²² The industry produces about 116 million garments per year, including 90 million knit garments and 26 million pairs of jeans. Reportedly, Lesotho has specialized in basic garments due to lower skill levels of workers and long shipping lead times to developed-country markets.¹²³ Nevertheless, some garment manufacturers also make more complicated garment styles.¹²⁴ These complicated styles must be made in large volumes to allow for the longer learning curve required for workers.¹²⁵ In recent years, Lesotho apparel companies produced for U.S. brands and retailers such as Wal-Mart, JC Penney, Children’s Place, GAP, Levi’s, and Gloria Vanderbilt.¹²⁶ Production of textiles and apparel in Lesotho totaled approximately \$269.5 million during the January–August 2007 period.¹²⁷

From 2004 to 2007, Lesotho’s total exports of apparel decreased by 16 percent by value to \$413.8 million (table 4.12), and consisted mainly of denim jeans, T-shirts, and sweaters. Lesotho was the largest SSA exporter of apparel to the United States in 2007, with apparel exports totaling \$402 million, or just over 97 percent of Lesotho’s total apparel exports. Manufacturers in Lesotho also shipped small quantities of apparel to Canada, the EU, and Japan. The lack of market diversification inhibits the competitiveness of the apparel sector, and reliance on a single market leaves Lesotho particularly susceptible to downturns in the U.S. market. However, apparel producers reportedly lack business leads or contacts within the EU, making it difficult to expand into the European market.¹²⁸

TABLE 4.12 Lesotho: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	427,502	494,244	421,636	418,338	413,792
Imports	348	2,628	1,895	4,188	4,051

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors Contributing to Competitiveness

Lesotho’s potential for competitive production of textile and apparel inputs derives largely from downstream demand from its fairly developed apparel sector. The apparel sector in Lesotho seems to benefit somewhat from clustering or external economies of

¹²⁰ U.S. Department of State, U.S. Embassy, Maseru, “Lesotho: Textile and Apparel Production,” September 28, 2007.

¹²¹ Industry representative, e-mail message to Commission staff, January 28, 2009.

¹²² LTEA, written submission to the USITC, February 19, 2009, 3.

¹²³ Morris and Sedowski, “Report on Government Responses to New Post-MFA Realities in Lesotho,” May 2006, 11.

¹²⁴ Industry representatives, interview by Commission staff, Maseru, Lesotho, May 23, 2008.

¹²⁵ Industry representatives, interview by Commission staff, Maseru, Lesotho, May 23, 2008.

¹²⁶ Bennett, “Lesotho Infopack: Overview of Textile and Apparel Industry, undated.

¹²⁷ U.S. Department of State, U.S. Embassy, Maseru, “Lesotho: Textile and Apparel Production,” September 28, 2007.

¹²⁸ Industry representative, interview by Commission staff, Maseru, Lesotho, May 23, 2008.

scale, with a few companies reportedly sharing production for large orders.¹²⁹ It is likely that Lesotho would benefit from investment in a knit fabric mill, as well as laundering/dyeing facilities, as there appears to be sufficient demand from its export-oriented garment sector.

Compared to the industries in its SSA neighbors, the textile and apparel industry in Lesotho is organized and works together to address collective problems.¹³⁰ Further, the apparel industry in Lesotho has historically received government support in the form of favorable labor and import policies, as well as the construction of factory shells for industry expansion.¹³¹

Factors Inhibiting Competitiveness

Despite existing demand for textile and apparel inputs in Lesotho, several factors impede further development of the textile sector in Lesotho, including underdeveloped infrastructure, lack of skilled labor, high transport costs, and a lack of market information. Lesotho's only textile mill, Nien Hsing, stated that the most important challenges include improving infrastructure and maintaining an adequate input-consuming apparel industry.¹³²

Of critical importance is the lack of infrastructure to attract new investment. Lesotho has a shortage of factory shells and industrial infrastructure to encourage new investment, despite reported interest in industry expansion. Moreover, due to its geography, Lesotho is hampered by long shipping times to its export markets. Although the country benefits from access to South Africa's developed transportation system, the quality of its own roads and rail are low compared with regional competitors, according to the World Economic Forum's Enabling Trade Report.¹³³

Industry sources repeatedly cite water and wastewater treatment infrastructure as key areas for improvement. While Lesotho has adequate water supplies, the water is reportedly hard and not good for dyeing yarn, fabric, or garments. Improvements to water infrastructure would make it possible to invest in a knit fabric mill. Sufficient demand for such a mill appears to exist; a new mill would also help apparel manufacturers in terms of lead times, particularly as over 62 percent of Lesotho's apparel exports to the United States are knit garments. Lesotho lacks a water treatment system to address waste created during finishing operations.¹³⁴ Upgrading water infrastructure could allow for increased investment in finishing operations; the ability to wash garments would allow Lesotho garment manufacturers move up the value chain. According to the LTEA, garment producers in Lesotho have been unable to manufacture more complex garments requested by international buyers, to the disadvantage of the industry.¹³⁵

While Lesotho has many unskilled workers available for its apparel industry, the HIV/AIDS epidemic has led to a significant loss of working hours due to employee illness and time spent caring for family members. According to the World Bank, the adult

¹²⁹ Industry representative, interview by Commission staff, Maseru, Lesotho, May 23, 2008.

¹³⁰ Industry representative, interview by Commission staff, Maseru, Lesotho, May 23, 2008.

¹³¹ Lesotho government official, interview by Commission staff, Maseru, Lesotho, May 21, 2008.

¹³² Nien Hsing Textile Co., Ltd., written submission to the USITC, February 23, 2009, 3.

¹³³ World Bank, *Snapshot Africa: Lesotho*, January 2007, 6.

¹³⁴ Industry representative, telephone interview by Commission staff, Maseru, Lesotho, January 28, 2009.

¹³⁵ LTEA, written submission to the USITC, February 19, 2009, 6.

HIV prevalence rate was 23 percent in 2007 (table 4.9), although by some industry estimates, as much as 60 percent of the working age population is infected with the disease.¹³⁶ Lesotho's minimum wage in the apparel sector is equivalent to \$100 per month and labor is relatively expensive in terms of productivity, especially when compared with the low-cost Asian suppliers that are Lesotho's competitors in the U.S. market.¹³⁷ Further, apparel manufacturers report that there is a limited pool of workers with management skills. Firms rely heavily on expatriate managers, as well as expatriate machine technicians.¹³⁸

Although Lesotho benefits from a demand for textile and apparel inputs from an existing apparel sector, the apparel sector is currently experiencing a decline in orders and is struggling to compete globally.¹³⁹ Industry sources state that the uncertainties and temporary nature of AGOA also discourage investment both in the apparel and the textile and apparel inputs sectors. They suggest that the immediate extension of AGOA and the third-country fabric provision through 2020 would provide sufficient long-term certainty for textile investors to recoup investment, as well as certainty for existing producers to upgrade their facilities.¹⁴⁰ The LTEA suggested that expanded support for USAID's Trade Hubs would also help encourage intra-African trade in textile and apparel inputs and provide marketing knowledge to help expand Lesotho's apparel exports to the United States and the EU.¹⁴¹

Finally, all textile and apparel production facilities in Lesotho are foreign-owned, with limited local involvement in terms of management and investors.¹⁴² Thus, the viability of the industry is not in the hands of local stakeholders, but rather at the discretion of foreign multinationals whose primary concern may not necessarily be the long-term development of the industry in Lesotho. Unlike other SSA countries such as Mauritius, Lesotho has received minimal technology transfers from apparel investment and primarily produces lower-value, basic apparel articles.

Madagascar

Potential Competitive Products

Madagascar has limited textile capacity, but appears to competitively produce of woven cotton fabric.¹⁴³ Cotona, Madagascar's largest textile producer, benefits from its long presence in the country; a successful local apparel industry, which serves as an important market; and government incentives. However, political instability during the past decade has diminished Madagascar's prospects as an investment destination. In addition, although Cotona reportedly is considering increasing woven cotton fabric production in the country, high-cost, unreliable electricity, high-cost capital, and a diminishing supply

¹³⁶ Industry representative, interview by Commission staff, Maseru, Lesotho, May 23, 2008.

¹³⁷ U.S. Department of State, U.S. Embassy, Maseru, "Lesotho: GOL Discusses Trade Complexities," March 10, 2008.

¹³⁸ Industry representative, interview by Commission staff, Maseru, Lesotho, May 23, 2008.

¹³⁹ Industry representative, telephone interview by Commission staff, Maseru, Lesotho, January 28, 2009.

¹⁴⁰ Industry representative, e-mail message to Commission staff, January 28, 2009; LTEA, written submission to the USITC, February 19, 2009, 8.

¹⁴¹ LTEA, written submission to the USITC, February 19, 2009, 2.

¹⁴² Industry representative, interview by Commission staff, Maseru, Lesotho, May 23, 2008.

¹⁴³ However, the current political climate may impact new investment in, and sourcing from, Madagascar.

of local raw materials such as cotton weaken Madagascar's prospects for increased apparel production and competitive upstream textile production.

Country Overview

Madagascar, the world's fourth-largest island (after Greenland, New Guinea, and Borneo), is located in the Indian Ocean off the east coast of southern Africa. In 2007, GDP was \$7.3 billion and, with a population of 19.7 million, GDP per capita stood at \$372 (table 4.13).¹⁴⁴ Manufacturing value added contributes a relatively small share to GDP. In 2007, manufacturing accounted for 12 percent of the country's total GDP. Employment in Madagascar is concentrated in the agricultural sector (78 percent), followed by employment in services (15 percent) and industry (7 percent).¹⁴⁵ Apparel production is a key source of employment in the manufacturing sector, accounting for 28 percent of all manufacturing employment in 2007.¹⁴⁶

Industry and Trade Overview

Madagascar has been successful in developing an apparel sector and produces limited quantities of textiles; overall apparel production capacity is roughly 20 to 30 times larger (in value terms) than overall textile production capacity.¹⁴⁷

TABLE 4.13 Madagascar: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	7,326
GDP growth (annual %, 2007)	6.5
GDP per capita (current US\$, 2007)	372
Population (millions, 2007)	19.7
Goods exports (current US\$, millions, 2007)	1,190
Goods imports (current US\$, millions, 2007)	2,590
Inflation, consumer prices (annual %, 2007)	10.3
Literacy rate, adult total (% of people ages 15 and above, 2000)	70.7
Labor force, total (millions, 2006)	8.9
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	230
Gross capital formation (current US\$, millions, 2007)	2,140
Lending rate (% 2007)	45.0
Manufacturing value added (current US\$, millions, 2007)	856
Prevalence of HIV, total (% of population, 15–49, 2007)	0.1

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

Textile and apparel inputs

The Malagasy textile industry consists of one large vertically integrated textile firm producing woven fabrics (Cotona), two small knit apparel firms that produce their own

¹⁴⁴ World Bank, World Development Indicators Online.

¹⁴⁵ UNDP, *Human Development Report 2007/2008*, 2007, 300.

¹⁴⁶ U.S. Department of State, U.S. Embassy, Antananarivo, "Request for Information on Textiles and Apparel Production," September 12, 2007.

¹⁴⁷ USITC, *Sub-Saharan Africa: Factors Affecting Trade Patterns of Selected Industries*, 2008, 3-46.

knit fabric (Festival and Samaf), and another firm that weaves fabrics for blankets (Somacou). Cotona produces open-ended, combed, and ring-spun cotton yarn, woven cotton fabric, and apparel for export. Cotona has an estimated 15,897 spindles, an annual woven cotton fabric capacity of 24 million square meter equivalents (SMEs), and produces greige, piece-dyed, printed, and white fabric.¹⁴⁸ In 2007, Cotona produced 3,300 tons of woven cotton fabric, the majority of which was consumed within its own apparel factory.¹⁴⁹ Cotona generally used locally grown cotton and supplemented local supplies with cotton from other SSA countries. However, as discussed later in this section, there is currently no viable source for cotton in Madagascar. Cotona's apparel segment also uses imported fabric and trim to satisfy customer demand for a broad range of fabric options.

Somacou produces small amounts of woven fabric used mostly to produce blankets, Festival and Samaf produce circular-knit fabric for use in apparel production,¹⁵⁰ and all three firms rely on imported yarn. In 2007, Festival and Samaf produced 1,000 tons of knit cotton fabric.¹⁵¹ Floreal, part of the Mauritian-based Ciel Group, produces high-end knit-to-shape sweaters for the EU market using imported yarn spun by its sister company, Ferney Spinning, in Mauritius.

Several firms in Madagascar produce trim such as buttons for the textile and apparel industry. Two firms, Tana Crex and Dextermad, reportedly produce high-end buttons using natural products such as nuts, wood, and coconut shells, as well as plastic, for domestic apparel producers and for export to the EU.¹⁵²

During the 2004–07 period, Madagascar's exports of textile and apparel inputs were small but relatively steady, valued at \$10.2 to \$11.2 million (table 4.14). Madagascar's export markets are highly concentrated, with over 60 percent of such exports destined for the EU (\$6.4 million) in 2007. SSA countries were the second-largest export market, and accounted for 31 percent of Madagascar's total textile and apparel input exports. In 2007, 27 percent of Madagascar's exports were destined for Mauritius (\$2.9 million), followed by South Africa, which accounted for 3 percent (\$339,000). As several textile producers based in Mauritius also have apparel production in Madagascar, some bilateral trade consists of shipments between related firms. The range of products exported is also highly concentrated, with exports of woven fabric (mostly cotton) accounting for \$5.5 million (52 percent) and trim (mostly buttons) accounting for \$4.2 million (40 percent) of total textile and apparel inputs shipments in 2007 (table 4.15).¹⁵³

¹⁴⁸ Cotona is a sister company of Mauritian-based Socota. In January 2009, Socota reportedly ceased operations in Mauritius with the intent to relocate its production to Madagascar. The intended disposition of the equipment is unclear at this time. Industry representative, interview by Commission staff, Port Louis, Mauritius, March 4, 2009; and U.S. Department of State, "Textile and Apparel Production Capabilities in AGOA-eligible Countries," August 2006.

¹⁴⁹ Cotona reportedly consumes the majority of its fabric production and sells small quantities of fabric and yarn to local apparel manufacturers also producing for export. Industry representative, telephone interview by Commission staff, March 11, 2009.

¹⁵⁰ Global Development Solutions, "Integrated Value Chain Analysis," June 2007, 34.

¹⁵¹ Industry representative, telephone interview by Commission staff, March 11, 2009.

¹⁵² Industry representative, telephone interview by Commission staff, March 11, 2009.

¹⁵³ Thirty-three percent of total woven fabric exports consisted of cotton fabric destined for the EU, and 43 percent consisted of cotton fabric destined for Mauritius. Seventy-nine percent of total trim exports consisted of buttons shipped to the EU, followed by exports of embroidery (16 percent) and zippers (1 percent).

TABLE 4.14 Madagascar: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	4,336	2,779	3,470	3,220	3,249
EU-27	2,288	5,895	6,365	6,496	6,363
Rest of world	1,882	1,498	1,101	1,435	863
United States	33	69	45	67	85
Total	8,538	10,241	10,982	11,217	10,560

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.15 Madagascar: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	0	0	0	0
Knit fabric	21	96	158	95	34
Manmade fibers	0	0	1	0	2
Other fabric	1	191	34	2	67
Thread	13	7	6	1	18
Trim	1,538	2,712	4,736	4,066	4,227
Woven fabric	2,202	5,413	5,072	6,360	5,513
Yarn	4,762	1,823	975	693	698
Total	8,538	10,241	10,982	11,217	10,560
Imports:					
Carded or combed fibers	86	428	201	134	169
Knit fabric	36,753	67,750	50,427	46,165	71,144
Manmade fibers	371	73	288	160	1,342
Other fabric	5,659	6,422	7,119	5,744	6,006
Thread	3,813	3,925	3,277	2,561	3,844
Trim	18,194	23,008	21,262	21,030	30,059
Woven fabric	106,579	111,323	114,626	106,594	127,366
Yarn	51,767	72,989	81,832	111,742	118,842
Total	223,222	285,916	279,033	294,132	358,771

Source: World Bank, WITS Database (accessed December 3, 2008).

In 2007, Madagascar posted a \$348.2 million trade deficit with the world in textile and apparel inputs (table 4.15). Imports of textiles and apparel inputs totaled \$358.8 million in 2007; major suppliers included China (\$118.6 million), Hong Kong, (\$87.1 million), the EU (\$59.6 million), and Mauritius (\$52.2 million). Madagascar's imports of textile and apparel inputs increased by 61 percent during the 2003–07 period, in response to increasing demand from the country's growing apparel industry. Fabric demand far outweighs local supply in Madagascar, where total capacity to produce woven fabric is 20–25 million SMEs per year and the demand for woven fabric is about 100–120 million SMEs.¹⁵⁴

Apparel

Madagascar has a long history of apparel production compared with other SSA countries.¹⁵⁵ Apparel production in Madagascar is largely geared toward the EU and U.S. markets, with an estimated 95 percent of total production destined for export. In 2007, one-half of Madagascar's total exports consisted of apparel, mostly basic apparel items such as T-shirts, pullovers, knit sweaters, and trousers. In 2007, the apparel industry

¹⁵⁴ Global Development Solutions, "Integrated Value Chain Analysis," June 2007, 8.

¹⁵⁵ U.S. Department of State, U.S. Embassy, Antananarivo, "Request for Information on Textiles and Apparel Production," September 12, 2007.

comprised roughly 120 firms employing 113,000 workers and accounted for one-third of the country's total formal employment.¹⁵⁶ The industry has attracted investment from France, Taiwan, China, and Mauritius. One-half of all firms granted EPZ status have some level of Asian investment.¹⁵⁷ Mauritian textile firms invested in apparel manufacturing facilities in Madagascar due to lower wages, high labor productivity, and the country's proximity to Mauritius. Madagascar's apparel industry has developed successfully during the past decade and serves as an important market for local and regional textile producers. In addition to the competitive factors in the textiles sector, skilled, low-wage, high-productivity labor, and openness to trade serve as competitive advantages in the apparel sector.

Madagascar nearly doubled its apparel exports in five years, from \$362.6 million in 2003 to \$695.8 million in 2007, making it the second-largest SSA apparel exporter to the world (table 4.16). Madagascar has experienced significant growth in its apparel exports to the United States and the EU since 2005. Madagascar's apparel exports to South Africa have also significantly increased in recent years; during the 2003-2007 period, Madagascar's apparel exports to South Africa increased by an average of 225 percent per year, to 3.4 million in 2007.¹⁵⁸

TABLE 4.16 Madagascar: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	362,559	560,570	538,767	576,546	695,774
Imports	23,600	18,861	17,606	29,059	43,338

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors Contributing to Competitive Production

Madagascar reportedly has one of the lowest wage rates and most productive, skilled workforces in SSA, with wages in the textiles and apparel industry averaging around \$70 per month. Compared with other SSA countries, Madagascar has a very low prevalence of HIV/AIDS—less than 1 percent of the population in 2005.¹⁵⁹ Textile and apparel workers in Madagascar benefit from various opportunities for local training and skills development. Programs sponsored by the EU and the World Bank provide technical training to support the industry.¹⁶⁰

The government of Madagascar has placed a high priority on the development of the apparel sector, creating a new agency to assist foreign investors and introducing legislation aimed at streamlining incentives offered to industry investors. In an effort to facilitate foreign investment, the government established the Economic Development Board of Madagascar (EDBM) in 2006, a one-stop shop that facilitates administrative procedures and provides technical assistance to investors. Also, to harmonize the incentives offered to local and foreign investors, Madagascar reformed and enhanced its EPZ law in 2008. Firms that export 95 percent of their production, whether foreign or

¹⁵⁶ Global Development Solutions, "Integrated Value Chain Analysis," June 2007, 9.

¹⁵⁷ U.S. Department of State, U.S. Embassy, Antananarivo, "Textiles and Apparel Sector," September 8, 2006.

¹⁵⁸ IFC and Economic Development Board of Madagascar, "Opportunities for Investors," January 2009; World Bank, WITS Database (accessed December 16, 2008).

¹⁵⁹ UNDP, *Human Development Report 2007/2008*, 2007, 259.

¹⁶⁰ IFC and Economic Development Board of Madagascar, "Opportunities for Investors," January 2009.

domestic owned, are eligible for various benefits, including duty-free imports of equipment and raw materials, streamlined customs procedures, a five-year tax holiday, low corporate taxes, and general liquidity of profits.¹⁶¹ In coordination with international donors, the government of Madagascar has adopted customs measures to simplify loading and unloading of goods,¹⁶² reportedly resulting in significant improvements in customs clearance times.¹⁶³

Madagascar receives duty-free access for textile and apparel products to the United States under AGOA and to South Africa under SADC, and for apparel products to the EU under the interim EPA. Madagascar's apparel exports to the United States and the EU are subject to a single-transformation rule of origin. Industry experts in Madagascar indicate that the single-transformation rule of origin broadens the fabric options available to customers and thus adds to the competitiveness of the industry.¹⁶⁴ In comparison, exports within the SADC region are subject to a double-transformation rule of origin and a 35 percent value-added requirement.¹⁶⁵ Madagascar has recently applied for designation as an LDC member of SADC, which would allow it to ship apparel duty free to South Africa, subject to a single-transformation rule of origin and a cap.¹⁶⁶

Further, the EDBM and the Economic Processing Zone Association have employed a strategy to attract new investment into the apparel industry, which they believe will also draw in investment into the textile industry.¹⁶⁷ Malagasy textile and apparel producers also benefit from duty-free access to raw materials from, and close integration with, Mauritius, an important source for textile and apparel inputs and industry expertise, under SADC, COMESA, and the Indian Ocean Commission.¹⁶⁸ Mauritius and Madagascar share a similar history and French language that encourage investment and synergies between the countries' textile and apparel industries.

Overall, infrastructure conditions in Madagascar are poor; however, inexpensive water supply and real estate contribute to Madagascar's competitiveness. An abundant supply of water is necessary for producing textiles, especially for dyeing and finishing. Water cost \$0.26 per cubic meter in 2007, well below the costs incurred by key regional competitors in South Africa, Lesotho, Kenya, and Mauritius.¹⁶⁹ However, industry sources indicate that the water supply is limited in the country.¹⁷⁰ Real estate prices are also generally lower in Madagascar than in other textile and apparel producing SSA countries. For example, in 2007, the cost to lease an industrial site in Madagascar was \$9.00 per square meter, compared with \$47.50 in Kenya and \$61.60 in Mauritius.¹⁷¹

¹⁶¹ Industry representative, telephone interview by Commission staff, February 23, 2009.

¹⁶² WTO, "Trade Policy Review: Report by Madagascar 2008," February 27, 2008, 28.

¹⁶³ IFC and Economic Development Board of Madagascar, "Opportunities for Investors," January 2009.

¹⁶⁴ Industry representative, telephone interview by Commission staff, February 23, 2009.

¹⁶⁵ A single transformation rule of origin requires that the product be transformed from fabric to garment, and a double transformation rule of origin requires both that the yarn be transformed into fabric and that the fabric be transformed into the garment. Therefore, under a single transformation rule of origin, fabric imported from third countries can be used in the production of apparel and qualify under the rule. Under a double transformation rule of origin, both the fabric and apparel must be produced locally.

¹⁶⁶ Industry representative, telephone interview by Commission staff, February 23, 2009.

¹⁶⁷ Industry representative, telephone interview by Commission staff, February 23, 2009.

¹⁶⁸ The Indian Ocean Commission has five member states: Comoros, Madagascar, Mauritius, Réunion (France), and Seychelles. The commission was established in 1984 to, among other things, promote trade among its members.

¹⁶⁹ World Bank, *Snapshot Africa: Madagascar*, January 2007, 49.

¹⁷⁰ Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

¹⁷¹ World Bank, *Snapshot Africa: Madagascar*, January 2007, 48.

In 2005, the government of Madagascar privatized port operations at the country's main port of Tamatave, and port upgrades are being implemented, including expanding existing capacity from 100,000 twenty-foot equivalent units (TEUs) in 2005 to 350,000 TEUs in 2010. Since 2005, the quantity of cargo processed has doubled and the average time to process a container has reportedly been cut in half.¹⁷²

Factors Inhibiting Competitive Production

Political crises in Madagascar in 2002 and 2009 adversely affected the textile and apparel industry. In 2002, the apparel sector reportedly recovered relatively quickly after a sharp decline in production and exports following an eight-month long political crisis.¹⁷³ In late January 2009, a second wave of civil unrest ensued, leading to at least 135 deaths as of March 9, 2009.¹⁷⁴ Several U.S. retailers have reported delays in shipments from Madagascar since the civil unrest began.¹⁷⁵ In addition to the current uncertainty associated with Cotona's planned expansion in Madagascar, another Mauritian-based firm that had planned on investing in apparel operations in Madagascar has postponed its consideration of the investment due to the current political climate. On the other hand, one industry source with a significant presence in Madagascar indicated that his firm was operating without any obstructions.¹⁷⁶

Madagascar ranked 125th out of 134 countries surveyed in the World Economic Forum's 2008–2009 Global Competitiveness Report. According to the report, the most problematic factor for doing business in Madagascar was access to finance, and respondents reported that the cost of capital was a major factor inhibiting the country's overall competitiveness.¹⁷⁷ In 2007, the lending rate in Madagascar was 45 percent, the costliest in the region—more than double the rate charged in Mauritius (22 percent), and more than three times the rate in key competitors—Lesotho (14 percent) and Kenya (13 percent).¹⁷⁸

Poor infrastructure conditions, including electricity and roads, also inhibit competitive production. In 2008, Madagascar ranked 104th out of 134 countries in terms of the quality of overall infrastructure.¹⁷⁹ The government of Madagascar reported in its 2008 WTO Trade Policy Review Statement that the country could increase trade by 20 percent “with appropriate infrastructure support.”¹⁸⁰ Electricity costs are high compared with other key textile and apparel producers, and a lack of a reliable electricity supply is problematic. Madagascar ranked 123rd out of 134 countries surveyed in terms of quality of electricity supply.¹⁸¹ In 2007, electricity cost \$0.08/kWh for industrial users, 16 percent higher than the cost in Lesotho and 25 percent higher than the cost in

¹⁷² IFC and Economic Development Board of Madagascar, “Opportunities for Investors,” January 2009.

¹⁷³ USITC, Hearing transcript, January 29, 2009, 151 (testimony of Paul Ryberg, African Coalition for Trade). In that year, a disputed election spurred civil unrest and resulted in a nearly 13 percent drop in the country's GDP. U.S. Department of State, Bureau of African Affairs, “Background Note: Madagascar,” January 2009.

¹⁷⁴ Lough, “Where is Madagascar's Political Crisis Going?” March 9, 2009.

¹⁷⁵ Industry representative, telephone interview by Commission staff, February 5, 2009.

¹⁷⁶ Industry representative, interview by Commission staff, Port Louis, Mauritius, March 4, 2009.

¹⁷⁷ Porter and Schwab, eds., *The Global Competitiveness Report 2008–2009*, 2008, 226.

¹⁷⁸ World Bank, World Development Indicators Online.

¹⁷⁹ Porter and Schwab, eds., *The Global Competitiveness Report 2008–2009*, 2008, 384.

¹⁸⁰ WTO, “Trade Policy Review: Report by Madagascar 2008,” February 27, 2008, 14.

¹⁸¹ Porter and Schwab, eds., *The Global Competitiveness Report 2008–2009*, 2008, 390.

Mauritius.¹⁸² Road conditions in Madagascar are generally poor (table 3.4). However, the government reportedly has improved an average of 7,000 kilometres of road per year since 2003.¹⁸³

Until recently, Malagasy cotton was produced under an out-grower scheme¹⁸⁴ by Hasyma, a company owned by Dagrif, a French state-run firm. Cotton was ginned using relatively modern equipment at one of three ginneries owned by Hasyma or at one roller gin owned by ODER, with a combined total annual capacity of 55,500 tons.¹⁸⁵ However, cotton lint production has decreased by 65 percent since 1998.¹⁸⁶ Declining cotton production in the country has resulted in declining output from local cotton gins, which ran at an estimated 28 percent utilization in 2006.¹⁸⁷ In 2007, Madagascar's total output of seed cotton amounted to less than 16,000 tons, yielding an estimated 5,500 tons of cotton lint available locally. Of this, Cotona reportedly was guaranteed 4,800 tons through long-term supply contracts.¹⁸⁸

In 2007, Hasyma was privatized and sold to Sofiproteol, an oilseeds and grain producer,¹⁸⁹ and, in December 2008, the company filed for bankruptcy protection.¹⁹⁰ As such, there is currently no viable source for local cotton in Madagascar. In light of this, Cotona reportedly has switched from spinning cotton into yarn to importing yarn directly.¹⁹¹

Mauritius

Potential Competitive Products

Mauritius has one of the most developed textile and apparel sectors in SSA and is cited as being among the most competitive producers in the region.¹⁹² Potential competitive products include cotton yarn and cotton/manmade fiber-blended yarn, knit fabric, denim, and some cotton shirting fabric. Such inputs have the greatest potential for competitive production because they are already produced in Mauritius and are used in apparel that is exported to the United States, the EU, and similar markets. Reportedly, Mauritius's competitive advantage lies in niche, higher-value-added products; thus, potential competitive textile and apparel inputs would be of a higher quality and for use in higher-end apparel.

¹⁸² World Bank, *Snapshot Africa: Madagascar*, January 2007, 49.

¹⁸³ IFC, Economic Development Board of Madagascar, "Opportunities for Investors," January 2009.

¹⁸⁴ An out-grower scheme refers to a contractual partnership between growers or landholders and a company for the purpose of commercial cotton production. The partnerships vary and can be short or long-term, and growers may either act on their own or as a group.

¹⁸⁵ Hasyma reportedly set a goal of increasing production to 50,000 tons of seed cotton in the medium term. WTO, "Trade Policy Review: Madagascar 2008," February 27, 2008, 59. One source noted that the cotton industry could not recover from a situation that occurred in 2001–02, when Hasyma reportedly failed to pay for its crop as the world price of cotton dropped below the price at which Hasyma contracted with local suppliers. Global Development Solutions, "Integrated Value Chain Analysis," June 2007, 7, 18.

¹⁸⁶ Staff calculations derived from data found in RATES, *Cotton-Textile-Apparel Value Chain Report Madagascar*, February 2005, 6.

¹⁸⁷ Global Development Solutions, "Integrated Value Chain Analysis," June 2007, 8.

¹⁸⁸ Ibid.

¹⁸⁹ Ibid., 18.

¹⁹⁰ Industry representative, telephone interview by Commission staff, March 11, 2009.

¹⁹¹ Industry representative, telephone interview by Commission staff, March 11, 2009.

¹⁹² USITC, Hearing transcript, January 29, 2009, 114 (testimony of Paul Ryberg, African Coalition for Trade).

Country Overview

Mauritius is a small island nation located in the Indian Ocean off the southeast coast of Africa. In 2007, Mauritius had a GDP of \$6.4 billion and a relatively high GDP per capita of \$4,895, compared with most other SSA countries (table 4.17). The Mauritian economy has grown significantly since the country's independence in 1968, and the economy is outwardly oriented in large part because of its small domestic market. Along with tourism, sugar, and financial services, the textile and apparel sector is a major contributor to the economy. Textiles and apparel accounted for 77 percent of industrial production and 53 percent of manufacturing employment in Mauritius in 2007.¹⁹³

TABLE 4.17 Mauritius: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	6,363
GDP growth (annual %, 2007)	4.7
GDP per capita (current US\$, 2007)	4,895
Population (millions, 2007)	1.3
Goods exports (current US\$, millions, 2007)	2,231
Goods imports (current US\$, millions, 2007)	3,895
Inflation, consumer prices (annual %, 2007)	9.3
Literacy rate, adult total (% of people ages 15 and above, 2000)	84.3
Labor force, total (millions, 2006)	0.6
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	107
Gross capital formation (current US\$, millions, 2007)	1,661
Lending rate (% 2007)	21.9
Manufacturing value added (current US\$, millions, 2007)	987
Prevalence of HIV, total (% of population 15–49, 2007)	1.7

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

Industry and Trade Overview

Mauritius's textile and apparel sector was established in the 1970s, when the government began its export promotion strategy. Through the establishment of export processing zones and efforts to attract foreign investment, Mauritius built a competitive, mature, vertically integrated textile and apparel industry. In the late 1990s, Mauritius received significant FDI and technology transfer from Hong Kong. Since the final phase-out of quotas at the end of 2004, the industry has undergone restructuring and consolidation to move into higher-value goods. Thirty foreign firms left Mauritius at the end of 2004, leaving the sector largely domestically owned (80 percent).¹⁹⁴ In 2007, there were an estimated 211 textile and apparel firms in Mauritius employing roughly 55,000 workers.¹⁹⁵ The industry is concentrated among 10 large textile and apparel groups that

¹⁹³ U.S. Department of State, U.S. Embassy, Port Louis, "Information on Textile and Apparel Production," September 28, 2007.

¹⁹⁴ Industry representative, interview by Commission staff, Mauritius, March 3, 2009.

¹⁹⁵ U.S. Department of State, U.S. Embassy, Port Louis, "Information on Textile and Apparel Production," September 28, 2007.

collectively accounted for 75 percent of total textile and apparel exports and 55 percent of sector employment in 2007.¹⁹⁶

Compared with other SSA countries, the textile and apparel sector in Mauritius is relatively vertically integrated, especially for knitwear. Several new investments have been made in the textile and apparel inputs sector in recent years; machinery and technology in Mauritius are generally modern.

Textile and apparel inputs

The large, vertically integrated textile groups include the Ciel Group and Compagnie Mauricienne de Textile Ltée. (CMT), as well as denim firms RS Denim and Denim de L'Île (DDI). There are five yarn spinners currently operational in Mauritius—two firms that spin yarn exclusively (Tian Li and Ferney) and three additional firms (CMT, DDI, and RS Denim) that produce yarn through finished garments. Spinning activities employ 1,005 workers, and the industry has the capacity to produce roughly 30,000 tons of cotton yarn for knits and 21,000 tons of denim yarns per year.¹⁹⁷

Tian Li¹⁹⁸ is the sole independent spinner in Mauritius. The company, which was started by Chinese investors in 2002, produces 100 percent cotton yarn and small quantities of viscose rayon and modal yarn. Most of Tian Li's customers are in Mauritius, and most yarn produced is sold locally as greige yarn for use in knitting tops. However, Tian Li also exports small amounts of open-end spun yarn for use in weaving jeans and towels. The other spinning facility, Ferney, operates as part of the Ciel Group and spins wool yarn.¹⁹⁹ Ferney primarily supplies other firms within the group, but also sells to independent local and foreign knitwear producers.²⁰⁰ The Ciel Group comprises a variety of textile and apparel firms with wool yarn spinning, knit and woven fabric production, dyeing, and cutting and sewing operations.²⁰¹

CMT²⁰² is a vertically integrated firm producing yarn through downstream production of knit shirts for export. The firm employs 10,000 workers and exports mostly to the EU. In 2008, it was the largest private-sector employer in Mauritius.²⁰³ CMT supplies the “fast fashion”²⁰⁴ segment of the apparel industry and has invested in backward linkages to decrease lead times. RS Denim, a vertically integrated cotton yarn spinning and denim mill, began operations in 2008 and sells denim locally in Mauritius and also to regional markets.²⁰⁵ Another vertically integrated denim manufacturer, DDI, produces cotton yarn through to denim fabric and jeans. DDI currently produces for its own apparel

¹⁹⁶ U.S. Department of State, U.S. Embassy, Port Louis, “Information on Textile and Apparel Production,” September 28, 2007.

¹⁹⁷ Embassy of the Republic of Mauritius, written submission to the USITC, January 15, 2009, 4.

¹⁹⁸ All information on Tian Li was obtained from interview unless otherwise noted. Industry representative, interview by Commission staff, Mauritius, March 4, 2009.

¹⁹⁹ Industry representative, interview by Commission staff, Mauritius, March 5, 2009; Ciel Group Web site. <http://www.cielgroup.com> (accessed February 5, 2009).

²⁰⁰ Industry representative, interview by Commission staff, Mauritius, March 5, 2009.

²⁰¹ The Ciel Group encompasses several different business units spanning the production chain, from yarn to finished knit and woven garments. Ciel also has production units in Madagascar. Ciel Group Web site. <http://www.cielgroup.com> (accessed February 5, 2009).

²⁰² All information on CMT was obtained from interview unless otherwise noted. Industry representative, interview by Commission staff, Mauritius, March 5, 2009.

²⁰³ Hawkins, “Textiles: Restructured and Refocused,” March 11, 2008.

²⁰⁴ Fast fashion is a merchandising system whereby a retailer introduces small quantities of new, relatively exclusive garments at higher prices and keeps these items in the store for a limited time.

²⁰⁵ Industry representative, interview by Commission staff, Mauritius, March 4, 2009.

manufacturing operations and also sells to local and export markets.²⁰⁶ It recently purchased additional apparel manufacturing facilities and plans to increase its exports of apparel.²⁰⁷ DDI's denim fabric is used in apparel for the EU, U.S., and South African markets.²⁰⁸

Until recently, Socota Textile Mills, part of Groupe Socota Industries, produced mainly yarn-dyed woven fabric used for blouses, shirts, pants, and other lightweight applications.²⁰⁹ The mill recently closed, reportedly due to rising costs of production.²¹⁰ Industry sources indicate the factory's equipment remains in Mauritius; there is speculation that the plant will move its facility to Madagascar, or, in light of the recent unrest there, re-open in Mauritius.²¹¹

Mauritian textile and apparel inputs producers reported decreased sales resulting from the current economic downturn and decreased global demand for apparel.²¹² In addition, one industry representative noted that his firm had been adversely affected by the political instability in Madagascar, Mauritius's largest export market for textile and apparel inputs.²¹³ The representative noted that orders had declined dramatically since the onset of the unrest in January 2009.²¹⁴

Mauritius is a net importer of textile and apparel inputs. Mauritian exports of textile and apparel inputs totaled \$63.1 million in 2007 (table 4.18), while imports totaled \$256.5 million (table 4.19). Exports of textile and apparel inputs have increased by 30 percent since 2005, though exports have only recently recovered to 2004 levels. Two-thirds of exports went to other SSA countries and consisted mostly of yarn and woven fabric. Madagascar and South Africa are the largest regional consumers of Mauritian yarn and fabric. In 2007, Mauritius's yarn and fabric imports totaled \$207.5 million, of which woven fabric accounted for 51 percent of the total, while yarn accounted for 42 percent of the total. India was the major source for Mauritius's yarn imports, accounting for 54 percent of the total, and China was the largest source for its woven fabric imports, with 44 percent of the total. With respect to raw materials, Mauritian imports of cotton have increased by 145 percent since 2003. In 2007, 77 percent of cotton imports came from SSA countries. With the recent AGOA amendments, Mauritius may now use third-country yarn and fabric in apparel while still qualifying for duty-free treatment in the U.S. market.²¹⁵

²⁰⁶ Industry representative, interview by Commission staff, Mauritius, March 5, 2009.

²⁰⁷ *Fibre2fashion.com*, "Mauritius: DDI Aspires for Expansion," February 15, 2008.

²⁰⁸ Hawkins, "Textiles: Restructured and Refocused," March 11, 2008.

²⁰⁹ Industry representative, interview by Commission staff, Mauritius, May 28, 2008.

²¹⁰ U.S. Department of State, U.S. Embassy, Antananarivo, "Obstacles to Investment," November 5, 2008.

²¹¹ U.S. Department of State, U.S. Embassy, Antananarivo, "Obstacles to Investment," November 5, 2008; industry representative, interview by Commission staff, Mauritius, March 4, 2009.

²¹² Industry representatives, interviews by Commission staff, Mauritius, March 4 and 5, 2009.

²¹³ Industry representative, interview by Commission staff, Mauritius, March 4, 2009.

²¹⁴ Industry representative, interview by Commission staff, Mauritius, March 4, 2009.

²¹⁵ Section 3(a) of Public Law 110-436, (app. A).

TABLE 4.18 Mauritius: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	16,756	37,944	27,887	29,319	41,589
EU-27	8,441	10,180	8,518	15,686	17,899
Rest of world	6,737	15,727	12,042	6,942	3,612
United States	1	67	7	2	4
Total	31,936	63,918	48,454	51,949	63,104

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.19 Mauritius: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	3	172	46	4
Knit fabric	3,057	4,747	8,023	9,160	10,975
Manmade fibers	75	3	3	5	0
Other fabric	135	268	278	204	154
Thread	835	1,465	958	1,156	581
Trim	1,800	2,402	2,090	2,514	2,613
Woven fabric	23,848	44,745	28,095	25,349	30,166
Yarn	2,187	10,286	8,835	13,513	18,610
Total	31,936	63,918	48,454	51,949	63,104
Imports:					
Carded or combed fibers	5,580	5,893	4,478	7,241	10,074
Knit fabric	23,493	24,933	11,770	6,072	7,152
Manmade fibers	985	965	867	880	1,823
Other fabric	11,444	9,182	5,689	4,880	7,758
Thread	4,486	3,530	2,719	3,280	3,796
Trim	36,689	33,606	27,364	28,897	33,299
Woven fabric	124,969	98,109	80,047	86,353	105,534
Yarn	122,286	106,323	90,602	103,301	87,015
Total	329,933	282,540	223,535	240,906	256,452

Source: World Bank, WITS Database (accessed December 3, 2008).

Apparel

Mauritian apparel firms aim to compete based on quality, design, lead times, and fashion, rather than cost (box 4.3).²¹⁶ Mauritius has large, vertically integrated knit and denim apparel firms (discussed above), as well as small- and medium-sized companies involved in cut-make-trim operations. Apparel firms currently have the flexibility to use third-country fabrics in garment manufacturing, while maintaining eligibility for duty-free exports under AGOA. Mauritian exports of apparel are traditionally oriented toward European markets due to historical linkages, shared language, and similar time zones.²¹⁷

Mauritius's apparel exports totaled \$942.1 million in 2007 (table 4.20). T-shirts, trousers, sweaters, and shirts account for the bulk of Mauritian apparel exports. Exports to the EU accounted for 80 percent of total apparel exports in 2007, followed by exports to the United States at 12 percent. In that same year, knit apparel accounted for roughly 77 percent of textile and apparel exports to the EU, whereas woven apparel accounted for 65 percent of total sector exports to the United States. In 2007, U.S. imports of apparel from Mauritius totaled \$120.1 million, down from \$175.4 million in 2005. Similar to the export trend exhibited by textile and apparel inputs, exports of apparel have almost

²¹⁶ Mauritian government official, interview by Commission staff, Mauritius, March 4, 2009.

²¹⁷ Industry representative, interview by Commission staff, Mauritius, March 3, 2009.

returned to 2004 levels, indicating that the textile and apparel industry in Mauritius seems to have recovered successfully following consolidation and restructuring (table 4.20).

BOX 4.3 Mauritius's Strategies for Success

Despite the numerous challenges facing Mauritius as a small, comparably high-cost, and export-dependent producer, Mauritian textile and apparel producers have managed to remain competitive by upgrading capabilities and moving into higher-value-added sectors of production. Mauritius has one of the most vertically integrated sectors in SSA in terms of upstream production of yarn and fabric, and the industry has also been successful in adjusting to buyer demands by providing downstream services such as design and innovative fashion, as well as moving into higher-value garments.^a Mauritius has university-level training programs for textile engineers, and the industry also has brought in European consultants to assist the industry with improving design capabilities.

Some manufacturers have repositioned themselves to compete in the fast fashion market in the EU against suppliers such as Portugal, Turkey, Greece, and Morocco.^b The availability of local yarn and fabric, combined with regular air flights to the EU (owing to the Mauritian tourism industry) allow Mauritian firms to compete in this short-lead-time market segment. Fast fashion garment production is generally for mid- to high-end retailers, enabling manufacturers to recoup the higher costs associated with production and shipment of such goods. Star Knitwear indicated that it can produce fast fashion garments for EU retailers with lead times as short as two to four weeks.^c Working with lead time and quality advantages allows the firm to be competitive, even though its prices can be 30 percent higher than China's.^d In addition, Mauritian firms are reportedly monitoring their customers' retail sales in an effort to anticipate customers' future replenishment orders.^e Such monitoring is especially advantageous given the economic downturn and lean buying strategies of retailers. Other Mauritian garment manufacturers have moved into the production of higher-end fabrics and garments. For example, some Mauritian firms are making fashion jeans, which differ from the basic jeans commonly produced in the region in terms of the level of finishing detail and quality of fabric used.

Mauritian garment manufacturers are also adopting green strategies of production, moving toward a more sustainable industry. RT Knits, for example, uses green energy sources, such as solar panels and wind energy, to reduce its long-term costs of production.^f Movement toward green production methods helps producers to stay ahead of international buyers' environmental and social compliance requirements.^g

^aMauritian government official, interview by Commission staff, Port Louis, Mauritius, May 26, 2008; Bhurtun, Kistamah, and Chummun, "Energy Saving Strategies," March 27, 2009.

^bIndustry representative, interview by Commission staff, Mauritius, March 4, 2009; Mauritian government official, interview by Commission staff, Mauritius, March 5, 2009.

^cHawkins, "Textiles: Restructured and Refocused," March 11, 2008.

^dIbid.

^eRetailers have reportedly delayed placing orders as a result of the increased uncertainty in the market associated with the current economic downturn, placing increased demands on manufacturers to produce and ship the garments more quickly.

^fAckbarally, "Mauritius: Textile Manufacturing Goes Green and Clean," November 1, 2008.

^gIbid.

TABLE 4.20 Mauritius: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	970,002	955,126	804,680	836,398	942,147
Imports	18,228	22,798	25,013	37,008	48,093

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors Contributing to Competitive Production

Mauritius stands out among SSA countries as a favorable place to do business in terms of institutions, infrastructure, and investment.²¹⁸ It ranks 24th globally out of 181 countries in the World Bank's Doing Business 2009 database, the highest ranking of any SSA country (table 3.3). Openness to FDI in all sectors of the economy has provided the Mauritian apparel industry with access to the latest technology and also market linkages. Today, textile and apparel producers in Mauritius benefit from longstanding relationships with customers in key European markets. One industry source noted that firms in Mauritius have a competitive edge over Asian competitors because they are culturally closer to Europe and can "feel" what the customer wants.²¹⁹

The successful development of a competitive and diversified apparel industry over the past 30 years created demand for backward linkages in the production of textile and apparel inputs. Apart from South Africa, Mauritius has the most vertically integrated textile and apparel sector in SSA. Mauritian producers were able to reposition themselves following the final phase-out of quotas to maintain their competitiveness as global suppliers of apparel, even after several foreign firms closed Mauritian operations in 2004.²²⁰ Because investment in the Mauritian textile and apparel industry is overwhelmingly local, ownership in the sector is seriously committed to the long-term strength of the industry. This commitment stands in striking contrast to the apparel sectors in several other SSA countries, where apparel production is largely conducted by foreign firms operating basic cut and sew operations.

Additionally, Mauritian textile producers have also taken advantage of the high-efficiency, low wage apparel manufacturers in nearby Madagascar. Outsourcing cut and sew operations to Madagascar allows Mauritian firms to expand production while also creating regional demand for Mauritian textile and apparel inputs.

Mauritian apparel firms are the most recent beneficiaries of the third-country fabric provision under AGOA, receiving this benefit with the most recent amendments to AGOA in late 2008. Even vertically integrated firms reported that the extension of the third-country fabric provision to Mauritius has been helpful to the industry. Firms report that they will use local fabric when it is available to meet lead times required by customers, but third-country fabrics allow maximum flexibility in terms of the range of fabric they are able to use in production for their customers.²²¹ Reportedly, customers value this flexibility, and it increases Mauritius' attractiveness as a sourcing destination.²²² Additionally, Mauritius benefits from trade preferences extended by the EU. Through an interim EPA agreement, Mauritius can export apparel to the EU under rules of origin similar to that under AGOA.²²³ To further promote investment in textiles, one industry source indicated that the best course of action is to encourage a critical mass

²¹⁸ In 2008, the World Economic Forum ranked Mauritius 57th out of 134 countries in its Global Competitiveness Index. Mauritius' ranks were particularly high in terms of the sophistication of its financial markets (32), institutions (39), and infrastructure (43). Porter and Schwab, eds., *Global Competitiveness Report 2008–2009*, 2008, 10, 15–17, and 35.

²¹⁹ Industry representative, interview by Commission staff, Mauritius, March 5, 2009.

²²⁰ Industry representative, interview by Commission staff, Mauritius, May 26, 2008.

²²¹ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

²²² Industry representative, interview by Commission staff, Mauritius, March 5, 2009.

²²³ Industry representative, e-mail message to Commission staff, May 7, 2009.

in apparel production and allow the maximum variety of fabrics to be eligible for duty-free treatment.²²⁴

Further, the government of Mauritius is committed to preserving textile sector employment and has worked with the industry to develop a market sustainability strategy.²²⁵ The strategy includes decreasing direct competition with Asia by moving away from basic textile and apparel articles and moving up the value chain to produce fashion/semifashion goods with short runs and shorter lead times, and increasing the range and styles of product offerings. Another goal of the strategy includes diversifying target markets beyond the United States and the EU to South Africa, India, Australia, and Russia.²²⁶ Thus far, market diversification has been somewhat successful; for example, in 2007, South Africa was Mauritius's third-largest export market for textile and apparel inputs.

In an effort to stem losses resulting from the global economic downturn, in December 2008, the government of Mauritius approved a 10 billion rupee (\$292 million) economic stimulus package, titled the Mechanism for Transitional Support to the Private Sector.²²⁷ The stimulus package includes an estimated 1 billion rupees (\$29 million) to support the manufacturing sector (largely textiles and apparel), one-half of which is funded by the government and the other half by Mauritian financial institutions.²²⁸ As of February 2009, several companies had requested funding through the program, and one textile company has been approved to date.²²⁹

Factors Inhibiting Competitive Production

Mauritian firms are seeking out new apparel markets to foster increased inputs demand. The country's own domestic market for clothing is too small to provide sufficient demand to support a large textile and apparel sector, forcing Mauritius to be outward oriented. Further, although Mauritius benefits from demand for textile and apparel inputs from its competitive export-oriented apparel sector, its isolated location makes it difficult for input producers to identify and/or increase business with apparel manufacturers in other SSA countries. The country's geographic isolation also results in long shipping lead times for apparel manufacturers compared with competitors for the United States and the EU. Reportedly, lead times in particular limit Mauritius' ability to penetrate the U.S. market for apparel. In addition, the small size of the island (smaller in land area than the State of Rhode Island) and lack of available land for potential expansion of production ultimately constrain the development of Mauritius's textile and apparel industry.

Mauritius faces rising costs in terms of energy, land prices, and labor, which impede sector competitiveness.²³⁰ For example, one firm stated that spinning is more expensive in Mauritius than in China because of energy costs.²³¹ An industry representative noted that the spinning segment had also been adversely affected by the global economic downturn and increasing competition from Indian spinners, noting that sales have

²²⁴ Industry representative, interview by Commission staff, Mauritius, March 5, 2009.

²²⁵ Industry representative, interview by Commission staff, Mauritius, March 5, 2009.

²²⁶ Industry representative, interview by Commission staff, Mauritius, March 5, 2009.

²²⁷ Industry representative, interview by Commission staff, Mauritius, March 3, 2009.

²²⁸ Industry representative, interview by Commission staff, Mauritius, March 3, 2009.

²²⁹ Industry representatives, interviews by Commission staff, Mauritius, March 3 and 4, 2009.

²³⁰ U.S. Department of State, U.S. Embassy, Antananarivo, "Obstacles to Investment," November 5, 2008.

²³¹ Industry representative, interview by Commission staff, Mauritius, March 4, 2009.

declined by 30 percent compared to 2008. The source further noted that Indian yarn was sold at very low prices in Mauritius and supplied roughly 80 percent of the Mauritian market.

Wages are relatively high in Mauritius, especially when compared with other major SSA or Asian textile and apparel producers. This is due, in part, to the fact that workers in Mauritius earn an hourly wage plus bonus wages based on the quantities they produce.²³² According to one industry source, workers can earn up to \$400 per month, versus \$50 per month in Bangladesh.²³³ Further, there is a shortage of workers in the textile sector, especially for shift work.²³⁴ It has been reported that few Mauritians are interested in the textile and apparel sector for employment, and most do not want to work in factories.²³⁵ Therefore, Mauritian firms import workers from China, Bangladesh, Sri Lanka, and India, who are more experienced and more efficient than local labor.²³⁶ Reportedly, factories provide transportation, room, and board for foreign workers, who represent an estimated 25 percent of total employment in the textile and apparel sector in Mauritius.²³⁷

Nigeria

Potential Competitive Products

Nigeria has a history of cotton production and integrated textile production, and it maintains available capacity and a skilled labor force. However, infrastructure problems, particularly with electricity, as well as cotton quality issues and lack of an apparel industry hinder the resurgence of the textile industry. If infrastructure were improved, cotton yarn and manmade fibers, which are products that Nigeria currently exports to the EU, and niche products such as ethnic printed fabrics might be produced competitively. For example, wax print decorative fabrics for blinds and curtains were identified as potential niche products.²³⁸

Country Overview

Nigeria is the most populous country in Africa (148.0 million in 2007) and the second-largest economy in SSA, with a GDP of \$165.7 billion in 2007 (table 4.21). It is a low-income country with a per capita GDP of \$1,120 in 2007. Oil is a major contributor to GDP and accounts for 90 percent of export earnings.²³⁹ Agriculture and services are the other major contributors to GDP, while manufacturing (including textile and apparel inputs) accounts for less than 5 percent of GDP. Basic infrastructure in the country has deteriorated over the past 20 years.²⁴⁰

²³² Industry representative, interview by Commission staff, Mauritius, March 3, 2009.

²³³ Industry representative, interview by Commission staff, Mauritius, March 3, 2009.

²³⁴ Industry representative, interview by Commission staff, Mauritius, May 26, 2008.

²³⁵ Industry representative, interview by Commission staff, Mauritius, March 3, 2009.

²³⁶ Industry representative, interview by Commission staff, Mauritius, March 3, 2009.

²³⁷ U.S. Department of State, U.S. Embassy, Port Louis, "Information on Textile and Apparel Production," September 28, 2007; industry representative, interview by Commission staff, Mauritius, May 28, 2008.

²³⁸ USITC, Hearing transcript, January 29, 2009, 87 (testimony of Anthony Carroll, Manchester Trade Ltd).

²³⁹ EIU, *Country Profile 2008: Nigeria*, 2008, 24.

²⁴⁰ U.S. Department of State, Bureau of African Affairs, "Background Note: Nigeria," December 2008.

TABLE 4.21 Nigeria: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	165,690
GDP growth (annual %, 2007)	6.3
GDP per capita (current US\$, 2007)	1,120
Population (millions, 2007)	148.0
Goods exports (current US\$, millions, 2007)	65,500
Goods imports (current US\$, millions, 2007)	29,500
Inflation, consumer prices (annual %, 2007)	5.4
Literacy rate, adult total (% of people ages 15 and above, 2004)	69.1
Labor force, total (millions, 2006)	52.7
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	5,445 ^b
Gross capital formation (current US\$, millions)	
Lending rate (% , 2007)	16.9
Manufacturing value added (current US\$, millions, 2006)	3,760
Prevalence of HIV, total (% of population 15–49, 2007)	3.1

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

Industry and Trade Overview

The industry in Nigeria is dominated by the production of textiles with minimal apparel production. Nigeria's industrial textile industry is over 50 years old and once served a large domestic market as well as export markets within the region and to the EU. The industry, which was once one of the country's largest employers, contracted significantly beginning in the 1990s. Employment fell from 137,000 workers in 1996 to 24,000 in 2008, and many factories closed in recent years due to high production costs and competition from imports.²⁴¹ The industry is reportedly struggling to survive, and many more firms are facing closure.²⁴²

Textile and apparel inputs

Currently, the industry producing textile and apparel inputs in Nigeria consists of 20 or fewer factories employing an estimated 20,000 workers.²⁴³ Existing factories reportedly produce at less than 25 percent of installed capacity.²⁴⁴ The general decline of the textile industry can be attributed to the final phase-out of quotas in the major markets, declining infrastructure, the decline in the cotton marketing boards, the shift of focus to the oil industry, and competing imports of print fabric from China.²⁴⁵ Recent plant closures have been attributed to power and water supply problems, high fuel costs, and competition

²⁴¹ In 2007, a number of textile firms closed, including UNT, the largest textile firm in Nigeria, with a total loss of 10,000 jobs. In 2008, 5,000 more jobs were lost in the industry as more factories closed down. Imhonlone, "Nigeria's Textile Industry Heads for Total Collapse," January 16, 2009; Yee and Paludetto, *Nigeria: Value and Supply Chain Study*, March 2005, 23; *ifashion.com*, "UNIDO Decries Collapse of Nigeria's Textile Industry," March 13, 2009 (accessed April 14, 2009).

²⁴² *ifashion.com*, "UNIDO Decries Collapse of Nigeria's Textile Industry," March 13, 2009 (accessed April 14, 2009).

²⁴³ USITC, Hearing transcript, January 29, 2009, 64 (testimony of Anthony Carroll, Manchester Trade Ltd); Adenekan, "Government Should Declare Emergency," January 18, 2009.

²⁴⁴ Obi, "GDP Growth, Minus the Textile Industry," November 21, 2008.

²⁴⁵ USITC, Hearing transcript, January 29, 2009, 65 (testimony of Anthony Carroll, Manchester Trade Ltd).

from smuggled counterfeit prints.²⁴⁶ In particular, it has been reported that cloth from China falsely labeled as made in Nigeria competes with Nigerian brands in the domestic market and in regional markets.²⁴⁷ Other problems facing the industry are old machinery, lack of dyes and industrial starch, and poor yarn quality.²⁴⁸ Although the government promised loans to textile factories and cotton growers in 2007, the funds have not yet been distributed, and the industry has continued to contract.²⁴⁹

Nigeria previously benefited from preferential treatment for textile exports to the EU under the Cotonou Agreement but has not signed an interim EPA. Under AGOA, Nigeria qualifies for textile and apparel preferences (see table 3.5), as well as duty-free treatment for ethnic printed fabric and folklore and handmade articles. Although Nigeria prohibits imports of ethnic printed fabric and used clothing, these items are allegedly smuggled into the country in large quantities.²⁵⁰

Some of the larger Nigerian textile firms are vertically integrated from cotton ginning to yarn spinning, fabric weaving, dyeing, printing, and finishing. Many of the large mills are owned by international conglomerates, including the Hong Kong-based Cha group and the Kenyan Sunflag group. Textile plants are located in Kano and Kaduna in the north near the cotton-growing areas and in Lagos. Most of the northern plants have closed down, and some have reportedly moved to nearby countries such as Ghana because of comparatively high production costs and unstable energy supply in Nigeria.²⁵¹ Five textile firms were listed in Nigeria's top 100 nonoil exporters in 2007 (table 4.22).²⁵²

TABLE 4.22 Nigeria: Major textile exporting firms, 2007

Firm name	Products	Major export market
Alkem Nigeria Ltd	Polyester staple fiber	South Africa
Angel Spinning and Dyeing	Cotton African real wax print cloth	Congo
UNTP-Ikorodu	Wax printing, polyester fiber and filament, yarn, greige cloth, dyeing, printing	Senegal
Spintex Mills	Yarn	Portugal
African Textiles Manufacturing	Cotton spinning, weaving, dyeing, printing, finishing, wax prints	France

Source: Government of Nigeria, Central Bank of Nigeria, *Annual Report and Statement of Accounts*, 2008.

Nearly all of the installed spinning and weaving capacity in Nigeria is more than 10 years old.²⁵³ Spinning capacity consists of 700,000 short-staple spindles, 3,000 long-staple spindles, and 23,000 open-end rotors.²⁵⁴ Weaving capacity consists of 2,500 shuttleless

²⁴⁶ *Fibre2fashion.com*, "Declare State of Emergency," November 18, 2008.

²⁴⁷ USITC, Hearing transcript, January 29, 2009, 65–66 (testimony of Anthony Carroll, Manchester Trade Ltd); Victor Ahiuma-Young, "Chinese Exporters Destroy Nigerian Textile Industry," October 27, 2008.

²⁴⁸ Okere, "Waiting for the Textile Revival Fund," December 4, 2008.

²⁴⁹ EIU, "The Domestic Economy," August 2, 2007; Gulloma, "Nigeria: Bureaucracy Stalls Release of N70 Billion Textile Fund," February 12, 2009.

²⁵⁰ Imhonlone, "Smuggling Remains Major Threat," December 23, 2008.

²⁵¹ Ajakaiye, "Energy Crisis," July 23, 2008.

²⁵² Government of Nigeria, Central Bank of Nigeria, *Annual Report and Statement of Accounts*, table 63, 2008, 244.

²⁵³ The spinning and weaving machinery capacity and shipment information in this paragraph is from ITMF, *International Textile Machinery Shipment Statistics*, 2007.

²⁵⁴ Shipments of spinning machinery from 1998 to 2007 were 26,172 short-staple spindles and 8,480 open-end rotors.

looms and 11,000 shuttle looms.²⁵⁵ Printing and dyeing capacity was estimated in 2006 to be 1,500 million meters.²⁵⁶ Cotton fiber production was estimated in 2006 to be 70,000 metric tons per year, and polyester/filament production was estimated to be 25,000 metric tons per year.²⁵⁷ Cotton woven fabric production in 2005 was 25 million square meters, manmade fiber production was 511 million square meters, and knitted fabric production was 111 million square meters.²⁵⁸

There is some production of manmade fibers in Nigeria, although plants are small and production has been declining.²⁵⁹ Producers include Alkem Nigeria, producing polyester staple fibers, and Globe Spinning and Horizon Fibres, producing filament yarn. Capacity is 6,000 tons for textile filament and 5,000 tons for polyester staple. Synthetic fiber production fell from 13,400 metric tons in 2004 to 9,100 metric tons in 2007.²⁶⁰

Total textile exports were \$20.7 million in 2007 (table 4.23). The EU was the main destination for textile exports, accounting for 77 percent of exports in 2007. Exports to the EU were mostly manmade fibers, as well as some yarn and woven cotton fabric. Other destination markets include South Africa (synthetic polyester staple fiber), Niger, and Côte d'Ivoire. The major export products were manmade fibers (\$12.5 million), woven fabric (\$3.5 million), yarn (\$2.4 million), and carded/combed fibers (\$2.2 million) (table 4.24). Overall, exports of textile and apparel inputs have declined, with the value of exports decreasing by nearly 50 percent from 2005 to 2007.

TABLE 4.23 Nigeria: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	1,172	3,861	3,278	5,013	4,283
EU-27	26,408	40,861	34,258	14,750	15,844
Rest of world	941	3,186	2,636	1,102	487
United States	292	197	15	34	40
Total	28,814	48,106	40,186	20,900	20,654

Source: World Bank, WITS Database (accessed December 3, 2008).

²⁵⁵ Shipments of weaving equipment from 1998 to 2007 consisted of 30 shuttleless looms and 70 shuttle looms.

²⁵⁶ U.S. Department of State, "Textile and Apparel Production Capabilities," August 2006.

²⁵⁷ U.S. Department of State, "Textile and Apparel Production Capabilities," August 2006.

²⁵⁸ Government of Nigeria, National Bureau of Statistics, "Manufacturing, Production and Consumption," 2006.

²⁵⁹ Industry consultant, e-mail message to Commission staff, January 16, 2009; Fiber Economics Bureau, *Fiber Organon*, June 2008.

²⁶⁰ *Ibid.* Of the 9,100 metric tons of synthetic fiber produced, 5,000 tons were textile filament yarn and 4,100 tons were polyester staple.

TABLE 4.24 Nigeria: Exports and imports of textile and apparel inputs, by product group, 2003-07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	181	149	734	2,307	2,214
Knit fabric	9	76	4	3	2
Manmade fibers	9,007	15,791	17,592	10,461	12,485
Other fabric	22	38	13	97	20
Thread	113	195	55	55	42
Trim	204	113	84	204	68
Woven fabric	4,049	8,417	4,983	4,023	3,460
Yarn	15,228	23,327	16,723	3,749	2,363
Total	28,814	48,106	40,186	20,900	20,654
Imports:					
Carded or combed fibers	4,530	5,419	5,801	4,666	2,297
Knit fabric	8,977	3,997	4,998	2,588	2,854
Manmade fibers	18,387	23,447	36,510	44,539	54,022
Other fabric	17,892	23,529	17,751	17,164	33,240
Thread	4,128	4,037	2,443	1,671	2,827
Trim	286,760	261,559	233,372	227,753	195,653
Woven fabric	324,641	217,754	173,311	130,770	107,965
Yarn	19,266	13,282	11,644	16,686	22,270
Total	684,580	553,025	485,828	445,836	421,127

Source: World Bank, WITS Database (accessed December 3, 2008).

Apparel

There is virtually no apparel production in the country. In 2007, apparel exports were just \$0.5 million (table 4.25). Apparel producers are mostly small operators producing custom-tailored clothing for the domestic market. However, much of the “apparel” is ethnic printed fabric sold in individual pieces to be worn as clothing.²⁶¹ Nigerian-produced fabric accounted for about 20 percent of the 1.2 billion meter domestic fabric market in 2006.²⁶²

TABLE 4.25 Nigeria: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	802	531	601	1,159	503
Imports	162,241	110,535	97,423	82,028	103,292

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors Contributing to Competitive Production

Nigeria has a large domestic market, and at one time was the largest cotton producer in SSA and had one of the largest textile industries in the region.²⁶³ Nigeria still has a large supply of domestic cotton (box 4.4); it is the largest cotton producer among the Group 1 countries. Despite the decline in the textile industry, some of the factories and machinery are still in place. With experienced managers and a trained labor force, the textile industry benefits from high labor productivity relative to labor costs.²⁶⁴ In 2007, the

²⁶¹ USITC, Hearing transcript, January 29, 2009, 63 (testimony of Anthony Carroll, Manchester Trade Ltd).

²⁶² ICAC, “Nigeria,” October 22–26, 2007.

²⁶³ USITC, Hearing transcript, January 29, 2009, 63 (testimony of Anthony Carroll, Manchester Trade Ltd).

²⁶⁴ *Ibid.*, 83.; Yee and Paludetto, *Nigeria: Value and Supply Chain Study*, March 2005, 49.

BOX 4.4 Cotton Production in Nigeria

In marketing year (MY) 2007, Nigeria was the third-largest SSA cotton-producing country, accounting for 12 percent of SSA production (app. G). During the MY 2003–07 period, Nigerian cotton production was fairly stable, ranging from 400,000 bales in MY 2005 and MY 2006 to 450,000 bales in MY 2007 (see table below). In MY 2007, Nigeria consumed 62 percent of domestic cotton supplies, down from 73 percent in MY 2003, corresponding to the long-term downward trend in textile production^a and government encouragement of cotton exports through the Export Expansion Grant program.^b Nigerian cotton exports accounted for one-third of the MY 2007 cotton crop, up from just over one-fifth in MY 2003. Most Nigerian cotton exports were destined for Asia and Europe, and only limited quantities were exported to other SSA countries.^c Small volumes of cotton were reportedly imported into Nigeria from Niger and Chad to meet local demand for longer-staple cottons for use in higher-quality textiles.^d

Nigeria: Cotton production, consumption, and trade

Source	Marketing year (Aug. 1–July 31)				
	2003	2004	2005	2006	2007
Beginning stock	144	129	144	129	119
Production (1,000 bales)	415	420	400	400	450
% of SSA production	7	7	7	9	12
Average yields (kg/ha)	241	241	229	229	248
Area harvested (ha)	375	380	380	380	395
Consumption (1,000 bales)	410	375	360	360	350
Ratio of consumption to domestic supplies ¹ (%)	73	68	66	68	62
Imports (1,000 bales)	70	70	70	75	70
Exports (1,000 bales)	90	100	125	125	150
% of production exported	22	24	31	31	33
% of total exports from SSA to world	2	2	2	3	5
Exports (US \$, millions)	14.77	27.87	25.71	26.87	12.81
% of exports from Nigeria to SSA	(²)	(²)	(²)	(²)	(²)

Source: USDA, FAS, Production, Supply and Distribution Online; World Bank, WITS Database (accessed March 9, 2009).

¹Domestic supplies are equivalent to the sum of beginning stocks and production. Beginning stocks are the quantity of cotton carried over (not consumed or exported) from the previous year.

²Values round to zero.

Nigerian cotton has good fiber characteristics,^e but overall quality^f remains very low. As a result, Nigerian cotton received a discount under the Cotlook A Index, a common international standard.^g This discount is primarily a consequence of contamination from polypropylene fibers from sacks being used to harvest cotton.^h Polypropylene fibers, as well as other extraneous fibers, have different dye absorption rates than cotton fibers, resulting in uneven coloring in dyed yarns and fabrics containing such fibers.ⁱ In addition, local textile mills classify cotton as either

^aImhonen, "Nigeria's Textile Industry Heads for Total Collapse," January 16, 2009.

^bThe Export Expansion Grant provides cotton exporters 20 percent of the free on board value of all cotton exports as compensation for the low value of Nigerian cotton on international markets. David, *Nigeria: Cotton and Products Annual 2007*, September 24, 2007, 5.

^cIbid.

^dIbid.

^eFiber characteristics refer to the actual attributes of the cotton lint fibers, such as staple length, micronaire, fiber strength, and length uniformity. Most African upland cottons have fiber characteristics equal to or above the Cotlook A Index benchmark. Fiber characteristics are fairly homogenous across Africa due to similar growing conditions and the limited number of varieties planted. However, micronaire and length uniformity vary depending on specific varieties, weather conditions, growing areas, and production practices. Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 13.

^fOverall cotton quality refers to both the fiber characteristics of the lint, along with other nonlint attributes of the cotton lint, such as contamination and stickiness.

^gThe Cotlook A Index sets the international benchmark for quality, with all cotton traded receiving a premium or discount price based on its quality in relation to the benchmark. Estur, *Is West African Cotton Competitive?*, January 7, 2005, 1–20.

^hIndustry representative, interview by Commission staff, Dar es Salaam, Tanzania, February 25, 2009.

ⁱSSA industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

BOX 4.4 Cotton Production in Nigeria—Continued

polypropylene-free or contaminated and provide premiums for cotton classified as polypropylene-free.^j Other types of contaminants (e.g., sand and water) used by producers to unfairly increase the weight of the cotton are also of concern for buyers.^k Quality is also compromised by the lack of a seed multiplication program to ensure the quality of seeds used for planting. As a result, ginners distribute seeds to producers that are often of mixed varieties, which over time, through genetic variations, reduce specifically developed traits such as disease resistance, yields, and fiber characteristics.^l

^jThis premium is approximately \$0.067 per kg. David, *Nigeria: Cotton and Products Annual 2007*, September 24, 2007, 4.

^kIbid.; UPI, "Nigeria: Goje Advises Farmers on Cotton Production," June 11, 2007.

^lFlake and David, *Nigeria: Cotton and Products Annual 2008*, November 19, 2008, 5.

government set up a 70 billion naira fund (equivalent to about \$590 million based on an annual 2008 exchange rate) for the cotton and textile industries, although the funds have not yet been released.²⁶⁵

Factors Inhibiting Competitive Production

Textile manufacturers in Nigeria face high electricity costs, unreliable supply, and power outages. Diesel used for backup generators is very expensive as is the fuel oil used for steam generation. In a survey of business environment obstacles faced by enterprises in Nigeria, 76 percent of firms identified electricity as a major constraint (compared to 48 percent of firms in SSA as a whole).²⁶⁶ Inadequate water supply also increases costs for manufacturers.²⁶⁷

The quality of roads, railroad infrastructure, and port infrastructure scores between 1.7 and 2.7 on a scale of 1 to 7, below the average for Group 1 countries (table 3.4). One-half of roads were rated as collapsed and impassable, and 35 percent were rated to be in poor structural condition.²⁶⁸ Delays and congestion at ports and borders are a problem, along with onerous inspections procedures and uneven application of import and labeling regulations.²⁶⁹ Nigeria ranked 118th out of 181 countries in the World Bank's Doing Business 2009 database, and the cost to export (\$1,179 per container), while among the lowest of the Group 1 countries, is higher than the cost to export for countries such as China and India (table 3.3).

Nigeria's raw material resources, cotton and petroleum, could potentially provide an advantage to textile producers. However, the cotton produced is generally of low quality due to poor growing and harvesting practices.²⁷⁰ Despite the petroleum resources in the country, polyester chips for textile production are often imported, as are most other raw materials such as dyes and industrial starches, often at high prices.²⁷¹

²⁶⁵ Gulloma, "Nigeria: Bureaucracy Stalls Release of N70 Billion Textile Fund," February 12, 2009.

²⁶⁶ World Bank, IBRD, Enterprise Analysis Unit, *Enterprise Surveys: Nigeria, 2007*, 13.

²⁶⁷ Yee and Paludetto, *Nigeria: Value and Supply Chain Study*, March 2005.

²⁶⁸ U.S. Department of State, U.S. Embassy, Abuja, "Nigeria: Infrastructure Conditions Hinder Export Competitiveness," October 16, 2008.

²⁶⁹ U.S. Department of State, Bureau of African Affairs, "Background Note: Nigeria," December 2008.

²⁷⁰ El-Wahab, "Summary of Nigeria Value Chain Analysis," Summer 2005.

²⁷¹ Government of Nigeria, Federal Ministry of Science and Technology, Raw Materials Research and Development Council, *Multi-disciplinary Committee Report*, December 2003.

South Africa

Potential Competitive Products

Potential competitive products include higher-value-added or specialty fabrics, such as technical textiles, performance fabric, industrial textiles, work wear fabric, and high-quality worsted fabric. These products are largely niche fabrics that South Africa is currently manufacturing and exporting in small amounts directly to, or for use in downstream products for, the United States, the EU, and similar markets. Trade data and interviews with industry sources also suggest that there could potentially be some competitive production of yarn and knit fabric of cotton or cotton blends that could be used in vertical production of apparel exported to the U.S. and EU markets.

In recent years, the textile industry in South Africa has contracted and has been negatively affected by import competition. Most yarns and fabrics produced in South Africa are consumed within the domestic market, and there is limited competitive production of textile and apparel inputs for export. Further, a key aim of the textiles and apparel sector is reportedly reclamation of the domestic market via a robust and locally focused apparel sector. As a result, textile and apparel inputs that could be produced competitively in South Africa are likely those products the country is already producing successfully for export markets. Increased investment or other measures would help such products to remain competitive or allow for some expansion in the production of these and similar products.

Country Overview

South Africa, the southernmost country on the African continent, is the most economically diverse of all SSA countries and has one of the larger and more developed textile industries in the region. In 2007, GDP totaled \$277.6 billion, growing nearly 5 percent over the previous year. Compared with the majority of AGOA beneficiaries, South Africa's GDP per capita is comparatively high at \$5,832 (table 4.26). Manufacturing accounts for 16 percent of GDP. However, the textile sector accounts for less than 4 percent of total manufacturing employment.²⁷² Sales of textiles and textile products account for just over 1 percent of total sales of manufactured goods. Total trade in goods represented 58 percent of GDP in 2007, of which imports and exports of textile and apparel inputs accounted for less than 1 percent. In recent years, the textile industry has experienced severe import competition from China, which currently accounts for the vast majority of imports of textiles and finished apparel.

Industry and Trade Overview

The South African textile and apparel industry has a long history. Under apartheid, the textile and apparel sector was self-sufficient, protected, and focused on import substitution. Because the industry was established to satisfy local demand and operated in the absence of competition from external suppliers, production was substantial and encompassed a wide range of products.²⁷³ The industry became subject to international

²⁷² Statistics South Africa, *Manufacturing: Production and Sales (Preliminary)*, February 10, 2009.

²⁷³ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009.

TABLE 4.26 South Africa: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	277,581
GDP growth (annual %, 2007)	4.8
GDP per capita (current US\$, 2007)	5,832
Population (millions, 2007)	47.6
Goods exports (current US\$, millions, 2007)	69,788
Goods imports (current US\$, millions, 2007)	90,990
Inflation, consumer prices (annual %, 2007)	7.1
Literacy rate, adult total (% of people ages 15 and above)	^(b)
Labor force, total (millions, 2006)	20.0
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	-120
Gross capital formation (current US\$, millions, 2007)	55,718
Lending rate (% , 2007)	13.2
Manufacturing value added (current US\$, millions, 2007)	44,819
Prevalence of HIV, total (% of population 15–49, 2007)	18.1

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

competition following apartheid, and in recent years, the sector has been significantly affected by imports from China and large fluctuations in the value of the South African rand. According to industry sources, South Africa used to be the most competitive textile producer in SSA but has since relinquished that position.²⁷⁴ The sector is currently undergoing restructuring and consolidation, with a number of manufacturers pursuing a more cohesive and strategic sectoral approach to competitiveness in light of the current challenges faced by the industry.

Textile and apparel inputs

Production of textile and apparel inputs in South Africa encompasses the full range of manufacturing operations, including fiber production, thread production, yarn spinning, knit and woven fabric production, production of nonwovens, production of trims and accessories, and dyeing and finishing operations. The industry is largely concentrated in the Western Cape, KwaZulu-Natal, and Gauteng provinces. Most firms are South African owned, although there is limited European and Asian ownership in the industry as well.²⁷⁵ In 2008, the South African textile industry recorded sales of approximately \$1.7 billion and employed around 50,000 workers.²⁷⁶ Employment has declined by 20,000 since its peak in 2003, and sales have declined by 18 percent since the industry high in 2002.²⁷⁷ In addition, on average, South African textile firms are operating at roughly 20 percent below full capacity, largely as a result of insufficient demand.²⁷⁸

²⁷⁴ USITC, Hearing transcript, January 29, 2009, 81 (testimony of Paul Ryberg, African Coalition for Trade).

²⁷⁵ Vlok, "South Africa," 2006, 227–29; SSA industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009.

²⁷⁶ Statistics South Africa, *Manufacturing: Production and Sales (Preliminary)*, February 10, 2009; SSA industry representatives, interviews by Commission staff, Johannesburg, South Africa, February 23, 2009, and Cape Town, South Africa, February 29, 2009.

²⁷⁷ Statistics South Africa, *Manufacturing: Production and Sales (Preliminary)*, February 10, 2009; The Textile Federation Web site. <http://www.textfed.co.za> (accessed March 9, 2009).

²⁷⁸ Statistics South Africa, *Manufacturing: Utilisation of Production Capacity*, February 5, 2009.

There are currently 11 firms in South Africa producing yarn.²⁷⁹ Five firms manufacture nonwovens, and there are reportedly seven firms producing trim, including elastics, buttons, zippers, and similar items. Approximately 16 firms produce woven fabric, while 15 companies produce knit fabric. Industry sources reported that between 8 and 11 fabric mills have closed in the past few years.²⁸⁰ According to industry sources, the woven fabric industry in South Africa has largely declined, while knit fabric production has remained relatively robust. Of the country's textile producing firms, nine are vertically integrated, manufacturing either yarn through fabric, yarn through finished apparel, or yarn through household textiles. The largest vertically integrated firm is Frame, which is a division of Seardel, the largest clothing manufacturer in South Africa. Frame produces knit, woven (including denim), and nonwoven fabric, including garment fabrics and household textiles, and accounts for the vast majority of domestic output of textile products. Frame consumes most of its output of textile and apparel inputs but also exports some fabric to the region.²⁸¹ Frame currently accounts for the vast majority of domestic output of textile products and is the largest producer of cotton yarn in the SSA region. However, in April 2009, Seardel announced that it would close all Frame units, including the spinning, weaving, finishing, and denim divisions, in July 2009.²⁸² The second-largest integrated manufacturer, DaGama, is a vertical fabric mill producing textiles for garments, work wear, home sewing, and household applications. In addition to a large number of firms producing textiles for garments and household items, there is a strong niche industry making export-quality wool and wool-blended yarns and fabrics; performance fabric for garments and outerwear; technical fabric for parachutes, airbags, and medical applications; and specialty fabric for uniforms, upholstery, and industrial applications.

Cotton is by far the dominant fiber used in the domestic textile industry. About 80 percent of spun yarn produced in South Africa is of pure cotton or poly/cotton blends.²⁸³ Cotton and cotton blends are also widely used in knit and woven fabric production. Cotton is sourced from the region, primarily from Zimbabwe and Malawi, followed by Zambia and Mozambique. South Africa is also a cotton producer, with 2007 production of 46,000 bales.

In addition to producing cotton, South Africa is the world's largest producer of mohair and a significant global producer of wool. However, there is limited domestic downstream processing of such fibers. Because there is reportedly limited local demand, most South African mohair is exported in an unprocessed or semiprocessed state to the EU and Asia. Although a substantial amount of wool is also exported, again to the EU and Asia, there is comparatively more domestic processing (i.e., carding and combing) of wool fibers. There are two vertically integrated textile mills producing yarn and worsted

²⁷⁹ Unless otherwise noted, information in this paragraph is from SSA industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009.

²⁸⁰ SSA industry representatives, interviews by Commission staff, Durban, South Africa, February 24, 2009, and Cape Town, South Africa, February 27, 2009.

²⁸¹ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, November 2, 2007.

²⁸² *Just-style.com*, "South Africa: Seardel to Close Frame Textile Units" April 15, 2009; *Times* (South Africa), "Seardel Cuts Nearly 10% of Workforce," April 14, 2009; *AllAfrica.com*, "South Africa: Lame DTI Can't Deal with Textile Realities" April 15, 2009.

²⁸³ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009.

fabric of pure wool and wool blends,²⁸⁴ which is used by downstream apparel producers in South Africa, as well as exported.

South Africa also produces textile products of natural fibers, such as flax, jute, and cellulosic fibers. Although South Africa is also a producer of synthetic filament yarns, and to a lesser extent synthetic fibers, the last remaining producer of such yarns for the garment industry, SANS, recently ceased production. Remaining synthetic yarn and fiber production is reportedly intended primarily for industrial applications.

South Africa does not export a significant amount of its production of textile and apparel inputs; approximately two-thirds or more of domestic production of textiles is for the domestic market.²⁸⁵ Nonetheless, with exports of \$300.5 million (table 4.27), South Africa is by far the largest exporter of textile and apparel inputs among SSA countries, accounting for 60 percent of the total value of regional exports of such products (table 1.1). Aside from an isolated spike in 2004, South African exports of textile and apparel inputs remained relatively flat during the 2003–07 period, while exports to the United States declined by 28 percent during the period.

TABLE 4.27 South Africa: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	42,667	41,605	34,697	32,400	40,040
EU-27	140,968	161,096	136,188	135,046	142,004
Rest of world	87,802	112,225	103,013	107,726	100,006
United States	25,720	27,689	24,953	28,917	18,407
Total	297,158	342,615	298,851	304,090	300,457

Source: World Bank, WITS Database (accessed December 3, 2008).

In 2007, nearly 28 percent of South African exports of textile and apparel inputs consisted of carded and combed fibers, chiefly wool and mohair (table 4.28). Yarn exports, principally synthetic filament yarn, accounted for another 23 percent of textile and apparel inputs exports. However, synthetic filament yarn exports are expected to decline drastically in 2009 with the exit of SANS from the industry. Notwithstanding South African exports of fibers and synthetic filament yarn, which account for roughly one-half of total exports of textile and apparel inputs, South Africa is a rather marginal supplier of other textile products to the world, although it is still a large exporter compared with other SSA countries.

Other exports of South African textile and apparel inputs consisted largely of knit, woven, and other fabrics, totaling \$98.1 million in 2007. South Africa is rivaled by Mauritius in terms of the value of knit fabric exports; Mauritian exports of knit fabric were just 10 percent less than South African exports of knit fabric in 2007. In addition, South Africa was the largest SSA-country exporter of woven fabrics, accounting for 36 percent of the SSA-country total, followed by Mauritius and Lesotho, which accounted for 22 percent and 13 percent, respectively. Although South Africa is by far the largest

²⁸⁴ According to industry sources, there were at one time six mills producing yarn and fabric from wool and other animal hair. Currently, production of wool and wool-blend yarns and worsted fabrics contributes only a small amount to total production of yarn and fabric.

²⁸⁵ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009.

TABLE 4.28 South Africa: Exports and imports of textile and apparel inputs, by product group, 2003–07
(1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	89,134	97,362	80,524	85,664	82,643
Knit fabric	8,014	12,439	9,882	10,768	12,149
Manmade fibers	20,504	15,813	12,600	9,077	10,769
Other fabric	25,536	32,571	26,823	30,890	36,973
Thread	8,301	11,809	15,383	19,301	15,764
Trim	19,249	25,934	23,043	22,347	22,841
Woven fabric	55,825	67,624	59,255	49,972	48,944
Yarn	70,594	79,063	71,341	76,070	70,374
Total	297,158	342,615	298,851	304,090	300,457
Imports:					
Carded or combed fibers	6,508	6,934	5,940	5,521	8,103
Knit fabric	55,881	97,378	78,346	93,184	87,713
Manmade fibers	29,831	46,544	55,436	71,547	80,156
Other fabric	56,100	68,880	76,497	89,105	110,566
Thread	9,989	13,297	11,895	13,202	12,718
Trim	35,689	55,360	53,548	60,519	60,504
Woven fabric	291,299	402,252	405,104	426,405	402,789
Yarn	79,144	114,679	104,327	124,593	124,667
Total	564,440	805,324	791,092	884,077	887,216

Source: World Bank, WITS Database (accessed December 3, 2008).

knit and woven fabric producer among SSA countries, most fabric produced in South Africa is likely used in vertically integrated apparel firms or sold to domestic apparel firms rather than exported. South Africa is the largest SSA-country supplier of “other fabric,” which is largely nonwoven and coated or laminated fabric; these fabrics accounted for 93 percent of SSA exports of other fabrics in 2007.

The EU is South Africa’s largest export market for textile and apparel inputs (table 4.27), accounting for 47 percent (\$142.0 million) of such exports in 2007. The EU was the number one export destination for all product groupings except knit fabrics (shipped primarily to Australia and Norway) and manmade fibers (sent largely to Zimbabwe, followed by the EU and China). In three product groups—fibers, thread, and other fabrics—the EU absorbed 60 percent or more of South African exports in 2007. Other SSA countries accounted for a 13 percent share of South Africa’s exports of textile and apparel inputs, consisting primarily of cotton woven fabric and manmade-fiber woven fabric. Wool fibers, manmade fibers, and zippers were other significant export products to the SSA region. The United States accounted for just \$18.4 million, or 6 percent, of textile and apparel inputs exports from South Africa in 2007, and those exports consisted primarily of synthetic filament yarns, and braiding and other ornamental trims. Because synthetic filament yarn shipments were most likely from SANS to its joint venture partner in North Carolina, future exports to the United States are expected to decline significantly because of the closure of SANS.

While the textile industry in South Africa is more developed, produces a greater range of products than in most other SSA countries, and reportedly produces some good-quality textiles, industry sources indicated that many of the fabrics needed for apparel production are not available in South Africa in the styles and quantities required, and therefore must

be imported.²⁸⁶ As a result, South Africa is a significant importer and registers a large trade deficit in textile and apparel inputs. In 2007, total South African imports of textile and apparel inputs totaled \$887.2 million and exceeded exports by a ratio of roughly 3 to 1. South African imports of textile and apparel inputs increased by 57 percent during the 2003–07 period. Primary suppliers of textile and apparel inputs to the South African market included China (accounting for 38 percent of imports), the EU (18 percent), Pakistan (9 percent), and Taiwan (9 percent). Roughly one-half of 2007 imports were woven fabrics, largely of cotton and manmade fiber, while another 45 percent of imports consisted of yarn, other fabric, knit fabric, and manmade fibers. South Africa imported only \$15.7 million in textile and apparel inputs from other SSA countries in 2007, and 71 percent of such imports were cotton fibers, cotton yarn, and cotton woven fabrics.

Apparel

Unlike most SSA countries, South Africa has a large and sophisticated domestic market for apparel and boasts a substantial garment manufacturing industry. The South African apparel industry consists of over 1,000 firms²⁸⁷ that produce a wide range of apparel products. The sector employs approximately 67,000 workers, and production totaled an estimated \$1.5 billion in 2008.²⁸⁸ A significant portion of production is destined for the domestic retail market; exports account for a smaller share of production and are largely destined for the United States and the United Kingdom.²⁸⁹ As with textiles, South Africa registers a substantial trade deficit in apparel (table 4.29). The value of South African clothing imports in 2007 was 670 percent higher than the value of such exports, and the deficit has steadily increased since 2003. Nearly 80 percent of apparel imports were supplied by China. Mauritius was the largest SSA supplier to the South African market, but nonetheless accounted for less than 3 percent of South African imports of apparel in 2007.

TABLE 4.29 South Africa: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	412,868	329,339	240,277	200,268	206,913
Imports	500,676	767,351	944,130	1,550,953	1,594,528

Source: World Bank, WITS Database (accessed December 16, 2008).

The domestic apparel industry has faced severe competitive challenges in the past several years, including the final phase-out of quotas at the end of 2004, volatility of the local currency, increasing import competition from China, ineffective or delayed government policies affecting the textile and apparel sector, and the conservative mindset of many

²⁸⁶ SSA industry representatives, interviews by Commission staff, Durban, South Africa, February 24, 2009, and Cape Town, South Africa, February 27, 2009; South African government officials, interview by Commission staff, Johannesburg, South Africa, October 29, 2007.

²⁸⁷ U.S. Department of State, U.S. Embassy, Pretoria, “Textiles and Apparel Sector,” September 28, 2007; SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 27, 2009.

²⁸⁸ Statistics South Africa, *Manufacturing: Production and Sales (Preliminary)*, February 10, 2009; SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 29, 2009.

²⁸⁹ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, October 29, 2007. Although trade data used by the Commission indicate that approximately 50 percent of South African exports of apparel are shipped to Namibia, such data are likely in error. Comparable South African statistics show no exports to Namibia of clothing, and industry sources also did not indicate that Namibia was a market for South African apparel.

domestic firms.²⁹⁰ Several domestic apparel firms are experiencing financial difficulties, many are not operating at full capacity, and a number of firms have closed over the past five years. While domestic consumption of apparel has risen and stands at roughly \$5.5 billion per annum, the increase in domestic demand for garments has been supplied almost exclusively by imports.²⁹¹

Many apparel producers are struggling to recapture market share, some have begun cooperating with other firms in the industry, and still others are trying to differentiate themselves in specific market segments in order to improve firm level and sector competitiveness. Firms are also hoping that government initiatives to help labor-intensive industries such as apparel manufacturing as a means of maintaining and creating employment will spur action on a Customised Sector Programme for the industry.²⁹² Industry sources stressed that, unless South Africa can rebuild a robust domestic apparel sector, the critical mass necessary to sustain a sufficiently sized and competitive textile and apparel inputs sector will not exist.²⁹³

Factors Contributing to Competitive Production

A key competitive factor differentiating South Africa from other textile and apparel producing SSA countries is its advanced infrastructure network, which is far more developed than nearly all other African countries.²⁹⁴ South Africa is the top ranking Group 1 country in terms of the quality of roads and the quality of the country's railways (table 3.4). South Africa also has better quality ports and domestic transport network compared with most other Group 1 countries, an important advantage facilitating the delivery of goods to both domestic and overseas customers.²⁹⁵ However, industry sources report that additional investment is needed, as transport can be slow and there is overuse of roads versus other means of transportation.²⁹⁶ South Africa also has good electricity and water infrastructure, although water costs are reportedly high and blackouts occasionally occur.

The South African government has made infrastructure a priority, and government expenditures on infrastructure will total around \$50 billion through 2010, with approximately \$11 billion directed towards energy creation and \$5 billion directed at

²⁹⁰ SSA industry representatives, interviews by Commission staff, Johannesburg, South Africa, February 23, 2009, Durban, South Africa, February 24 and 25, 2009, and Cape Town, South Africa, February 25 and 27, 2009.

²⁹¹ SSA industry representatives, interviews by Commission staff, Cape Town, South Africa, February 25 and 27, 2009.

²⁹² The Customised Sector Programme (CSP) is a strategy document for sector development that was initially completed in 2006. The CSP for the textile and apparel sector has reportedly faced difficulty in implementation because of the competing goals of affected interest groups. The initial plan was reworked by the labor union, rendering the document unacceptable to manufacturers and retailers. The current administration is reportedly trying to resuscitate the plan by focusing on the core aims of recapitalization, development of efficiencies and competitiveness, and a reestablishment of the skills base, and there appears to be a level of consensus among government, labor, and industry. SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 25, 2009.

²⁹³ SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 27, 2009.

²⁹⁴ USITC, Hearing transcript, January 29, 2009, 81 (testimony of Paul Ryberg, African Coalition for Trade).

²⁹⁵ Blanke and Chiesa, *The Travel & Tourism Competitiveness Report 2008*, 2008, 416–20.

²⁹⁶ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, October 14, 2008.

harbors, ports, railways, and petroleum pipelines.²⁹⁷ In addition to transport, water, and electricity, South Africa benefits from a substantially developed manufacturing infrastructure, owing to its long history of industrial production.²⁹⁸

Despite the challenges facing the South African apparel industry, South Africa is one of the few SSA countries to have a well-established and comparably large domestic apparel manufacturing sector and a substantial domestic market for apparel. The large number of apparel manufacturers in South Africa and the diversity of manufacturing across the total supply chain combine to provide firms with a readily accessible customer base and contribute to demand for domestically produced fiber, yarn, fabric, and trim. Moreover, as a number of textile firms are vertically integrated, their downstream fabric mills or apparel plants absorb some if not all of production, providing predictable sales and contributing to economies of scale. According to industry sources, a number of South African apparel manufacturers prefer to source textile and apparel inputs locally, as it is faster and more comfortable to do business with local suppliers.²⁹⁹ Retailers also reported using South African firms for fashion items and replenishment stock, which generally entails the use of locally available yarns and fabrics to meet quick turnaround times. Another source suggested that there is still a case to be made for new investment in the South African textile and apparel sector, not necessarily for export but rather for the domestic market.³⁰⁰

Amidst the SSA group of primarily lesser-developed countries, many of which exhibit political instability, civil unrest, and/or inhibitive business climates, South Africa stands out as having a comparably favorable business environment. South Africa has an excellent anticorruption regulatory framework,³⁰¹ and in terms of ease of doing business, South Africa ranks highly among the 10 largest SSA exporters of textile and apparel inputs (outranked only by Mauritius) according to the World Bank's Doing Business 2009 database. South Africa's financial institutions and capital markets are well-developed for business,³⁰² although the cost of finance is high and capital is reportedly less accessible to firms that do not contribute to the government's affirmative action initiatives.³⁰³

Factors Inhibiting Competitive Production

South Africa is a comparatively high-cost producer and is generally not price competitive with respect to textile products. According to one industry source, the South African textile industry has "gone to the dogs" because of its high costs.³⁰⁴ Unlike other SSA countries that have lower wage rates, greater flexibility in hiring foreign workers, and greater options regarding compensation (such as piece rates versus hourly rates), the South African textile sector faces comparatively high labor wages of roughly \$2.50 an hour or \$500 per week and little flexibility with a workforce that is highly unionized and

²⁹⁷ U.S. Department of State, U.S. Embassy, Pretoria, "South Africa Input for 2009 AGOA Eligibility Review," October 6, 2008.

²⁹⁸ McRee and Cassill, "Sub-Saharan Africa," Summer 2002.

²⁹⁹ SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 27, 2009.

³⁰⁰ U.S. importer, telephone interview by Commission staff, Washington, DC, January 28, 2009.

³⁰¹ U.S. Department of State, U.S. Embassy, Pretoria, "South Africa Input for 2009 AGOA Eligibility Review," October 6, 2008.

³⁰² McRee and Cassill, "Sub-Saharan Africa," Summer 2002.

³⁰³ SSA industry representatives, interviews by Commission staff, Las Vegas, NV, February 16, 2009, and Durban, South Africa, February 24, 2009.

³⁰⁴ SSA industry representative, telephone interview by USITC staff, February 10, 2009.

politically influential.³⁰⁵ Workers who are in short supply, such as pattern makers, expect very high salaries, and companies must compensate or risk losing talent to competing firms.³⁰⁶ Overhead costs are high and exacerbated by the multitiered management structure in South Africa.³⁰⁷ Reportedly, many companies would rather operate below capacity than take orders at or below cost, which adds to the level of overhead expenses the firm must cover.³⁰⁸ According to the World Bank's Doing Business 2009 Database, it also costs more to import and export goods from South Africa compared with many of the other top textile and apparel producing SSA countries, which translates into higher costs for producers sourcing machinery and raw materials and higher costs for the finished products.

Cost pressures for the South African industry have been further exacerbated by the fluctuating value of the South African rand, which has been problematic for the industry and has greatly affected export performance.³⁰⁹ Following implementation of AGOA, the value of the South African currency went from approximately 7 rand to the U.S. dollar to as high as 14 rand to the dollar, boosting the export competitiveness of South African goods. South African textile and apparel manufacturers received increased orders for overseas markets, including the United States, and neglected their South African customers, which then turned to alternative sources of supply (namely Asia).³¹⁰ When the rand appreciated to 6 rand or less to the dollar beginning in 2004, export markets dried up, yet the domestic value chain was irreversibly altered.³¹¹ A number of firms that made money in the export market took their profits and exited the business, while others chose not to reinvest in their businesses and found themselves uncompetitive in the domestic market against a growing number of import suppliers.³¹² Reportedly, the depreciation of the rand beginning in late 2007 improved the position of the textile sector somewhat, but the volatility of the currency irreparably damaged the competitive position of the industry.³¹³

Although South Africa enjoys a rather robust apparel manufacturing sector compared with other SSA countries, the apparel industry has shrunk considerably in terms of size and output in recent years, largely as a result of intense import competition from China. In January 2007, South Africa implemented import quotas on selected categories of textile and apparel products from China.³¹⁴ Industry sources reported that the imposition of quotas, undertaken without industry consultation, resulted in a number of problems,

³⁰⁵ Werner International Management Consultants, "Primary Textiles Labor Cost Comparisons 2008," 2009; SSA industry representative, interview by Commission staff, Durban, South Africa, February 24, 2009; and USITC, Hearing transcript, January 29, 2009, 81–82 (testimony of Paul Ryberg, African Coalition for Trade).

³⁰⁶ SSA industry representatives, interviews by Commission staff, Las Vegas, NV, February 16, 2009, and Cape Town, South Africa, February 25, 2009.

³⁰⁷ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

³⁰⁸ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

³⁰⁹ U.S. Department of State, U.S. Embassy, Pretoria, "South Africa Input for 2009 AGOA Eligibility Review," October 6, 2008.

³¹⁰ SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 24, 2009; Morris, "Globalisation, Welfare and Competitiveness," 2008, 362–63.

³¹¹ Morris and Einhorn, "Globalisation, Welfare and Competitiveness," 2008, 363.

³¹² SSA industry representative, interview by Commission staff, Durban, South Africa, February 24, 2009.

³¹³ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009.

³¹⁴ A memorandum of understanding was concluded and initialed by the governments of South Africa and China on June 21, 2006. The agreement laid out quantitative limits on imports from China for 31 product categories for a period ending December 31, 2008. For more information, see Brink, "The Memorandum of Understanding and Quotas," October 2006.

including quota levels that were overly high and various loopholes that allowed for circumvention of the quotas.³¹⁵ In addition, certain items not produced by local manufacturers fell under quota. For example, quotas placed on fabric not produced by South African mills, but necessary for domestic production of garments not covered by the quotas, created incentives for firms to import the finished apparel rather than import the fabric to produce the garments locally.³¹⁶ Domestic apparel firms have also had to compete against transshipments and underinvoiced goods from China. Sources reported that following the quotas, apparel came into South Africa from countries that did not even have production capacity.³¹⁷ With respect to the undervaluation of imports, Chinese textiles and apparel are reportedly coming into the country at the price of the raw materials.³¹⁸ Such practices have contributed to the demise of several companies over the past five years,³¹⁹ and domestic producers have lost market share. In 2003, just prior to the surge in Chinese imports, domestic apparel producers held an 80 percent share of the domestic market; that share has dropped to below 60 percent.³²⁰

Aside from China, there is also concern about import competition from regional producers. Given the current economic climate, South African producers fear that apparel producers in Lesotho, Madagascar, Kenya, and similar countries that lose orders and sales in the United States and other declining markets will target the South African market, resulting in even greater pressure on South African apparel firms.³²¹ A number of SSA producers have openly stated that South Africa is a target market for them. Moreover, South Africa is increasingly outsourcing CMT operations to countries such as Swaziland, Lesotho, and Botswana, although in some cases, such production incorporates South African fabric.³²²

Firm-level factors inhibiting South Africa's competitiveness include a deficiency of skills and a lack of investment in the sector. Skilled labor is difficult to attract and retain, and companies experience problems with absenteeism and low productivity.³²³ Management capabilities are low, and multiple layers of management add to inefficiencies and high overhead costs.³²⁴ South African firms also lack marketing intelligence,³²⁵ and there are reportedly domestic producers that are completely unaware of the existence of potential suppliers and customers operating in the domestic market, let alone in neighboring

³¹⁵ For example, industry sources reported that, while there were quotas on imports from China of tops and skirts, there was no quota on the category "ensembles." Therefore, firms simply shipped separates together as ensembles to circumvent the quotas on the tops and skirts. SSA industry representative, interview by Commission staff, Johannesburg, South Africa, February 23, 2009.

³¹⁶ SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 29, 2009.

³¹⁷ SSA industry representatives, interviews by Commission staff, Johannesburg, South Africa, October 14, 2008, and Cape Town, South Africa, February 29, 2009.

³¹⁸ SSA industry representatives, interviews by Commission staff, Johannesburg, South Africa, February 23, 2009, and Durban, South Africa, February 24, 2009.

³¹⁹ SSA industry representative, telephone interview by Commission staff, Washington, DC, February 10, 2009.

³²⁰ SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 29, 2009.

³²¹ SSA industry representative, interview by Commission staff, Durban, South Africa, February 24, 2009.

³²² SSA industry representative, telephone interview by USITC staff, February 10, 2009; SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 29, 2009.

³²³ SSA industry representatives, interviews by Commission staff, Durban, South Africa, February 24, 2009, and Cape Town, South Africa, February 25, 2009.

³²⁴ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

³²⁵ SSA industry representative, telephone interview by Commission staff, February 10, 2009.

countries.³²⁶ Regarding production capabilities, one industry source estimates that only around 20 percent of domestic textile producers can be considered world-class producers, while the rest cannot supply the fabrics desired by domestic apparel producers (e.g., fashion fabrics), which are largely imported from Asia.³²⁷ Further, as the industry is largely focused on the domestic market, firms are not able to satisfy demand, particularly with respect to quality and variety, at the international level.³²⁸ Design skills are lacking, and technical innovation in the sector is low, the result of sparse investment in the textile industry over the last decade. Generally, firms have not invested in their businesses or updated workforce skills, resulting in an erosion of the overall skills base.³²⁹ There also has been limited investment in capital equipment by South African textile firms. Machinery is generally dated, and most existing mills are only making replacement investments.³³⁰ Investment in both skills and facilities is now beginning to pick up, but there is reportedly still a large gap between actual and required levels of investment.³³¹

The South African industry suffers from long shipping times, due to port capacity constraints and South Africa's geographical location relative to large consuming markets and other top suppliers. Shipping times from South Africa to the United States and the EU are approximately 23–26 days, whereas Chinese producers can reportedly ship goods in as little as 12 days.³³² Shipping costs are also reportedly high compared with other countries; in the South African textile industry, transport costs account for approximately 12 percent of total operational costs.³³³ South Africa is also considered weak in terms of lead times, and one source reported that it takes months to get even samples delivered.³³⁴ One company noted that delivery times from South Africa are particularly problematic with respect to fashion items, which means styles produced in South Africa are “perishable” and sensitive to shipping delays.³³⁵

Integration helps to shorten the pipeline and improve speed to market, and many firms in the industry have joined industry clusters and are looking to adapt new models of production as a way to decrease lead times and boost overall competitiveness (box 4.5). Reportedly, the clustering initiative has resulted in shorter lead times as well as a 25 percent reduction in shipping costs.³³⁶ Some firms that are cluster members can reportedly turn product around for the domestic market (from order through delivery of the final product to retail) in as quickly as two to three weeks, with a pricing differential

³²⁶ SSA industry representative, telephone interview by Commission staff, February 10, 2009.

³²⁷ South African government officials, interview by Commission staff, Johannesburg, South Africa, October 29, 2007; SSA industry representatives, interviews by Commission staff, Cape Town, South Africa, February 25 and 26, 2009.

³²⁸ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009; McRee and Cassill, “Sub-Saharan Africa,” Summer 2002.

³²⁹ SSA industry representatives, interviews by Commission staff, Johannesburg, South Africa, February 23, 2009, and Cape Town, South Africa, February 25, 2009.

³³⁰ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, October 29, 2007.

³³¹ SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 25, 2009.

³³² U.S. Department of State, U.S. Embassy, Pretoria, “South Africa’s Response to USITC Study,” October 1, 2008; SSA industry representative, interview by Commission staff, Mauritius, March 5, 2009; U.S. retailer, e-mail message to Commission staff, February 6, 2009.

³³³ U.S. Department of State, U.S. Embassy, Pretoria, “South Africa’s Response to USITC Study,” October 1, 2008.

³³⁴ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

³³⁵ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, November 2, 2007.

³³⁶ SSA industry representative, telephone interview by Commission staff, February 10, 2009.

BOX 4.5 Improving Competitiveness through Clusters and Fast Fashion

South Africa and a few other SSA countries are attempting to boost the competitiveness of their textile and apparel industries through various initiatives, including the creation of industry clusters. South Africa appears to have the most developed industry clusters in the region. The Cape Clothing and Textile Cluster, based in Cape Town, was launched in 2005 and consists of 41 firms in the textile, clothing, retail, and CMT sectors.^a The KwaZulu-Natal Clothing and Textile Cluster, based in Durban, was also formed in 2005 and has 29 member companies.^b The clusters operate as partnerships between private industry and the local government (in this case, the provincial government), with the local government providing significant financial support.^c The clusters were set up to address the challenges facing the textile and clothing sectors, improve member firm competitiveness, and ensure the sustainability of the industry. The work of the clusters centers around three core programs: value chain alignment, world class manufacturing, and human resources development. Member firms share information with other cluster firms, which allows companies to see how they compare against their competitors and reveals areas where a firm might need to upgrade their capabilities. The clusters appear to be successful. In just a few years, cluster firms have greatly improved in terms of quality, cost, and delivery. Over a two-year period, firms in both the Cape Clothing and Textile Cluster and the Kwa-Zulu Natal Clothing and Textile Cluster reported lower customer return rates, lower internal rejection rates, reduced costs, and shorter lead times.^d In addition, the clusters have fostered cooperation among the textile producers, apparel manufacturers, and retailers, parties that have historically had a discordant relationship.^e Industry sources indicated that the clusters are aimed at developing the competitiveness of the industry producing for the domestic market and not the industry producing for export.^f However, the efficiencies gained through the work of the clusters could likely extend to the export sector.

Another initiative the South African textile and clothing sector is considering is the production of fast fashion items for the domestic consumer market. Because the value chain feeding into the domestic market cannot compete at the commodity end, particularly against dominant producers such as China, the industry sees fast fashion as a way to differentiate itself and boost competitiveness.^g Fast fashion, most notably associated with clothing retailers Zara and H&M, relies on small runs, fast turnaround, fresh designs, and flexibility. In contrast to traditional retailers, which place large quantities of an item in their stores and gradually mark the item down in price until it sells, a store operating under a fast fashion system will constantly introduce small quantities of new garments and keep those items in the store for a limited time. Because of the relative exclusivity of the items, they sell at higher prices and usually move quickly. Clothing manufacturers producing for a fast fashion retailer must have fast response times and flexibility. Good communication and responsiveness throughout the supply chain are crucial. Textile firms in the fast fashion model produce a core base of fabrics and hold stock in these fabrics, which designers bear in mind as they come up with new products. According to industry sources, South African textile and apparel manufacturers are currently not capable of operating under the fast fashion model. The industry reportedly needs investment in skills and machinery, as well as access to fabric to be able to produce small runs and fashionable items. As with clustering, the interest in fast fashion is geared toward the large and sophisticated South African clothing market. However, to the extent that the fast fashion model is implemented and improves the competitiveness and capabilities of South African textile and apparel firms, such firms could potentially then become more competitive in export markets.

^aInformation on the Cape Clothing and Textile Cluster is available at <http://www.capeclothingcluster.org.za>.

^bInformation on the KwaZulu-Natal Clothing and Textile Cluster is available at <http://www.kznctc.org.za>.

^cSSA industry representative, interview by Commission staff, Durban, South Africa, February 23, 2009.

^dMorris and Einhorn, "Globalisation, Welfare and Competitiveness," 2008, 371.

^eSSA industry representative, interview by Commission staff, Cape Town, South Africa, February 25, 2009; Bleby, "Will 'the Biggest Thing in 20 Years' Be Enough?" July 10, 2006.

^fSSA industry representative, interview by Commission staff, Cape Town, South Africa, February 25, 2009.

^gSSA industry representative, interview by Commission staff, Cape Town, South Africa, February 25, 2009.

that can compete with China.³³⁷ Nonetheless, South African producers of textile and apparel inputs are more likely to be competitive with respect to lead times and delivery in local and regional markets rather than the U.S. and EU markets.

³³⁷ SSA industry representative, interview by Commission staff, Cape Town, South Africa, February 25, 2009; South African government officials, interview by Commission staff, Johannesburg, South Africa, October 29, 2007.

South Africa does not enjoy the flexibility and market access afforded other SSA countries under preferential trading arrangements with the United States and EU. As a non-LDC beneficiary, South Africa is the only SSA country for which textile products are not eligible for duty-free treatment into the U.S. market under AGOA. Moreover, South Africa has never qualified for the third-country fabric provision, unlike other non-LDC beneficiaries, such as Mauritius, that have been granted special LDC derogation. Industry sources stated that with respect to U.S. trade preferences, South Africa is “the odd man out” and the only country currently facing restrictions under AGOA.³³⁸ Likewise, South Africa is not a signatory to the SACU interim EPA with the EU, and is therefore subject to more restrictive rules of origin for textile and apparel exports to the EU under the South Africa-EU Trade, Development, and Cooperation Agreement. Industry sources stress that duty-free eligibility in the U.S. and EU markets for South African textiles could make a substantial contribution to the industry’s competitiveness and that the downward trend in the industry might be reversed if rules of origin were amended to allow greater access to third country fabrics for South African apparel exporters.³³⁹ Such action may lead to greater economies of scale and expansion in the apparel industry, which would help to spur and support backward integration and development in the textile sector.³⁴⁰

South African firms do not have the economies of scale to produce the volumes needed for certain export markets and larger customers. One South African textile producer noted that it cannot deliver huge volumes, which makes it challenging to sell to the U.S. market.³⁴¹ Another apparel-producing firm in a neighboring SSA country noted that, even for its smaller volume requirements, South African producers could not produce enough of the particular type of fabric that the firm required.³⁴² Because production of textile and apparel inputs in South Africa is largely geared toward the local market, firms are not accustomed to producing these larger orders and are unfamiliar with the typical business practices for bulk sales. For example, one SSA industry representative reportedly encountered a South African mill that was offered a sizeable order but did not offer a discount for large quantities (standard practice for other firms in the global market) because the firm was unfamiliar with such protocol and did not know how to provide volume discounts.³⁴³ Rather than trying to compete in overseas markets on orders requiring economies of scale and low cost, another industry source suggested firms in SSA should specialize in a limited number of products that they can produce more efficiently.³⁴⁴

³³⁸ USITC, Hearing transcript, January 29, 2009, 102 (testimony of Paul Ryberg, African Coalition for Trade).

³³⁹ SSA industry representatives, interviews by Commission staff, Durban, South Africa, February 25, 2009, and Cape Town, South Africa, February 29, 2009; U.S. Department of State, U.S. Embassy, Pretoria, “Textiles and Apparel Sector,” September 28, 2007.

³⁴⁰ SSA industry representatives, interviews by Commission staff, Johannesburg, South Africa, February 23, 2009, and Cape Town, South Africa, February 29, 2009.

³⁴¹ SSA industry representative, interview by Commission staff, Johannesburg, South Africa, November 2, 2007.

³⁴² SSA industry representative, interview by Commission staff, Antananarivo, Madagascar, November 6, 2007.

³⁴³ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

³⁴⁴ SSA industry representative, telephone interview by Commission staff, February 10, 2009.

Swaziland

Potential Competitive Products

Swaziland produces zippers competitively for use in apparel production in the local and regional SSA markets and appears to produce organic cotton knit fabric competitively for a niche market. Important factors contributing to Swaziland's competitiveness are duty-free access to the U.S., EU, and South African markets, access to South Africa's well-developed infrastructure, and government incentives directed at FDI in the textile and apparel industry, which resulted in the development of an apparel industry and created a market for textile and apparel inputs. Manufacturing in Swaziland is constrained by a small domestic market, labor unrest, and limited access to the raw materials necessary to produce textiles.

Country Overview

Swaziland is a small, landlocked country bordering South Africa and Mozambique. Swaziland's GDP amounted to \$2.9 billion in 2007, and with a population of about one million, its GDP per capita stood at \$2,675 in 2007 (table 4.30). In 2006, Swaziland ranked 147 out of 177 countries in the UN's Human Development Report and had a Gini coefficient rating of 60.9, making it one of the countries with the greatest income disparity in the world.³⁴⁵ In 2007, manufacturing accounted for 31 percent of GDP (table 4.3), the largest share of any SSA country. Swaziland's manufacturing base is highly concentrated in textile and apparel production. In 2008, these industries served as the largest source of formal employment in the country.

Industry and Trade Overview

The Swazi textile and apparel inputs industry is small, and Swaziland's exports of both apparel and textile and apparel inputs declined during the 2004–07 period. However, the country has achieved some success in the production and export of certain textile inputs, such as zippers.

Textile and apparel inputs

The textile and apparel inputs industry in Swaziland consists of two large firms: Tex-Ray, which produces yarn, knit fabric, and apparel, and YKK Swaziland, which produces zippers for local and regional apparel manufacturers and retailers. Tex-Ray is a vertically integrated textile and apparel manufacturer with six factories, including four garment factories, one yarn spinning plant, and one knitting and dye house, and is the largest employer in Swaziland with 10,000 workers. Tex-Ray dyes, spins, and knits cotton fabric and then sews the fabric into apparel for export.³⁴⁶ In 2002, Tex-Ray established Taitex, its yarn spinning operation with a capacity of one million pounds per month. It produces carded and combed cotton yarn, spun polyester yarn, and a variety of blends such as

³⁴⁵ EIU, *Country Profile 2007: Swaziland*, 2007, 10. The Gini coefficient measures inequality within a country, and varies from 0 (complete equality) to 100 (complete inequality).

³⁴⁶ Tex-Ray Industrial Co., Ltd. Company Web site. <http://www.texray.com/> (accessed February 11, 2009).

TABLE 4.30 Swaziland: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	2,942
GDP growth (annual %, 2007)	2.4
GDP per capita (current US\$, 2007)	2,675
Population (millions, 2007)	1.1
Goods exports (current US\$, millions, 2007)	2,450
Goods imports (current US\$, millions, 2007)	2,650
Inflation, consumer prices (annual %, 2006)	5.3
Literacy rate, adult total (% of people ages 15 and above, 2000)	79.6
Labor force, total (millions, 2006)	0.4
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	36
Gross capital formation (current US\$, millions, 2007)	460
Lending rate (% , 2007)	13.2
Manufacturing value added (current US\$, millions, 2007)	905
Prevalence of HIV, total (% of population 15–49, 2007)	26.1

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

polyester/rayon, rayon/cotton, and polyester/cotton.³⁴⁷ The firm reportedly imports its manmade fibers. It supplements the small amount of locally grown organic cotton that it uses with imports of cotton from Zambia and Mozambique. It produces yarn for internal consumption and for export to South Africa and the EU.³⁴⁸ Tex-Ray has been vertically integrated since the establishment of its knitting and dyeing plant, TQM, in 2006. TQM has the capacity to produce a total of two million pounds per month of knit single-jersey, Pique, rib, interlock, drop needle, French terry, flat knit, and Spandex fabrics.³⁴⁹ Although most of Tex-Ray's fabric production is reportedly consumed internally, industry sources report small shipments of knit fabric to Lesotho and Madagascar for use in apparel.³⁵⁰

YKK Swaziland, a subsidiary of a Japan-based zipper manufacturer, produces zippers to supply local and regional apparel manufacturers. YKK Swaziland is reportedly increasingly competitive in the regional market owing in part to the depreciation of the rand and rising costs among major competitors such as China.³⁵¹ The factory in Swaziland is operating at full capacity, producing zippers from imported components. The factory has reduced its lead time from three weeks to one week during the past several years.³⁵² One-half of its production is used in apparel production in South Africa, and the remainder is shipped to other SSA apparel manufacturers in Lesotho, Kenya, Madagascar, and Mauritius.³⁵³

³⁴⁷ Ibid.

³⁴⁸ Industry representative, interview by Commission staff, Mbabane, Swaziland, October 23, 2008; U.S. Department of State, U.S. Embassy, Mbabane, "Textiles and Apparel Production-Swaziland," October 1, 2007. Tex-Ray indicated that it has entered into an arrangement with the Swazi government to purchase domestically produced and ginned organic cotton from 70 Swazi farmers.

³⁴⁹ Tex-Ray Industrial Co. Ltd. Company Web site. <http://www.texray.com/> (accessed February 11, 2009).

³⁵⁰ Industry representative, interview by Commission staff, Mbabane, Swaziland, October 23, 2008; industry representative, telephone interview by Commission staff, February 4, 2009.

³⁵¹ Industry representative, interview by Commission staff, Durban, South Africa, February 24, 2009.

³⁵² Industry representative, interview by Commission staff, Durban, South Africa, February 24, 2009.

³⁵³ Industry representative, interview by Commission staff, Durban, South Africa, February 24, 2009.

Swaziland's exports of textile and apparel inputs remained consistent during the 2005–07 period and totaled \$9.8 million in 2007 (table 4.31).³⁵⁴ The largest markets for Swazi textile and apparel inputs outside of the SACU region in 2007 included the EU (\$3.3 million), Madagascar (\$2.0 million), and Kenya (\$1.5 million).³⁵⁵ Exports generally consisted of trim (mostly zippers) (\$5.3 million) and yarn (\$3.9 million) (table 4.32). Zippers were primarily destined for Madagascar (\$1.9 million), Kenya (\$1.5 million), and Mauritius (\$884,000); yarn was primarily destined for the EU (\$3.2 million).

TABLE 4.31 Swaziland: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	2,334	2,867	3,514	4,875	4,876
EU-27	8,694	4,901	2,370	3,085	3,346
Rest of world	3,371	4,152	3,765	1,620	1,578
United States	1	39	122	13	2
Total	14,400	11,959	9,771	9,594	9,803

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.32 Swaziland: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	0	0	0	0
Knit fabric	26	48	28	85	49
Manmade fibers	167	14	29	0	25
Other fabric	7	112	197	50	41
Thread	199	626	165	58	97
Trim	3,275	3,040	3,571	5,495	5,265
Woven fabric	809	796	1,245	692	415
Yarn	9,918	7,323	4,536	3,212	3,910
Total	14,400	11,959	9,771	9,594	9,803
Imports:					
Carded or combed fibers	76	0	0	347	115
Knit fabric	13,265	32,025	22,942	23,293	26,858
Manmade fibers	289	275	192	48	99
Other fabric	364	1,134	630	1,374	1,968
Thread	27	220	191	375	352
Trim	2,125	9,985	6,746	4,943	5,437
Woven fabric	2,570	7,316	7,725	7,640	7,212
Yarn	1,422	254	115	307	1,195
Total	20,139	51,210	38,541	38,327	43,237

Source: World Bank, WITS Database (accessed December 3, 2008).

Swaziland's imports of textile and apparel inputs amounted to \$43.2 million in 2007. Imports largely consisted of knit fabric (\$26.9 million), woven fabric (\$7.2 million), and trim (\$5.4 million) (table 4.32). The largest sources for Swaziland's textiles and apparel inputs in 2007 were China (27 percent), Hong Kong (24 percent), and Taiwan (21 percent).

³⁵⁴ World Bank, WITS Database (accessed December 3, 2008). Note that these data do not include Swazi shipments to other SACU members, including large apparel producing countries South Africa and Lesotho. Neither Swaziland nor Lesotho reported trade within the SACU region.

³⁵⁵ Industry sources also report shipments of cotton yarn, fabric, and zippers from Swaziland to South Africa and Lesotho. Industry representative, interview by Commission staff, Durban, South Africa, February 24, 2009.

Apparel

The apparel industry in Swaziland emerged largely to target the U.S. market after the passage of AGOA in 2001. The industry currently consists of approximately 20 firms producing mostly CMT apparel for export, using fabric largely imported from Taiwan and China. In 2007, Swaziland's exports of apparel totaled \$143.2 million, a decline of 25 percent from \$190.6 million in 2004 (table 4.33). Ninety percent of Swazi apparel production is destined for low- to mid-priced retailers in the United States, and the remainder is primarily destined for the South African market.³⁵⁶ As with the textile sector, the Swazi apparel industry is a critical source of employment in the country, with an estimated 17,000 workers, down 44 percent from its peak in 2004. Apparel firms produce T-shirts, polo shirts, and sweatshirts using mostly imported and some local cotton yarn and fabric; they also produce woven cotton tops and bottoms, such as pants, skirts, and uniforms, using imported fabric. Many apparel firms ceased operations after the full phase-out of quotas at the end of 2004, which resulted in increased competition in the U.S. market from countries formerly subject to quotas.³⁵⁷ One source indicated that the industry has begun to shift its focus from the U.S. market to the South African market.³⁵⁸ For example, one apparel manufacturer producing CMT apparel for export has shifted from producing basic knitwear for U.S.-based customers to producing uniforms for South African customers.³⁵⁹

TABLE 4.33 Swaziland: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	153,052	190,550	169,532	142,822	143,184
Imports	2,815	6,352	4,431	3,211	2,500

Source: World Bank, WITS Database (accessed December 16, 2008).

Ownership of producers in the yarn, fabric, and other textile and apparel inputs industries is concentrated among Taiwanese, Japanese, and, to a lesser extent, South African firms. Taiwanese firms began investing in Swaziland in 1999 to gain preferential access to the U.S. market under AGOA.³⁶⁰ South African investment is concentrated in apparel production for the South African market and consists of two firms, including Fashion International, which sells 80 percent of its production to South African retailer Woolworths.³⁶¹

Factors Contributing to Competitive Production

Swaziland benefits from proximity to South Africa and the use of its well-developed roads, port, and electricity supply.³⁶² Electricity is reliable and inexpensive in Swaziland,

³⁵⁶ U.S. Department of State, U.S. Embassy, Mbabane, "Swaziland Economic Reaction to the Global Financial Crisis," November 10, 2008.

³⁵⁷ See USITC, *Sub-Saharan Africa: Factors Affecting Trade Patterns*, 2007.

³⁵⁸ Industry representative, interview by Commission staff, Nhlanguano, Swaziland, October 22, 2008.

³⁵⁹ Industry representative, interview by Commission staff, Nhlanguano, Swaziland, October 22, 2008.

³⁶⁰ USITC, *Sub-Saharan Africa: Factors Affecting Trade Patterns*, 2007.

³⁶¹ U.S. Department of State, U.S. Embassy, Mbabane, "Textiles and Apparel Production-Swaziland," October 1, 2007. Fashion International reportedly had plans to expand its apparel production in Swaziland. The firm reportedly used fabric sourced from China, Taiwan, and South Africa in its apparel production. *Fibre2fashion.com*, "Swaziland: Fashion International on an Expansion Spree," January 18, 2007.

³⁶² Information in this section drawn from USITC, *Sub-Saharan Africa: Effect of Infrastructure Conditions*, 2009.

with rates around \$0.023/kWh,³⁶³ and industrial users are generally subject to few blackouts.³⁶⁴ In the World Bank's Doing Business 2009 database, Swaziland ranked second to Mauritius in terms of the average time associated with shipping a container (table 3.3). The report indicated that exports from Swaziland average 21 days, compared to 23 days from Madagascar and 30 days from South Africa. In addition, textile and apparel producers benefit from well-developed roads between the country's main industrial areas and the South African border, as well as South Africa's relatively high-quality transportation infrastructure. Industry sources indicate that Swazi customs officials are proficient and border crossings into Swaziland are relatively straightforward, with an average crossing time of 30 minutes at Swaziland's main border post with South Africa.

The government of Swaziland has placed a high priority on the development of an apparel sector and offers a variety of incentives to attract investors. Incentives include a 10-year tax holiday and access to one of the country's main industrial areas. In 1998, the government established the Swazi Investment Promotion Authority (SIPA) to serve as a one-stop shop for industry investors. SIPA has reportedly been successful at securing Taiwanese investment by providing factory shells at reduced rent in the Matsapha and Nhlanguano industrial areas.³⁶⁵ Industry sources also indicate that the Taiwanese government has encouraged Taiwanese textile and apparel firms to invest in Swaziland.³⁶⁶

Swaziland is eligible to export apparel duty free, subject to a single transformation rule of origin, to the United States under AGOA and to the EU under an interim EPA. Swaziland is also a member of several key regional economic organizations, including SACU, SADC, and COMESA. The aforementioned agreements allow Swaziland to trade many textile and apparel inputs duty free with regional trade partners. SACU membership allows firms producing textile and apparel inputs to supply South African and Lesotho apparel manufacturers and apparel consumers duty free. Further, Swaziland's economy is reportedly "extremely open" to trade and investment,³⁶⁷ and FDI-driven exports, such as apparel, are the leading sources of export revenue.³⁶⁷

Factors Inhibiting Competitive Production

Swaziland is constrained in the use of its water resources. Although the country has a reasonable supply of clean water; its ability to make use of the water flowing in its rivers is limited, as all four of its major river systems flow into either South Africa and/or Mozambique, and water usage is governed by a Tripartite Permanent Technical Committee among the countries.³⁶⁸

³⁶³ Swaziland Electricity Board, "Tariff Rates for 2006 and 2007," undated (accessed March 17, 2009). Converted to US\$ using representative exchange rate of 10.1. Representative exchange rates can be found at http://www.imf.org/external/np/fin/data/rms_mth.aspx?SelectDate=2008-12-31&reportType=REP.

³⁶⁴ Industry representative, interview by Commission staff, Nhlanguano, Swaziland, October 22, 2008.

³⁶⁵ USITC, *Sub-Saharan Africa: Factors Affecting Trade Patterns*, 2007; industry representative, interview by Commission staff, Nhlanguano, Swaziland, October 22, 2008.

³⁶⁶ Industry representative, interview by Commission staff, Nhlanguano, Swaziland, October 22, 2008. Taiwan is one of only nine foreign entities with embassies in Swaziland; others include Canada, Cyprus, Finland, Indonesia, Mozambique, the Netherlands, the United Kingdom, and the United States. *GoAbroad.com*, "Embassies/Consulates in Swaziland," undated (accessed February 18, 2009).

³⁶⁷ EIU, *Country Profile 2007: Swaziland*, 2007, 23–25.

³⁶⁸ FAO, *Irrigation in Africa in Figures*, (accessed April 13, 2009) www.fao.org/docrep/V8260B/V8260B11.htm.

Allegations of labor abuse persist in Swaziland. In 2005, the U.S. Department of State reported that limits on labor rights in Swaziland included restrictions on freedom of assembly and association, discrimination and violence against women,³⁶⁹ and antiunion discrimination.³⁷⁰ In 2008, 16,000 of the estimated 17,000 textile and apparel workers employed in the country voted to strike, demanding increased wages and improved working conditions and management.³⁷¹

Swaziland has one of the highest HIV/AIDS infection rates in the world, which contributed to an average life expectancy of 31.3 years in 2004.³⁷² Industry sources reported that labor productivity is negatively affected by a high HIV/AIDS infection rate among workers. One source indicated that his firm had lost some of its best workers to HIV/AIDS.³⁷³

Swaziland does not produce the necessary raw materials to supply large-scale textile manufacturing. Cotton production in Swaziland is small and declining, reportedly as a result of price uncertainty and persistent drought conditions in most cotton-growing areas. An estimated 90 percent of cotton producers are small-holder farmers with average holdings of three hectares. Production of seed cotton declined from an estimated 1,700 tons during the 1997–98 season to an estimated 400 tons during the 2001–02 season.³⁷⁴ Despite small and declining cotton production, the Swazi government recently initiated a program that grants price support and financial assistance to growers for purchasing seeds and other raw materials in order to revitalize the industry.³⁷⁵

Swaziland relies heavily on the SACU customs-sharing scheme for its national budget. SACU customs revenue accounts for an average of 60 percent of Swaziland’s annual budget.³⁷⁶ As such, one source noted that Swaziland has found it challenging to balance its objective of enhancing trade facilitation while recognizing the importance of customs revenue to its national budget.³⁷⁷

Tanzania

Potential Competitive Products

Textile and apparel inputs that could be produced competitively in Tanzania include products that the country already has experience producing and exporting, such as cotton yarn and cotton fabric. Currently, most production is for regional and local markets, and significant investment in machinery and workforce training would be required to expand production of export-quality textile and apparel inputs for the United States, EU, and similar markets. The country faces several competitive disadvantages in the production of textile and apparel inputs, including a lack of reliable power, an undeveloped apparel

³⁶⁹ The vast majority of workers in the textile and apparel industries in Swaziland are women.

³⁷⁰ U.S. Department of State, Bureau of Democracy, Human Rights, and Labor, “Swaziland: Country Reports on Human Rights Practices,” March 8, 2006.

³⁷¹ *Fibre2fashion.com*, “Swaziland: Textile Workers at Strife with Management,” March 1, 2008.

³⁷² UNDP, *Human Development Report 2007/2008*, 2007, 259.

³⁷³ The source further noted that his company had secured foreign assistance to establish a clinic to treat HIV/AIDS patients in the Nhlanguano area. Industry representative, interview by Commission staff, Nhlanguano, Swaziland, October 22, 2008.

³⁷⁴ Government of the Kingdom of Swaziland Web site. <http://www.gov.sz/home.asp?pid=1877> (accessed February 18, 2009).

³⁷⁵ *Fibre2fashion.com*, “Swaziland: Government Undertakes Revival,” September 1, 2008.

³⁷⁶ Industry representative, interview by Commission staff, Mbabane, Swaziland, October 23, 2008.

³⁷⁷ Industry representative, interview by Commission staff, Mbabane, Swaziland, October 23, 2008.

industry, lack of a skilled labor force, and limited market knowledge. Additionally, major delays at the port of Dar es Salaam inhibit importation of inputs and capital equipment and cause export delays that are likely unacceptable to international buyers that place a premium on short delivery times.

Country Overview

Tanzania is centrally located within eastern Africa, sharing borders with eight countries and the Indian Ocean. In 2007, Tanzania's GDP was \$16.2 billion and its population was 40.4 million, resulting in a per capita GDP of just \$401 (table 4.34). Compared with other SSA countries, Tanzania has a history of stable democracy and strong macroeconomic performance. Tanzania ranked 127th out of 181 countries in the World Bank's Doing Business 2009 database, the second lowest aggregate ranking of any of the Group 1 countries (table 3.3). However, it is one of the top destinations for FDI in Africa, receiving investment from South Africa, the United Kingdom, Ghana, Australia, Canada, Kenya, and the United States.³⁷⁸ Agriculture is vital to the Tanzanian economy, contributing 44 percent to GDP and accounting for 80 percent of employment.³⁷⁹ The textile and apparel industry plays a much smaller role in the economy, although the sector employs 12,700, of which more than one-half are women.³⁸⁰ The sector also accounts for a large percentage of Tanzania's exports of AGOA-eligible products.

TABLE 4.34 Tanzania: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	16,181
GDP growth (annual %, 2007)	7.1
GDP per capita (current US\$, 2007)	401
Population (millions, 2007)	40.4
Goods exports (current US\$, millions, 2007)	2,022
Goods imports (current US\$, millions, 2007)	5,337
Inflation, consumer prices (annual %, 2007)	7.0
Literacy rate, adult total (% of people ages 15 and above, 2002)	69.4
Labor force, total (millions, 2006)	19.3
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	474
Gross capital formation (current US\$, millions, 2006)	2,372
Lending rate (% , 2007)	16.0
Manufacturing value added (current US\$, millions, 2006)	819
Prevalence of HIV, total (% of population 15–49, 2007)	6.2

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

Industry and Trade Overview

There are several commercial producers of textiles and apparel in Tanzania, mainly producing for local or regional markets. Tanzania's textile sector developed in the 1970s,

³⁷⁸ World Bank, *Snapshot Africa: Tanzania*, January 2007, 6.

³⁷⁹ CIA, "Tanzania," (accessed March 17, 2009).

³⁸⁰ U.S. Department of State, U.S. Embassy, Dar es Salaam, "AGOA: Tanzania's Textile Sector," August 16, 2006.

when the government of Tanzania encouraged industrialization of the economy through import substitution.³⁸¹ With increased global competition and privatization in the 1980s and 1990s, the industry contracted significantly, from 30 to 14 firms. In 2007, only 5 of Tanzania's 14 textile and apparel firms exported their production.³⁸² Since 2000, the sector has received increased investment, as several private firms have purchased government mills for refurbishment.³⁸³ However, these former government mills reportedly require significant investments in facility modernization and new machinery.³⁸⁴

Textile and apparel inputs

The textile industry in Tanzania focuses primarily on processing locally grown cotton and spinning it into yarn for both knit and woven fabric. A few fabric mills also blend cotton with polyester or other synthetic fibers; however, all synthetic fibers must be imported. Tanzanian textile mills sell these inputs regionally or minimally process and print woven fabrics to be sold as final products. Inputs for local consumer products are used to produce khanga,³⁸⁵ kitenge,³⁸⁶ mosquito nets, and bedsheets for the local and regional markets. Reportedly, several textile mills also produce greige yarn and fabric for export.

The textile sector in Tanzania currently consists of one independent yarn spinner, New Tabora Textiles (Tanzania) Ltd., and several integrated fabric mills, including Afritex Ltd., 21st Century Holdings Ltd., New Musoma Textile Ltd., NIDA Textiles, Karibu Textiles, and Urafiki Textiles.³⁸⁷ Two vertically integrated firms, Sunflag³⁸⁸ and A to Z Textile, process cotton and other fibers through to garments or other made-up textile articles.

Sunflag produces both knit and woven fabrics and has certified processing for organic yarn and knit fabric for internal consumption. It also produces yarn and fabric for sale. Sunflag manufactures mosquito nets, home linens, khangas, T-shirts, and polo shirts for local and regional markets. Roughly two-thirds of the company's production is exported, with the remainder sold domestically. Sunflag exports knit garments to the United States, the EU, and South Africa, and reportedly is the only Tanzanian firm currently exporting apparel to the U.S. market under AGOA.³⁸⁹ Sunflag uses all of its own fabric to make garments, though it must import all trim and other inputs. Recently, Sunflag closed one of its two factories in Arusha due to a market slowdown and decreased export demand.³⁹⁰ The company employs 2,100 workers.³⁹¹

³⁸¹ Baffes, "Tanzania's Cotton Sector," December 2002, 9.

³⁸² U.S. Department of State, U.S. Embassy, Dar es Salaam, "Tanzania: Input for 2007 President's Report," March 14, 2007.

³⁸³ Baffes, "Tanzania's Cotton Sector," December 2002, 9.

³⁸⁴ Industry representatives, interviews by Commission staff, Dar es Salaam, Tanzania, February 23, 2009.

³⁸⁵ Khanga is traditional East African printed fabric. Generally, there are four borders surrounding a central design. Khanga often contain printed messages in Swahili, as well as the name of the mill that produced the fabric.

³⁸⁶ Kitenge is woven, printed cloth of traditional East African patterns. Kitenge can be used as a wrap or to construct garments.

³⁸⁷ RATES, *Cotton-Textile-Apparel Value Chain Report Tanzania*, undated (accessed January 16, 2009), 38.

³⁸⁸ Sunflag (Tanzania) Ltd. is part of Kenya's Sunflag Group.

³⁸⁹ Industry representative, interview by Commission staff, Arusha, Tanzania, February 26, 2009.

³⁹⁰ Ubwani, "Tanzania: Textile Factory Shuts As Orders Decline," July 8, 2008.

³⁹¹ Young, "Tanzania's Textile Trade Unravels," March 12, 2009.

A to Z Textile Mills spins yarn, including specially treated synthetic-filament yarn incorporating the insecticide permethrin, and produces knit fabric. From such inputs, it manufactures insecticide-treated antimalaria nets and knit apparel for the local market. In 2006, A to Z Textiles formed a multimillion dollar joint venture with Japanese firm Sumitomo Chemicals Company to produce malaria nets for East Africa.³⁹² A to Z holds several contracts with international nongovernmental organizations to provide bed nets to neighboring countries in SSA. One factory located within an EPZ is dedicated exclusively to the production of bed nets for export to other SSA countries. The firm also produces cotton and cotton-polyester-blended T-shirts and polo shirts for local consumption. A to Z employs roughly 6,000 workers in its two factories.³⁹³

In 2007, Tanzanian exports of textile and apparel inputs totaled \$20.3 million (table 4.35), representing a 72 percent increase from 2005. Woven fabric (43 percent), yarn (29 percent), and carded or combed fibers³⁹⁴ (19 percent) accounted for the majority of Tanzanian exports of textile and apparel inputs by value in 2007. The bulk of Tanzania's textile exports are destined for other SSA countries (65 percent) or the EU (27 percent) (table 4.36). Exports of textile and apparel inputs to the United States accounted for only 2 percent (roughly \$450,000) of total Tanzanian textile exports and consisted mainly of woven fabric. Textile and apparel inputs of cotton dominate exports from Tanzania, accounting for 56 percent of the total; however, Tanzania also exports woven manmade-fiber fabric, which accounted for 30 percent of its total textile exports by value in 2007.

TABLE 4.35 Tanzania: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	1,003	2,349	2,810	4,049	3,892
Knit fabric	346	921	694	910	1,672
Manmade fibers	154	5	25	7	66
Other fabric	0	5	30	192	34
Thread	0	15	9	3	20
Trim	103	357	115	62	36
Woven fabric	4,979	8,806	4,084	5,067	8,763
Yarn	2,567	4,192	4,075	5,752	5,866
Total	9,151	16,651	11,842	16,041	20,349
Imports:					
Carded or combed fibers	4	170	60	63	1
Knit fabric	503	909	1,766	1,635	4,192
Manmade fibers	1,349	1,771	3,259	2,554	3,841
Other fabric	737	731	1,887	1,648	2,295
Thread	376	443	1,529	729	1,139
Trim	776	910	4,791	1,718	8,474
Woven fabric	33,565	38,393	93,060	69,261	98,837
Yarn	6,856	5,993	7,587	7,877	12,357
Total	44,166	49,321	113,938	85,485	131,136

Source: World Bank, WITS Database (accessed December 3, 2008).

³⁹² Industry representative, interview by Commission staff, Arusha, Tanzania, February 26, 2009.

³⁹³ Industry representative, interview by Commission staff, Arusha, Tanzania, February 26, 2009.

³⁹⁴ Industry sources indicate that Tanzania is not exporting carded or combed cotton fibers; hence, it is likely that such products are misidentified in the trade data. Industry representative, interview by Commission staff, Dar es Salaam, Tanzania, February 23, 2009.

TABLE 4.36 Tanzania: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	4,651	9,456	5,420	9,325	13,215
EU-27	1,783	4,682	4,285	4,960	5,427
Rest of world	1,687	1,708	1,193	1,004	1,257
United States	1,030	805	944	752	450
Total	9,151	16,651	11,842	16,041	20,349

Source: World Bank, WITS Database (accessed December 3, 2008).

Tanzania registered a large trade deficit in textile and apparel inputs in 2007. Imports of \$131.1 million in 2007 were over six times greater than exports of textile and apparel inputs. Such imports consisted mostly of woven fabric, likely for use in traditional apparel. The government of Tanzania provides tax exemptions for imported woven fabric from China and India³⁹⁵ to help meet domestic market demand.

Apparel

There is limited local demand for textile inputs for apparel, as there is little commercial production of apparel in Tanzania.³⁹⁶ Most local production ceased after the sector was privatized in the 1990s, although there is some remaining apparel production for the local and export markets. With respect to the domestic market, Tanzanians have little disposable income and rely heavily on imports of low-priced used clothing. The government of Tanzania has imposed duties on such goods in an effort to preserve the domestic apparel industry, with limited success.³⁹⁷

One Tanzanian firm currently producing apparel for the local market indicated that it hopes to export apparel to the United States under AGOA, although it admits it is currently not prepared to enter the U.S. market due to a lack of skilled labor and old machinery.³⁹⁸ The firm uses production for local markets as a means to train workers to meet a higher level of quality needed for export markets. Other firms have struggled to penetrate the U.S. market due to capacity constraints and lack of historical relationships with U.S. buyers.³⁹⁹ Apparel manufacturers producing for the export market also face supply-side constraints and delays in transport. Reportedly, local fabric is of low quality, limited volume, and is not price competitive.⁴⁰⁰

In 2007, Tanzania's exports of apparel totaled \$8.0 million, making it the 11th-largest SSA exporter of apparel by value (table 4.37). Major export markets include the EU and United States. Exports of apparel to the United States totaled \$2.7 million in 2007 and consisted largely of T-shirts. Since 2005, apparel exports have increased by 8 percent. Whereas apparel exports to the United States and the EU declined by 22 percent and 16 percent, respectively during this period, regional exports of apparel to Kenya, Malawi, Uganda, and South Africa increased.

³⁹⁵ U.S. Department of State, U.S. Embassy, Dar es Salaam, "Tanzania's Textiles," October 4, 2006.

³⁹⁶ Tanzanian government official, interview by Commission staff, Dar es Salaam, Tanzania, February 23, 2009.

³⁹⁷ RATES, *Cotton-Textile-Apparel Value Chain Report Tanzania*, undated (accessed January 16, 2009), 14.

³⁹⁸ Industry representative, interview by Commission staff, Tanzania, February 26, 2009.

³⁹⁹ U.S. Department of State, U.S. Embassy, Dar es Salaam, "Tanzania's Textiles," October 4, 2006.

⁴⁰⁰ Industry representative, interview by Commission staff, Dar es Salaam, Tanzania, February 24, 2009.

TABLE 4.37 Tanzania: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	5,146	8,097	7,380	8,635	7,984
Imports	32,060	35,462	56,987	65,257	95,689

Source: World Bank, WITS Database (accessed December 16, 2008).

Tanzania’s total imports of apparel are nearly 12 times greater than exports, totaling \$95.7 million in 2007. Over two-thirds of Tanzanian apparel imports come from China, with other shipments from India and Thailand. Local manufacturers complain that Chinese goods are brought into Tanzania at below raw material costs, although local customs officials are ill-equipped to deal with underinvoicing and underdeclaration of imported textile and apparel articles.

Factors Contributing to Competitive Production

Tanzania’s large population and location at the hub of East Africa, coupled with market access to several regional partners through SADC and East African Community (EAC) membership, render it a comparatively favorable location to establish textile and apparel inputs production. Further, Tanzania has access to a large domestic cotton crop (box 4.6) that could be processed downstream through new or increased investments in the textile and apparel inputs sector. Compared with other regional competitors, Tanzania also enjoys a stable political and economic landscape. The country is generally safe and has investment protection measures in place. With respect to trade-specific doing business indicators in the World Bank Doing Business 2009 database, such as trading across borders or cost to import, Tanzania ranks better than almost all of its Group 1 cohorts (table 3.3).

Factors Inhibiting Competitive Production

Tanzania does not currently have an apparel industry of sufficient size to support further investment in textile and apparel inputs production. One of the few successful exporters of apparel, Sunflag, reported that it has no orders due to the global economic recession.⁴⁰¹ One industry source estimated that a country needs at least 50 apparel firms to create sufficient demand for a fabric mill.⁴⁰² Although a few CMT factories exist in Tanzania for the export market, they do not enjoy economies of scale and struggle to find experienced workers. Tanzania faces a shortage of skilled labor in the textile and apparel industry. Reportedly, there are no textile-specific vocational, design, or engineering schools to train workers in Tanzania. As such, firms must bear the costs of training workers, many of whom are completely unfamiliar with textile and apparel-producing machinery. Further, the Tanzanian textile and apparel sector has recently experienced labor unrest and riots, with workers at Sunflag and A to Z striking for increased pay⁴⁰³ when the Tanzanian government granted the textile and apparel industry a waiver to pay less than the minimum monthly wage (80,000 Tanzanian shillings (roughly \$60) versus the 150,000 (\$115) government minimum wage). Although wages are relatively low,

⁴⁰¹ Young, “Tanzania’s Textile Trade Unravels,” March 12, 2009.

⁴⁰² Industry representative, interview by Commission staff, Dar es Salaam, Tanzania, February 24, 2009.

⁴⁰³ Ubwani, “Tanzania: Textile Factory Shuts As Orders Decline,” July 8, 2008; Ubwani, “Tanzania: Textile Mill Workers End Three-day Strike,” February 6, 2009.

BOX 4.6 Cotton Production in Tanzania

In marketing year (MY) 2007, Tanzania was the third-largest SSA cotton-producing country, accounting for 8 percent of all SSA production. During MY 2003–07, Tanzanian cotton production fluctuated significantly year to year, with a high of 575,000 bales in MY 2005 and a low of 200,000 bales in MY 2006 (see table below). The significant increase in production in MY 2004 and MY 2005 was due to increased harvested areas, as producers responded to higher cotton prices relative to competing crops in the previous years,^a and producers became more confident in being able to obtain inputs (e.g., pesticides and insecticides).^b High production levels in MY 2004 and MY 2005 were also associated with high yields in response to ideal weather conditions.^c The significant decline in MY 2006 production was almost entirely due to a severe drought.^d Domestic consumption increased in MY 2005 and MY 2007, resulting in cotton consumption more than doubling during the MY 2003–07 period. During the same period, domestic consumption accounted for 10–28 percent of domestic supplies, while exports were equivalent to 48–70 percent of domestic cotton production.

Tanzania: Cotton production, consumption, and trade

Source	Marketing year (Aug. 1–July 31)				
	2003	2004	2005	2006	2007
Beginning stocks	142	152	248	302	295
Production (1,000 bales)	235	525	575	200	310
% of SSA production	4	8	10	4	8
Average yields (kg/ha)	132	229	245	145	150
Area harvested (ha)	387	500	510	300	450
Consumption (1,000 bales)	70	70	120	110	170
Ratio of consumption to domestic supplies ¹ (%)	19	10	15	22	28
Imports (1,000 bales)	0	0	0	0	0
Exports (1,000 bales)	155	359	401	97	150
% of production exported	66	68	70	49	48
% of total exports from SSA	3	8	8	2	5
Exports (US dollars, millions)	33.25	64.89	89.98	86.16	40.21
% of exports from Tanzania to SSA	6	3	3	1	4

Source: USDA, FAS, Production, Supply and Distribution Online; World Bank, WITS Database (accessed March 9, 2009).

¹Domestic supplies are equivalent to the sum of beginning stocks and production. Beginning stocks are the quantity of cotton carried over (not consumed or exported) from the previous year.

^aDue to the lack of pricing information, producers typically make planting decisions based on prices received during the previous season.

^bIn MY 2003, Tanzania introduced a program allowing a significant number of farmers for the first time to be able to obtain inputs regardless of their cash situation at the time of input purchasing (typically when producer cash reserves are lowest).

^cGovernment of Tanzania, "The Cotton and Textiles Sector in Tanzania," 2007, 4.

^dProduction for MY 2006 was originally estimated to be 750,000 bales before the drought occurred. Ibid.; ICAC, "Tanzania: Cotton Report," November 22, 2007.

BOX 4.6 Cotton Production in Tanzania—Continued

Tanzanian cotton has favorable fiber characteristics,^e but is rated by the International Cotton Advisory Committee as the poorest quality^f African cotton.^g As a result, Tanzanian cotton receives one of the lowest premiums over the Cotlook A Index, a common international standard, among major SSA cotton exporters.^h In MY 2006, Tanzanian cotton premiums were less than \$0.01 per lb., as compared to \$0.02 per lb. or more for other major SSA cotton exporters.ⁱ Tanzanian cotton fiber characteristics benefit from cotton being picked by hand^j and approximately one-half of the crop being roller ginned.^k Premiums on Tanzanian cotton are eroded as a consequence of contamination from polypropylene fibers from sacks being used to harvest cotton.^l Polypropylene fibers, as well as other extraneous fibers, have different dye absorption rates than cotton fibers, resulting in uneven coloring in dyed yarns and fabrics containing such fibers.^m Production and processing practices have lowered Tanzanian fiber characteristics and cotton quality, as producer and processors are often unaware of the quality requirements of consumers.ⁿ For example, Tanzania has no seed certification program to ensure the quality of seeds used for planting. As a result, seeds distributed to producers by ginners are often of mixed varieties, which over time, through genetic variations, reduces specifically developed traits such as disease resistance, yields, and fiber characteristics.^o

^eFiber characteristics refer to the actual attributes of the cotton lint fibers, such as staple length, micronaire, fiber strength, and length uniformity. Most African upland cottons have fiber characteristics equal to or above the Cotlook A Index benchmark. Fiber characteristics are fairly homogenous across Africa due to similar growing conditions and the limited number of varieties planted. However, micronaire and length uniformity vary depending on specific varieties, weather conditions, growing areas, and production practices. Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 13.

^fOverall cotton quality refers to both the fiber characteristics of the lint along with other nonlint attributes of the cotton lint, such as contamination and stickiness.

^gGovernment of Tanzania, "The Cotton and Textiles Sector in Tanzania," 2007, 7.

^hThe Cotlook A Index sets the international benchmark for quality, with all cottons traded receiving a premium or discount price based on its quality in relation to the benchmark. Estur, *Is West African Cotton Competitive?* January 7, 2005, 1–20.

ⁱThese premiums reflect estimates for the top type of lint in each country as quoted by the Cotlook A Index. The average price of the Cotlook A Index in MY 2006 was \$0.6053 per lb. Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 21.

^jCotton picked by machine requires additional ginning, which causes greater deterioration of the cotton fibers, as compared with hand-picked cotton. Estur, *Is West African Cotton Competitive?* January 7, 2005, 4; industry representative, interview by Commission staff, Dar es Salaam, Tanzania, February 25, 2009.

^kRoller gins are more effective than saw gins at preserving fiber quality. Roller-ginned Tanzanian cotton can receive a premium of \$0.01 per lb. over identical cotton that is saw ginned. Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 18.

^lIndustry representative, interview by Commission staff, Dar es salaam, Tanzania, February 25, 2009.

^mSSA industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

ⁿGovernment of Tanzania, "The Cotton and Textiles Sector in Tanzania," 2007, 7; industry representative, interview by Commission staff, Dar es Salaam, Tanzania, February 25, 2009.

^oProper management of seed use, such as through privatization of seed distribution, can remedy this situation. Government of Tanzania, "The Cotton and Textiles Sector in Tanzania," 2007, 26.

labor remains unproductive, especially compared with Asian competitors. Finally, firms in the sector lack market knowledge regarding export opportunities; for example, several firms were unaware that AGOA benefits had been extended to textiles in late 2006.⁴⁰⁴

The Tanzanian textile sector also suffers from a deficiency of investment in capital equipment. Less than 7 percent of Tanzania's spinning machinery has been updated in the past 10 years.⁴⁰⁵ However, some investments have been made in recent years in

⁴⁰⁴ Industry representatives, interviews by Commission staff, Dar es Salaam, Tanzania, February 23 and 24, 2009.

⁴⁰⁵ ITMF statistics do not account for purchases of used equipment. ITMF, *International Textile Machinery Shipment Statistics*, 2007, 11.

modernizing Tanzania's woven fabric industry.⁴⁰⁶ In addition, several Tanzanian firms reported purchasing newer used equipment from closing U.S. textile mills.⁴⁰⁷

Tanzania ranks well below other Group 1 countries in terms of port infrastructure and road density (table 3.4). As lead times are crucial to international buyers, and given that Africa is already starting from a geographically isolated position vis-à-vis world markets, the severe delays currently occurring at the port of Dar es Salaam critically hamper the export competitiveness of Tanzania's textile and apparel industry. Port congestion also causes delays in imports of fabric, sewing thread, and trim needed to produce garments for export. Once ships reach the port, they often must wait up to four weeks to unload cargo.⁴⁰⁸ Manufacturers typically bear the costs of both delays in receiving their inputs and exporting their final products. Shipping delays also increase the cost of capital, as manufacturers assume the costs of the raw materials. Reportedly, the government is working to remedy this issue through the use of inland container depots.⁴⁰⁹

The sector also faces the challenge of an unreliable and expensive power supply.⁴¹⁰ Frequent occurrences of power disruption seriously impede competitiveness in Tanzania, contributing to higher production costs.⁴¹¹ Eighty-eight percent of firms surveyed by the World Bank indicated that electricity is a major constraint to operating in Tanzania. These firms reported an average of 12.0 outages in a typical month, resulting in a lost value of 9.6 percent of sales (table 3.1).

Zambia

Potential Competitive Products

Zambia is an established manufacturer and regional SSA exporter of cotton yarn. In addition, it appears to be competitive in the production of yarn and fabric used in the production of blankets, school and military uniforms, mining protective wear, and hospital scrubs for local and regional markets.

Zambia has a very small domestic market and most of the country's apparel demand is met through imported used apparel. Zambia's obsolete industrial base of spinning and weaving machinery precludes any significant production of globally competitive finished apparel articles. Zambia's poor infrastructure results in higher shipping costs and shipping times than for all of the other Group 1 countries.

⁴⁰⁶ Ibid., 28.

⁴⁰⁷ Industry representatives, interviews by Commission staff, Dar es Salaam, Tanzania, February 23, 2009.

⁴⁰⁸ Industry representative, interview by Commission staff, Dar es Salaam, Tanzania, February 23, 2009.

⁴⁰⁹ Tanzanian government official, interview by Commission staff, Dar es Salaam, Tanzania, February 23, 2009.

⁴¹⁰ U.S. Department of State, U.S. Embassy, Dar es Salaam, "Tanzania: Effects of Infrastructure Conditions," October 8, 2008.

⁴¹¹ U.S. Department of State, U.S. Embassy, Dar es Salaam, "Tanzania's Textiles," October 4, 2006.

Country Overview

Zambia is a southern African country with a GDP of \$11.4 billion and a total population of 11.9 million in 2007, resulting in a GDP per capita of \$955 in 2007 (table 4.38). Copper mining is the primary economic activity in Zambia, and world copper prices are a key factor determining the overall performance of Zambia's economy. Zambia also is a large cotton-producing country and has extensive arable land and water resources. The Zambian government is encouraging private investment in all major sectors of the economy through measures to open the economy to global trade and investment. Zambia is ranked 100th of 181 economies in terms of the ease of doing business in the World Bank's Doing Business 2009 database, which is about average for the Group 1 countries (table 3.3).

Industry and Trade Overview

Zambia's once thriving textile and apparel sector has significantly contracted as sector output and the number of enterprises engaged in textile and apparel production have declined sharply since 2003.⁴¹² At its zenith in the late 1980s, Zambia's textile and apparel sector comprised more than 140 parastatal and privately owned enterprises employing more than 25,000 individuals.⁴¹³ These enterprises, which flourished during an

TABLE 4.38 Zambia: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	11,363
GDP growth (annual %, 2007)	6.0
GDP per capita (current US\$, 2007)	955
Population (millions, 2007)	11.9
Goods exports (current US\$, millions, 2007)	4,619
Goods imports (current US\$, millions, 2007)	3,971
Inflation, consumer prices (annual %, 2007)	10.7
Literacy rate, adult total (% of people ages 15 and above)	(^b)
Labor force, total (millions, 2006)	5.0
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	575
Gross capital formation (current US\$, millions, 2007)	2,739
Lending rate (% , 2007)	18.9
Manufacturing value added (current US\$, millions, 2007)	1,187
Prevalence of HIV, total (% of population 15-49, 2007)	15.2

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

⁴¹² Chitah, *Zambia Country Report*, November 17–21, 2008, 5–7.

⁴¹³ De Voest and Schultz, "Stimulating Growth of Trade and Investment," September 2002, 29; World Bank, *Vertical and Regional Integration*, July 2007, 58.

era of high trade barriers that protected Zambian industries from foreign competition, included a mix of vertically integrated textile enterprises and stand-alone spinning, weaving/knitting, and apparel assembly firms.⁴¹⁴

Beginning in the 1990s, Zambia reoriented its trade policies to open the economy to foreign trade and investment. Although FDI increased following the new policy orientation, Zambian textile and apparel producers found it increasingly difficult to compete with imported fabric and imported used apparel in the domestic market, and many firms were forced to cease operations.⁴¹⁵ Zambia's remaining state-owned, vertically integrated textile enterprises had outdated machinery and equipment, and generally were unable to produce the higher quality articles required to become globally competitive.⁴¹⁶ Zambia's largest remaining parastatal textile mill, Zambia China Mulungushi Textile Limited (ZCMT), ceased operations in January 2007.⁴¹⁷ Despite significant privatization in the sector since the late 1990s, Zambian firms have found it increasingly difficult to compete in global export markets against large apparel exporting countries such as China, India, and Pakistan.⁴¹⁸

Zambia is a producer of high-quality cotton (box 4.7). Zambia's textile sector currently consists of an estimated four privately owned stand-alone knitting/weaving firms and four privately owned vertically integrated textile enterprises that spin their own yarn for use in producing finished textile and apparel articles.⁴¹⁹ One of the vertically integrated textile mills, Swarp Spinning Mills, Plc., entered into receivership in December 2008, and has ceased operations pending sale of the company (box 4.8).⁴²⁰

Textile and apparel inputs

Zambia's textile sector produces primarily 100-percent cotton yarn along with small quantities of manmade fiber yarns, including polyester/cotton and acrylic yarns.⁴²¹ Most of the yarn produced in Zambia is exported, but a small share is used domestically in the production of woven fabric, including canvas, drill, and suiting and dress fabric. This woven fabric is used to manufacture niche apparel, such as uniforms and mining work wear, primarily for the local market or for export mainly to other SSA countries. Zambian yarn is also used to produce terry toweling, blankets, and rugs for both the domestic

⁴¹⁴ De Voest and Schultz, "Stimulating Growth of Trade and Investment," September 2002, 30–33.

⁴¹⁵ Sources report that Zambia's low-income domestic market for apparel is largely met through imported used goods and tailor-made garments, while middle- and upper-income demand is being met through South African retail stores that operate in Zambia and sell internationally sourced apparel. Hansen, *Salaula: The World of Secondhand Clothing and Zambia*, 179; RATES, *Cotton-Textile-Apparel Value Chain Report Zambia*, August 2003, 28 and 30; and World Bank, *Vertical and Regional Integration*, July 2007, 60.

⁴¹⁶ USITC, Hearing transcript, January 29, 2009, 121–122 (testimony of Frank D. Mugenyi, COMESA).

⁴¹⁷ ZCMT was a parastatal joint venture between the Chinese and Zambian governments. RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003.

⁴¹⁸ One source observed that Zambia produces raw cotton and exports cotton lint to Pakistan, while it imports apparel from Pakistan. USITC, Hearing transcript, January 29, 2009, 22 (testimony of The Honorable Sindiso Ngwenya, Secretary General, COMESA).

⁴¹⁹ According to updated information provided by one source, two of the integrated mills currently operate at a very low capacity. Industry representative, telephone interview by Commission staff, February 10, 2009; de Voest and Schultz, "Stimulating Growth of Trade and Investment," September 2002, 29–39; and RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 24–29.

⁴²⁰ Industry representative, telephone interview by Commission staff, February 10, 2009.

⁴²¹ RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 25; de Voest and Schultz, "Stimulating Growth of Trade and Investment," September 2002, 20.

BOX 4.7 Cotton Production in Zambia

In marketing year (MY) 2007, Zambia was the eighth-largest SSA cotton-producing country, accounting for 4 percent of all beneficiary countries' production. Zambian cotton production increased from 325,000 bales in MY 2003 to a record 400,000 bales in MY 2005 (see table below). However, production then declined to 160,000 bales each in MY 2006 and MY 2007, primarily because of lower domestic producer prices caused by appreciation of the Zambian kwacha against the U.S. dollar,^a and a shifting of acreage to corn production following increased government support of production and marketing of that crop.^b Exports also declined in MY 2006 and domestic consumption accounted for only 10–22 percent of Zambian cotton supplies during MY 2003–07. Reportedly, limited quantities of cotton were imported from Zimbabwe and Malawi to supplement Zambian yarn spinners' demand for longer-staple cottons^c and from Mozambique to increase ginner capacity utilization in border regions.^d The majority of Zambia's exports of ginned cotton were destined for SSA, primarily South Africa and Mauritius, and Zambia typically accounts for 75 percent of all intra-SSA cotton trade.

Zambia: Cotton production, consumption, and trade

Source	Marketing year (Aug. 1–July 31)				
	2003	2004	2005	2006	2007
Beginning stock	145	255	315	320	205
Production (1,000 bales)	325	350	400	160	160
% of SSA production	6	6	7	3	4
Average yields (kg/ha)	236	203	249	194	174
Area harvested (ha)	300	375	350	180	200
Consumption (1,000 bales)	65	65	70	75	80
Ratio of consumption to domestic supplies ¹ (%)	14	11	10	16	22
Imports (1,000 bales)	0	0	0	0	0
Exports (1,000 bales)	150	225	325	200	125
% of production exported	46	64	81	125	78
% of total exports from SSA	3	5	6	5	4
Exports (US dollars, millions)	35.30	92.48	120.73	71.13	35.76
% of exports from Zambia to SSA	85	46	32	36	75

Source: USDA, FAS, Production, Supply and Distribution Online; World Bank, WITS Database (accessed March 9, 2009).

¹Domestic supplies are equivalent to the sum of beginning stocks and production. Beginning stocks are the quantity of cotton carried over (not consumed or exported) from the previous year.

^aAlthough ginner announced prices for MY 2006 were higher than in MY 2005, producers' lack of confidence in announced prices, following substantially lower prices than announced in MY 2005 due to the appreciation of the Zambian kwacha against the U.S. dollar, resulted in a significant decline in area cultivated for cotton. Tschirley and Kabwe, "Cotton in Zambia," September 2007, 7.

^bChitah, *Zambia Country Report*, November 17–21, 2008, 2.

^cRATES, *Cotton-Textile-Apparel Value Chain Report Zambia*, August 2003, 22.

^dIbid., 16.

BOX 4.7 Cotton Production in Zambia—Continued

Zambian cotton has favorable fiber characteristics^e and is one of the highest-quality^f cottons in SSA.^g As a result, Zambian cotton received the highest premiums over the Cotlook A Index, a common international standard, among major SSA cotton exporters.^h For example, in MY 2006, Zambian cotton premiums were \$0.06 per lb., as compared to \$0.04 per lb. or less for other major SSA cotton exporters.ⁱ The high premiums for Zambian cotton are largely attributed to the successful efforts by the two largest ginners in the country to eliminate most contamination and to improve overall cotton quality by financing input supplies and extension services for producers.^j The primary source of contamination comes from polypropylene fibers from sacks used to harvest cotton.^k

Despite improvements in the quality of Zambian cotton, declining quality is of concern to the industry due to increased competition in the Zambian ginning sector from several new entrants.^l Zambia was originally able to overcome contamination issues due to limited competition among ginners. However, new entrants will likely reduce the financial solvency of ginners' programs, as in other countries, designed to help farmers improve quality and yields and reduce contamination due to the increased likelihood of producers breaking their contracts to sell their cotton to competing gins.^m

^eFiber characteristics refer to the actual attributes of the cotton lint fibers, such as staple length, micronaire, fiber strength, and length uniformity. Most African upland cottons have fiber characteristics equal to or above the Cotlook A Index benchmark. Fiber characteristics are fairly homogenous across Africa due to similar growing conditions and the limited number of varieties planted. However, micronaire and length uniformity vary depending on specific varieties, weather conditions, growing areas, and production practices. Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 13.

^fOverall cotton quality refers to both the fiber characteristics of the lint, along with other nonlint attributes of the cotton lint, such as contamination and stickiness.

^gEstur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 18.

^hThe Cotlook A Index sets the international benchmark for quality with all cottons traded receiving a premium or discount price based on its quality in relation to the benchmark. Estur, *Is West African Cotton Competitive?* January 7, 2005, 1–20.

ⁱCameroon, another country that has significantly improved contamination issues, received the next highest premium (\$0.04 per lb.). Tschirley and Kabwe, "Cotton in Zambia," September 2007, 31; Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 21.

^jReliable supplies of inputs (e.g., fertilizers) can directly improve yields and fiber characteristic of cotton through sufficient and timely application. Tschirley and Kabwe, "Cotton in Zambia," September 2007, 12.

^kThe significant increase in Zambian cotton premiums from \$0.01 per lb. in the mid-1990s is largely due to the reduction in contamination. Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 21.

^lSSA countries with less concentrated ginning sectors have typically experienced lower qualities on average than in countries with concentrated ginning sectors. Tschirley and Kabwe, "Cotton in Zambia," September 2007, 1; Chitah, *Zambia Country Report*, November 17–21, 2008, 3; and Larsen, *Quality Standard-Setting*, August 2003, 26.

^mTschirley and Kabwe, "Cotton in Zambia," September 2007, 1; Chitah, *Zambia Country Report*, November 17–21, 2008, 3; and Larsen, *Quality Standard-Setting*, August 2003, 26.

BOX 4.8 Zambia's premier cotton yarn spinner and AGOA exporter collapses in December 2008

Swarp Spinning Mills, a private Zambian company, was one of two major stand-alone spinning mills that coexisted with Zambia's state-owned fully integrated textile mills during the 1980s. Swarp grew to become one of Zambia's largest 100 percent cotton spinning companies. Swarp sourced 90 percent of its cotton lint domestically. In addition, Swarp sourced longer staple cotton varieties (and varieties of different colors) from Zimbabwe and Malawi to provide high-quality yarn. Swarp spun various types of cotton yarn, including open end, ring, and combed yarns.^a

At its peak, Swarp employed more than 1,000 workers and was by far Zambia's largest textile mill and one of SSA's leading producers of 100 percent cotton yarns and blended cotton/polyester yarns.^b Swarp exported yarn as domestic demand for yarn declined, because apparel companies found it cheaper to import fabric than to weave in Zambia.^c Swarp exported 97 percent of its production and was one of the leading SSA exporters of yarn to Europe.^d Swarp's use of modern machinery allowed the company to develop a reputation as a producer of quality cotton yarn.^d Swarp shifted to producing short-runs of specialty yarns with specific counts customized to individual customer specifications to avoid direct competition with standardized yarn producers in China, India, and Pakistan.^e

Swarp did not export directly to the United States after Zambia received AGOA eligibility status in 2004. Instead, Swarp exported cotton yarn to Mauritius, South Africa, and Botswana for their use in AGOA-eligible products.^f In recent years, the SSA regional market for Swarp's yarn declined as a result of reduced demand from Mauritius, appreciation of the Zambian currency that made Zambian exports relatively more expensive in major markets, and increased competition from suppliers based in Asia.^g Despite its record as a Zambian success story in terms of becoming internationally competitive in the production and export of cotton yarn, Swarp encountered labor-management problems beginning in 2003, resulting in strikes and production shortfalls. Swarp entered into receivership in December 2008 and has ceased operations.^h

^a *Times of Zambia*, "Swarp Spinning Mills Benefits from AGOA," January 13; Tschirley and Kabwe, "Increasing Demand for Quality in World Cotton Markets," 18; and World Bank, *Vertical and Regional Integration*, July 2007.

^b Tschirley and Kabwe, "Increasing Demand for Quality in World Cotton Markets," 18.

^c Sibanda, "Zambian Textile Industry Collapsing," undated (accessed December 14, 2008).

^d *Just-style.com*, "AGOA: A Good Deal for the EU Too," September 4, 2002.

^e World Bank, *Vertical and Regional Integration*, July 2007.

^f RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 9; *Times of Zambia*, "Swarp Spinning Mills Benefits from AGOA," January 13, 2004.

^g World Bank, *Vertical and Regional Integration*, July 2007.

^h *Times of Zambia*, "1,000 Swarp Spinning Workers Granted Injunction," July 7, 2003; *Just-style.com*, "Zambia: Swarp Spinning Mills Up for Sale," December 23, 2008.

market and for export. Sources reported that Zambian textile mills have engaged in circular knitting in the past, but those facilities may no longer be operational.⁴²² Zambia also produces non-apparel articles such as cotton and acrylic blankets, which are sold in the domestic market and exported to neighboring SSA countries.

In 2007, Zambia's exports of textile and apparel inputs totaled \$14.5 million and largely consisted of cotton yarn (accounting for greater than 98 percent of Zambia's textile exports) (table 4.39). Zambia's yarn exports grew in value from \$25.5 million in 2003 to a period high of \$34.9 million in 2005, before declining to \$14.3 million in 2007. This decline in yarn exports during 2005–07 reflects reduced domestic yarn production due to the declining number of yarn spinning mills operating in Zambia⁴²³ in the face of increasing global competition from yarn spinners in Eastern Europe, India, and Asia.⁴²⁴ Zambia does not export its yarn to the United States. In 2007, the EU was the leading destination for Zambian yarn, accounting for almost 93 percent of Zambia's yarn exports, up from 59 percent in 2003 (table 4.40). SSA countries accounted for about 5 percent of Zambia's yarn exports in 2007, down from 41 percent in 2003. In 2005, Zambia's peak

⁴²² RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 28–29; industry representative, telephone interview by Commission staff, February 10, 2009.

⁴²³ Chitah, *Zambia Country Report*, November 17–21, 2008, 6.

⁴²⁴ De Voest and Schultz, "Stimulating Growth of Trade and Investment," September 2002; RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 20.

TABLE 4.39 Zambia: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	77	6	37	8	0
Knit fabric	2	68	201	0	9
Manmade fibers	9	0	10	0	0
Other fabric	2	1	4	0	0
Thread	0	0	301	0	0
Trim	4	207	0	1	12
Woven fabric	350	152	69	216	188
Yarn	25,502	30,969	34,882	20,014	14,323
Total	25,947	31,404	35,505	20,239	14,532
Imports:					
Carded or combed fibers	86	55	125	31	9
Knit fabric	97	207	599	546	1,585
Manmade fibers	926	1,002	1,432	1,251	1,203
Other fabric	458	1,167	865	770	970
Thread	151	247	127	42	81
Trim	428	870	1,265	563	1,084
Woven fabric	7,103	8,434	8,325	5,073	6,876
Yarn	620	1,286	744	704	520
Total	9,870	13,269	13,481	8,979	12,328

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.40 Zambia: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	10,658	8,605	5,217	1,898	779
EU-27	15,277	22,562	21,792	18,269	13,476
Rest of world	10	237	8,496	72	278
United States	2	0	0	0	0
Total	25,947	31,404	35,505	20,239	14,532

Source: World Bank, WITS Database (accessed December 3, 2008).

year of yarn exports, 61 percent of such exports went to the EU, about 15 percent to other AGOA countries, and 24 percent to the rest of the world. Mauritius was once an important market for Zambian yarn, but demand by Mauritius for imported yarn has declined in recent years in part because Mauritius has built up its own yarn spinning capacity.⁴²⁵

Zambia's imports of textile and apparel inputs totaled \$12.3 million in 2007, more than one-half of which consisted of woven fabric. Major suppliers included India (\$3.9 million) and China (\$3.2 million). Zambia's total imports of textile and apparel inputs increased by 25 percent during 2003–07; during this period, imports of woven fabric declined marginally, while imports of knit fabric, manmade fiber, other fabric, and trim all increased. Apart from domestically produced cotton yarn and small amounts of cotton/polyester and acrylic yarns, all other inputs used by Zambia's apparel industry are imported.

⁴²⁵ For further information, see the section on Mauritius earlier in this chapter.

Apparel

There are currently fewer than 10 stand-alone apparel assembly firms in Zambia.⁴²⁶ The number of apparel assembly firms in Zambia has declined significantly since the 1990s as a result of increased competition from lower-cost imported apparel. Zambian domestic demand for apparel is mostly met by imported used goods or other non-Zambian suppliers.⁴²⁷ Imported used apparel supplies an estimated 60–65 percent of Zambia’s total domestic apparel demand.⁴²⁸ Foreign-owned retail stores and mail order services supply most of the remaining demand.⁴²⁹ According to one estimate, Zambian apparel manufacturers supply only 10–15 percent of domestic apparel demand, primarily producing niche articles such as work wear and uniforms.⁴³⁰ Such niche articles face limited competition from imports, do not need to be produced on modern machinery and equipment, and are not time sensitive. As a result, such articles can be produced in long production runs and do not need to meet high consumer quality standards.⁴³¹ Zambia’s generally obsolete industrial base of spinning and weaving machinery precludes any significant production of globally competitive finished apparel articles that meet the quality standards generally expected in the United States, the EU, or other comparable international markets.⁴³² Foreign exchange shortages, which arise during cyclical downturns in global copper prices, regularly prevent local apparel manufacturers from importing fabric.⁴³³

Zambia’s global apparel exports were valued at \$582,000 in 2007 (table 4.41). Most of Zambia’s exports are niche military, police, and school uniforms; the leading markets were the DRC, Malawi, Zimbabwe, Tanzania, and South Africa. Only a small fraction of Zambia’s apparel exports were to the U.S. market under AGOA provisions.⁴³⁴ Two Zambian companies have exported to the United States under AGOA: Unity Garments, the first Zambian company to export under AGOA,⁴³⁵ exported hospital scrubs, and ZCMT (through its apparel manufacturing plant Golden Ocean, both no longer operational) exported shorts and cargo pants made from its own fabric.⁴³⁶ However, there were no recorded U.S. imports of textile and apparel articles from Zambia under AGOA in 2007.⁴³⁷

⁴²⁶ Chitah, *Zambia Country Report*, November 17–21, 2008, 6–7; industry representative, telephone interview by Commission staff, February 10, 2009.

⁴²⁷ Zambia also has a small domestic tailoring industry that supplies made-to-order garments. Hansen, *Salaula: The World of Secondhand Clothing and Zambia*, 237–8.

⁴²⁸ Zambia permits unlimited imports of second-hand clothing. Zambia imposes a 25 percent tariff on imported new and used apparel imports. Nevertheless, imported used apparel has so little value in the country of supply that these articles are imported at little or no cost. Koyi, *The Textile and Clothing Industry in Zambia*; Hansen, *Salaula: The World of Secondhand Clothing and Zambia*, 238–40.

⁴²⁹ Hansen, *Salaula: The World of Secondhand Clothing and Zambia*, 237–8.

⁴³⁰ World Bank, *Vertical and Regional Integration*, July 2007, 60.

⁴³¹ Koyi, *The Textile and Clothing Industry in Zambia*; World Bank, *Vertical and Regional Integration*, July 2007, 61.

⁴³² RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 25.

⁴³³ For a discussion of the impact of the current downturn in global copper prices on the Zambian economy, see “Country Profile: Zambia,” *BBC News*, November 3, 2008, http://news.bbc.co.uk/2/hi/africa/country_profiles/1069294.stm.

⁴³⁴ U.S. Department of State, U.S. Embassy, Lusaka, “Textile and Apparel Sector in Zambia,” October 16, 2006.

⁴³⁵ *Times of Zambia*, “Canadian Market Opens to CB Firms,” 2005.

⁴³⁶ RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 30.

⁴³⁷ USITC, Dataweb, (accessed March 30, 2009).

TABLE 4.41 Zambia: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	97	367	339	92	582
Imports	8,498	8,893	10,043	8,755	11,636

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors Contributing to Competitive Production

Zambia has a reputation as a producer of high quality cotton with relatively low levels of contamination. Thus, the domestic spinning industry has a readily available source of high quality raw materials. Zambian yarn is of a quality desired by international consumers, as evidenced in its exports to the EU.

The World Bank ranked Zambia as having one of the most open trade regimes in SSA.⁴³⁸ With respect to tariffs, customs duties are suspended for a period of five years on inputs used in the textile and apparel industry, such as greige fabric, machinery, sewing thread, sewing machine spare parts, and trim.⁴³⁹ Membership in COMESA and SADC gives Zambian exports preferential market access to 25 regional markets.

Factors Inhibiting Competitive Production

Relative to some of its regional SSA neighbors, Zambia has a small population. With most domestic apparel demand met by imported used goods or other non-Zambian sources, there is essentially no domestic market for locally produced apparel fabric.⁴⁴⁰ Zambian defense and mining ministries reportedly have purchased imported apparel instead of sourcing from Zambian firms.⁴⁴¹ Because domestic demand is so small, Zambian textile and apparel producers do not benefit from scale economies.⁴⁴²

Insufficient access to affordable credit is a significant problem for Zambian producers.⁴⁴³ Most new investment in manufacturing is from FDI. Local real interest rates are high, and local commercial banks are risk averse and not willing to lend because of the poor track record of debt repayment prevalent in Zambia.⁴⁴⁴

Wage rates in Zambia are generally low and most labor is unskilled. However, manufacturing sector labor can demand higher wages when copper mining activity increases. Workers trained as electricians or engineers by textiles companies tend to relocate to the mining sector when copper prices are high and that sector is growing and is able to offer relatively higher wages.⁴⁴⁵ Zambia ranked as one of the lowest SSA countries in terms of worker productivity as measured by value added per worker (figure 3.2.). Worker productivity is well below that in China and India. There is no textile training available nationally; companies must conduct all textile-specific training in-house and at their own expense.⁴⁴⁶

⁴³⁸ World Bank, Zambia: Diagnostic Trade Integration Study, October 10, 2005, vii.

⁴³⁹ U.S. Department of State, U.S. Embassy Lusaka, “2008 Investment Climate Statement,” January 15, 2008.

⁴⁴⁰ De Voest and Schultz, “Stimulating Growth of Trade and Investment,” September 2002, 33.

⁴⁴¹ De Voest and Schultz, “Stimulating Growth of Trade and Investment,” September 2002, 30.

⁴⁴² World Bank, Vertical and Regional Integration, July 2007, 59.

⁴⁴³ World Bank, Zambia: Diagnostic Trade Integration Study, October 10, 2005, x.

⁴⁴⁴ EIU, Country Profile 2008: Zambia, 2008, 17–18.

⁴⁴⁵ World Bank, Vertical and Regional Integration, July 2007, 60.

⁴⁴⁶ World Bank, Vertical and Regional Integration, July 2007, 60.

Much of the existing machinery and equipment in Zambia's textile and apparel sector is old.⁴⁴⁷ According to one source, "[m]ost (95 percent) of the weavers and apparel/garment machinery of existing weaving companies are more than fifteen and twenty years old, some were even secondhand when originally installed."⁴⁴⁸ Excel Textiles has the most modern equipment, and its equipment is 10–11 years old. This restrains productivity and limits Zambia's ability to produce high-quality textile and apparel articles that could be competitive in the U.S market.⁴⁴⁹ Other problems facing the industry include low machine utilization rates, high use of imported spare parts (which are both expensive and not readily available) due to old machinery, and inadequate cash flow.⁴⁵⁰

As a landlocked country, access to ports requires going through at least one other country, adding to delivery times and freight costs.⁴⁵¹ Zambia's transportation infrastructure ranks below average among the Group 1 countries in terms of quality of road and rail infrastructure, but above average among landlocked countries in terms of ease of access to port facilities and inland waterways and quality of domestic transportation network (table 3.4). Reportedly, good existing rail connections exist to Durban, South Africa, and Dar es Salaam, Tanzania, primarily to service Zambia's copper industry, but there is no rail link to the Atlantic via Angola for direct export to the U.S. or EU markets.⁴⁵² However, shipping costs and shipping times were higher for landlocked Zambia than for all of the other Group 1 countries (table 3.3). Zambia's road network is in need of additional upgrading and improvements to facilitate freight shipments.⁴⁵³ Zambia Railway is a parastatal characterized by weak management, overstaffing, and poor service.⁴⁵⁴ Sources reported that it takes 8–10 days by road to get from Lusaka, Zambia, to the port at Durban, South Africa. This length of transportation times requires firms to maintain relatively large inventories in order to guarantee production continuity.⁴⁵⁵

Utility costs, especially electricity, are high. Despite Zambia's hydroelectric power generation potential, energy generation has fallen short of rapidly increasing demand in recent years, leading to rationing and frequent blackouts.⁴⁵⁶

⁴⁴⁷ De Voest and Schultz, "Stimulating Growth of Trade and Investment," September 2002, 52.

⁴⁴⁸ Chitah, *Zambia Country Report*, November 17–21, 2008.

⁴⁴⁹ RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 9.

⁴⁵⁰ RATES, *Cotton Textile Apparel Value Chain Report Zambia*, August 2003, 28.

⁴⁵¹ World Bank, *Zambia: Diagnostic Trade Integration Study*, 28; World Bank, *Vertical and Regional Integration*, July 2007, 60.

⁴⁵² World Bank, *Zambia: Diagnostic Trade Integration Study*, October 10, 2005, 30.

⁴⁵³ EIU, *Country Profile 2008: Zambia*, 12–13.

⁴⁵⁴ EIU, *Country Profile 2008: Zambia*, 2008, 2, 13.

⁴⁵⁵ World Bank, *Zambia: Diagnostic Trade Integration Study*, October 10, 2005, 30.

⁴⁵⁶ EIU, *Country Report: Zambia*, 2008, 6.

Group 2: Selected Other SSA Exporters of Textile and Apparel Inputs

The countries in Group 2 consist of the next-largest SSA-country exporters of textile and apparel inputs after the Group 1 countries. The Group 2 countries are Botswana, Ghana, Malawi, Mozambique, Namibia, and Uganda. In 2007, Group 2 countries collectively accounted for almost 2 percent of the total value of SSA exports of textile and apparel inputs and 4 percent of the total value of SSA apparel exports.

Botswana

Potential Competitive Products

Because it is currently successfully producing and exporting toweling, Botswana could potentially enhance its competitive position as a toweling supplier to a larger number of markets. Botswana's toweling production is largely for the domestic and regional markets, particularly Mauritius. The potential for increasing the competitiveness of towels and toweling production, however, is constrained by a lack of skilled labor, low labor productivity, unreliable or insufficient energy and water supply, and relatively high transportation costs because Botswana is landlocked. Aside from some noteworthy investment in the production of toweling by one producer, there is currently very limited production of textiles and apparel in Botswana.

Country Overview

Botswana is a landlocked country that shares borders with Angola, Namibia, South Africa, Zambia, and Zimbabwe. Since its independence in 1966, Botswana has been one of the fastest-growing economies in Africa. Botswana is considered a middle-income developing country,⁴⁵⁷ with a GDP of \$11.8 billion and a per capita income of \$9,818 in 2007 (table 4.42). Manufacturing value added (including textiles and apparel value added) accounted for 3.4 percent of GDP in 2007, and Botswana had a trade surplus of \$1.1 billion.

In 2009, Botswana ranked 38th out of 181 countries in terms of ease of doing business (table 3.3), and was second only to South Africa among the SSA countries. Compared with other African countries, Botswana also has the highest sovereign debt ratings and the best Transparency International anticorruption rank.⁴⁵⁸ In addition, Botswana's exchange rate is stable.⁴⁵⁹ However, Botswana was in the bottom half of SSA countries in terms of the ease of trading across borders, and the country ranked below the SSA average in terms of time and cost to import, and cost to export, due in large part to its landlocked location.

⁴⁵⁷ U.S. Department of State, U.S. Embassy, Gaborone, "2008 Botswana Investment Climate Statement," January 16, 2008.

⁴⁵⁸ OECD and AfDB, "Botswana," 2008, 153.

⁴⁵⁹ *Ibid.*, 159, 160.

TABLE 4.42 Botswana: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	11,781
GDP growth (annual %, 2007)	3.8
GDP per capita (current US\$, 2007)	9,818
Population (millions, 2007)	1.2
Goods exports (current US\$, millions, 2007)	5,117
Goods imports (current US\$, millions, 2007)	4,035
Inflation, consumer prices (annual %, 2007)	7.1
Literacy rate, adult total (% of people ages 15 and above, 2003)	81.2
Labor force, total (millions, 2006)	0.7
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	486
Gross capital formation (current US\$, millions, 2007)	2,575
Lending rate (% 2007)	16.2
Manufacturing value added (current US\$, millions, 2007)	399
Prevalence of HIV, total (% of population 15–49, 2007)	23.9

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

The quality of Botswana’s roads and railroad infrastructure, compared with many other SSA countries, is good. In terms of roads, only Namibia, South Africa, and Mauritius had a higher rating than Botswana; for railroad infrastructure, only Namibia had a higher rating, and Botswana had the same rating as South Africa (table 3.4).

Industry Overview

There is only one large-scale textile company in Botswana—Nortex Textiles.⁴⁶⁰ Nortex is a fully integrated towel company; its factory in Francistown engages in all toweeling production stages, including spinning yarn; weaving fabric; dyeing, washing, and finishing fabric; stitching towels; and packaging. Nortex claims to account for more than 70 percent of the domestic market, and to export to South Africa, Mauritius, Tanzania, Zimbabwe, and the United States. The company reportedly upgrades its state-of-the-art production line every five years, and states that its vertical integration protects the company from “external shocks to production while maximizing efficiency and quality control measures.”⁴⁶¹

A 2007 report stated that there are 31 small apparel firms in Botswana; collectively, the main output of these firms is T-shirts and denim apparel.⁴⁶² Only two firms import yarn (from Zimbabwe, India, and South Africa) and knit into fabric for use in T-shirts and polo shirts. The remaining companies import preknit fabrics, and cut and sew the final product.⁴⁶³ Based on export trade data, Botswana appears also to be producing some acrylic yarn.

⁴⁶⁰ U.S. Department of State, U.S. Embassy, Gabarone, “Gabarone Information on AGOA Component Production Capabilities,” August 16, 2006.

⁴⁶¹ Northern Textile Mills, “Company Profile,” undated (accessed January 27, 2008).

⁴⁶² Allen, et al., *The Botswana Textile Cluster*, Spring 2007, 17.

⁴⁶³ *Ibid.*, 17–18.

Trade

Botswana's exports of textile and apparel inputs were extremely small in 2003, valued at \$18,000 (table 4.43). In 2007, however, these exports jumped to \$1.1 million, mostly due to exports to Zimbabwe and Mauritius. In 2007, the preponderance of Botswana's exports to Zimbabwe was acrylic spun yarn, likely intended for hand knitting or other sweater production, and to Mauritius, terry toweling. Together, terry toweling and acrylic yarn accounted for 75 percent of Botswana's exports of textile and apparel inputs. Imports of trim and knit fabric accounted for the largest shares of Botswana's imports of textile and apparel inputs in 2007 (table 4.44). Botswana's apparel exports grew steadily, from \$14.4 million in 2003 to \$43.1 million in 2007 (table 4.45). The United States is the largest export market, accounting for 76 percent of Botswana's apparel exports in 2007.

TABLE 4.43 Botswana: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	18	286	208	151	535
EU-27	0	0	2	0	110
Rest of world	0	28	0	102	450
United States	0	0	0	6	1
Total	18	314	211	259	1,096

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.44 Botswana: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	1	0	0	0	0
Knit fabric	0	0	0	0	0
Manmade fibers	0	0	2	0	110
Other fabric	0	212	133	142	531
Thread	1	0	2	6	5
Trim	13	62	4	33	30
Woven fabric	2	38	11	50	13
Yarn	1	2	58	29	407
Total	18	314	211	259	1,096
Imports:					
Carded or combed fibers	0	0	0	92	93
Knit fabric	696	3,617	4,018	6,225	3,781
Manmade fibers	55	77	263	19	1
Other fabric	59	410	421	500	248
Thread	15	69	109	249	154
Trim	136	282	718	1,858	4,379
Woven fabric	2,242	3,013	5,323	7,132	2,966
Yarn	2,594	3,539	2,729	2,942	2,887
Total	5,797	11,006	13,581	19,017	14,508

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.45 Botswana: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	14,386	34,871	37,665	36,397	43,109
Imports	11,262	28,461	32,821	28,449	66,081

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors of Competition

Generally, Botswana offers a favorable business environment that should contribute to the competitive production of textile and apparel inputs. Botswana has a history of a sound legal system, no currency controls, no labor disputes, competitive labor rates, and a relatively high level of personal security.⁴⁶⁴ Botswana is a member of SACU and SADC, and enjoys preferential tariff treatment under AGOA.⁴⁶⁵ Further, bilateral investment treaties with a variety of countries enhance Botswana's attractiveness as a location for FDI.

With respect to resources important to textile manufacturing, there reportedly are factory shells suitable for textile manufacturing available at reasonable rates, and Chinese investors plan to build a textile industrial park in Gaborone by 2011, to house over 60 textile and apparel entities and employ 8,000 workers.⁴⁶⁶ Additionally, Botswana is close to cotton sources in Zambia and Zimbabwe.⁴⁶⁷

The labor market in Botswana can be considered a factor inhibiting competitive textile and apparel input production. Reportedly, there has been a lack of skilled labor, high HIV/AIDS rates, and although labor wages have been characterized as "moderate" or "competitive," labor productivity has been reportedly low.⁴⁶⁸ There have been few trained technicians and supervisors, and no training facilities in place to develop these skill sets.⁴⁶⁹

Perhaps more challenging than labor limitations are resource constraints. According to one local manufacturer, Botswana has not had the raw materials base that would permit firms to vertically integrate.⁴⁷⁰ Moreover, without a sizeable apparel sector, there is no domestic demand pull for textiles and other inputs. The lack of vertical integration limits the profit potential and competitiveness of Botswana firms.⁴⁷¹ In addition, historically there has been no domestic support for the textile and apparel inputs industry in terms of parts and service for manufacturing equipment. Most parts, supplies, and services have come from South Africa or even further abroad.⁴⁷²

Infrastructure is another major competitive disadvantage. Industry reportedly experiences frequent water shortages due to climate, meaning that fabric dyeing and washing are more difficult and therefore not likely to be areas of production that companies would enter. Those that have pursued dyeing have reportedly adopted innovative water recycling technology.⁴⁷³ Reportedly, although energy is "moderately priced,"⁴⁷⁴ there

⁴⁶⁴ Salm, et al., Botswana Textile and Apparel Sub Sector Study, October 2004, 34.

⁴⁶⁵ SADC is currently negotiating an EPA with the EU. Government of Botswana, Ministry of Trade and Industry, "Botswana Raring or [sic] Trade with EU," February 20, 2009.

⁴⁶⁶ Salm, et al., Botswana Textile and Apparel Sub Sector Study, October 2004, 34; Just-style.com, "Botswana: China's Touchroad Investing in Industrial Park," May 30, 2008; and Fibre2fashion News Desk India, "Textile Industrial Park to be Set Up," April 3, 2009.

⁴⁶⁷ Salm, et al., Botswana Textile and Apparel Sub Sector Study, October 2004, 34.

⁴⁶⁸ *Ibid.*, 30, 31.

⁴⁶⁹ *Ibid.*, 35.

⁴⁷⁰ Industry officials, interview by Commission staff, Gaborone, Botswana, March 10, 2005.

⁴⁷¹ Allen, et al., *The Botswana Textile Cluster*, Spring 2007, 17–18.

⁴⁷² Salm, et al., Botswana Textile and Apparel Sub Sector Study, October 2004, 35.

⁴⁷³ Allen, et al., *The Botswana Textile Cluster*, Spring 2007, 19.

⁴⁷⁴ *Ibid.*, 21.

have been frequent electricity supply disruptions.⁴⁷⁵ The Mmamabula Export Power station is expected to reduce Botswana's dependence on imported power from South Africa;⁴⁷⁶ however, engineering and construction delays have pushed the plant's initial operation date to late 2012 or early 2013.⁴⁷⁷

As a landlocked country, firms in Botswana incur higher transportation costs and require longer lead times. Firms in Botswana have access to only one port—Durban, in South Africa.⁴⁷⁸ Historically, reliance on Durban alone reportedly has resulted in “frequent and unpredictable” import and export shipment delays.⁴⁷⁹ The ability to use Walvis Bay in Namibia, which is currently under development,⁴⁸⁰ could improve the competitiveness of Botswana's textile industry. A 2004 estimate stated that a Walvis Bay port presented a potential 30 percent time savings compared with contemporary transit times through South Africa.⁴⁸¹

Ghana

Potential Competitive Products

Ghana has a long tradition of producing woven cotton African print fabrics, and regional demand exists for this niche product.⁴⁸² Nevertheless, Ghana's textile production has contracted substantially over the past few decades. Industry sources attribute at least some of the decline in Ghana's textile manufacturing to intensifying competition from allegedly smuggled imports of inexpensive Asian fabrics with pirated African designs, as well as the growing preference of Ghanaian youth for Western-style clothing.⁴⁸³ In addition, despite the modest successes in the apparel sector noted below, the apparel sector in Ghana has not developed to the point to attract investment in commercial-scale production of textile and apparel inputs.

Country Overview

Ghana, located in West Africa on the Gulf of Guinea, had a GDP of \$15.2 billion, and per capita GDP totaled only \$649 in 2007 (table 4.46). Despite its coastal location, industry sources report that Ghana's three ports (of which one, Takoradi, is dedicated to textile

⁴⁷⁵ Salm, et al., *Botswana Textile and Apparel Sub Sector Study*, October 2004, 35. The Botswana Power Corp. had been importing 70 percent of its power supplies from Eskom in South Africa. In early 2008, Botswana began to purchase power from Mozambique as a short-term alternative. Botswana's investments of \$1.2 billion to expand the Moruple coal-fired power station (its only power plant) from 130 MW to 600 MW, and \$6 billion to construct the 3,600 MW Mmamabula combined power station and coal mine, is an effort to reduce the country's reliance on power imports. The Moruple expansion is due to be completed in 2009, and Mmamabula is scheduled for completion in 2011. Oxford Analytica, “Southern Africa: Eskom Exports its Energy Shortfall,” February 4, 2008.

⁴⁷⁶ OECD and AfDB, “Botswana,” 2008, 154.

⁴⁷⁷ Van der Merwe, “Mmamabula Energy Project Delayed by Months,” January 24, 2008.

⁴⁷⁸ Allen, et al., *The Botswana Textile Cluster*, Spring 2007, 14.

⁴⁷⁹ Salm, et al., *Botswana Textile and Apparel Sub Sector Study*, October 2004, 35.

⁴⁸⁰ U.S. Department of State, U.S. Embassy, Windhoek, “Namibia's Infrastructure,” October 3, 2008.

⁴⁸¹ Salm, et al., *Botswana Textile and Apparel Sub Sector Study*, October 2004, 52.

⁴⁸² World Bank, *Snapshot Africa: Ghana*, January 2007, 10. Ghanaian fabric producers make mostly white fabric, some blue fabric, and wax print fabric. SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁴⁸³ *Fibre2fashion.com*, “Ghana: Textile Sector Reels Under Chinese Onslaught,” August 31, 2006; *Fibre2fashion.com*, “Ghana: Pirated Designs Ruin Textile Industry,” September 5, 2006; and De Voest and Holtzman, “Adding Value to West African Cotton,” December 2006, 85.

TABLE 4.46 Ghana: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	15,246
GDP growth (annual %, 2007)	6.3
GDP per capita (current US\$, 2007)	649
Population (millions, 2007)	23.5
Goods exports (current US\$, millions, 2007)	4,214
Goods imports (current US\$, millions, 2007)	8,043
Inflation, consumer prices (annual %, 2006)	10.9
Literacy rate, adult total (% of people ages 15 and above, 2000)	57.9
Labor force, total (millions, 2006)	10.3
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	435
Gross capital formation (current US\$, millions, 2007)	5,012
Lending rate (%)	^(b)
Manufacturing value added (current US\$, millions, 2007)	1,250
Prevalence of HIV, total (% of population 15–49, 2007)	1.9

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

trade) are inefficient,⁴⁸⁴ and delivery delays of several weeks are considered normal.⁴⁸⁵ The lack of direct shipping routes to the United States⁴⁸⁶ also slows transit times. The roads between Ghana's major cities reportedly are good; the condition of other roads, however, is poor.⁴⁸⁷ Ghana's rail network is in poor condition and used primarily for mining exports.⁴⁸⁸

Industry Overview

Ghana produces little cotton compared with other SSA countries such as Benin, Burkina Faso, and Mali.⁴⁸⁹ The quality of Ghana's cotton reportedly falls below par for use in apparel exports.⁴⁹⁰ Ghana has a tradition of weaving high-quality African print cotton fabric such as Kente, batik, and Adinkra cloth.⁴⁹¹ Its commercial textile sector produces a limited number of bedsheets and towels. The brilliant colors and uniquely patterned designs of goods such as Kente cloth require significant technical and artistic skill, on small, narrow looms,⁴⁹² and labor-intensive stitching together of narrow cloth pieces. Most of Ghana's textile production is confined to such artisanal fabrics.

⁴⁸⁴ Ghana's ports reportedly lack sufficient berthing facilities, which increases transport time required for offloading goods. SSA industry representative, interview by Commission staff, Accra, Ghana, October 20, 2008.

⁴⁸⁵ SSA industry representative, e-mail message to Commission staff, February 12, 2009.

⁴⁸⁶ U.S. Department of State, U.S. Embassy, Accra, "USITC Study on Sub-Saharan Africa," October 16, 2008.

⁴⁸⁷ SSA industry representative, e-mail message to Commission staff, February 12, 2009; U.S. Department of State, U.S. Embassy, Accra, "USITC Study on Sub-Saharan Africa," October 16, 2008.

⁴⁸⁸ U.S. Department of State, U.S. Embassy, Accra, "USITC Study on Sub-Saharan Africa," October 16, 2008.

⁴⁸⁹ De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 19.

⁴⁹⁰ Industry consultant, interview by Commission staff, Washington, DC, February 17, 2009.

⁴⁹¹ Blauer and Laure, *Ghana*, 1999, 85.

⁴⁹² Usually, these small looms cannot be adjusted to produce other types of fabric.

Recent, reliable data on Ghana's commercial textile production are not readily available. Some industry sources noted that employment fell from an all-time high of 25,000 workers producing 130 million meters per year in the 1970s to an estimated 3,000 workers weaving about 39 million meters per year in 2008.⁴⁹³

Only two firms, Akosombo Textiles Limited (ATL) (originally established by Chinese investors in the 1960s and 1970s⁴⁹⁴) and Dutch-owned Vilsco are believed to produce textiles on a commercial scale at this time.⁴⁹⁵ ATL is the only remaining cotton spinner in Ghana, producing greige cotton fabric and cotton yarn on shuttle looms that date to the 1960s and 1970s.⁴⁹⁶ Like other West African nations, most of Ghana's limited yarn and fabric production is consumed domestically.⁴⁹⁷ Ghana's key competitors in textile spinning, weaving, and printing include Nigeria, Côte d'Ivoire, India, Pakistan, and China.⁴⁹⁸

Ghana's apparel industry emerged more recently than its textile industry, and has been receiving government recognition and support. A special program for apparel, the Presidential Special Initiative, was launched in recent years to provide loan guarantees for equipment, training, and factory sites in the free trade zones.⁴⁹⁹ Also, the USAID West Africa Trade Hub provides assistance that includes industry training and information on AGOA, pre-export financing, business leads, and marketing assistance for apparel producers wishing to participate in annual apparel trade shows.⁵⁰⁰

Ghana's apparel industry reportedly has about 11 firms producing for domestic, regional, and U.S. consumption. Most inputs, including fabric, buttons, zippers, and other trim, are sourced from China.⁵⁰¹ Reliance on imported textile and apparel inputs (particularly for manmade-fiber fabrics because no Ghanaian producers spin synthetic or mixed cotton/synthetic yarn)⁵⁰² increases Ghana's apparel delivery times⁵⁰³ and the potential for delivery disruption,⁵⁰⁴ thus hampering its competitiveness in a global economy where speed to market and the ability to respond quickly to fashion changes are increasingly important.⁵⁰⁵

In the past several years, a few Ghanaian apparel firms have successfully exported apparel (primarily medical and military uniforms and polo shirts, and some trousers)⁵⁰⁶ to

⁴⁹³ *AllAfrica.com*, "Ghana: Secondhand Clothes Collapsing Textile Industry," March 11, 2004.

⁴⁹⁴ De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 19.

⁴⁹⁵ Industry consultant, interview by Commission staff, Washington, DC, February 17, 2009.

⁴⁹⁶ De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 19.

⁴⁹⁷ USITC, Hearing transcript, January 29, 2009, 63 (testimony of Anthony Carroll, Manchester Trade Ltd.).

⁴⁹⁸ U.S. Department of State, U.S. Embassy, Accra, "Ghana: Information on Textiles and Apparel Production," October 2, 2007.

⁴⁹⁹ USAID, West Africa Trade Hub, "Outfitting for Export Success in Ghana," undated (accessed January 28, 2009).

⁵⁰⁰ *Ibid.*; Abt Associates, Inc., "West African Apparel," February/March 2005.

⁵⁰¹ U.S. Department of State, U.S. Embassy, Accra, "Ghana: Information on Textiles and Apparel Production," October 2, 2007; De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 23.

⁵⁰² De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 19.

⁵⁰³ Quin, "Wanted: Textile Factories in West Africa," undated (accessed December 18, 2008).

⁵⁰⁴ U.S. Department of State, U.S. Embassy, Accra, "Ghana: Information on Textiles and Apparel Production," October 2, 2007.

⁵⁰⁵ West Africa has no textile producers that provide the fabric that global apparel producers need. Brenton, "Clothing and Export Diversification," February 19, 2009.

⁵⁰⁶ Industry consultant, telephone interview by Commission staff, February 13, 2009; USAID, *Source Africa*, undated; and Japan International Cooperation Agency, "Focus on Ghana," March 2008.

the United States, which likely is related to preferential treatment under AGOA.⁵⁰⁷ One firm, Global Garments, reportedly employs 250 workers and imports fabric and trim to produce uniforms for export to the United States.⁵⁰⁸ However, apparel exporting success stories seem limited to a handful of Ghanaian companies. The ability of Ghana's apparel industry to significantly increase its production to encourage new investment in the textile sector appears limited.

Trade

Ghana's exports of textile and apparel inputs fluctuated during the 2003–07 period, declining overall from \$4.7 million in 2003 to \$2.8 million in 2007 (table 4.47). Most of these exports (80 percent in 2007) went to Ghana's SSA neighbors and consisted largely of woven fabric throughout the period (table 4.48). During the 2003–07 period, Ghana's imports of textile inputs more than doubled, from \$111.1 million to \$265.0 million. Because Ghana's textile input production is limited to cotton fabric, industry sources report that Ghana's textile sector imports primarily fabrics of synthetic blends from Asia for use in apparel production.⁵⁰⁹

Ghana's imports of apparel were consistently higher than its exports during the 2003–07 period (table 4.49). Ghana's imports of apparel were valued at \$74.4 million in 2007, compared with Ghana's exports of apparel, which were valued at \$9.3 million.

Factors of Competition

Ghana's textile and apparel input sector faces numerous challenges to improving its competitiveness, including a lack of capital to upgrade aging, obsolete textile machinery; high interest rates for trade financing; rationed electricity; rising energy costs and wages; and limited existing commercial-scale textile production.⁵¹⁰ In addition, issues with transportation infrastructure and logistics affect the movement of goods in both the textile and apparel inputs and the apparel sectors.

⁵⁰⁷ "AGOA clearly has driven the emergence of apparel exporters in SSA that target the U.S. market. Many Asian investors have come to countries such as Lesotho, Botswana, and Ghana to set up stitch-and-sew operations, bringing in equipment (for cutting, sewing, and embroidering)." De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 1.

⁵⁰⁸ Japan International Cooperation Agency, "Focus on Ghana: Cheaper Than China," March 2008.

⁵⁰⁹ Quin, "Wanted: Textile Factories in West Africa," undated (accessed December 18, 2008).

⁵¹⁰ U.S. Department of State, U.S. Embassy, Accra, "Ghana: Information on Textiles and Apparel Production," October 2, 2007. Industry representatives report electricity is expensive now and no longer subsidized. SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009. Ghanaian textile workers earn about \$220 per month plus benefits. De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 25.

TABLE 4.47 Ghana: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	4,163	5,326	4,308	1,163	2,243
EU-27	461	448	102	76	31
Rest of world	17	585	147	209	475
United States	44	23	45	28	62
Total	4,686	6,381	4,602	1,477	2,812

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.48 Ghana: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	5	1	1	0	0
Knit fabric	12	20	2	2	1
Manmade fibers	0	5	34	0	2
Other fabric	7	52	11	24	220
Thread	8	12	14	23	33
Trim	23	153	36	15	23
Woven fabric	4,621	6,028	4,457	1,349	2,498
Yarn	9	110	46	65	35
Total	4,686	6,381	4,602	1,477	2,812
Imports:					
Carded or combed fibers	15	0	108	3	226
Knit fabric	1,659	3,102	2,498	4,102	3,496
Manmade fibers	708	1,853	2,720	4,006	4,400
Other fabric	3,870	3,824	4,549	5,341	9,718
Thread	1,740	1,740	3,490	5,584	9,843
Trim	3,126	5,475	8,370	9,365	11,600
Woven fabric	96,728	131,369	144,651	181,269	211,231
Yarn	3,226	5,380	5,132	8,586	14,481
Total	111,074	152,742	171,519	218,256	264,995

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.49 Ghana: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	5,271	8,732	7,921	10,822	9,341
Imports	24,841	31,308	30,304	35,797	74,372

Source: World Bank, WITS Database (accessed December 16, 2008).

Malawi

Potential Competitive Products

Malawi lacks a textile sector that produces export-quality textile and apparel inputs. Malawi's sole textile producer supplies the local market. Poor infrastructure and high transport and capital costs inhibit the development of an industry producing textile and apparel inputs.

Country Overview

Malawi is a landlocked country in East Africa, with a GDP of \$3.6 billion in 2007 (table 4.50). Its per capita GDP of \$256 makes it one of the world's poorest countries. With its high incidence of HIV/AIDS, Malawi has one of the lowest life expectancies (46.3 years

TABLE 4.50 Malawi: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	3,552
GDP growth (annual %, 2007)	7.4
GDP per capita (current US\$, 2007)	256
Population (millions, 2007)	13.9
Goods exports (current US\$, millions, 2007)	710
Goods imports (current US\$, millions, 2007)	1,450
Inflation, consumer prices (annual %, 2007)	8.0
Literacy rate, adult total (% of people ages 15 and above, 2005)	^(b)
Labor force, total (millions, 2006)	6.3
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	30
Gross capital formation (current US\$, millions, 2007)	1,012
Lending rate (% 2007)	27.7
Manufacturing value added (current US\$, millions, 2007)	442
Prevalence of HIV, total (% of population 15–49, 2007)	11.9

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

in 2005), which reduces its skilled labor base.⁵¹¹ Malawi's economy is dependent on agriculture, which accounts for over 90 percent of its export earnings and 35–40 percent of its GDP.⁵¹² Manufacturing value added (including textile and apparel value added) accounted for 12 percent of the Malawi's GDP in 2007. Employment in the manufacturing sector totaled 58,190 in 2006, with 10 percent of these workers employed by the textile and apparel industry.⁵¹³

Historically, goods from Malawi were mostly exported via Nacala and Beira ports in Mozambique.⁵¹⁴ However, the civil war in Mozambique during the 1980s and early 1990s disrupted these routes, and goods entering and leaving Malawi were rerouted to ports in South Africa and Tanzania, which added extra time and cost. Although the routes to the ports in Mozambique have been reopened, the volume of goods transported on those roads reportedly has not reached previous levels because reconstruction of those routes has not been completed.⁵¹⁵ In 2009, it took 45 days to export goods from Malawi and 54 days to import goods to Malawi; this compares with 39 days to export and 37 days to import for Uganda, another landlocked country in East Africa (table 3.3). Malawi ranked 134th out of 181 economies in terms of ease of doing business indicators.

⁵¹¹ EIU, Country Profile 2008: Malawi, 2008, 13.

⁵¹² Ibid., 17.

⁵¹³ U.S. Department of State, U.S. Embassy, Lilongwe, "Textiles and Apparel Production," September 26, 2007.

⁵¹⁴ EIU, Country Profile 2008: Malawi, 2008, 14.

⁵¹⁵ EIU, Country Profile 2008: Malawi, 2008, 14.

Industry Overview⁵¹⁶

Malawi's textile and apparel industry is small and underdeveloped. Textile and apparel production in Malawi totaled \$48.1 million in 2006, up from \$37.0 million in 2005. A large part of this production consisted of apparel that was exported mostly to the United States and, to a lesser extent, South Africa. Employment in the textile and apparel industry in Malawi totaled 6,075 workers in 2006, with 80 percent of these workers employed by the exporting apparel producers. Malawi's workforce has a reputation of being reliable, honest, and hardworking.

Many textile and apparel firms are foreign owned, especially by Chinese firms, which set up operations in Malawi to take advantage of AGOA trade preferences. There is one textile factory, Mapeto (David Whitehead & Sons, Ltd.), which produces low-quality fabric for the small-scale apparel producers that supply the domestic market. There are five apparel producers that export to the United States and South Africa, and numerous small-scale producers that sell to the domestic market. One apparel company was reportedly considering a partnership with an Indian firm to establish an integrated cotton-textile production operation. For the most part, the apparel producers that export use third-country fabric.

Trade

Malawi's exports of textile and apparel inputs were small during the 2003–07 period, increasing from \$130,000 in 2003 to \$252,000 in 2007 (table 4.51). Most of these exports consisted of cotton woven fabric (table 4.52). Malawi's imports of textile and apparel inputs were much larger than its exports of these products. Imports fluctuated during the period, and totaled \$26.0 million in 2007. These imports consisted mostly of woven fabric and some knit fabric, and were likely imported by Malawi's apparel companies producing for export.

Malawi was the eighth-largest apparel exporter of the SSA countries in 2007, although its exports accounted for 1 percent of total SSA countries' exports that year. During the 2003–07 period, Malawi's exports of apparel peaked at \$48.5 million in 2005 before declining in 2007 to the lowest level during the period (\$37.5 million) (table 4.53). Malawi's apparel exports to the United States consist of a variety of apparel, including men's and boys' athletic wear, children's wear, and uniforms.

Factors of Competition

In 2007, Malawi's apparel companies claimed that improving the country's business environment would help improve their competitiveness in the global market. The companies pointed to high transport costs, high capital costs, the unreliability and high cost of utilities, inadequate infrastructure, and an underdeveloped textile industry as the reasons behind their uncompetitiveness. Companies particularly cited the lack of progress by both the public and private sectors in improving the reliability of the railway between Malawi and Nacala, the closest and preferred port in Mozambique. Malawi's poor infrastructure may be the largest obstacle to improving competitiveness.⁵¹⁷

⁵¹⁶ Unless otherwise noted, the remaining sections on Malawi were sourced from U.S. Department of State, U.S. Embassy, Lilongwe, "Textiles and Apparel Production," September 26, 2007.

⁵¹⁷ EIU, Country Report: Malawi, 2008, 10.

TABLE 4.51 Malawi: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	51	100	84	46	235
EU-27	61	50	37	1	0
Rest of world	18	99	43	39	17
United States	0	0	0	0	0
Total	130	249	165	86	252

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.52 Malawi: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	0	0	24	0
Knit fabric	0	13	0	3	0
Manmade fibers	0	0	0	0	0
Other fabric	0	0	0	0	20
Thread	1	7	2	0	1
Trim	1	65	0	9	0
Woven fabric	126	153	92	49	231
Yarn	3	10	71	1	0
Total	130	249	165	86	252
Imports:					
Carded or combed fibers	465	24	28	13	13
Knit fabric	605	3,583	3,776	3,836	5,077
Manmade fibers	45	152	12	245	403
Other fabric	805	369	467	371	575
Thread	321	222	356	252	487
Trim	323	1,048	1,115	905	737
Woven fabric	16,978	23,020	11,510	20,625	16,680
Yarn	803	10,080	1,611	1,808	2,058
Total	20,344	38,497	18,874	28,054	26,029

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.53 Malawi: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	42,200	48,209	48,492	40,444	37,455
Imports	4,215	5,238	3,944	4,391	8,073

Source: World Bank, WITS Database (accessed December 16, 2008).

Although cotton has traditionally been an important cash crop in Malawi, cotton production has encountered numerous problems. Both production levels and quality dropped considerably in the past 20 years.⁵¹⁸ Poor production practices, use of low-quality seed varieties, declining soil fertility, and frequent droughts have reduced cotton quality in Malawi.⁵¹⁹

⁵¹⁸ RATES, Cotton-Textile-Apparel Value Chain Report Malawi, July 2003, 9.

⁵¹⁹ Government of Malawi, Ministry of Agriculture and Food Security, "Cotton Production in Malawi," September 11–15, 2006, 3.

Mozambique

Potential Competitive Products

There is currently no commercial production of textiles and very limited production of apparel in Mozambique, although there has been some recent new investment in the textile and apparel industries. While the long-staple cotton grown in the country and access to the South African and other regional markets are potential advantages to textile producers, there are a number of constraints to investment in the sector, including inadequate transportation infrastructure, unfavorable business environment, and lack of skilled labor.

Country Overview

Located on the southeastern coast of Africa, Mozambique borders South Africa, Swaziland, Zimbabwe, Malawi, Zambia, and Tanzania. It had a GDP of \$7.8 billion and a per capita GDP of \$362 in 2007 (table 4.54). A stable government and macroeconomic environment have contributed to recent high growth rates, with real GDP growth exceeding 7 percent per year during the 2004–07 period.⁵²⁰ As a member of SADC, Mozambique benefits from preferential access to other member markets, including South Africa. Mozambique also qualifies for preferential access to the U.S. market under AGOA, and also to the EU market under an interim EPA. Mozambique's three major ports are at Maputo, Beira, and Nacala. Rail and road transportation provide shipping access to neighboring landlocked countries and northern South Africa.⁵²¹

Industry Overview

There is currently no commercial textile production and only one commercial apparel producer in Mozambique.⁵²² South African-owned Maputo Clothing began operation in 2003 and employs 400 workers producing uniforms for export to South Africa, the United States, and the EU.⁵²³ This is a significant decline from the 19 textile and 26 apparel factories that operated in the 1990s.⁵²⁴ After Mozambique's 16-year civil war ended in 1994, investment in the textile industry was hindered by shortages in working capital and spare parts, restrictive labor laws, and poor local management.⁵²⁵ Poverty and competition from imports of used clothing limited domestic demand for locally produced textiles and apparel. In 2006, the installed capacity for spinning was 50,000 short-staple spindles, and for cotton weaving, 2,500 shuttle looms.⁵²⁶ Most equipment is more than 10 years old.⁵²⁷

⁵²⁰ EIU, Country Report: Mozambique, 2009, 5.

⁵²¹ EIU, Country Report: Mozambique, 2008, 20–21.

⁵²² U.S. Department of State, U.S. Embassy, Maputo, "USITC Study On Sub-Saharan Africa," October 10, 2008.

⁵²³ U.S. Department of State, U.S. Embassy, Maputo, "USITC Study On Sub-Saharan Africa," October 10, 2008; Nathan Associates, Developing A Cotton Textile And Apparel Value Chain, January 2007, 8.

⁵²⁴ U.S. Department of State, "Textile and Apparel Production Capabilities," August 2006.

⁵²⁵ Nathan Associates, Strategies for Mozambique's Textile and Apparel Sector, March 2005, 2-3.

⁵²⁶ ITMF, International Textile Machinery Shipment Statistics, 2007, 11, 28.

⁵²⁷ Nathan Associates, Developing A Cotton Textile And Apparel Value Chain, January 2007, 8.

TABLE 4.54 Mozambique: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	7,752
GDP growth (annual %, 2007)	7.0
GDP per capita (current US\$, 2007)	362
Population (millions, 2007)	21.4
Goods exports (current US\$, millions, 2007)	2,700
Goods imports (current US\$, millions, 2007)	3,300
Inflation, consumer prices (annual %, 2007)	8.2
Literacy rate, adult total (% of people ages 15 and above)	^(b)
Labor force, total (millions, 2006)	9.8
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	154
Gross capital formation (current US\$, millions, 2007)	1,852
Lending rate (% 2007)	19.5
Manufacturing value added (current US\$, millions, 2007)	1,109
Prevalence of HIV, total (% of population 15–49, 2007)	12.5

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

Mozambique recently announced that it will offer tax incentives for investors in the textile and apparel industry in the form of exemption from corporate taxes for the first 10 years, followed by a 50 percent reduction for the next five years.⁵²⁸ Also, firms that add at least 20 percent value are eligible to import raw materials duty free.

Two textile factories reportedly will reopen this year.⁵²⁹ One of the factories is Texlom, located in the southern city of Matola, which produced printed cloth until closing in 1997. The Aga Khan Foundation plans to reopen the factory, initially to produce apparel for export to the EU, with future plans to integrate upstream to cotton (including fabric and yarn). The other factory is Texmoque, which is located in the northern city of Nampula and which closed in 1994. It was purchased by METL (Mohammed Enterprises Tanzania Ltd.), which is reportedly installing new equipment to produce printed fabric for domestic consumption and for export to Tanzania.⁵³⁰

Trade

Exports of textile and apparel inputs were valued at \$1.8 million in 2007, up from \$232,000 in 2003 (table 4.55). The main export products were carded or combed cotton fibers (to South Africa) and cotton yarn (to the EU, South Africa, and Tanzania) (table 4.56). The largest market is South Africa, although Mozambique also exported to the EU and to other SSA countries, including Tanzania, Zambia, and Mauritius. Mozambique imports nearly all of its textile and apparel inputs; imports totaled \$33.3 million in 2007.

⁵²⁸ Agencia de Informacao de Mocambique, “Mozambique: Tax Breaks for Textile Investors,” February 6, 2009.

⁵²⁹ Agencia de Informacao de Mocambique, “Mozambique: Textile Factories May Reopen,” September 4, 2008; Agencia de Informacao de Mocambique, “Mozambique: Texlom to Reopen this Year,” February 5, 2009; and *MacauHub*, “Mozambique: Former Textile Factory Texlom Due to Reopen in First Half,” February 5, 2009.

⁵³⁰ Agencia de Informacao de Mocambique, “Mozambique: Tax Breaks for Textile Investors,” February 6, 2009.

TABLE 4.55 Mozambique: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	156	5	213	312	1,581
EU-27	61	33	167	111	170
Rest of world	3	72	16	3	2
United States	12	2	0	0	0
Total	232	112	396	425	1,754

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.56 Mozambique: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	2	196	284	635
Knit fabric	34	48	0	0	0
Manmade fibers	0	21	0	6	0
Other fabric	0	3	0	3	7
Thread	1	0	0	0	0
Trim	17	1	0	9	20
Woven fabric	107	3	45	14	245
Yarn	73	32	154	109	847
Total	232	112	396	425	1,754
Imports:					
Carded or combed fibers	6	2	26	45	19
Knit fabric	986	2,518	1,356	530	374
Manmade fibers	1,133	1,132	1,282	1,785	2,720
Other fabric	1,087	1,503	1,309	1,011	1,677
Thread	90	155	299	302	215
Trim	522	942	1,021	842	1,165
Woven fabric	21,671	27,195	33,706	32,219	25,583
Yarn	841	1,406	1,266	1,249	1,576
Total	26,336	34,853	40,265	37,982	33,328

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.57 Mozambique: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	4,262	4,589	5,418	3,007	960
Imports	12,149	14,900	13,080	16,104	20,335

Source: World Bank, WITS Database (accessed December 16, 2008).

Imports were primarily woven cotton and manmade fabric from Asian countries and, to a lesser extent, from regional suppliers, particularly South Africa and Tanzania. Exports of apparel fluctuated between \$3.0 and \$5.4 million during the 2003–06 period, but fell to less than \$1.0 million in 2007 (table 4.57). Imports of apparel totaled \$20.3 million in 2007.

Factors of Competition

Mozambique has access to locally grown raw materials. Long-staple cotton is produced in the northern part of the country and, in marketing year 2006, Mozambique recorded its largest cotton harvest (122,000 tons) in 30 years.⁵³¹ There are 17 ginneries in operation

⁵³¹ OECD and AfDB, "Mozambique," 2008, 462. Production declined in 2007 due to drought.

with a capacity of 200,000 tons, and there has been ongoing investment in ginning machinery.⁵³² The long-staple fiber can be used to produce a wide variety of products, including denim jeans, T-shirts, sweaters, knit and woven shirts, and higher-end bedsheets and towels.⁵³³ However, since there is currently no spinning industry, all cotton lint is exported. Moreover, the best infrastructure and shipping routes in the country are in the south; transport links between Maputo (in the south) and northern areas of Mozambique are not well developed,⁵³⁴ and shipping costs from the cotton-growing areas in the north can be prohibitively high.⁵³⁵

Mozambique ranked 141st out of 181 economies in ease of doing business in 2009 (table 3.3). Access to finance is a major constraint to investment.⁵³⁶ Although infrastructure is improving, quality varies greatly throughout the country. With respect to transportation infrastructure, the quality of road, railroad, and port infrastructure rated among the lowest of SSA textile and apparel exporters (table 3.4). There can be shipping delays from the port of Durban to Maputo since ships only load cargo for Maputo if there is sufficient volume; however, in 2007, reports indicated that the port of Maputo was being expanded.⁵³⁷ Air freight rates from Maputo are very expensive, although there has been recent investment in airports.⁵³⁸ Electricity costs are generally low, but supplies are inconsistent and outages are frequent, particularly in the north. The electricity grid and generation capacity are being expanded.⁵³⁹

Namibia

Potential Competitive Products

Since Malaysian textile and apparel company Ramatex closed all of its factories in Namibia in 2008, there is no production of textile and apparel inputs suitable for export beyond the region.

Country Overview

Namibia borders the Atlantic Ocean to the west, Botswana to the east, and is located just north of South Africa. It is territorially one of the larger SSA countries, with one of the smallest populations.⁵⁴⁰ It had a GDP of \$6.7 billion and a population of 2.1 million in 2007 (table 4.58). With significant deposits of gem-quality diamonds, uranium, copper, zinc, lead, and gold, mining accounts for approximately 60 percent of Namibia's exports,

⁵³² Nathan Associates, *Developing A Cotton Textile And Apparel Value Chain*, January 2007, 7.

⁵³³ Ibid.

⁵³⁴ EIU, *Country Profile 2008: Mozambique*, 2008, 20.

⁵³⁵ Nathan Associates, *Developing A Cotton Textile And Apparel Value Chain*, January 2007, 20. Ocean shipping from the northern part of the country to the south can be as expensive as shipping from Asia to South Africa.

⁵³⁶ Fifty percent of firms surveyed identified access/cost of finance as a major constraint. World Bank, IBRD, Enterprise Analysis Unit, *Enterprise Surveys: Mozambique*, 2007, 13.

⁵³⁷ Nathan Associates, *Developing A Cotton Textile And Apparel Value Chain*, January 2007, 16; Games, "Mozambique: The Business View," November 2007, 16–17.

⁵³⁸ Ibid., 23; Nathan Associates, *Developing A Cotton Textile And Apparel Value Chain*, January 2007, 8.

⁵³⁹ EIU, *Country Profile 2008: Mozambique*, 2008, 26.

⁵⁴⁰ EIU, *Country Report: Namibia*, 2008, 3.

TABLE 4.58 Namibia: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	6,740
GDP growth (annual %, 2007)	5.9
GDP per capita (current US\$, 2007)	3,210
Population (millions, 2007)	2.1
Goods exports (current US\$, millions, 2007)	2,919
Goods imports (current US\$, millions, 2007)	3,420
Inflation, consumer prices (annual %, 2007)	6.7
Literacy rate, adult total (% of people ages 15 and above, 2001)	85.0
Labor force, total (millions, 2006)	0.7
Foreign direct investment, net inflows (BoP, current US\$, millions)	^(b)
Gross capital formation (current US\$, millions, 2007)	2,026
Lending rate (% 2007)	12.9
Manufacturing value added (current US\$, millions, 2007)	699
Prevalence of HIV, total (% of population 15–49, 2007)	15.3

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

but employs only a small part of the population.⁵⁴¹ Manufacturing value added (including textile and apparel value added) accounted for 10.4 percent of the GDP. Namibia's labor force totaled 700,000 in 2007.⁵⁴²

Namibia has two ports, Luderitz and Walvis Bay. The Namibian government is trying to develop the port of Walvis Bay, with hopes of making it a major port for Namibia's neighbors.⁵⁴³ In all, Namibia's infrastructure is fairly well developed relative to other SSA countries.

Industry Overview

Namibia currently produces only a limited amount of textiles and apparel, mostly for internal consumption. The government of Namibia strongly encouraged foreign investment in textile and apparel production in its EPZ by offering special tax incentives and by relaxing the regulations in Namibia's Labour Act of 1992 for foreign companies investing there.⁵⁴⁴

Apparel production for export out of Africa did not exist in Namibia until Ramatex, a Malaysian company, set up vertically integrated apparel production in 2001.⁵⁴⁵ The government of Namibia's goal was for Ramatex and eventually other apparel manufacturers to produce apparel for export to the United States under AGOA.⁵⁴⁶ Ramatex produced yarn and fabric for internal consumption. In 2005, Ramatex reportedly employed 5,000 Namibians and 3,000 Asian workers (many from Bangladesh) to

⁵⁴¹ Ibid.

⁵⁴² Ibid., 24.

⁵⁴³ U.S. Department of State, U.S. Embassy, Windhoek, "Namibia's Infrastructure," October 3, 2008.

⁵⁴⁴ Seen, "Ramatex Textiles," undated (accessed October 17, 2008), 1; Jauch, "Africa's Clothing and Textile Industry," 2006, 216.

⁵⁴⁵ USITC, *Export Opportunities and Barriers*, 2005, 6-27.

⁵⁴⁶ Jauch, "Africa's Clothing and Textile Industry," 2006, 218.

produce apparel for export to the United States.⁵⁴⁷ However, as a result of labor and environmental problems, Ramatex's production declined and, by 2008, Ramatex closed all of its textile and apparel factories.⁵⁴⁸ A second apparel producer, Rhino Garments, backed with investment from Taiwan, also produced apparel for export beginning in 2002.⁵⁴⁹ However, in spring 2005, Rhino Garments ceased production in Namibia.⁵⁵⁰

Trade

Namibia's exports of textile and apparel inputs rose from \$113,000 in 2003 to \$1.6 million in 2007 (table 4.59). The majority of these exports consisted of yarn, valued at almost \$1.4 million in 2007 (table 4.60), and were sent to Malaysia, where Ramatex is headquartered. Namibia's imports of textile and apparel inputs were considerably higher than exports, although imports declined steadily during the 2003–07 period, from \$25.1 million to \$8.3 million. In 2007, most imports of textile and apparel inputs consisted of knit fabric and, to a lesser extent, woven fabric. Namibia's imports of apparel totaled only \$3.6 million in 2007. Namibia's exports of apparel fluctuated during the 2003–07 period, peaking in 2004 at \$83.4 million before declining to \$31.5 million in 2007 (table 4.61).

Factors of Competition

A major impediment to the competitiveness of production of textile inputs in Namibia is the country's desert geography. Textile dyeing and finishing processes require a large water supply, and reportedly, this is one reason Ramatex was unable to successfully develop vertically integrated apparel manufacturing in Namibia.⁵⁵¹ Current textile and apparel production in Namibia is small and focused on locally produced fabric and apparel for sale in the local market.

⁵⁴⁷ Seen, "Ramatex Textiles," undated (accessed October 17, 2008), 2.

⁵⁴⁸ EIU, *Country Report: Namibia*, 2008, 23.

⁵⁴⁹ USITC, *Export Opportunities and Barriers*, 2005, 6-27.

⁵⁵⁰ Dentlinger, "Namibia and the Textile Industry," April 22, 2005; *Just-style.com*, "Malaysia Textile Giant Ramatex Set to Quit?" May 16, 2006.

⁵⁵¹ Seen, "Ramatex Textiles," undated (accessed October 17, 2008), 3. In addition, there were concerns about Ramatex's fabric-dyeing processes polluting some of Namibia's water supply.

TABLE 4.59 Namibia: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	35	3	15	1	39
EU-27	48	575	215	81	68
Rest of world	29	299	460	3,666	1,441
United States	0	175	2	119	1
Total	113	1,052	691	3,868	1,550

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.60 Namibia: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	93	174	222	67
Knit fabric	0	0	93	35	4
Manmade fibers	^(a)	0	0	426	^(a)
Other fabric	0	0	151	22	24
Thread	0	0	0	0	0
Trim	12	29	28	0	27
Woven fabric	83	50	72	10	69
Yarn	18	880	174	3,153	1,358
Total	113	1,052	691	3,868	1,550
Imports:					
Carded or combed fibers	0	0	16	180	456
Knit fabric	11,615	16,221	5,919	5,656	4,494
Manmade fibers	10	162	43	98	62
Other fabric	78	20	62	76	189
Thread	114	67	19	60	18
Trim	2,628	464	333	453	875
Woven fabric	1,989	2,966	2,279	2,002	2,042
Yarn	8,623	6,687	1,225	245	174
Total	25,057	26,587	9,896	8,770	8,311

Source: World Bank, WITS Database (accessed December 3, 2008).

^aNot available.

TABLE 4.61 Namibia: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	45,089	83,366	56,569	35,505	31,452
Imports	3,525	4,263	3,099	2,952	3,573

Source: World Bank, WITS Database (accessed December 16, 2008).

Uganda

Potential Competitive Products

Although Ugandan producers face high transportation costs and lengthy delivery times, the textile and apparel industry is competitive in the niche market for apparel made of organic cotton. Phenix Logistics, Ltd. successfully produces and exports to the United States apparel of locally spun yarn made from locally grown organic cotton.⁵⁵²

⁵⁵² *CottonAfrica.com*, “Uganda: President Flags Off Phenix,” undated (accessed February 25, 2009); SSA industry representatives, interviews by Commission staff, Las Vegas, NV, February 16, 2009.

Country Overview

Uganda is a landlocked country located in East Africa. Kenya and Tanzania, Uganda's largest neighbors to the east, have port facilities—Mombasa in Kenya and Dar es Salaam in Tanzania. Uganda had a GDP of \$11.2 billion, with a per capita GDP of \$363, in 2007 (table 4.62). Reportedly, the entire textile-apparel value chain (from growing cotton to apparel production) employs 2.5 million people.⁵⁵³ Manufacturing value added (including textiles and apparel value added) accounted for 8 percent of GDP in 2007 (table 4.62).

TABLE 4.62 Uganda: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	11,214
GDP growth (annual %, 2007)	6.5
GDP per capita (current US\$, 2007)	363
Population (millions, 2007)	30.9
Goods exports (current US\$, millions, 2007)	1,623
Goods imports (current US\$, millions, 2007)	3,466
Inflation, consumer prices (annual %, 2007)	6.1
Literacy rate, adult total (% of people ages 15 and above, 2002)	66.8
Labor force, total (millions, 2006)	12.6
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	392
Gross capital formation (current US\$, millions, 2007)	2,743
Lending rate (% , 2007)	19.1
Manufacturing value added (current US\$, millions, 2007)	910
Prevalence of HIV, total (% of population 15–49, 2007)	5.4

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

Industry Overview

Uganda's textile and apparel industry consists of producers that sell to the local and regional markets, and one producer that currently exports apparel to the United States. Most of Uganda's textile sector sells to the local market and tends to produce small runs of fabric for local production; none are major exporters.⁵⁵⁴ Uganda's apparel sector largely consists of small, locally owned companies that produce apparel and uniforms for domestic and regional markets. Most of these apparel producers use domestically produced yarn or fabric, or they import from Asia.⁵⁵⁵

Currently, there are two major vertically integrated apparel producers.⁵⁵⁶ One of these firms, Southern Range Nyanza Limited (SRN Ltd.), produces only for the local or regional markets.⁵⁵⁷ SRN Ltd. performs spinning, weaving, dyeing and finishing, and produces garments. It produces 100 percent cotton, polyester/cotton-blended, and 100 percent polyester fabric, mostly for internal consumption. SRN Ltd. uses its yarn and fabrics in the production of bedsheets, dress materials, local Kitenge prints, shorts,

⁵⁵³ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁵⁵⁴ World Bank, *Snapshot Africa: Uganda*, January 2007, 10.

⁵⁵⁵ *Ibid.*, 14.

⁵⁵⁶ *Fibre2fashion.com*, "Cheap Chinese Importers Impede Growth," July 9, 2008.

⁵⁵⁷ University of Georgia, "Southern Range Nyanza," undated (accessed February 25, 2009), 3–4.

blouses, skirts, shirts, and uniforms such as school, security, and army uniforms.⁵⁵⁸ The company recently invested in new machinery, thereby increasing its capacity to produce garments and a variety of printed and dyed fabrics.⁵⁵⁹

The other vertically integrated apparel producer in Uganda—Phenix Logistics Uganda Ltd.—successfully exports T-shirts produced of local organic cotton to the United States; it also supplies the local market. Another relatively large producer—LAP Textiles, formerly Tri-Star—exported to the U.S. market.⁵⁶⁰ LAP produces garments for Phenix with fabrics supplied by Phenix.⁵⁶¹ Phenix is a joint venture with investors from Japan, Singapore, and Uganda,⁵⁶² and specializes in the production of knitwear, primarily T-shirts and polo shirts, made of locally produced organic cotton.⁵⁶³ Phenix also manufactures knitted underwear and baby garments from organic cotton.⁵⁶⁴ The company produces both carded and combed ring-spun yarn and uses circular and flat-bed knitting machines.⁵⁶⁵ It sells some of its yarn for knitting⁵⁶⁶ and has dyeing and finishing operations. Phenix employs 300 workers and has the monthly capacity to produce 54 tons of cotton yarn, 4,000 dozen T-shirts, and 2,000 dozen polo shirts; Phenix can also produce 2,000 dozen dress shirts made of imported fabric per shift.⁵⁶⁷

Although cotton production has fluctuated considerably in recent years, the government of Uganda continues to consider cotton, including organic cotton, a “strategic crop” because it is a “poverty-alleviating crop,” and it is important to the cotton-textile-apparel value chain.⁵⁶⁸ Uganda produces some organic cotton, which is used in niche production of yarn, knit fabric, and apparel. Uganda had just fewer than 30 cotton ginneries in 2006,⁵⁶⁹ many of which were in poor condition.⁵⁷⁰

Trade

Uganda’s exports of textile and apparel inputs increased considerably, from \$289,000 in 2003 to \$2.5 million in 2004, before declining to \$1.8 million in 2007 (table 4.63). Approximately 74 percent of the total value of these exports in 2007 consisted of woven fabrics and went to other SSA countries, mainly Rwanda (table 4.64). Uganda’s imports of textile and apparel inputs were fairly stable, between \$10.7 million and \$12.9 million, during the 2003–07 period and consisted mostly of yarn and woven fabric.

Uganda’s apparel exports peaked at \$5.7 million in 2005 during the 2003–07 period, before declining to \$1.6 million in 2007 (table 4.65). The United States was the main

⁵⁵⁸ Ibid.

⁵⁵⁹ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009; U.S. Department of State, U.S. Embassy, Kampala, “Uganda: Parliament Investigates AGOA Issues,” October 31, 2007.

⁵⁶⁰ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁵⁶¹ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁵⁶² University of Georgia, “Phenix Logistics,” undated (accessed February 25, 2009), 1.

⁵⁶³ Phenix Logistics Web site. <http://www.phenixuganda.com/products.htm> (accessed February 25, 2009).

⁵⁶⁴ Ibid.

⁵⁶⁵ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁵⁶⁶ SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁵⁶⁷ The dress shirts are used primarily as part of uniforms and for local consumption. University of Georgia, “Phenix Logistics,” undated (accessed February 25, 2009), 1.

⁵⁶⁸ Government of the Republic of Uganda, “Republic of Uganda Country Statement,” November 17–21, 2008, 3.

⁵⁶⁹ World Bank, *Snapshot Africa: Uganda*, January 2007, 10.

⁵⁷⁰ EIU, *Country Profile 2008: Uganda*, 2008, 24.

destination for these apparel exports, accounting for 74 percent of total exports in 2007. The next-largest destination market was Rwanda.

Uganda's apparel imports rose steadily, by 55 percent, from \$24.4 million in 2003 to \$37.9 million in 2007 (table 4.65). Together, China and Hong Kong accounted for 74 percent of the total value of these imports in 2007. Reportedly, imports from China, some of which allegedly enter the country illegally, have contributed to the closure of several textile mills that served the local market in Uganda.⁵⁷¹

TABLE 4.63 Uganda: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	47	2,005	1,587	1,871	1,449
EU-27	207	181	364	79	72
Rest of world	35	312	438	309	300
United States	1	0	5	3	12
Total	289	2,498	2,394	2,262	1,833

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.64 Uganda: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	45	1,662	18	0	49
Knit fabric	13	127	25	9	1
Manmade fibers	23	84	0	0	0
Other fabric	0	16	1	0	0
Thread	0	0	0	1	34
Trim	12	59	118	85	94
Woven fabric	186	251	1,447	1,758	1,364
Yarn	10	300	786	408	290
Total	289	2,498	2,394	2,262	1,833
Imports:					
Carded or combed fibers	127	0	39	72	177
Knit fabric	574	606	380	534	665
Manmade fibers	464	411	543	895	1,179
Other fabric	261	619	327	1,474	416
Thread	157	287	227	258	343
Trim	594	500	757	404	609
Woven fabric	7,871	7,567	5,974	6,176	4,381
Yarn	2,898	1,722	2,407	3,128	5,180
Total	12,946	11,712	10,654	12,942	12,949

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.65 Uganda: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	3,318	4,789	5,702	1,665	1,608
Imports	24,420	25,918	29,730	37,396	37,867

Source: World Bank, WITS Database (accessed December 16, 2008).

⁵⁷¹ *Fibre2fashion.com*, "Cheap Chinese Imports Impede Growth," July 9, 2008.

Factors of Competitiveness

The major impediments to the competitiveness of Uganda's textile and apparel industries are that the country is landlocked; has poor infrastructure, including high and fluctuating electricity costs; and imposes high taxes on imported raw materials.⁵⁷² In addition, the industry does not have the capacity to meet customers' orders.⁵⁷³ The poor condition of Uganda's roads impedes regional sourcing of textile and apparel inputs, as well as exports. Transport costs are high, ranging from 5–10 percent of the cost of the garment.⁵⁷⁴ It takes 39 days for exports leaving Uganda and 37 days for imports entering Uganda in 2009 (table 3.3). In addition, the shipping cost per container from Uganda was considerably higher than that of most of the major suppliers. For example, it cost \$3,090 for a Ugandan firm to ship a container out of the country, compared with \$2,055 for a Kenyan firm and \$1,279 for a Malagasy firm. It also costs Ugandan firms considerably more to import raw materials per container, compared with the costs to import per container for Kenyan and Malagasy firms. Inefficiencies at the border with Kenya and delays at the port are also said to contribute to long transport times.⁵⁷⁵ USAID has a project to build a weigh station on the road from Kampala to Mombasa, hoping to improve efficiency.⁵⁷⁶

Another major impediment to the successful development of textile and apparel industries in Uganda is the cost of capital needed to modernize and purchase raw materials for textile and apparel products.⁵⁷⁷ Unless special financing can be arranged with major Ugandan banks, firms must rely on local banks, which charged rates ranging from 18 percent to 30 percent in 2005.⁵⁷⁸

Uganda's competitiveness has been enhanced by the successful cultivation of small quantities of organic cotton by its farmers. Even though cotton production has fluctuated considerably in recent years, the government of Uganda continues to consider cotton, including organic cotton, a "strategic crop" because it is a "poverty-alleviating crop," and it is important to the cotton-textile-apparel value chain.⁵⁷⁹ Uganda's production of organic cotton is used in niche production of yarn, knit fabric, and apparel. Organic cotton is grown without the use of synthetic pesticides, herbicides, and fertilizers. Cotton farmers do not have to use chemical pesticides in Uganda because of the ants that kill insects that infest the cotton plants.⁵⁸⁰

⁵⁷² SSA industry representative, interview by Commission staff, Las Vegas, NV, February 16, 2009.

⁵⁷³ *China Daily*, "Organic Cotton," August 14, 2006.

⁵⁷⁴ U.S. government official and SSA industry representative, interview by Commission staff, Uganda, March 7, 2005.

⁵⁷⁵ U.S. government official and SSA industry representative, interview by Commission staff, Uganda, March 8, 2005.

⁵⁷⁶ Industry consultants, interview by Commission staff, Washington, DC, December 2, 2008.

⁵⁷⁷ U.S. government official and SSA industry representative, interview by Commission staff, Uganda, March 7, 2005.

⁵⁷⁸ U.S. government official and SSA industry representative, interview by Commission staff, Uganda, March 7, 2005.

⁵⁷⁹ Government of the Republic of Uganda, "Republic of Uganda Country Statement," November 17–21, 2008, 3.

⁵⁸⁰ SSA industry representative, interview by Commission staff, Uganda, March 7, 2005.

Group 3: Major West African Cotton-Producing Countries

Group 3 consists of the major cotton-producing countries in West Africa (Benin, Burkina Faso, Cameroon, Chad, Mali, Senegal, and Togo).⁵⁸¹ Benin, Burkina Faso, Mali, Senegal, and Togo are members of ECOWAS and share a common currency, the CFA franc. Cameroon and Chad are members of the Economic Community of Central African States and also uses the CFA franc. This section provides country overviews of Benin, Burkina Faso, Cameroon, Mali, and Senegal. Country overviews are not provided for Chad or Togo, since there is no reported industrial production of textile products in either of these countries.⁵⁸² Box 4.9 also provides an overview of the cotton sector in Franc Zone Africa (FZA), which includes, but is not limited to, the Group 3 countries. Appendix G provides data on cotton production for all SSA countries.

Although the Group 3 countries are major cotton producers, they are not major producers of yarn, fabric, and other textile inputs. For the most part, textile production in these countries is characterized by old equipment that spins cotton yarn and weaves fabric for African print cloth, and to a lesser extent, bale wrap for the cotton sector. The weaving machinery consists mostly of old shuttle looms that are inefficient and produce fabric that is of lower quality and narrower widths than modern, shuttleless looms. Cotton contamination and stickiness caused by pests further impairs the quality of most fabric production because it affects the quality of dyeing and yarn spinning.⁵⁸³ The development of textile industries in these countries is also hindered by poor infrastructure, especially unreliable and high-cost electricity, and lack of clean water for dyeing.

Producers of yarn and fabric in these countries face significant increased competition from imports of lower-priced print cloth from China and imports of used clothing, which are being purchased in place of print cloth for traditional African garments.⁵⁸⁴ The Group 3 countries also do not have substantial commercial apparel manufacturing sectors. To the extent that apparel firms are producing for export, they generally use third-country fabric designated by their customers.

⁵⁸¹ Nigeria is also a major West African cotton producer, but it is covered in Group 1.

⁵⁸² According to the U.S. Department of State, U.S. Embassy, Lomé, “Togo: Effects of Infrastructure Conditions on Export Competitiveness,” October 3, 2008. According to the former U.S. Ambassador to Chad, “Chad has a textile plant that was constructed 30 or 40 years ago and until the era of the civil wars produced textiles.” He indicated that “the cost of power makes it uncompetitive with textiles produced in neighboring countries and even Asia.” USITC, Hearing transcript, October 28, 2008, 39 (testimony of The Honorable Christopher E. Goldthwait, former U.S. Ambassador to Chad).

⁵⁸³ Cotton may be contaminated during the picking and baling stages through the use of polypropylene bags (for picking) and bale wrap. Polypropylene fibers may mix with cotton fibers and may not be differentiated until the dyeing process. Fabric made with contaminated cotton cannot be dyed properly. Pests on the cotton fibers cause the cotton to become sticky, which can cause irregularities in the yarn and yarn breakages during the spinning operations. Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009. Industry representative, interview by Commission staff, Washington, DC, February 17, 2009.

⁵⁸⁴ Reportedly, products from China come into West Africa “falsely” labeled, for example, with the brands of Nigerian producers. USITC, Hearing transcript, January 29, 2009, 65–66 (testimony of Anthony Carroll, Manchester Trade, Ltd.).

BOX 4.9. Cotton Production in Franc Zone Africa^a

In marketing year (MY) 2007, FZA was the largest cotton-producing region in SSA, accounting for 60 percent of all SSA production (see table below). FZA includes 6 of the 10 largest SSA cotton producers: Burkina Faso, the largest, followed by Benin (2nd largest), Mali (4th largest), Cameroon (6th largest), Chad (7th largest), and Togo (10th largest) (table G.1).^b With limited domestic consumption, FZA is also the largest cotton-exporting region among SSA countries and ranks as the fourth-largest global exporter of cotton. In this report, cotton industries of the individual FZA countries are discussed jointly due to commonalities in climatic and growing conditions, lint quality and varieties, industry structure, government involvement, and importance of cotton to each country's foreign exchange revenues and GDP.^c

FZA cotton production increased to a record level in MY 2004, but subsequently declined by approximately one-half through MY 2007 (see table below), as profitability in the sector declined due to low cotton prices and increasing input costs (e.g., agrochemicals and seeds).^d Similarly, exports declined as local consumption in the region, which accounts for less than 5 percent of domestic supply, remained unchanged throughout the period.

Franc Zone Africa: Cotton production, consumption, and trade

Indicator	Marketing year (Aug. 1–July 31)				
	2003	2004	2005	2006	2007
Beginning stock	1,057	968	1,465	1,153	898
Production (1,000 bales)	3,955	4,236	3,722	3,317	2,228
% of SSA production	71	68	65	71	60
Average yields (kg/ha)	390	403	365	347	344
Area harvested (ha)	2,069	2,195	2,041	1,955	1,352
Consumption (1,000 bales)	133	133	133	136	136
Ratio of consumption to domestic supplies ¹ (%)	3	3	3	3	4
Imports (1,000 bales)	0	0	0	0	0
Exports (1,000 bales)	3,911	3,606	3,901	3,436	2,326
% of production exported	99	85	105	104	104
% of total exports from SSA	84	77	76	80	75
Exports (US\$, millions)	667.16	1,052.34	820.29	840.19	778.58
% of exports from FZA to SSA	2	1	1	1	1

Source: USDA, FAS, Production, Supply and Distribution Online; WITS Database.

¹Domestic supplies are equivalent to the sum of beginning stocks and production.

^aFZA consists of Benin, Burkina Faso, Cameroon, Chad, Republic of the Congo, Equatorial Guinea, Gabon, Guinea Bissau, Mali, Niger, Senegal, and Togo, all members of the West African Economic Monetary Union or the Economic and Monetary Community of Central Africa (CEMAC), which use the CFA franc as common currencies. FZA also includes Côte d'Ivoire and the Central Africa Republic, which are not SSA countries as defined for the purposes of this report.

^bCôte d'Ivoire would be ranked sixth were it an SSA country as defined for the purpose of this report.

^cIn MY 2004, the peak year of production, cotton accounted for 5–10 percent of total GDP and 50–75 percent of exports in Mali, Burkina Faso, and Benin. In Chad, cotton exports accounted for 90 percent of nonoil exports. Mitchell Group, "Summary of Findings of the West African Cotton Assessment," January 13, 2005, 6–7.

^dIn FZA, inputs are priced in euros and cotton lint in U.S. dollars. Because of the export orientation of the FZA cotton industry, the foreign exchange rate of the CFA franc (pegged to the euro) against the U.S. dollar can easily influence producer and ginner decisions. For example, the devaluation of the CFA in 1994 contributed to increased cotton production through MY 2004. Reid, *Côte d'Ivoire: Cotton and Products*, March 16, 2006, 3.

BOX 4.9. Cotton Production in Franc Zone Africa—Continued

FZA cotton has favorable fiber characteristics, but overall quality remains low.^e Although FZA cotton received price premiums on the Cotlook A Index,^f a common benchmark for international pricing, premiums on FZA cotton have eroded as a consequence of contamination from polypropylene fibers from sacks being used to harvest cotton and from stickiness due to pests.^g As a result, FZA cotton received premiums ranging from \$0.02 to \$0.04 per lb., while U.S. cotton of similar fiber characteristics received a premium of \$0.10 per lb. in MY 2006.^h Polypropylene fibers have different dye absorption rates than cotton fibers, resulting in uneven coloring in dyed yarn and fabric.ⁱ Stickiness can cause irregularities in yarn production and excessive yarn breakages.^j

FZA countries have attempted to improve quality and reduce contamination in domestic cotton supplies, with mixed results. For example, Cameroon successfully improved its cotton quality and is considered to have one of the strictest and most consistent lint grading systems in SSA.^k Meanwhile, because of a lax lint grading system in Mali, cotton is commonly sold by producers at inflated grading premiums. As a result, producers have little incentive to improve quality, and the country currently faces severe contamination issues. The situations in Cameroon and Mali are reflected in changes in the estimated premiums in each country.^l Finally, the United States has a three-year program, called the West African Cotton Improvement Program (WACIP), which is intended to increase the yields of West African cotton, particularly in Benin, Burkina Faso, Chad, Mali, and to a lesser extent, Senegal.^m Among other things, the program is designed to improve cotton quality.

^eFiber characteristics refer to the actual attributes of the cotton lint fibers, such as staple length, micronaire, fiber strength, and length uniformity. Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 13. Overall cotton quality refers to both the fiber characteristics of the lint along with other nonlint attributes of the cotton lint, such as contamination and stickiness.

^fThe Cotlook A Index sets the international benchmark for quality, with all cottons traded receiving a premium or discount price based on its quality in relation to the benchmark. Estur, *Is West African Cotton Competitive?* January 7, 2005, 1–20.

^gCotton stickiness is caused by excessive insect- or plant-derived sugars present on the cotton fibers.

^hThese premiums reflect estimates for the top type of lint in each country as quoted by the Cotlook A Index. The average price of the Cotlook A Index in MY 2006 was \$0.6053 per lb. Estur, "Quality and Marketing of Cotton Lint in Africa," July 2008, 20; Estur, *Is West African Cotton Competitive?* January 7, 2005, 8.

ⁱIndustry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

^jIndustry consultant, interview by Commission staff, Washington DC, February 17, 2009.

^kEstur, *Is West African Cotton Competitive?* January 7, 2005, 17.

^lCameroon premiums increased \$0.05 per lb. from the mid-1990s through MY 2006, while Mali premiums declined \$0.01 per lb. Estur, *Is West African Cotton Competitive?* January 7, 2005, 21.

^mU.S. Department of State, U.S. Embassy, Ouagadougou, "West Africa Cotton Improvement Program Should Be Extended," March 5, 2009; USAID, *West Africa Cotton Improvement Program (WACIP)—Program Description*, July 2006.

Several industry consultants noted potential export opportunities for these countries. One stated that the West African countries potentially could export traditional print cloth, given the right market opportunities.⁵⁸⁵ Other industry sources suggested that Burkina Faso potentially could produce high-end bed linens, such as embroidered sheets and duvets,⁵⁸⁶ or that some of these countries could make better use of their yarn spinning and weaving equipment by focusing on cotton bags and bale wrap to replace the polypropylene bags and wraps that currently contaminate the cotton.⁵⁸⁷

⁵⁸⁵ Ibid., 87.

⁵⁸⁶ Industry consultant, interview by Commission staff, Washington, DC, February 17, 2009.

⁵⁸⁷ Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

Benin

Country Overview

Benin is a coastal country and shares borders with Nigeria, Niger, Burkina Faso, and Togo. Benin's GDP was \$5.4 billion and its population was 9.0 million in 2007, resulting in a GDP per capita of \$603 (table 4.66). Benin has registered gradual economic growth since 1990, but implementation of structural reforms has been slow. Little progress has been made in privatizing state-owned enterprises, including the cotton parastatal, Sonapra, and the management of the port of Cotonou.⁵⁸⁸ Benin's economy is based predominantly on agriculture⁵⁸⁹ and on the activity of the port of Cotonou, which has been losing revenue due to competition with other regional ports.⁵⁹⁰

Benin ranked 169th out of 181 economies in terms of the ease of doing business in 2009 (table 3.3). Government priorities include improving the quality of port infrastructure in Cotonou and increasing the efficiency of import-export procedures.⁵⁹¹ Due to its geographical position, Benin plays a significant role in regional trade by providing both internal and international transit services to neighboring landlocked countries.⁵⁹²

Industry Overview⁵⁹³

In 2007, Benin was the second-largest cotton producer in the SSA countries (table G.1). The cotton sector accounts for 10 percent of GDP and supports approximately 40 percent of the population.⁵⁹⁴ Despite large production volumes of cotton, Benin's textile and apparel sector is undeveloped relative to other SSA producers. Most of the cotton produced is exported; only 2 percent is consumed domestically.⁵⁹⁵

Benin's textile and apparel inputs industry began in the 1970s, and focused primarily on spinning cotton yarn and weaving cotton fabric for print cloth. Benin has two plants that spin and weave fabric (SITEX and CBT); a third plant (COTEB) closed in 2006. All three facilities reportedly are currently owned by the government of Benin.⁵⁹⁶ CBT was established in 2003 through Chinese investment to meet local and regional demand for fabric to be printed. However, demand for African print fabric has since collapsed due to increased competition from imports of Chinese print fabric and Westernization of the urban population. CBT reportedly makes good-quality cotton yarn, but uses mostly old shuttle weaving equipment.⁵⁹⁷ Presently, there is little capacity for dyeing and finishing in Benin; COTEB had a facility to dye fabric, but only in widths of 1.8 meters, and all the equipment installed in 1990 is of 1974 vintage. Moreover, problems with water

⁵⁸⁸ EIU, *Country Profile 2008: Benin*, 2008, 6–7.

⁵⁸⁹ The primary sector (agriculture, fishing, forestry, and mining) accounted for 36 percent of GDP in 2005 and employed almost 54 percent of the population. OECD and AfDB, "Benin," 2008, 124.

⁵⁹⁰ EIU, *Country Profile 2008: Benin*, 2008, 12–13.

⁵⁹¹ Blanke, et al., *The Global Enabling Trade Report 2008*, 2008, 112.

⁵⁹² OECD and AfDB, "Benin," 2008, 128–30.

⁵⁹³ Unless otherwise noted, this section is based on De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 45–50.

⁵⁹⁴ OECD and AfDB, "Benin," 2008, 124.

⁵⁹⁵ USDA, FAS, Production, Supply and Distribution Online.

⁵⁹⁶ Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

⁵⁹⁷ Industry representative, interview by Commission staff, February 17, 2009.

TABLE 4.66 Benin: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	5,428
GDP growth (annual %, 2007)	4.6
GDP per capita (current US\$, 2007)	603
Population (millions, 2007)	9.0
Goods exports (current US\$, millions, 2007)	650
Goods imports (current US\$, millions, 2007)	1,500
Inflation, consumer prices (annual %, 2007)	1.3
Literacy rate, adult total (% of people ages 15 and above, 2002)	34.7
Labor force, total (millions, 2006)	3.4
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	63
Gross capital formation (current US\$, millions, 2005)	840
Lending rate (%)	^b
Manufacturing value added (current US\$, millions, 2005)	322
Prevalence of HIV, total (% of population 15–49, 2007)	1.2

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

availability hinder production levels in the dye houses, which need a steady supply of water with a balanced pH. Sobetex, a textile printer, was operating at only 20 percent capacity as of 2006, with equipment reportedly from the 1960s.

The apparel sector in Benin essentially comprises artisanal operations using older domestic sewing machines with limited factory space to expand operations. Two of Benin's garment manufacturers (NIRC and Lolo Andoche) produce lace/embroidery and shirts that are exported to the EU; however, production levels are low and the estimated employment for the two manufacturers combined was 92 people in 2006.

Trade

Benin's exports of textile and apparel inputs totaled \$2.1 million in 2007, about one-half of the value it exported in 2003 (table 4.67). Woven fabric accounted for nearly all of Benin's exports (table 4.68); most of which consisted of cotton woven fabric shipped to other countries in the West African region. Benin also exported some semiprocessed (carded or combed) cotton to Mauritius. Other countries reported substantial exports of woven fabric and trim to Benin (\$926 million and \$236 million, respectively, in 2007). However, Commission staff was unable to identify substantial commercial apparel production facilities in Benin, suggesting that these exports to Benin may be transshipments or may be misclassified.⁵⁹⁸ Benin's small exports of apparel declined from \$134,000 in 2003 to \$89,000 in 2007 (table 4.69).

⁵⁹⁸ Benin reported substantially lower imports of textile and apparel inputs (\$5.2 million in 2003, \$4.5 million in 2004, \$4.9 million in 2005; did not report import data in 2006 or 2007). China accounted for the vast majority of reported exports of textile and apparel inputs to Benin in 2007 (\$1.1 billion, or 89 percent). However, Benin does not report any imports of textile and apparel inputs from China.

TABLE 4.67 Benin: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	2,633	2,723	481	942	1,268
EU-27	105	54	74	121	199
Rest of world	1,138	536	407	63	650
United States	165	80	0	0	1
Total	4,041	3,393	963	1,127	2,118

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.68 Benin: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	438	0	1	550
Knit fabric	740	0	0	0	5
Manmade fibers		0	0	0	2
Other fabric	82	0	0	0	4
Thread	2	1	0		0
Trim	70	95	156	30	14
Woven fabric	3,145	2,809	758	1,095	1,543
Yarn	4	51	48	0	0
Total	4,041	3,393	963	1,127	2,118
Imports:					
Carded or combed fibers	65	0	0	0	84
Knit fabric	324	414	1,426	3,598	3,237
Manmade fibers	14	112	182	22	168
Other fabric	1,584	1,680	3,414	7,712	8,443
Thread	839	971	2,628	4,080	6,344
Trim	13,780	61,019	93,492	179,159	235,889
Woven fabric	314,633	340,011	446,445	616,132	925,923
Yarn	2,064	711	1,011	1,848	7,782
Total	333,303	404,918	548,597	812,550	1,187,869

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.69 Benin: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	134	106	108	91	89
Imports	26,294	12,081	31,605	71,783	158,220

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors of Competitiveness

Benin has a large pool of unskilled workers and offers competitive wage rates. While low-skilled labor is needed in the apparel sector, it does not represent a competitive advantage in the textile sector, which requires technically skilled labor. The high cost of energy in Benin, particularly electricity, is a major constraint. Frequent power outages have negatively impacted business productivity.⁵⁹⁹ Benin's textile mills benefit from lower electricity rates, but only during specific operating hours.⁶⁰⁰ Benin's small and largely artisanal apparel sector provides little local demand for Benin's textile and apparel inputs industry.

⁵⁹⁹ EIU, Country Profile 2008: Benin, 2008, 12–13.

⁶⁰⁰ De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 50.

Burkina Faso

Country Overview

Burkina Faso is a landlocked country with a GDP of \$6.8 billion in 2007 (table 4.70). Its per capita GDP of \$459 makes it one of the world's poorest countries. Approximately 90 percent of the population relies on subsistence agriculture.⁶⁰¹ However, Burkina Faso has experienced steady economic growth in the last 10 years, with average GDP growth of 5.9 percent between 1997 and 2006, compared to average GDP growth of 3.1 percent for the West African Economic and Monetary Union during the same period.⁶⁰² Burkina Faso was not granted preferential terms by the United States under AGOA until January 2005.⁶⁰³

TABLE 4.70 Burkina Faso: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	6,767
GDP growth (annual %, 2007)	4.0
GDP per capita (current US\$, 2007)	459
Population (millions, 2007)	14.8
Goods exports (current US\$, millions, 2007)	607
Goods imports (current US\$, millions, 2007)	1,650
Inflation, consumer prices (annual %, 2007)	-0.2
Literacy rate, adult total (% of people ages 15 and above, 2005)	23.6
Labor force, total (millions, 2006)	6.5
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	26
Gross capital formation (current US\$, millions, 2006)	1,045
Lending rate (%)	(^b)
Manufacturing value added (current US\$, millions, 2006)	775
Prevalence of HIV, total (% of population 15–49, 2007)	1.6

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

Industry Overview⁶⁰⁴

Burkina Faso was the largest cotton producer in the SSA countries in 2007 (G.1). However, the textile industry was significantly impacted when the transit corridor through Côte d'Ivoire was cut off in 2002.⁶⁰⁵ Delivery costs and times are high, as cotton production, ginning, and spinning are concentrated in the southwest, far from the ports in

⁶⁰¹ Hanson, Senegal: Cotton and Products, May 21, 2007, 5.

⁶⁰² OECD and AfDB, "Burkina Faso," 2008, 167.

⁶⁰³ EIU, Country Profile 2007: Burkina Faso, 2007, 11.

⁶⁰⁴ Unless otherwise noted, this section is based on De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 37-44.

⁶⁰⁵ Burkina Faso traditionally depended on road and rail links to the port of Abidjan in Côte d'Ivoire for most of its external trade. But when civil war erupted in Côte d'Ivoire, with rebels seizing the north of the country in 2002, trade was diverted to Ghana and other ports in West Africa. The unrest in Côte d'Ivoire strongly affects Burkina Faso's cotton-textile value chain because cotton production, ginning, and spinning are concentrated in the southwest of the country, closest to Côte d'Ivoire and the sea. Diverting trade through the farther ports in Ghana and Togo increases transit times and costs.

Togo and Ghana. Despite Burkina Faso's large cotton resources, the textile and apparel sector is relatively small. Most of the cotton produced is exported; only 1 percent is consumed domestically.

Burkina Faso has one industrial spinner, FILSAH, which became operational in 2000. FILSAH spins approximately 1 percent of Burkina's lint, using open-end spinning technology to produce 100 percent cotton yarn. The factory does not work at full capacity, and its work force is made up of 60 full-time workers and approximately 60 part-time workers. FILSAH uses its waste from carding and other short fibers to produce nonwoven cotton fabric, bags, and rags. FILSAH exports most of its yarn to the EU and to other West African countries. It also sells its yarn to domestic users that largely consist of artisanal weavers that weave, dye, and finish traditional garments and textiles.

The only industrial-scale printing operation in Burkina Faso is FASOTEX, which began operations in March 2006. FASOTEX produces African prints and Real Wax, which is fabric printed identically on both sides. As of 2006, all finished fabric was sold domestically. The firm sources all of its 100 percent cotton cloth from SITEX, a Beninese firm.

The rest of Burkina Faso's textile and apparel industry comprises small artisanal weavers, subsidized by the government, that produce traditional-style apparel. Many weaving groups have closed. Burkina Faso's domestic and regional market for traditional fabric is estimated to be no larger than 800 to 1,000 meters per year, and is not expected to grow. Burkina Faso's artisanal production remains small-scale with limited potential for expansion; demand for this production is highest during holidays and from expatriates traveling home.

Trade

Burkina Faso's exports of textile and apparel inputs fell by nearly 30 percent in 2007, largely due to a sharp decline in exports to the EU (table 4.71). Burkina Faso's exports of textile and apparel inputs consisted mostly of fabric in 2007 (table 4.72), of which the bulk was cotton woven fabric exported to Mali.⁶⁰⁶ Burkina Faso's yarn exports fluctuated significantly during the 2003–07 period, reaching a high of \$2.0 million in 2006, before declining to \$0.4 million in 2007. Burkina Faso's apparel exports have increased, but are still at relatively low levels (\$1.3 million in 2007) (table 4.73).

TABLE 4.71 Burkina Faso: Exports of textile and apparel inputs, by destination, 2003–07
(1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	1	885	598	1,421	1,759
EU-27	1,476	319	460	1,802	333
Rest of world	302	38	25	267	378
United States	0	0	1	3	0
Total	1,779	1,242	1,083	3,493	2,470

Source: World Bank, WITS Database (accessed December 3, 2008).

⁶⁰⁶ It is possible that this fabric was misclassified as being a product of Burkina Faso.

TABLE 4.72 Burkina Faso: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	61	185	0	25
Knit fabric	11	0	1	0	3
Manmade fibers	^(a)	1	0	0	0
Other fabric	74	19	9	10	39
Thread	^(a)	27	43	52	54
Trim	0	96	40	29	24
Woven fabric	96	787	350	1,399	1,928
Yarn	1,598	252	454	2,003	398
Total	1,779	1,242	1,083	3,493	2,470
Imports:					
Carded or combed fibers	0	0	144	0	0
Knit fabric	86	15	106	496	38
Manmade fibers	0	82	2	0	947
Other fabric	224	1,709	816	748	870
Thread	12	19	19	53	16
Trim	83	237	331	679	510
Woven fabric	5,495	4,843	4,942	^b 230,274	10,525
Yarn	335	752	767	802	929
Total	6,235	7,657	7,127	233,052	13,836

Source: World Bank, WITS Database (accessed December 3, 2008).

^aNot available.

^bGhana accounted for the vast majority of reported exports of woven fabric to Burkina Faso in 2006 (\$225.6 million, or 98 percent). Given that Burkina Faso's apparel industry comprises small, artisanal operations, these relatively large exports of woven fabric from Ghana may represent transshipments.

TABLE 4.73 Burkina Faso: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	72	799	640	600	1,293
Imports	5,270	3,879	3,531	3,078	4,101

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors of Competitiveness

Burkina Faso was among the lowest 20 percent of countries worldwide in the terms of the ease of doing business, ranking 148th out of 181 economies in 2009 (table 3.3). Because of Burkina Faso's geographic location and inadequate road network, firms in Burkina Faso face high transportation costs. These costs, coupled with limited energy resources, undermine the competitiveness of the economy as a whole.⁶⁰⁷

Despite recent investment in Burkina Faso's transport system, it remains poorly developed and transport costs are significant for businesses involved in the export or import of bulky goods.⁶⁰⁸ Despite the reliability of electricity supply in Burkina Faso, electricity costs reportedly are the highest in the region.⁶⁰⁹ The limited water sources hinder the expansion of textile dyeing and finishing. Burkina Faso's small-scale, artisanal apparel sector provides little local demand for textile and apparel inputs production. High

⁶⁰⁷ OECD and AfDB, "Burkina Faso," 2008, 168.

⁶⁰⁸ EIU, Country Profile 2007: Burkina Faso, 2007, 15.

⁶⁰⁹ Shea industry representative, interview by Commission staff, Ouagadougou, Burkina Faso, October 23, 2008.

energy costs, obsolete machinery for which it is difficult to obtain spare parts, and the closure of certain transport routes due to the Côte d'Ivoire conflict substantially hamper the competitiveness of the textile and apparel inputs industries.

Cameroon

Country Overview

Cameroon is situated on the west coast of Africa, with a GDP of \$20.6 billion, a GDP per capita of \$1,116, and a population of 18.5 million in 2007 (table 4.74). Cameroon has considerable petroleum reserves and favorable agricultural conditions. In 2007, the manufacturing sector accounted for 17 percent of GDP.

TABLE 4.74 Cameroon: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	20,644
GDP growth (annual %, 2007)	3.3
GDP per capita (current US\$, 2007)	1,116
Population (millions, 2007)	18.5
Goods exports (current US\$, millions, 2007)	3,604
Goods imports (current US\$, millions, 2007)	3,760
Inflation, consumer prices (annual %, 2007)	0.9
Literacy rate, adult total (% of people ages 15 and above, 2001)	67.9
Labor force, total (millions, 2006)	7.0
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	309
Gross capital formation (current US\$, millions, 2007)	3,582
Lending rate (% 2007)	15.0
Manufacturing value added (current US\$, millions, 2007)	3,612
Prevalence of HIV, total (% of population 15–49, 2007)	5.1

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

Industry Overview⁶¹⁰

Cameroon's industrial textile industry is more than 50 years old, but investment in this industry has declined recently. Most investment in Cameroon has gone to mineral extraction projects such as aluminum, iron, nickel, and cobalt.

Cameroon's cotton textile industry, an effective monopoly, is protected by high import duties (47 percent on cotton fabric), and has been the beneficiary of tax breaks. Cameroon has only one integrated cotton spinning and weaving mill, SOLICAM, which is a subsidiary of CICAM. SOLICAM produces yarn and greige fabric that are later dyed and finished by its parent company, CICAM, which produces African print fabric for the domestic market. SOLICAM has difficulty filling demand for yarn but only operates at approximately 50 percent of capacity. As of 2004, there was also an acrylic yarn spinning plant, Noufil, which produced yarn for artisanal knitters of pullovers.⁶¹¹

⁶¹⁰ Unless otherwise noted, this section is based on De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 51-56.

⁶¹¹ IMF, "Cameroon: Poverty Reduction Strategy Paper," August 2003.

In addition to SOLICAM, Cameroon has three other firms with weaving operations.⁶¹² These firms use mostly old shuttle looms, producing greige fabric for print cloth and blankets.⁶¹³ There are two knitting companies in Cameroon, Buetec and SOTEXCAM. Buetec started as an embroidery plant, but has since purchased new circular knitting machines and a dye house that became operational at the end of 2008.⁶¹⁴ It has complete cut and sew capabilities, and is looking for additional financing or a partner to put in a spinning plant.⁶¹⁵ Using imported embroidery yarn, Buetec embroiders T-shirts, work wear/overalls, caps, and bags. As of 2006, SOTEXCAM was not yet operational.

The apparel sector in Cameroon comprises numerous small-scale and micro-enterprises, which primarily supply the local market. The principal garment manufacturers include Socolim, Groupe YVY, Ken Atlantic (Brodwell), Blaz Designs, Mandalaris, and Bococam. Ken Atlantic and Mandlaris have a factory layout that is geared to mass production. Ken Atlantic produces knit and woven garments (medical and restaurant chef uniforms in particular) for export to Europe. Its customers supply the fabric and patterns, which are not available locally.⁶¹⁶ According to Ken Atlantic, its customers typically use a polyester/cotton-blend fabric that has special finishes for its intended end use.⁶¹⁷

Trade

Cameroon's exports of textile and apparel inputs totaled \$1.1 million in 2007 (table 4.75), and consisted mostly of cotton woven fabric (table 4.76). The EU was the largest market for Cameroon's exports, accounting for 58 percent of the total value in 2007 (table 4.75). Cameroon's apparel exports are relatively small, totaling \$2.7 million in 2007 (table 4.77). Its apparel imports are substantially larger and increased from \$18.8 million in 2003 to \$44.1 million in 2007. The substantial increase in apparel imports in 2007 indicates increasing foreign competition in Cameroon's apparel sector.

TABLE 4.75 Cameroon: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	4	161	343	264	26
EU-27	1,466	664	567	622	658
Rest of world	89	530	171	261	445
United States	14	4	9	6	8
Total	1,573	1,359	1,090	1,153	1,137

Source: World Bank, WITS Database (accessed December 3, 2008).

⁶¹² Ibid.

⁶¹³ In 2006, the installed weaving capacity in Cameroon consisted of 1,000 shuttle looms and 200 shuttleless looms. Table C.2.

⁶¹⁴ USAID, West Africa Trade Hub, "An Entrepreneur's Vision," undated (accessed April 1, 2009).

⁶¹⁵ Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

⁶¹⁶ Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

⁶¹⁷ Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

TABLE 4.76 Cameroon: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	40	0	0	7	0
Knit fabric	15	11	7	0	74
Manmade fibers	4	0	0	0	61
Other fabric	25	153	34	9	90
Thread	1	13	4	2	0
Trim	8	18	66	83	160
Woven fabric	1,478	1,025	896	861	604
Yarn	4	139	82	190	147
Total	1,573	1,359	1,090	1,153	1,137
Imports:					
Carded or combed fibers	8	26	12	8	223
Knit fabric	101	129	642	1,682	1,026
Manmade fibers	2,989	2,745	2,836	3,253	2,122
Other fabric	1,248	1,448	1,164	1,170	3,254
Thread	525	285	654	547	597
Trim	787	1,046	1,428	1,261	2,531
Woven fabric	17,047	16,329	25,772	27,340	40,554
Yarn	555	593	334	606	1,441
Total	23,260	22,602	32,842	35,868	51,747

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.77 Cameroon: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	2,030	1,832	1,923	3,075	2,724
Imports	18,794	23,609	19,676	19,827	44,053

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors of Competitiveness

The Cameroonian textile and apparel inputs industry benefits from proximity to local high-quality cotton, and the country reportedly has one of the strictest and most consistent cotton quality grading systems in the SSA region (box 4.9). Cotton is Cameroon's fourth-largest cash crop⁶¹⁸ and more than 95 percent of the country's cotton fiber is currently exported.

Although poor road infrastructure is reportedly a major constraint to Cameroon's competitiveness,⁶¹⁹ the country reportedly has the second-lowest electricity costs in the region and reliable electricity and water supplies, and is investing in improving its road and maritime infrastructure.⁶²⁰ Cameroon has four ports and is in the process of building one in Kribi through a public-private partnership.⁶²¹ The Kribi port will be the largest port

⁶¹⁸ EIU, Country Profile 2008: Cameroon, 2008, 21.

⁶¹⁹ More than 50 percent of the road network in Cameroon is classified as primary roads, and only a fraction of the primary road network is sealed. The remaining primary road network consists of dirt roads and tracks, which become impassable after rain. Further delays and costs of road transport are caused by the road network's many checkpoints and tolls. With the backing of its development partners, the government has increased spending on road infrastructure. EIU, Country Profile 2008: Cameroon, 2008.

⁶²⁰ De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 4.

⁶²¹ EIU, Country Profile 2008: Cameroon, 2008, 15; Nyuyilime, "Cameroon: Kribi Deep Sea Port—16 Companies Short Listed For Investment," September 18, 2008 (accessed April 13, 2009).

in West Africa with a depth of 15–18 meters.⁶²² Construction of the deep water port is due to start in September 2009, and is needed for the commercial development of large mineral deposits in southern Cameroon.⁶²³ Additionally, further investment has been allocated to Cameroon’s road infrastructure in and around the capital of Douala and to neighboring countries.⁶²⁴

Without an export-oriented domestic apparel sector, Cameroon does not have a local market for export-ready, domestically-produced textile and apparel inputs. Other issues currently hindering Cameroon’s competitiveness include a lack of vertical integration, old spinning and weaving machinery,⁶²⁵ a lack of adequate financing, high transportation costs despite access to four ports,⁶²⁶ and lengthy shipping times (e.g., five weeks to export to the United States).⁶²⁷ Cameroon also has an unfavorable business environment, ranking 164th out of 181 economies in terms of the ease of doing business in 2009 (table 3.3). Corruption, weak legal and regulatory systems, and limited access to financial services are reported barriers to stimulating the private sector.⁶²⁸

Mali

Country Overview

Mali is a landlocked, major cotton-producing country with a GDP of \$6.9 billion and a population of 12.3 million, resulting in GDP per capita of \$558 in 2007 (table 4.78). Mali has historically been one of the largest cotton-producing countries in the region, but its production has declined in recent years (table G.1). Most of Mali’s cotton production is exported; only 1 percent of the cotton produced is processed locally.⁶²⁹ Overall, Mali’s manufacturing sector (including textile and apparel value added) accounted for less than 3 percent of GDP.

Industry Overview⁶³⁰

Mali currently has two privately held, medium-sized cotton spinning companies (Comatex and Bakary Textiles Commerce Industrie). A third company, FITINA, is closed.⁶³¹ Mali has two weaving plants (Comatex and Batex-CI). Both plants focus primarily on African prints, and to a lesser extent, cotton bale wrap. Mali’s weaving sector uses old shuttle looms (table C.2). Fabric made with this machinery is more suitable for local consumption (such as African prints), because it is of a narrower width than that used in commercial operations. Additionally, shuttle looms used by Mali weaving plants have limitations on the weight of the fabric that can be woven.

⁶²² EIU, Country Profile 2008: Cameroon, 2008, 23.

⁶²³ Ibid.

⁶²⁴ De Voest and Holtzman, “Adding Value to West African Cotton,” December 2006, 51.

⁶²⁵ Ibid., app. C.

⁶²⁶ EIU, Country Profile 2008: Cameroon, 2008.

⁶²⁷ IMF, “Cameroon: Poverty Reduction Strategy Paper,” August 2003.

⁶²⁸ OECD and AfDB, “Cameroon,” 2008, 190.

⁶²⁹ UN and ICC, An Investment Guide to Mali, October 2006, 39.

⁶³⁰ Unless otherwise noted, this section is based on De Voest and Holtzman, “Adding Value to West African Cotton,” December 2006, 29-35.

⁶³¹ Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

TABLE 4.78 Mali: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	6,863
GDP growth (annual %, 2007)	2.8
GDP per capita (current US\$, 2007)	558
Population (millions, 2007)	12.3
Goods exports (current US\$, millions, 2007)	1,480
Goods imports (current US\$, millions, 2007)	2,255
Inflation, consumer prices (annual %, 2007)	1.4
Literacy rate, adult total (% of people ages 15 and above, 2003)	24.0
Labor force, total (millions, 2006)	4.8
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	185
Gross capital formation (current US\$, millions, 2007)	1,598
Lending rate (%)	^(b)
Manufacturing value added (current US\$, millions, 2007)	195
Prevalence of HIV, total (% of population 15–49, 2007)	1.5

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

Trade

Mali's exports of textile and apparel inputs more than doubled in value from 2003 to 2007 (table 4.79). These exports were primarily to other SSA countries in 2007. Exports consisted chiefly of semiprocessed cotton (carded or combed cotton) and cotton fabric (table 4.80). In 2007, the Mauritian market accounted for nearly 50 percent of the value of Mali's exports, consisting mostly of carded or combed cotton. Another 14 percent of Mali's exports consisted of cotton fabric shipped to Niger. Mali's apparel exports increased significantly in 2007, but were still substantially below the increasing level of apparel imports (table 4.81).

TABLE 4.79 Mali: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	40	231	536	405	933
EU-27	32	378	135	137	295
Rest of world	513	218	471	406	135
United States	19	30	28	11	49
Total	604	857	1,170	959	1,411

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.80 Mali: Exports and imports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	0	0	412	12	679
Knit fabric	2	0	1	1	7
Manmade fibers	219	392	4	1	0
Other fabric	20	1	24	106	123
Thread	0	6	0	5	0
Trim	22	18	10	14	7
Woven fabric	182	236	330	393	505
Yarn	159	204	389	426	90
Total	604	857	1,170	959	1,411
Imports:					
Carded or combed fibers	0	48	0	9	3
Knit fabric	149	85	342	169	206
Manmade fibers	232	274	307	48	0
Other fabric	302	1,402	850	1,108	1,362
Thread	167	130	101	101	106
Trim	2,048	1,301	1,424	770	642
Woven fabric	40,067	54,345	58,183	71,510	88,075
Yarn	691	1,024	626	320	739
Total	43,656	58,609	61,832	74,034	91,133

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.81 Mali: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	417	200	746	526	3,900
Imports	4,471	6,297	7,414	11,242	24,291

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors of Competitiveness

Like many West African countries, Mali's textile sector is based on its large cotton sector, which suffers from quality problems such as contamination. The cotton grading system in Mali is lax, and thus producers sell their cotton at inflated premiums, reducing the incentive to improve cotton quality (box 4.9). Fabric made with contaminated cotton cannot be dyed properly. According to one industry source, contaminated cotton may be best used to make bale wrap or bags for picking cotton, as these do not require dyeing.⁶³²

According to the World Bank, Mali ranked 166th out of 181 countries in 2009 for ease of doing business (table 3.3). Mali lacks the specialized and skilled workers needed for textile production, which increases cost in many Mali textile firms when expatriates have to be employed.⁶³³ Poor infrastructure continues to hinder economic growth, although improvements have been made in recent years. Because of its geographical position, coupled with its poor road network, firms in Mali face substantially high transportation costs.⁶³⁴ In 2008, a World Bank project to finance road transport and transit improvements in Mali, Ghana, and Burkina Faso was initiated, with the goal to facilitate trade and regional economic integration.⁶³⁵ Improvements to Mali's energy sector have

⁶³² Industry representative, interview by Commission staff, Las Vegas, NV, February 17, 2009.

⁶³³ De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 32.

⁶³⁴ EIU, *Country Profile 2008: Mali*, 2008, 11.

⁶³⁵ World Bank, "Regional Highway Initiative to Curb Illicit Payments, Cut Transit Cost," (accessed April 14, 2009), September 18, 2008.

also begun. The government has invested in several new hydropower stations,⁶³⁶ and has implemented a program for the extension of electricity coverage.⁶³⁷ These investments have created a more stable energy supply, which has begun to positively impact production levels within the industrial sector.⁶³⁸ However, poor cotton quality, inadequate road and electricity infrastructure, lack of skilled labor, and a small apparel sector substantially constrain competitiveness in the textile and apparel inputs industry.

Senegal

Country Overview

Located between Guinea-Bissau and Mauritania and bordering the Atlantic Ocean, Senegal had a population of 12.4 million and a GDP of \$11.2 billion in 2007 (table 4.82). Senegal remains one of the most stable democracies in Africa.⁶³⁹

Industry Overview⁶⁴⁰

Senegal is not a significant producer of textile and apparel inputs, and is considered a minor cotton producer compared with Benin, Burkina Faso, and Mali (table G.1). The annual capacity of the Senegalese yarn and fabric industry is around 8,000 tons for spinning, 20 million meters for weaving, and 8 million meters for knitting; however, this capacity is not being fully utilized.

Nearly one-half of the 42 textile firms in Senegal (13 of which also produce apparel) are locally owned; the remainder are split between foreign-owned operations and joint ventures between local and foreign interests.⁶⁴¹ The five major textiles companies in Senegal are ICOTAF, NSTS-INDOSEN, SOTIBA, COSETEX, and COTOA. NSTS-INDOSEN and ICOTAF specialize in spinning, weaving, dyeing, and knitting. NSTS-INDOSEN also produces and supplies industrial fabric for hospitals.⁶⁴² COTA specializes in heavy textiles, while SOTIBA and COSETEX specialize in dyeing and printing. SOTIBA also manufactures West African prints for clothing.⁶⁴³ The main textile companies primarily operate for the domestic market, and have been negatively impacted by the increasing supply of cheaper textile imports from Asia as a result of trade liberalization.⁶⁴⁴

⁶³⁶ EIU, *Country Profile 2008: Mali*, 2008, 12.

⁶³⁷ OECD and AfDB, "Mali," 2008, 419.

⁶³⁸ EIU, *Country Profile 2008: Mali*, 2008, 17.

⁶³⁹ CIA, "Senegal," (accessed January 28, 2009); World Bank, *Snapshot Africa: Senegal*, January 2007, 6.

⁶⁴⁰ Unless otherwise noted, this section is based on U.S. Department of State, U.S. Embassy, Dakar, "Senegal's Textile and Apparel Production," October 1, 2007.

⁶⁴¹ World Bank, *Snapshot Africa: Senegal*, January 2007, 9.

⁶⁴² De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 60.

⁶⁴³ *Ibid.*, 61.

⁶⁴⁴ EIU, *Country Profile 2008: Senegal*, 2008, 21.

TABLE 4.82 Senegal: Basic economic indicators

Indicator	Most recent year ^a
GDP (current US\$, millions, 2007)	11,151
GDP growth (annual %, 2007)	4.8
GDP per capita (current US\$, 2007)	899
Population (millions, 2007)	12.4
Goods exports (current US\$, millions, 2007)	1,698
Goods imports (current US\$, millions, 2007)	4,452
Inflation, consumer prices (annual %, 2007)	5.9
Literacy rate, adult total (% of people ages 15 and above, 2002)	39.3
Labor force, total (millions, 2006)	4.8
Foreign direct investment, net inflows (BoP, current US\$, millions, 2006)	58
Gross capital formation (current US\$, millions, 2007)	3,558
Lending rate (%)	^(b)
Manufacturing value added (current US\$, millions, 2007)	1,305
Prevalence of HIV, total (% of population 15–49, 2007)	1.0

Sources: World Bank, World Development Indicators Online; WTO, Statistics Database: Time Series on International Trade. GDP per capita calculated by Commission staff.

Note: Indicator definitions are provided in app. I.

^aMost recent year for which data are available.

^bNot available.

Trade

Senegal's exports of textile and apparel inputs increased to \$1.3 million in 2004, declined to one-half that amount in 2006, then returned to \$1.3 million in 2007 (table 4.83). The majority of these exports consisted of woven fabric and yarn, and other SSA countries were the primary export destination in 2007 (table 4.84). Senegal's trade deficit in apparel (\$63.0 million in 2007) reflects, in part, the limited size of Senegal's apparel industry (table 4.85).

TABLE 4.83 Senegal: Exports of textile and apparel inputs, by destination, 2003–07 (1,000 \$)

Destination	2003	2004	2005	2006	2007
SSA countries	105	307	167	80	961
EU-27	204	260	166	161	121
Rest of world	251	682	492	336	246
United States	59	24	24	26	10
Total	619	1,273	848	603	1,337

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE 4.84 Senegal: Exports and imports of textile and apparel inputs, by product group, 2003–07
(1,000 \$)

Product group	2003	2004	2005	2006	2007
Exports:					
Carded or combed fibers	(^a)	0	0	0	47
Knit fabric	5	2	15	2	2
Manmade fibers	4	5	0	2	0
Other fabric	10	30	32	22	184
Thread	1	0	0	0	59
Trim	24	169	18	23	140
Woven fabric	503	835	652	370	607
Yarn	72	233	131	185	299
Total	619	1,273	848	603	1,337
Imports:					
Carded or combed fibers	30	57	46	135	107
Knit fabric	824	748	1,660	9,318	2,233
Manmade fibers	5,648	6,571	5,859	7,975	10,112
Other fabric	2,704	3,925	2,205	2,047	3,563
Thread	895	1,503	1,945	1,360	3,459
Trim	7,001	10,358	20,943	13,723	22,128
Woven fabric	55,267	61,815	74,590	98,245	119,217
Yarn	4,386	5,553	4,884	4,824	7,452
Total	76,756	90,529	112,132	137,626	168,271

Source: World Bank, WITS Database (accessed December 3, 2008).

^aNot available.

TABLE 4.85 Senegal: Exports and imports of apparel, 2003–07 (1,000 \$)

Item	2003	2004	2005	2006	2007
Exports	548	758	723	1,074	2,605
Imports	28,710	32,798	30,365	26,017	65,612

Source: World Bank, WITS Database (accessed December 16, 2008).

Factors of Competitiveness⁶⁴⁵

Senegal is one of the most industrialized countries in the region,⁶⁴⁶ offering investors a stable political environment and an advantageous geographic location with major sea ports and nonstop flights from the United States.⁶⁴⁷ Senegal is considered competitive in air and sea transport costs relative to Asia and other West African countries.⁶⁴⁸ Senegal improved its standing between 2008 and 2009 in the World Bank's Doing Business 2009 ranking, moving from 168 out of 181 countries to 149.⁶⁴⁹ The improvement reflects regulatory reforms such as a "one-stop" shop for new businesses and customs clearance procedural improvements.⁶⁵⁰

Despite its geographic advantages and relative political stability, Senegal reportedly is a difficult place for textile and apparel firms to do business. Lack of access to bank loans is still a key constraint for small and medium-sized enterprises, as bank credit remains

⁶⁴⁵ Unless otherwise noted, this section is based on De Voest and Holtzman, "Adding Value to West African Cotton," December 2006, 57-65.

⁶⁴⁶ World Bank, *Snapshot Africa: Senegal*, January 2007, 6.

⁶⁴⁷ U.S. Department of State, U.S. Embassy, Dakar, "Senegal: 2009 Investment Climate Report," January 27, 2009.

⁶⁴⁸ World Bank, *Snapshot Africa: Senegal*, January 2007, 6.

⁶⁴⁹ World Bank, Doing Business 2009 Database (accessed March 3, 2009).

⁶⁵⁰ World Bank, *Doing Business 2009: Country Profile for Senegal*, 2008, 51.

concentrated in a few large corporations.⁶⁵¹ Additionally, Senegalese textile firms have had a history of not repaying loans, which caused banks to stop financing Senegalese textile firms in the past. Further, the high cost and unreliability of electricity make it hard for Senegalese textile firms to compete. In addition, even though Senegal is aggressively trying to reduce contamination in cotton lint, the problem persists. The combination of Senegalese textile firms' lack of access to credit, competition from large-scale imports of second-hand clothing, and low-quality cotton, reportedly have put many Senegal textile manufacturers on the verge of bankruptcy.⁶⁵²

⁶⁵¹ OECD and AfDB, "Senegal," 2008, 546.

⁶⁵² World Bank, *Snapshot Africa: Senegal*, January 2007, 10.

Group 4: Countries that are Unlikely Candidates for Competitive Production of Textile and Apparel Inputs

Group 4 consists of SSA countries that are unlikely candidates for competitive production of textile and apparel inputs in the near future.⁶⁵³ Commission staff has been unable to identify recent or current significant production of textile and apparel inputs, or significant commercial production of apparel in these countries. These countries generally lack sufficient infrastructure (e.g., reliable electricity supply, clean water for dyeing, paved roads, access to ports) for competitive production of textile and apparel inputs. In addition, the Group 4 countries tended to be relatively poor countries with weak domestic demand and low levels of FDI inflows.

Group 4 Country Production of Textile and Apparel Inputs

Available data indicate that Group 4 countries have no significant production of textile and apparel inputs. Group 4-country exports of textile and apparel inputs accounted for less than 0.5 percent of SSA country exports of textile and apparel inputs and less than 0.005 percent of world exports of these products in 2007 (table 2.1).⁶⁵⁴

Available data indicate that Group 4 countries do not have sufficient levels of spinning and weaving capacity to produce textile and apparel inputs competitively. Based on ITMF data, only Angola and Niger reported spinning capacity (50,000 spindles and 14,000 spindles, respectively), and only Angola reported weaving capacity (800 shuttle looms) in 2006 (table C.1). However, the U.S. Embassy in Angola reported that there is no commercial production of textile and apparel inputs in Angola.⁶⁵⁵ The U.S. Embassy in Niger reported that the lone remaining textile producer in Niger ceased manufacturing fabric in 2007.⁶⁵⁶ Group 4 countries' spinning capacity accounted for only 2.5 percent of reported SSA spinning capacity, and their reported weaving capacity accounted for less than one percent of reported SSA weaving capacity in 2006.

⁶⁵³ Group 4 countries include Angola, Burundi, Cape Verde, Comoros, Democratic Republic of the Congo, Republic of the Congo, Djibouti, Gabon, The Gambia, Guinea, Guinea-Bissau, Liberia, Niger, Rwanda, São Tomé and Príncipe, Seychelles, and Sierra Leone.

⁶⁵⁴ WITS trade data indicate that Sierra Leone exported \$3.4 million worth of textile and apparel inputs in 2007. However, Commission staff has been unable to identify any significant textile or apparel production in Sierra Leone. According to the EIU, "Industry is fairly limited in Sierra Leone: most local manufacturers produce consumer goods or building materials for the domestic market, such as beer and stout, oxygen, plastic footwear, paints, confectionery, salt, cement and soft drinks." EIU, *Country Profile 2008: Sierra Leone*, 2008, 18. Given that Commission staff has been unable to identify significant textile and apparel production in Sierra Leone, Sierra Leone's exports of textile and apparel inputs may represent transshipments.

⁶⁵⁵ The U.S. Embassy in Angola reported that "Angola has no textile or apparel industry. The last textile plant in Angola closed in 1998. One company twice attempted making clothing in Angola, but abandoned the effort because of costs and the difficulty in training staff. That company moved its operations to India." U.S. Department of State, U.S. Embassy, Luanda, "USITC Study on Sub-Saharan Africa: Angola Overview," October 17, 2008.

⁶⁵⁶ The U.S. Embassy in Niger reported that "Niger's textile and apparel industry is tiny. The only remaining textile company, ENITEX, was privatized in 1998 and has had Chinese expatriate management since then. By 2005, ENITEX reported growing losses due to high costs of production, competition from firms in Asia and Nigeria, and soaring costs for imported inputs, including cotton and energy. In 2007, ENITEX ceased manufacturing fabric, but continues to produce printed fabric for local and regional markets using cotton fabric imported from China." U.S. Department of State, U.S. Embassy, Luanda, "USITC Study on Sub-Saharan Africa: Angola Overview," October 17, 2008.

Group 4 Country Apparel Production

Available data also indicate that Group 4 countries have no significant apparel production. Group 4-country apparel exports accounted for less than 0.5 percent of SSA-country apparel exports and less than 0.005 percent of world exports of apparel in 2007. Excluding Cape Verde and Sierra Leone, Group-4 country apparel exports accounted for only 0.1 percent of SSA country apparel exports in 2007.⁶⁵⁷

Group 4 Country Infrastructure

Group 4 countries' infrastructure is underdeveloped relative to other SSA countries, and to competitive textile and apparel input producing countries such as China and India. Group 4 countries' per capita electricity production, number of Internet users, and paved roads were all lower than such infrastructure indicators for SSA countries as a whole, and for China and India (table 4.86). However, Group 4 countries' per capita rail lines were comparable to per capita rail lines for SSA countries as a whole, and were higher than per capita rail lines for China and India.

TABLE 4.86 Per capita electricity production, Internet users, paved roads, and rail lines, Group 4 countries, SSA countries, China, and India

Country/region	Per capita electricity production, 2005 kWhs	Per capita Internet users 2006	Per capita paved roads, 2004 Meters	Per capita rail lines, 2005
Group 4 countries	150	0.007	0.140	0.104
SSA countries	633	0.031	0.209	0.108
China	1,914	0.104	1.169	0.048
India	639	0.108	(^a)	0.058

Source: World Bank, World Development Indicators Online (accessed March 13, 2009 and April 13, 2009).

^aData not available.

Group 4 Economic Indicators

Group 4 countries are relatively poor, with generally low levels of domestic demand, FDI inflows, and manufacturing value added (table 4.87). Group 4 countries' comparatively low per capita GDP implies that Group 4 countries' domestic demand for textile and apparel products is weak relative to other SSA countries, and to China and India.⁶⁵⁸

⁶⁵⁷ WITS trade data indicate that Cape Verde exported \$7.9 million worth of apparel in 2007. However, according to the EIU, the Cape Verde economy is dominated by the services sector—mainly tourism, transport, commerce and government services—which accounted for 76 percent of GDP in 2006. The Cape Verde manufacturing sector, which is dominated by clothing and shoes, has been declining as a fraction of GDP in the last 10 years as the services and construction sectors have grown more rapidly. EIU, *Country Profile 2008: Cape Verde*, 2008, 15. Therefore, it appears that the economy of Cape Verde is shifting away from textile and apparel manufacturing. As noted above, Commission staff has been unable to identify any significant textile or apparel production in Sierra Leone. Therefore, Sierra Leone's reported exports of apparel may represent transshipments.

⁶⁵⁸ Seychelles per capita GDP is relatively high (\$7,408 in 2007). However, according to the EIU, the services sector in Seychelles dominates the economy, accounting for nearly 70 percent of GDP in recent years. Canning tuna is the main manufacturing activity in Seychelles; apart from the tuna cannery, manufacturing in Seychelles is constrained by the small size of its local market. This suggests that Seychelles has little incentive or ability to develop commercial production of textile and apparel inputs. EIU, *Country Profile 2008: Seychelles*, 2008, 11, 15.

Group 4 countries' per capita FDI net inflows and manufacturing value added were also substantially below such indicators for SSA countries as a whole, and for China and India. Low levels of FDI net inflows and manufacturing value-added suggest that Group 4 countries' manufacturing sector is relatively undeveloped.

TABLE 4.87 Per capita GDP and FDI inflows, Group 4 countries, SSA countries, and the United States (US \$)

Country/region	Per capita GDP, 2007	Per capita FDI, net inflows, 2006	Per capita manufacturing value-added, 2005
Group 4 countries	368	9	20
SSA countries	615	17	102
China	2,485	60	576
India	1,042	16	107

Source: World Bank, World Development Indicators Online (accessed March 13, 2009).

^aData not available.

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APPENDIX A
Section 3 of Public Law 110-436



PUBLIC LAW 110-436—OCT. 16, 2008

ANDEAN TRADE PREFERENCE EXTENSION

Public Law 110-436
110th Congress

An Act

Oct. 16, 2008
[H.R. 7222]

To extend the Andean Trade Preference Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. EXTENSION OF ANDEAN TRADE PREFERENCE ACT.

(a) EXTENSION.—Section 208 of the Andean Trade Preference Act (19 U.S.C. 3206) is amended to read as follows:

President.
Foreign countries.
Time period.
Reports.
Deadline.

“SEC. 208. TERMINATION OF PREFERENTIAL TREATMENT.

“(a) IN GENERAL.—No duty-free treatment or other preferential treatment extended to beneficiary countries under this title shall—

“(1) remain in effect with respect to Colombia or Peru after December 31, 2009;

“(2) remain in effect with respect to Ecuador after June 30, 2009, except that duty-free treatment and other preferential treatment under this title shall remain in effect with respect to Ecuador during the period beginning on July 1, 2009, and ending on December 31, 2009, unless the President reviews the criteria set forth in section 203, and on or before June 30, 2009, reports to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives pursuant to subsection (b) that—

“(A) the President has determined that Ecuador does not satisfy the requirements set forth in section 203(c) for being designated as a beneficiary country; and

“(B) in making that determination, the President has taken into account each of the factors set forth in section 203(d); and

“(3) remain in effect with respect to Bolivia after June 30, 2009, except that duty-free treatment and other preferential treatment under this title shall remain in effect with respect to Bolivia during the period beginning on July 1, 2009, and ending on December 31, 2009, only if the President reviews the criteria set forth in section 203, and on or before June 30, 2009, reports to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives pursuant to subsection (b) that—

“(A) the President has determined that Bolivia satisfies the requirements set forth in section 203(c) for being designated as a beneficiary country; and

“(B) in making that determination, the President has taken into account each of the factors set forth in section 203(d).

“(b) **REPORTS.**—On or before June 30, 2009, the President shall make determinations pursuant to subsections (a)(2)(A) and (a)(3)(A) and report to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives on—

- “(1) such determinations; and
- “(2) the reasons for such determinations.”.

(b) **TREATMENT OF CERTAIN APPAREL ARTICLES.**—Section 204(b)(3) of such Act (19 U.S.C. 3203(b)(3)) is amended—

(1) in subparagraph (B)—

(A) in clause (iii)—

(i) in subclause (II), by striking “6 succeeding 1-year periods” and inserting “7 succeeding 1-year periods”; and

(ii) in subclause (III)(bb), by striking “and for the succeeding 1-year period” and inserting “and for the succeeding 2-year period”; and

(B) in clause (v)(II), by striking “5 succeeding 1-year periods” and inserting “6 succeeding 1-year periods”; and

(2) in subparagraph (E)(ii)(II), by striking “December 31, 2008” and inserting “December 31, 2009”.

SEC. 2. EARNED IMPORT ALLOWANCE PROGRAM.

(a) **IN GENERAL.**—Title IV of the Dominican Republic-Central America-United States Free Trade Agreement Implementation Act (Public Law 109-53; 119 Stat. 495) is amended by adding at the end the following:

“SEC. 404. EARNED IMPORT ALLOWANCE PROGRAM.

19 USC 4112.

“(a) **PREFERENTIAL TREATMENT.**—

“(1) **IN GENERAL.**—Eligible apparel articles wholly assembled in an eligible country and imported directly from an eligible country shall enter the United States free of duty, without regard to the source of the fabric or yarns from which the articles are made, if such apparel articles are accompanied by an earned import allowance certificate that reflects the amount of credits equal to the total square meter equivalents of fabric in such apparel articles, in accordance with the program established under subsection (b).

“(2) **DETERMINATION OF QUANTITY OF SME.**—For purposes of determining the quantity of square meter equivalents under paragraph (1), the conversion factors listed in ‘Correlation: U.S. Textile and Apparel Industry Category System with the Harmonized Tariff Schedule of the United States of America, 2008’, or its successor publications, of the United States Department of Commerce, shall apply.

Applicability.

“(b) **EARNED IMPORT ALLOWANCE PROGRAM.**—

“(1) **ESTABLISHMENT.**—The Secretary of Commerce shall establish a program to provide earned import allowance certificates to any producer or entity controlling production of eligible apparel articles in an eligible country for purposes of subsection (a), based on the elements described in paragraph (2).

“(2) **ELEMENTS.**—The elements referred to in paragraph (1) are the following:

“(A) One credit shall be issued to a producer or an entity controlling production for every two square meter equivalents of qualifying fabric that the producer or entity

controlling production can demonstrate that it has purchased for the manufacture in an eligible country of articles like or similar to any article eligible for preferential treatment under subsection (a). The Secretary of Commerce shall, if requested by a producer or entity controlling production, create and maintain an account for such producer or entity controlling production, into which such credits may be deposited.

“(B) Such producer or entity controlling production may redeem credits issued under subparagraph (A) for earned import allowance certificates reflecting such number of earned credits as the producer or entity may request and has available.

“(C) Any textile mill or other entity located in the United States that exports qualifying fabric to an eligible country may submit, upon such export or upon request, the Shipper’s Export Declaration, or successor documentation, to the Secretary of Commerce—

“(i) verifying that the qualifying fabric was exported to a producer or entity controlling production in an eligible country; and

“(ii) identifying such producer or entity controlling production, and the quantity and description of qualifying fabric exported to such producer or entity controlling production.

“(D) The Secretary of Commerce may require that a producer or entity controlling production submit documentation to verify purchases of qualifying fabric.

“(E) The Secretary of Commerce may make available to each person or entity identified in the documentation submitted under subparagraph (C) or (D) information contained in such documentation that relates to the purchase of qualifying fabric involving such person or entity.

“(F) The program shall be established so as to allow, to the extent feasible, the submission, storage, retrieval, and disclosure of information in electronic format, including information with respect to the earned import allowance certificates required under subsection (a)(1).

“(G) The Secretary of Commerce may reconcile discrepancies in the information provided under subparagraph (C) or (D) and verify the accuracy of such information.

“(H) The Secretary of Commerce shall establish procedures to carry out the program under this section by September 30, 2008, and may establish additional requirements to carry out the program.

“(c) DEFINITIONS.—For purposes of this section—

“(1) the term ‘appropriate congressional committees’ means the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate;

“(2) the term ‘eligible apparel articles’ means the following articles classified in chapter 62 of the HTS (and meeting the requirements of the rules relating to chapter 62 of the HTS contained in general note 29(n) of the HTS) of cotton (but not of denim): trousers, bib and brace overalls, breeches and shorts, skirts and divided skirts, and pants;

“(3) the term ‘eligible country’ means the Dominican Republic; and

Procedures.
Deadline.

“(4) the term ‘qualifying fabric’ means woven fabric of cotton wholly formed in the United States from yarns wholly formed in the United States and certified by the producer or entity controlling production as being suitable for use in the manufacture of apparel items such as trousers, bib and brace overalls, breeches and shorts, skirts and divided skirts or pants, all the foregoing of cotton, except that—

“(A) fabric otherwise eligible as qualifying fabric shall not be ineligible as qualifying fabric because the fabric contains nylon filament yarn with respect to which section 213(b)(2)(A)(vii)(IV) of the Caribbean Basin Economic Recovery Act applies;

“(B) fabric that would otherwise be ineligible as qualifying fabric because the fabric contains yarns not wholly formed in the United States shall not be ineligible as qualifying fabric if the total weight of all such yarns is not more than 10 percent of the total weight of the fabric, except that any elastomeric yarn contained in an eligible apparel article must be wholly formed in the United States; and

“(C) fabric otherwise eligible as qualifying fabric shall not be ineligible as qualifying fabric because the fabric contains yarns or fibers that have been designated as not commercially available pursuant to—

“(i) article 3.25(4) or Annex 3.25 of the Agreement;

“(ii) Annex 401 of the North American Free Trade Agreement;

“(iii) section 112(b)(5) of the African Growth and Opportunity Act;

“(iv) section 204(b)(3)(B)(i)(III) or (ii) of the Andean Trade Preference Act;

“(v) section 213(b)(2)(A)(v) or 213A(b)(5)(A) of the Caribbean Basin Economic Recovery Act; or

“(vi) any other provision, relating to determining whether a textile or apparel article is an originating good eligible for preferential treatment, of a law that implements a free trade agreement entered into by the United States that is in effect at the time the claim for preferential treatment is made.

“(d) REVIEW AND REPORT.—

“(1) REVIEW.—The United States International Trade Commission shall carry out a review of the program under this section annually for the purpose of evaluating the effectiveness of, and making recommendations for improvements in, the program.

“(2) REPORT.—The United States International Trade Commission shall submit to the appropriate congressional committees annually a report on the results of the review carried out under paragraph (1).

“(e) EFFECTIVE DATE AND APPLICABILITY.—

“(1) EFFECTIVE DATE.—The program under this section shall be in effect for the 10-year period beginning on the date on which the President certifies to the appropriate congressional committees that sections A, B, C, and D of the Annex to Presidential Proclamation 8213 (December 20, 2007) have taken effect.

President.
Certification.

“(2) APPLICABILITY.—The program under this section shall apply with respect to qualifying fabric exported to an eligible country on or after August 1, 2007.”.

(b) CLERICAL AMENDMENT.—The table of contents for the Dominican Republic-Central America-United States Free Trade Agreement Implementation Act is amended by inserting after the item relating to section 403 the following:

“Sec. 404. Earned import allowance program.”.

SEC. 3. AFRICAN GROWTH AND OPPORTUNITY ACT.

(a) IN GENERAL.—Section 112 of the African Growth and Opportunity Act (19 U.S.C. 3721) is amended—

(1) in subsection (b)(6)(A), by striking “ethic” in the second sentence and inserting “ethnic”; and

(2) in subsection (c)—

(A) in paragraph (1), by striking “, and subject to paragraph (2),”;

(B) by striking paragraphs (2) and (3);

(C) in paragraph (4)—

(i) by striking “Subsection (b)(3)(C)” and inserting “Subsection (b)(3)(B)”; and

(ii) by redesignating such paragraph (4) as paragraph (2); and

(D) by striking paragraph (5) and inserting the following:

“(3) DEFINITION.—In this subsection, the term ‘lesser developed beneficiary sub-Saharan African country’ means—

“(A) a beneficiary sub-Saharan African country that had a per capita gross national product of less than \$1,500 in 1998, as measured by the International Bank for Reconstruction and Development;

“(B) Botswana;

“(C) Namibia; and

“(D) Mauritius.”.

(b) APPLICABILITY.—The amendments made by subsection (a) apply to goods entered, or withdrawn from warehouse for consumption, on or after the 15th day after the date of the enactment of this Act.

(c) REVIEW AND REPORTS.—

(1) ITC REVIEW AND REPORT.—

(A) REVIEW.—The United States International Trade Commission shall conduct a review to identify yarns, fabrics, and other textile and apparel inputs that through new or increased investment or other measures can be produced competitively in beneficiary sub-Saharan African countries.

(B) REPORT.—Not later than 7 months after the date of the enactment of this Act, the United States International Trade Commission shall submit to the appropriate congressional committees and the Comptroller General a report on the results of the review carried out under subparagraph (A).

(2) GAO REPORT.—Not later than 90 days after the submission of the report under paragraph (1)(B), the Comptroller General shall submit to the appropriate congressional committees a report that, based on the results of the report submitted

19 USC 3721
note.

under paragraph (1)(B) and other available information, contains recommendations for changes to United States trade preference programs, including the African Growth and Opportunity Act (19 U.S.C. 3701 et seq.) and the amendments made by that Act, to provide incentives to increase investment and other measures necessary to improve the competitiveness of beneficiary sub-Saharan African countries in the production of yarns, fabrics, and other textile and apparel inputs identified in the report submitted under paragraph (1)(B), including changes to requirements relating to rules of origin under such programs.

(3) DEFINITIONS.—In this subsection—

(A) the term “appropriate congressional committees” means the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate; and

(B) the term “beneficiary sub-Saharan African countries” has the meaning given the term in section 506A(c) of the Trade Act of 1974 (19 U.S.C. 2466a(c)).

(d) CLERICAL AMENDMENT.—Section 6002(a)(2)(B) of Public Law 109-432 is amended by striking “(B) by striking” and inserting “(B) in paragraph (3), by striking”. 19 USC 3721.

SEC. 4. GENERALIZED SYSTEM OF PREFERENCES.

Section 505 of the Trade Act of 1974 (19 U.S.C. 2465) is amended by striking “December 31, 2008” and inserting “December 31, 2009”.

SEC. 5. CUSTOMS USER FEES.

(a) IN GENERAL.—Section 13031(j)(3) of the Consolidated Omnibus Budget Reconciliation Act of 1985 (19 U.S.C. 58c(j)(3)) is amended—

(1) in subparagraph (A), by striking “November 14, 2017” and inserting “February 14, 2018”; and

(2) in subparagraph (B)(i), by striking “October 7, 2017” and inserting “January 31, 2018”.

(b) REPEAL.—Section 15201 of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246) is amended by striking subsections (c) and (d). *Ante*, p. 2262.

SEC. 6. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.

The percentage under subparagraph (C) of section 401(1) of the Tax Increase Prevention and Reconciliation Act of 2005 in effect on the date of the enactment of this Act is increased by 2 percentage points. 26 USC 6655 note.

SEC. 7. TECHNICAL CORRECTIONS.

Section 15402 of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246) is amended—

(1) in subsections (a) and (b), by striking “Carribbean” each place it appears and inserting “Caribbean”; and *Ante*, p. 2289.

(2) in subsection (d), by striking “231A(b)” and inserting “213A(b)”.

Approved October 16, 2008.

LEGISLATIVE HISTORY—H.R. 7222:

CONGRESSIONAL RECORD, Vol. 154 (2008):

Sept. 29, considered and passed House.

Oct. 2, considered and passed Senate, amended.

Oct. 3, House concurred in Senate amendment.

WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 44 (2008):

Oct. 16, Presidential remarks.



APPENDIX B
***Federal Register* Notice**

Commission Building. Oral testimony and written materials to be submitted at the public hearing are governed by sections 201.6(b)(2), 201.13(f), and 207.24 of the Commission's rules. Parties must submit any request to present a portion of their hearing testimony *in camera* no later than 7 business days prior to the date of the hearing.

Written submissions.—Each party who is an interested party shall submit a prehearing brief to the Commission. Prehearing briefs must conform with the provisions of section 207.23 of the Commission's rules; the deadline for filing is February 12, 2009. Parties may also file written testimony in connection with their presentation at the hearing, as provided in section 207.24 of the Commission's rules, and posthearing briefs, which must conform with the provisions of section 207.25 of the Commission's rules. The deadline for filing posthearing briefs is March 4, 2009; witness testimony must be filed no later than three days before the hearing. In addition, any person who has not entered an appearance as a party to the investigation may submit a written statement of information pertinent to the subject of the investigation, including statements of support or opposition to the petition, on or before March 4, 2009. On March 18, 2009, the Commission will make available to parties all information on which they have not had an opportunity to comment. Parties may submit final comments on this information on or before March 20, 2009, but such final comments must not contain new factual information and must otherwise comply with section 207.30 of the Commission's rules. All written submissions must conform with the provisions of section 201.8 of the Commission's rules; any submissions that contain BPI must also conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (November 8, 2002). Even where electronic filing of a document is permitted, certain documents must also be filed in paper form, as specified in II (C) of the Commission's Handbook on Electronic Filing Procedures, 67 FR 68168, 68173 (November 8, 2002).

Additional written submissions to the Commission, including requests pursuant to section 201.12 of the Commission's rules, shall not be accepted unless good cause is shown for accepting such submissions, or unless

the submission is pursuant to a specific request by a Commissioner or Commission staff.

In accordance with sections 201.16(c) and 207.3 of the Commission's rules, each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Authority: This investigation is being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.21 of the Commission's rules.

Issued: November 18, 2008.

By order of the Commission.

William R. Bishop,

Acting Secretary to the Commission.

[FR Doc. E8-27911 Filed 11-24-08; 8:45 am]

BILLING CODE 7020-02-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-502]

Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation.

SUMMARY: Pursuant to section 3(c)(1) of Public Law 110-436, An Act to extend the Andean Trade Preference Act, and for other purposes ("the Act"), and pursuant to section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), the U.S. International Trade Commission (Commission) has instituted investigation No. 332-502, *Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production*.

DATES:

January 15, 2009: Deadline for filing request to appear at the public hearing.

January 17, 2009: Deadline for filing pre-hearing briefs and statements.

January 29, 2009: Public hearing.

February 12, 2009: Deadline for filing post-hearing briefs and statements.

February 24, 2009: Deadline for filing all other written submissions.

May 15, 2009: Transmittal of Commission report to the appropriate congressional committees and the Comptroller General.

ADDRESSES: All Commission offices, including the Commission's hearing rooms, are located in the United States International Trade Commission

Building, 500 E Street, SW., Washington, DC. All written submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://www.usitc.gov/secretary/edis.htm>.

FOR FURTHER INFORMATION CONTACT:

Project leader Kimberlie Freund (202-708-5402 or

kimberlie.freund@usitc.gov) or deputy project leader Joshua Levy (202-205-3236 or

joshua.levy@usitc.gov) for information specific to this investigation. For information on the legal aspects of this investigation, contact William Gearhart of the Commission's Office of the General Counsel (202-205-3091 or

william.gearhart@usitc.gov). The media should contact Margaret O'Laughlin, Office of External Relations (202-205-1819 or

margaret.olaughlin@usitc.gov). Hearing-impaired individuals may obtain information on this matter by contacting the Commission's TDD terminal at 202-205-1810. General information concerning the Commission may also be obtained by accessing its Internet site (<http://www.usitc.gov>). Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-205-2000.

Background: On October 16, 2008, the President signed into law Public Law No. 110-436, An Act to extend the Andean Trade Preference Act, and for other purposes. Section 3(c)(1) of the Act requires the Commission to conduct a review to identify yarns, fabrics, and other textile and apparel inputs that through new or increased investment or other measures can be produced competitively in beneficiary sub-Saharan African (SSA) countries (as defined in section 506A(c) of the Trade Act of 1974, 19 U.S.C. 2466a(c)). The Act requires the Commission to report the results of its review to the House Committee on Ways and Means and the Senate Committee on Finance (the committees), and the Comptroller General, not later than 7 months after enactment of the law (by May 15, 2009). Section 3(c)(2) of the Act requires the Comptroller General to submit a report to the committees based on the Commission's report and other available information not later than 90 days after receiving the Commission's report. The Comptroller General's report is to include recommendations for changes in U.S. trade preference programs,

including the African Growth and Opportunity Act (19 U.S.C. 3701) and amendments made by that act, to provide incentives to increase investment and other measures to improve the competitiveness of beneficiary SSA countries in the production of yarns, fabrics, and other textile and apparel inputs identified in the Commission's report, including changes to requirements relating to rules of origin under such programs.

The Commission also instituted this investigation pursuant to section 332(g) of the Tariff Act of 1930 to facilitate docketing of submissions and public access to Commission records through the Commission's EDIS electronic records system.

Public Hearing: A public hearing in connection with this investigation will be held at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC, beginning at 9:30 a.m. on January 29, 2009. Requests to appear at the public hearing should be filed with the Secretary not later than 5:15 p.m., January 15, 2009, in accordance with the requirements in the "Submissions" section below. All pre-hearing briefs and statements should be filed not later than 5:15 p.m., January 17, 2009, and all post-hearing briefs and statements responding to matters raised at the hearing should be filed not later than 5:15 p.m., February 12, 2009. In the event that, as of the close of business on January 15, 2009, no witnesses are scheduled to appear at the hearing, the hearing will be canceled. Any person interested in attending the hearing as an observer or nonparticipant may call the Office of the Secretary (202-205-2000) after January 15, 2009, for information concerning whether the hearing will be held.

Written Submissions: In lieu of or in addition to participating in the hearing, interested parties are invited to submit written statements concerning this investigation. All written submissions should be addressed to the Secretary and should be received not later than 5:15 p.m., February 24, 2009. All written submissions must conform with the provisions of section 201.8 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.8). Section 201.8 of the rules requires that a signed original (or a copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be filed, in which the confidential information must be deleted (see the following paragraph for further information regarding confidential business

information). The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the rules (see *Handbook for Electronic Filing Procedures*, http://www.usitc.gov/secretary/fed_reg_notices/rules/documents/handbook_on_electronic_filing.pdf); persons with questions regarding electronic filing should contact the Secretary at 202-205-2000. Any submission that contains confidential business information must also conform with the requirements of section 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "non-confidential" version, and that the confidential business information be clearly identified by means of brackets. All written submissions, except for confidential business information, will be made available in the Office of the Secretary for inspection by interested parties. The Commission anticipates that the report it sends to the committees and the Comptroller General in this investigation will be made available to the public in its entirety. Consequently, the report that the Commission sends to the committees and the Comptroller General will not contain any confidential business information. Any confidential business information received by the Commission in this investigation and used in preparing its report will not be published in a manner that would reveal the operations of the firm supplying the information.

By order of the Commission.

Issued: November 19, 2008.

William R. Bishop,

Acting Secretary to the Commission.

[FR Doc. E8-27903 Filed 11-24-08; 8:45 am]

BILLING CODE 7020-02-P

DEPARTMENT OF JUSTICE

Antitrust Division

United States v. Inbev NV/SA; Proposed Final Judgment and Competitive Impact Statement

Notice is hereby given pursuant to the Antitrust Procedures and Penalties Act, 15 U.S.C. 16(b)-(h), that a proposed Final Judgment, Hold Separate Stipulation and Order, and Competitive Impact Statement have been filed with the United States District Court for the District of Columbia in *United States v.*

InBev NV/SA, Civ. Action No. 08-cv-01965. On November 14, 2008, the United States filed a Complaint alleging that the proposed acquisition by InBev NV/SA of Anheuser-Busch Companies, Inc., would violate section 7 of the Clayton Act, 15 U.S.C. 18. The Complaint alleges that the acquisition would substantially reduce competition for sale of beer in the Buffalo, Rochester, and Syracuse, New York metropolitan areas. The proposed Final Judgment, filed at the same time as the Complaint, requires InBev to divest Labatt USA and grant a perpetual license to the acquirer to brew and sell Labatt brand beer for consumption throughout the United States.

Copies of the Complaint, proposed Final Judgment, and Competitive Impact Statement are available for inspection at the Department of Justice, Antitrust Division, Antitrust Documents Group, 450 Fifth Street, NW., Suite 1010, Washington, DC 20530 (202-514-2481), on the Department of Justice Web site (<http://www.usdoj.gov/atr>), and at the Office of the Clerk of the United States District Court for the District of Columbia. Copies of these materials may be obtained from the Antitrust Division upon request and payment of the copying fee set by Department of Justice regulations.

Public comment is invited within 60 days of the date of this notice. Such comments, and responses thereto, will be published in the **Federal Register** and filed with the Court. Comments should be directed to Joshua H. Soven, Chief, Litigation I Section, Antitrust Division, Department of Justice, 1401 H Street, NW., Suite 4000, Washington, DC 20530 (202-307-0001).

Patricia A. Brink,

Deputy Director, Office of Operations.

United States of America, 1401 H Street, NW.,—Suite 4000, Washington, DC 20530. Plaintiff, v. Inbev N.V./S.A.

Brouwerijplein 1, 3000 Leuven, Belgium, Inbev USA LLC, 50 Fountain Plaza—Suite 900, Buffalo, NY 14202, and Anheuser-Busch Companies, Inc., One Busch Place, St. Louis, MO 63118, Defendants. Case: 1:08-cv-01965, Assigned to: Robertson, James, Assign. Date: 11/14/2008, Description: Antitrust.

Complaint

The United States of America, acting under the direction of the Attorney General of the United States, brings this civil action to enjoin the proposed acquisition of Anheuser-Busch Companies, Inc. ("Anheuser-Busch") by InBev N.V./S.A. ("InBev") and to obtain

APPENDIX C
Spinning, Weaving, and Knitting Machinery
Data

TABLE C.1 Spinning machinery: Installed capacity and cumulative shipments

Country	2006 installed spinning capacity			Cumulative shipments, 1998–2007		
	Short staple	Long staple	Open-end rotors	Short staple	Long staple	Open-end rotors
Group 1						
Ethiopia	200,000	1,000	5,000	19,824	120	5,016
Kenya	100,000	4,000	1,200	5,856	0	0
Lesotho	0	0	2,000	0	0	2,016
Madagascar	19,968	0	1,296	0	0	0
Mauritius	88,000	1,000	800	112,800	0	800
Nigeria	700,000	3,000	23,000	26,172	0	8,480
South Africa	158,964	60,000	15,556	197,160	1,152	4,520
Swaziland	54,000	0	0	0	0	0
Tanzania	400,000	3,000	0	26,880	0	0
Zambia	100,000	3,000	2,500	10,920	0	0
Subtotal	1,820,932	75,000	51,352	399,612	1,272	20,832
Group 2						
Botswana	15,000	0	1,500	0	0	0
Ghana	120,000	0	0	0	0	0
Malawi	50,000	0	0	0	0	0
Mozambique	50,000	0	0	0	0	0
Namibia	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Uganda	50,000	0	1,200	11,088	0	1,112
Subtotal	285,000	0	2,700	11,088	0	1,112
Group 3						
Benin	60,000	0	0	21,000	0	5,988
Burkina Faso	7,000	0	0	0	0	0
Cameroon	55,000	1,000	0	0	0	0
Chad	8,000	0	35,000	18,144	0	0
Mali	40,000	0	0	10,500	0	0
Senegal	25,000	0	0	0	0	0
Togo	25,000	0	0	0	0	0
Subtotal	220,000	1,000	35,000	49,644	0	5,988
Group 4						
Angola	50,000	0	0	0	0	0
Burundi	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Cape Verde	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Comoros	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Congo, Dem. Rep.	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Congo, Rep.	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Djibouti	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Gabon	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Gambia, The	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Guinea	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Guinea-Bissau	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Liberia	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Niger	14,000	0	0	0	0	0
Rwanda	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
São Tomé and Príncipe	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Seychelles	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Sierra Leone	^(a)	^(a)	^(a)	^(a)	^(a)	^(a)
Subtotal	64,000	0	0	0	0	0
Total, SSA countries	2,389,932	76,000	89,052	460,344	1,272	27,932
World total	202,979,125	14,747,700	7,974,883	68,266,258	2,410,670	3,181,004

Source: ITMF, *International Textile Machinery Shipment Statistics*, 2007, 10, 11.

^a Not available.

TABLE C.2 Installed capacity and cumulative shipments of weaving machinery ^a

Country	Installed capacity, 2006		Cumulative shipments, 1998–2007	
	Shuttleless	Shuttle	Shuttleless	Shuttle
Group 1				
Ethiopia	500	2,500	41	1
Kenya	200	600	6	0
Lesotho	40	0	49	0
Madagascar	118	330	32	326
Mauritius	600	0	139	0
Nigeria	2,500	11,000	30	70
South Africa	1,243	48	799	344
Swaziland	110	0	0	0
Tanzania	150	5,000	44	0
Zambia	160	1,000	48	0
Subtotal	5,621	20,478	1,188	671
Group 2				
Botswana	180	0	11	0
Ghana	0	3,500	8	0
Malawi	100	500	0	0
Mozambique	0	2,500	0	0
Namibia	(^b)	(^b)	(^b)	(^b)
Uganda	0	1,000	24	0
Subtotal	280	7,500	43	0
Group 3				
Benin	0	2,000	0	768
Burkina Faso	(^b)	(^b)	(^b)	(^b)
Cameroon	200	1,000	0	0
Chad	0	250	0	0
Mali	0	1,000	0	0
Senegal	150	500	0	0
Togo	(^b)	(^b)	(^b)	(^b)
Subtotal	350	4,750	0	768
Group 4				
Angola	0	800	0	0
Burundi	(^b)	(^b)	(^b)	(^b)
Cape Verde	(^b)	(^b)	(^b)	(^b)
Comoros	(^b)	(^b)	(^b)	(^b)
Congo, Dem. Rep.	(^b)	(^b)	(^b)	(^b)
Congo, Rep.	(^b)	(^b)	(^b)	(^b)
Djibouti	(^b)	(^b)	(^b)	(^b)
Gabon	(^b)	(^b)	(^b)	(^b)
Gambia	(^b)	(^b)	(^b)	(^b)
Guinea	(^b)	(^b)	(^b)	(^b)
Guinea-Bissau	(^b)	(^b)	(^b)	(^b)
Liberia	(^b)	(^b)	(^b)	(^b)
Niger	0	0	0	38
Rwanda	(^b)	(^b)	(^b)	(^b)
São Tomé and Príncipe	(^b)	(^b)	(^b)	(^b)
Seychelles	(^b)	(^b)	(^b)	(^b)
Sierra Leone	(^b)	(^b)	(^b)	(^b)
Subtotal	0	800	0	38
Total, SSA countries	6,251	33,528	1,231	1,477
World Total	970,029	1,562,281	558,977	101,277

Source: ITMF, *International Textile Machinery Shipment Statistics*, 2007, 26, 28.

^a Data do not include weaving machinery that is intended primarily for weaving for filament yarn or wool yarn.

^b Not available.

TABLE C.3 Cumulative shipments of large circular knitting machines, 1998–2007

Source	Shipments
Group 1:	
Ethiopia	47
Kenya	27
Lesotho	(^a)
Madagascar	5
Mauritius	613
Nigeria	75
South Africa	199
Swaziland	(^a)
Tanzania	36
Zambia	(^a)
Subtotal	1,002
Group 2:	
Botswana	20
Ghana	12
Malawi	(^a)
Mozambique	(^a)
Namibia	(^a)
Uganda	3
Subtotal	35
Group 3:	
Benin	(^a)
Burkina Faso	(^a)
Cameroon	4
Chad	(^a)
Mali	(^a)
Senegal	4
Togo	(^a)
Subtotal	8
Total, SSA countries	1,045
World total	172,225

Source: ITMF, *International Textile Machinery Shipment Statistics*, 2007, 39, 41.

Note: No reported shipments for any of the Group 4 countries.

^a No reported shipments.

APPENDIX D
List of Hearing Participants

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject: Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production

Inv. No.: 332-502

Date and Time: January 29, 2009 - 9:30 a.m.

Sessions were held in connection with this investigation in the Main Hearing Room (room 101), 500 E Street, S.W., Washington, D.C.

ORGANIZATION AND WITNESS:

**Common Market for Eastern and Southern Africa (COMESA)
Zambia, Africa**

The Honorable Sindiso Ngwenya, Secretary General

Frank D. Mugenyi, Senior Economist/Industry Expert

Manchester Trade Ltd.
Washington, D.C.

Stephen Lande, President

Anthony Carroll, Vice President

African Coalition for Trade, Inc.
Washington, D.C.

Paul Ryberg, President

-END-

APPENDIX E

Summary of Views of Interested Parties

Summary of Views of Interested Parties

The Commission held a public hearing on January 29, 2009, and also invited interested persons to file written submissions. This appendix provides summaries of hearing testimony for each interested party and a full copy of their written testimony.¹ The Commission received five written submissions, which are included in their entirety. Below is a list of the written testimonies and written submissions.

Written Testimonies

Organization	Representative	Date Filed
Common Market for Eastern and Southern Africa (COMESA)	Sindiso Ngwenya, Secretary General	January 29, 2009
	Frank D. Mugenyi, Senior Economist/Industry Expert	
African Coalition for Trade, Inc.	Paul Ryberg, President	January 29, 2009
Manchester Trade Ltd.	Stephen Lande, President Anthony Carroll, Vice President	January 29, 2009

Written Submissions

Embassy of the Kingdom of Lesotho	David Mohlomi Rantekoa, Ambassador	February 24, 2009
Embassy of the Republic of Mauritius	Keertecoomar Ruhee, Ambassador	January 15, 2009
Embassy of the United Republic of Tanzania	Omgeni Sefue, Ambassador	February 6, 2009
Lesotho Textile Exporters Association	Jennifer Chen, President	February 19, 2009
Nien Hsing Textile Co., Ltd.	John Chen, Representative	February 26, 2009

Common Market for Eastern and Southern Africa²

In hearing testimony presented before the Commission, the Honorable Sindiso Ngwenya, Secretary General of COMESA, stated that COMESA's membership is 19 countries having a total population of 400 million and GDP of \$350 billion. COMESA has a free trade area, and is launching a customs union with a common external tariff, and also has a Cotton and Textile Association. Mr. Ngwenya said that only five countries in the

¹ In many instances, the appendix reflects only the principal points made by the particular party. The views expressed in the summarized materials should be considered to be those of the submitting parties and not the Commission. In preparing this summary, Commission staff did not undertake to confirm the accuracy of, or otherwise correct, the information summarized. For the full text of hearing testimony and written submissions, see entries associated with investigation no. 332-502 (2009) at the Commission's Electronic Docket Information System (<http://searchapp.usitc.gov/edis3/app>).

² USITC, Hearing transcript, January 29, 2009, 5-52.

COMESA region (Kenya, Mauritius, Madagascar, and Swaziland, as well as Lesotho, which is not a member country) benefit from the cotton apparel sector, and that exports of textiles and apparel from these countries to the U.S. market have declined since the final phase-out of quotas at the end of 2004.

The secretary general said that only a few COMESA countries export textiles and apparel, and that most member countries' competitive advantage is in other products, particularly agri-products. He therefore emphasized the need to diversify AGOA exports to nonapparel products and recommended that COMESA countries focus on the production and trade promotion of other AGOA-eligible products.

Mr. Ngwenya also highlighted the need for consistency between trade policy and investment policy, and the need to address development aspects rather than focusing solely on trade policy. He said that COMESA countries do not have the capacity to supply inputs to the apparel industry, and that there is a need to increase investment and reduce the costs of doing business. However, he noted that U.S. institutions, such as the Overseas Private Investment Corporation (OPIC), restrict the type of investments they support. For example, he said that OPIC will finance cotton ginning but does not support investment up the value chain.

According to the secretary general's testimony, labor costs in SSA countries are competitive with those in China, but transportation and logistics costs, and particularly utility costs, are much higher. He recommended interventions to lower these costs. He suggested that the Millennium Challenge Corporation (MCC) Accounts could help with investments to lower these costs, but said that the MCC currently only deals with national programs instead of focusing on regional programs. He also maintained that trade policy should focus on regional integration rather than categorizing countries into LDCs and non-LDCs. He also suggested more coordination among international agencies and institutions to strengthen public and private institutions.

Paul Ryberg, President, African Coalition for Trade, Inc.³

In his hearing testimony, Mr. Ryberg, president of the African Coalition for Trade, Inc. (ACT), stated that ACT is a nonprofit association representing private-sector African companies, with a focus on exports of AGOA-eligible products to the United States. Mr. Ryberg said that, while SSA apparel exports doubled under AGOA, African textile firms have been struggling since the final phase-out of quotas at the end of 2004. He said that imported textiles have taken over African domestic markets, and that several major SSA textile firms have ceased operations as a result. He noted that African apparel made from third-country fabric is much more competitive than apparel made from African fabric. According to Mr. Ryberg, issues facing the SSA textile industry are lack of economies of scale, since apparel industries are small and geographically fragmented; inadequate infrastructure; and lack of access to financing.

Mr. Ryberg also maintained that inconsistent U.S. trade policies have challenged the African textile industry. He said the commercial availability provision failed because it was punitive, and he suggested a more positive approach. He also suggested that, to encourage textile and apparel production in Africa, South African-produced fabrics should receive the same treatment as fabrics produced in LDCs.

³ USITC, Hearing transcript, January 29, 2009, 67-74.

Manchester Trade Ltd.⁴

In their hearing testimony, Mr. Stephen Lande, President of Manchester Trade Ltd., discussed the effects of trade policy on the African textile industry, and Mr. Anthony Carroll, Vice President of Manchester Trade Ltd., discussed the Nigerian textile industry and factors contributing to its decline, particularly intellectual property rights violations on ethnic cloth imports from China. Mr. Lande stated that trade policy measures to encourage the use of African textile fabrics and yarns have not been successful, and that the textile industry has declined since AGOA was instituted. According to Mr. Lande's testimony, trade policy promoting integrated textile production has not worked, and trade legislation cannot force producers to make particular sourcing decisions. He also maintained that policy should not focus on only one product, such as textiles. Mr. Lande recommended a focus on infrastructure problems rather than on trade policy, and indicated his support for adding a capacity-building component to trade policy. According to Mr. Lande, regional integration should be a priority to promote economies of scale, rather than the MCC's focus on individual countries or WTO policies of separating countries into LDCs and non-LDCs. He also said production of trim and handicrafts are not transformational for an economy, and that developing a competitive textile yarn and fabric industry will encourage production of trim and accessories.

⁴ USITC, Hearing transcript, January 29, 2009, 53–67.

Introduction

COMESA is a 19 member State Regional Economic Community, REC, having attained the status of Free Trade Area in 2000; it is scheduled to become a Customs Union in May 2009.

To achieve its objective of deepening integration, COMESA has established a number of trade and investment supporting specialised institutions such as COMESA Court of Justice, the Reinsurance scheme (ZEP-RE), the Clearing House, PTA Bank, the Leather and Leather Products Institute, LLPI, Regional Investment Agency, RIA, Regional Africar Trade Insurance Agency, ATI, among others

To enable the region to attract greater and sustainable levels of investment into the region a COMESA Common Investment Area (CCIA) has been established through creating an internationally competitive investment area, which allows for free movement of capital, labor, goods and services across borders of Member States.

However, the efforts at the regional level need to be complemented by the national efforts to improve the investment climate by putting in place mechanisms to reduce the cost of doing business which is an impediment to attracting investment in most of sub-Saharan African countries.

On 22nd October 2008 the first ever COMESA, SADC and EAC Tripartite Heads of State Summit was held in Kampala, Uganda and decided to merge and form a one regional economic community. A tripartite task force was mandated to draw the Road Map which will include the formation of a single Free Trade Area, Customs Union and then eventually merging into a single economic community. This will bring 26 countries with a population of over 530 million people and with a GDP of over US\$ 700 billion. This will form a wide area of flow of resources and goods across borders and will thus be a conducive area for increased investment and marketing.

US-COMESA Cooperation

We welcome and appreciate the technical assistance which has been provided by the United States of America towards COMESA's integration efforts, including assistance on trade and WTO matters; capacity building for institutional strengthening of key management systems within the COMESA Secretariat; identification of barriers to investment and development of regional solutions; private sector capacity building; telecommunications harmonization; and study of rules of origin as related to the WTO, World Customs Organization, SADC, and other organizations.

Suffice to mention in appreciation that the United States signed a TIFA with COMESA in 2001 to promote regional integration. The most recent U.S.-COMESA TIFA Council meeting was held in April 2008 and focused on U.S.-COMESA trade and investment, AGOA implementation, trade capacity building, investment, trade-related infrastructure, and the WTO's Doha round negotiations. The areas of engagement with USA under TIFA and the progress made so far is contained in the matrix that is attached to this statement.

Furthermore, the establishment of ACTIF as a regional industry association (which was made possible with the support of USAID and which includes countries such as South Africa and Tanzania which are not COMESA member States) has made it easier for COMESA to interact with industry players in the cotton and textile sector across the region as indeed in other sectors in order to work together in a coherent and cohesive

manner to achieve maximum results. Other institutions which were established with USAID support include; East and Southern Africa Dairy Association, (ESADA), the Grain Council (GC), and the ECAFA. Within this holistic framework, the industries and private sector associations, trade support institutions, (TSIs) and the COMESA Business Council¹, (CBC) and the Federation of COMESA Women in Business, (FEMCOM)² (a COMESA Institution for Women in Business), in the COMESA region will benefit from a Pan-African (involving three Regional Economic Communities, COMESA, ECASS, and ECOWAS) Programme for building African Capacity for Trade, PACT, funded by Canadian International Development Agency, CIDA, and which will be implemented jointly with ITC. The implementation framework agreement between ITC, and COMESA was signed on 23rd September in New York.

We, therefore, welcome the engagement of USTR and subsequently the East and Central African Hub team (under the proposed COMPETE) in the overall holistic development framework of the regional industries associations and in this case the cotton and textile industry.

Very importantly the access of the US market under the provisions of AGOA and indeed of the AGOA IV is very much constrained by lack of investment in the cotton and textiles sector in the region particularly in value addition and processing of textiles and clothing inputs.

The inclusion of Mauritius among the beneficiary countries eligible for the "third-Country fabric" provision and the repeal of the abundant supply provision were very welcome. Mauritius is a key player in the regional cotton and textile supply chain both as a buyer and supplier to other COMESA countries. The impact on intra-COMESA trade and the development of effective value chains would have been compromised if key countries like Mauritius were not eligible for third country fabric provision.

However, the end of the safeguard quotas in 2008 will bring uncertainty to both COMESA eligible countries and to U.S. buyers. We therefore pray that the U.S. House of Representatives will favorably consider the case of re-engagement with the WTO on safeguard measures as well the repeal of the abundant supply provision. We will await your feedback in this regard.

COMESA Exports to USA under AGOA/GSP

The textiles and apparel exports into US markets from COMESA member states which increased tremendously in the first half of the decade 2000 - 2004, have been falling mainly as a result of the end of MFA in 2005. The table below compares exports in 2005 and 2007 and gives the change in percentage between the three years. As shown in the table below, apart from Madagascar and Ethiopia whose exports increased by 3% and 73% respectively between 2005 and 2007, most of other exporting member States saw declines in their exports. This trend is forecasted to continue as a result of the expiry of the safeguard quotas under WTO which expired last year 2008.

It should be noted that all top five exporters of apparel products to USA under AGOA/GSP except Lesotho are COMESA member States. These are Kenya, Mauritius,

¹ The COMESA Business Council is a COMESA Institution established by the Treaty to support the Private Sector. It is an independent institution which brings together the national private sector institutions such as the chamber of commerce and industry, manufacturing Associations, private sector associations into a one body to develop a strong private sector in the region.

² FEMCOM like CBC is also established by the Treaty and is an independent private sector support institution for women in Business

Madagascar and Swaziland. All these countries are eligible to source inputs under the third country provision and with the declining trend of the textiles and apparel exports the investments into the textiles and apparel inputs which are coming into the region will loose out.

EXPORTS TO USA OF COMESA MEMBEWR STATES UNDER ABOD/GSP (In US\$ Millions 2006 & 2007 compared))						
Country	2005	2006	Composition	2007	Composition	% Change
Madagascar	275.5	232	Apparel	284	Apparel, packaging materials & semiprecious stones	3
Kenya	278	273	Apparel, cut flowers, nuts, & canned frits	255	Apparel cut flowers, nuts, & canned frits	-8
Swaziland	176.1	150	Apparel	141	Apparel, sugar, prepared fruit products & plastics	-20
Maur tius	152.6	158	Apparel, tuna, sugar, sunglasses & jewelry	120	Apparel, tuna, sugar, sunglasses & jewelry	-21
Malawi	66	61	Apparel & textiles	59	Tobacco, apparel, sugar, nuts, & lentils	-11
Ethiopia	5.2	7.2	Apparel & Agric Products	9	Apparel & foliage, cut flowers, nuts, beans spices & footwear	73
Uganda	4.9	2.5	Apparel	1.7	Apparel, tungsten concentrates, cut flowers, wooden ornaments, & jewelry	-65
Zambia	0.12	0.37	Apparel	0.23	No apparel jewelry, wooden ornaments, & cut flowers,	92

Source: 2007/08 USA Comprehensive reports on AGOA

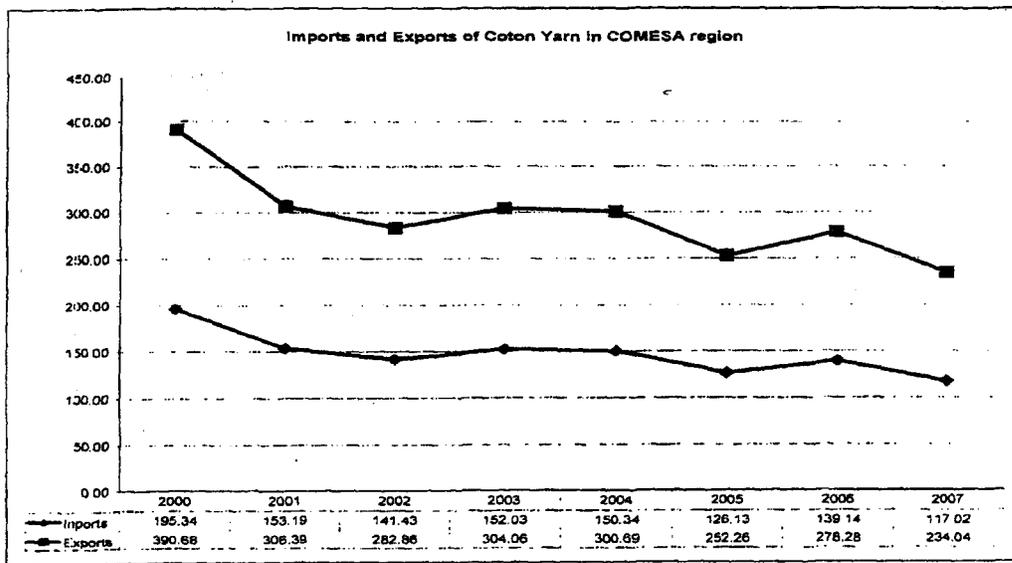
Looking at the above table it is observed that there is diversification to non-apparel exports under AGOA. This again could be as a result of the challenges faced by the textiles and apparel exporting companies being uncompetitive as a result of china's and other Asian apparel exports into the US market. This results in crowding out the investments in the textiles and apparel inputs.

Demand for the textiles and apparel inputs in COMESA region,

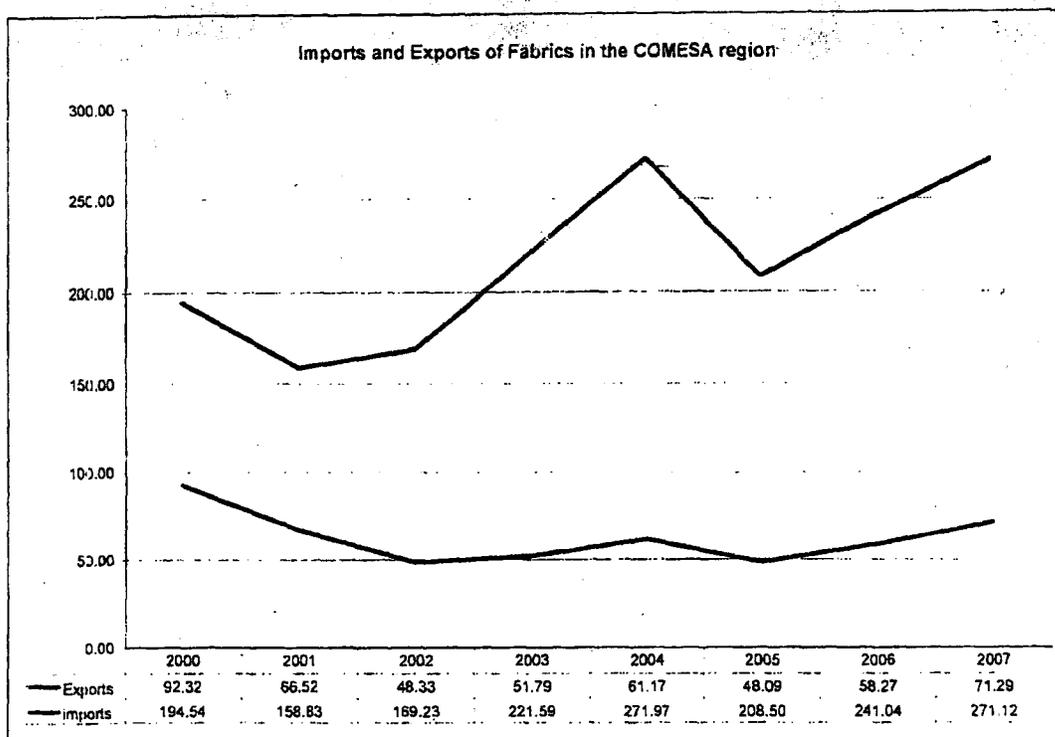
Between 2000 and 2008, the total COMESA imports of inputs into the textiles and apparel excluding zippers stood at US\$1,094.35 million while total COMESA exports of inputs into the textiles and apparel stood at US\$125 millions. This signifies a huge demand in the region although the trend has been on the decline due to the expiry of the multifibre agreement. These figures underscore that the COMESA region does not have the capacity to supply the inputs for the garments and textiles sector. Hence the need to attract investment and to improve through reductions on the cost of doing business.

Production of Cotton Yarns

Due to unavailable production figures in the region, export and imports of yarns are used to proxy consumption and production.



Fabrics production in the COMESA



The above two graphs show that the imports and exports of yarns have been declining over the period 2000 – 2007 while during the same period the imports of fabrics have been steadily increasing.

The exports of fabrics have also been on the decline but seem to be picking up from 2005. Never the less at US\$71.29 million worth of exports in 2007, they are still lower than they were in 2000 at US\$92.32.

Investments into the textiles and apparel inputs

All kinds of investments flow to those markets that provide the most competitive, conducive and investor-friendly environments such as Madagascar, Kenya and Mauritius. Both foreign and domestic businesses and investors require an environment that has the least cost of doing business which is dependable and open regulatory regimes, adequate infrastructure, productive human capital, and political and economic stability when making investment decisions. Generally, AGOA-eligible countries are striving to establish these conditions.

Generally foreign direct investment (FDI), flows to sub-Saharan Africa decreased to \$15.8 billion in 2006 from \$18.4 billion in 2005. As a result, sub-Saharan Africa's share of developing-country FDI inflows decreased to 4.2 percent in 2006 from 5.9 percent in 2005. Much of this decline, however, was due to a \$6.6 billion decline in FDI inflows to South Africa³. This means that there have been limited investments in the textiles and apparel inputs sector. Secondly most of the SSA LDCs are grappling with debt

³ 2008 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act

repayments and the entire group of AGOA exporting countries in the COMESA region has reached their HIPC Decision Points, enabling them to benefit from relief and debt cancellation. Fourteen of these countries have reached the HIPC Completion Point, qualifying for a reduction in their stock of debt.

Although the investment in the apparel sector has been on the decrease in the COMESA region as indeed is in sub-Saharan Africa there has been a slight increase of investments in a few countries that have Export processing Zones and other investment incentives. In some countries such as Kenya and Mauritius, AGOA has sparked significant investments. The region has also witnessed cross border investments. For example, Mauritian investors have made major AGOA-related investments throughout sub-Saharan Africa. However, there have not been substantial investments in the textiles and apparel inputs.

Empirical evidence confirm that the meager investments that may have come into the sector are impeded by the high cost of doing business, high costs of utility and the unreliability of utility among other things. Most of the countries in the region which are beneficiaries of AGOA have high indices of the cost of doing business. This affects the competitiveness of producing the textiles and apparel inputs compared to China and other Asian countries that can competitively produce these inputs. This means that the apparel industries find it cheaper to import inputs from outside the country using the third-country provision which is more competitive. It is not therefore, surprising that we are seeing the picture as indicated in the graphs above which is of declining exports of textiles of inputs such as yarn and fabrics. A number of successful textile producing countries, such as China and India, rely on strong backward linkages for production inputs, and textile industries but Africa have yet to create such linkages to the local economy.

Can the textiles and apparel inputs be produced competitively in Sub-Saharan Africa?

Competitiveness is defined as the set of institutions, policies, and factors that drive productivity and therefore set the sustainable current and medium term levels of economic prosperity. In other words, these are the factors and policies supporting higher levels of productivity and sustainable growth⁴.

Although Sub-Saharan Africa does possess a number of advantages that increase its attractiveness as an investment location, particularly its low labor costs and abundance resources and of unskilled labor this is crowded out by other factors that affect competitiveness, namely; infrastructure (esp. high energy costs), institutions (both public and private), technological readiness, business sophistication and innovation to mention but a few. In fact a recent World Bank study has shown that African textiles and garment manufacturers at the factory gate level are competitive vis-a-vis Asian producers

The textile industry is a capital intensive and highly automated industry, with a reliance on unskilled labor and although labor costs in Africa are generally competitive with those in China or India, the main factor decreasing the competitiveness of Africa in the global textile due to high transportation costs and logistic chain management.

Countries which are paying attention and working hard toward improvement on the

⁴ Assessing Africa's Competitiveness in the Global Context, by Jennifer Blanke, World Economic Forum. 2007

factors of productivity and competitiveness are receiving inflows of investment and are doing well in their exports.

The Global Competitiveness Index (GCI) shows that most sub-Saharan African Countries need to reposition themselves in terms of innovativeness and improving their competitiveness by responding to the needs of global and regional markets. According to the index countries such as Mauritius and Kenya which have improved on their competitiveness are leading in attracting investments. The common feature for both countries is the establishment of Export processing zones EPZs.

Mauritius is the third most competitive economy in Africa behind Tunisia and South Africa and is ranked 58 overall. On the other hand Kenya, although ranking 97th overall, it has strength in those areas normally reserved for countries at higher stages of development. Kenya has improved in a number of areas particularly in the innovative capacity, scientific research institutions, high company spending on research and development, relative strong collaboration between universities and industry and it has scientists and engineers in the country. In terms of innovative output, Kenya is second to South Africa in the number of patents.

The proposed three band Common External Tariff, CET, 0%, 10%, 25% for raw materials, intermediate and finished goods respectively, under the COMESA customs Union, classifies the inputs into the textiles and apparel sector such as yarn, fabric, and zippers etc as intermediate goods and thus will be charged duty of 10% when imported into the customs territory. This is meant to protect the investments in the inputs sector while allowing some importations to feed into the apparel sector. Never the less the investment in the production of the textiles and apparel inputs in both these countries which are among major importers of apparel products under AGOA is still lacking. Although there is a huge potential and incentives for the investment in the production textiles and apparel inputs the reality is that the investment is still very low and this is due to high cost of doing business and other impediments which have made the production of textiles and apparel inputs uncompetitive.

COMESA - ACTIF Cotton-to-Clothing Sector Strategy

Mandated by the directives of the Heads of States and council of Ministers to develop a regional industrial strategy and in order to respond to the challenges and to improve the competitiveness of the cotton, textiles and apparel sector COMESA with the assistance of the International Trade Centre (ITC) and working in partnership with the African Cotton and Textile Industries Federation (ACTIF) developed a regional industry strategy for cotton, textiles and clothing (cotton-to-clothing) focusing on promoting regional industry linkages, value addition and specialization. The expectations in this regard are very high as this is a directive of the COMESA Heads of State and Government

The strategy was validated at a Regional Meeting which was held in Johannesburg coordinated in partnership with the International Trade Center, ITC and ACTIF and supported by EC-ACP All Commodities Programme. An implementation committee was set up at the validation workshop and will meet in the second week of February to develop a work plan and budget for the first year.

The strategy has highlighted source of inputs into the cotton-to-clothing sector as main areas of focus for the development of the sector. It has also put in place recommendations as how to overcome the challenges of sourcing inputs in order to make the sector more competitive.

Recommendations

1. Support for improving the investment climate

There is a need for increased investment in the textiles and apparel sector particularly in the backward linkage industries. This requires interventions focusing on improving the investment climate and improving or lowering the cost of doing business. It would be recommended that efforts be sought for working with the industrial sector, the private sector and the governments of the SSA countries to find means and ways of reducing the cost of doing business and working on eliminating all the obstacles that hinder competitiveness in producing not only the inputs in the textiles and apparel sector but all sectors that are AGOA eligible. This could be done through support under the Millennium Challenge Fund for those countries that are eligible under the infrastructure and energy component.

2. Support top engage with other agencies and institutions to support the strengthening of the private sector.

There is a need to liaise with the World Bank and other agencies and institutions to support improving competitiveness which require interventions which strength both private and public institutions. This also could be done through the Millennium Challenge Fund under the enterprise development component and then liaising with other agencies to work on a partnership basis.

3. Diversification from textiles and apparel to other ASGOA Eligible products

It is recommended that emphasis should be directed towards diversification and promoting trade in non-apparel products. Empirical evidence shows that textiles and apparel exports under AGOA and GS in most sub-Saharan Countries has declined due to the expiry of MFA and also of the safeguard quotas which expired last year. This has been exacerbated by the problems associated with sourcing of the inputs from outside the region since they cannot be competitively produced in the region. Furthermore, most of countries eligible to benefit from AGOA have comparative advantage in other products particularly in agro-products and only a few countries do export textiles and apparel. Evidence in this paper has shown that countries which did well in the last three years are those which are exporting non-apparel products.

* Disconnect between the PS and trade policy. Need for trade & Investment policies to be connected linked & working together

* Lack of investment flows along the value chains

* Policy intervention - apart from Buyer seller meetings - to support & strengthen

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January 29, 2009

SUB-SAHARAN AFRICAN TEXTILE AND APPAREL

African Textile and Apparel Inputs: Potential for Competitive Production

Inv. No. 332-502

Testimony of Stephen Lande and Tony Carroll

I am very pleased to have been allowed to participate in a number of hearings on African development. I am sure that the information collected and analyzed by the USITC will form a valuable source of information for policy makers and investors.

Given the technical nature of the subject matter and my lack of expertise in textile manufacturing, I approached four experts in the field. They were Navdeep Sodhi of Afroconsulting well respected Nigerian firm who is also President of the Nigerian Textile Manufacturing Association; Rajeev Arora, a Kenyan entrepreneur and consultant; Norman Clegg of Clague Asia, an Australian textile adviser with experience in the SSA region; Wilson Hunt Jr., President of Champro Sports Equipment, and of course Paul Ryberg who is testifying today. However, I am responsible for any errors in the presentation and the views I represent today purport only to represent the opinions of Manchester Trade.

The USITC is trying to indentify yarns, fabrics and other textile and apparel inputs which through new or increased investments and related measures can be produced competitively in SSA countries fortunate enough to be beneficiaries of AGOA.

We observe that under conditions today, there are few opportunities in SSA region to invest directly in world class textile mill facilities. This may seem counter intuitive since under AGOA the SSA region has gained a foothold in apparel production. The region produces short to medium staple cotton which can be used to produce apparel incorporating yarn with a count from 16 to a figure in the 40's. These garments are generally considered to be light weight.

Reasons for Low Level of Locally Produced Yarn and Fabric in AGOA Exports

Why are African yarns and fabrics only incorporated in a small percentage of AGOA exports? Incorporation of its own fabrics and yarns in garment exports would save transportation costs which is an increasingly important component of the final costs.

Much of the blame is put on third country subsidization. The region cannot afford the subsidies available to its competitors. Hence a high priority request of Africa in Doha is the elimination or significant reduction of U.S. subsidies to its cotton industry. The subcontinent subsidizes yarn and fabric production. Thereby in Pakistan, for example, the cost of cotton yarns often is less than the world price of cotton. In fact, its fiber is usually bought for 20 to 25 cents a pound less than market price. Finally, China appears ready to intensify its subsidy programs as part of its efforts to combat the current international malaise. Hence SSA region has little incentive to incorporate its own yarns and fabrics in garments when subsidized products are available.

There are also other economic reasons. A strong textile industry can only survive if it is assured of sufficient demand by its major consumer—an apparel industry. Modern textile mills operate long production runs and thus require a larger garment industry to use its output than what currently exists in the region. The output of new mills in China dwarfs anything likely to be built in SSA countries in the near future. Current apparel production in the continent is in its fledgling stage. The region still has only a small share of world production and thus cannot maintain the required economies of scale.

The textile industry requires heavy infrastructure expenses. One must assure sufficient power since textile production is energy intensive. Often textile mills are located in the country side close to where the cotton is produced and thus one must assure an efficient transportation network. Industrial water is also required for cooling and dyeing operations.

Apparel production does not require such sophisticated infrastructure. It is labor not energy intensive since the assembly or Cut Make Trim (CMT) operations are located close to the port and usually rely on imported materials, the operations can be isolated from transportation bottlenecks. As Tyler Biggs, the former World Bank's textile expert pointed out, the necessary infrastructure is not extensive. Exporting does not require building a whole road or a port system—often the addition of a few cranes and improvements of small expanse of roads from manufacturing center to port is all that is required.

The textile industry, as opposed to apparel making is highly capital intensive. Such production requires expensive machinery which once installed is not easy to move. A minimum economical sized spinning mill with an output of 4000 tons per annum involves a capital outlay of USD 25 million. An integrated textile mill consisting of spinning, weaving and finishing producing about 14 million meters per annum of apparel fabrics with state of the art technology would involve an investment of about USD 40 million. It is very difficult to attract FDI of that magnitude in Africa under prevailing global conditions especially when production must compete against subsidized competition. On the other hand, apparel production usually only requires an industrial shell with connections for basic utilities and highly mobile sewing machines which can be sent to different locations with relatively ease.

In an earlier study prepared for the USAID regional hub in East and South Africa, we discussed how fashion change could undermine existing investment. For example, one could develop a finished facility for fleece—a popular fabric one year which could lose its appeal in another year. Modifying production to meet fashion changes imply adds to the cost of production. The fact is that while apparel production has been increasing, textile mill production has been declining. In Africa, apparel has a small but nevertheless a perceptible presence, the same cannot be said for textile mill production.

Statistics on SSA Textile Industry

The imperceptible role that the SSA region plays in textile production is best illustrated by reviewing the 2007 compilation of International Textile Machinery Shipment Statistics compiled by the International Textile Manufacturing Federation. The compilation covers spinning, drawtexturing, weaving, circular knitting, flat knitting and finishing machines. Africa has a small percentage of installed capacity—never more than three percent and this capacity is declining.

For yarn production, of the 202 million installed spindles for short staple cotton, SSA African countries account for about 1 percent or 2 million. The spindles are located in Nigeria (700,000), Sudan (400,000), Tanzania (400,000), South Africa (160,000), Ghana (120,000), Ivory Coast (120,000), Kenya (100,000), Zambia (100,000), Zaire (100,000), and Mauritius (90,000). Almost all these companies have declining yarn production.

The more telling statistics to demonstrate that yarn production is declining is the fact that of the 13 million spindles for short staple cotton shipped in 2007-the most recent period for which statistics are available, less than 60,000 were shipped to Sub Saharan Africa or less than one percent of the total. Specific country totals were Mauritius (36,000), South Africa (20,000) Ethiopia (12,000), Kenya (4,000), Zimbabwe (4,000), and Uganda (1,000).

There are two types of looms used in the production of cotton fabrics--shuttleless and the more traditional shuttle looms. In 2006, the SSA region accounts for 50,000 of the world's total installed capacity of about 1.5 million looms or accounted for 3 percent of the world total. It had less than 1 percent of the worldwide total of the more modern shuttle less looms or 4,450 of the 970,000 looms. Its share of the world's total of shuttleless looms is declining. Of the looms shipped in 2007, less than one tenth of one percent was destined for the SSA region. The major importer of such looms was the Sudan (288) trailed significantly by Tanzania (28) and Nigeria (24).

Circular knitting machines are used in the production of t-shirts, underwear, etc. Shipments for the ten year period though 2007 the SSA region imported about 1,000 circular knitting machines. The world total of such shipments was 172,225. Thus Africa imported less than one percent of the world's total shipments. Of the 1600 machines imported into Africa, Mauritius accounted for 613 out of the total of the region or about 60 percent. Nigeria and South Africa accounted for 199 and 77 machines.

Flat knitting machines used for hand-knitting or partially powered machinery (as opposed to electronic machinery) are used to produce materials for incorporation into knit to shape sweaters. World wide shipments in 2007 amount to about 125,000 machines. African accounted for slightly more than one percent of such imports with total imports of about 1600 machines. More than two thirds went to Madagascar (1022) and about one third (626) went to Mauritius.

In 2007, for finishing operations encompassing finishing machines (mercerizing, dyeing, bleaching, washing, CPB-Dying, stentering, sanforizing, compacting and relaxation dryer), total world wide shipments in 207 amounted to 200 machines for finishing woven fabrics and about 130 machines for finishing knitted fabrics. The region imported only four machines two into Ethiopia (stentering -giving shape) and relaxation drying (special drying technique to assure softness) of knitted fabrics) and South Africa (stentering of knitted and stentering of woven fabrics).

As indicated by the declining imports of textile machines, African efforts to introduce and maintain textile production are under pressure.

The first attempt was to establish home furnishing (sheets and pillowcases) in Kenya in the 1980's. U.S. buyers engaged in quota shopping chose Kenya when other sources were closed under the MFA. However after an initial surge, imports were curtailed when the U.S. imposed restraints.

It was expected that Madagascar would produce sweaters from local yarns and fabrics. Although there is some production, most incorporate imported textiles. Competitive position did not allow as much local productions as would have been expected.

West and East Africa have had a long tradition of print cloth. In the early 1980's there were some forty textile companies that produced fancy and waxed print cloth. By 2004, the number had been reduced to three companies. A share of the blame for this decrease is low cost competition from Far East suppliers often smuggled into the country. My partner, Tony Carroll will explain the unique problem caused by Chinese illegally copying African designs. Other problems were high energy and transportation costs and lack of a regional market.

Impact of Abundant Supply Provision

In an attempt to promote integrated production the U.S. AGOA legislation originally provided for a limitation and a four year phase out of duty-free treatment for African garments incorporating third country fabrics. However, the failure to develop SSA textile production to satisfy AGOA apparel producers led to the deadline. It is now clear that in the foreseeable future, for the reasons cited above, SSA yarns and fabrics cannot replace third country materials.

The most recent AGOA improvement introduced a new concept of abundant supply. If a yarn or fabric was designated to be in abundant supply, importers would have to purchase a minimum amount of apparel incorporating these fabrics. The amount would be established by what was commercially available. The Act determined that denim incorporated in jeans met the requirement. However, U.S. buyers balked at being forced to use regional denim since they argued that they could not be limited to a single source. Fashion and quality requirements as well as traditional sourcing patterns had to have a priority if they were to remain competitive. In fact, a number of buyers indicated they would stop purchasing African production if such limits were imposed. The result was that the 110th Congress eliminated the abundant supply provision.

The experience with the abundant supply and third country fabric provisions have indicated that trade rules cannot force sourcing of African yarns and fabrics for incorporation in AGOA exports. There are simply too many sources of competitively priced garments for buyers to be limited. Even with preferences, the competitive position of Asian producers is so strong that if AGOA preferences are conditioned on where inputs are sourced, buyers will simply purchase from the Far East. The African position is so precarious that even rumors that Bangladesh will gain the same advantages as the region in the U.S. market is enough to threaten sourcing from Africa. There is an opportunity for Bangladesh to benefit from such preferences in products not produced in the SSA region.

Recommendations

Although trade policy is not the recommended remedy for assisting African textile mills, there are other policy alternatives. Rather than focus on individual products, one must work on the overall competitiveness of African production.

The two most important ingredients are

1. Infrastructure investment linked to improving the competitiveness of African manufacturing. It is estimated that a decline in one cent of average power costs would go a long way in making AGOA exports incorporating African yarns and fabrics competitive. Transportation cost also must be addressed. We strongly support the concept that road building should be part of an effort to develop the transportation corridors. Such an effort should include a priority in linking agricultural areas where cotton is grown and could be transformed into yarns and fabrics with the port areas used for apparel production.
2. Individually the forty eight SSA countries are simply too small to develop the required economic of scale to be a world class competitor. I am honored to be on the panel with the Secretary General of COMESA Sindiso Ngwenya, COMESA has probably one of the most outward looking attitudes toward trade among the various Regional Economic Communities (RECs). U.S. development programs should put a much higher priority on regional efforts. In this case, we note the effective contribution of the African Global Competitiveness Initiative (AGCI) and proposals under consideration in Congress to give a more regional focus to MCC programs.

Other ingredients play a role as well in the competitiveness of textile production. The business environment, management, technical training are important. However, these issues are being addressed effectively. Also, they do not involve a modification in US policy. It needs to be noted that without a competitive infrastructure and without economies of scale in place, other efforts will not bear fruition. There will be no competitive product to export.

If such an effort is undertaken, there are number of yarns and fabrics where Africa can be competitive. African cotton is used to produce lighter weight fabrics. These fabrics include lighter bottom weights (khakis, chinos, corduroy, twill, denim), shirting, bed sheets, circular and flat knits, terry towels and bed sheets/pillow cases. These fabrics often do not require a massive production run. They are also readily incorporated in AGOA exports.

We are confident that if utility costs are reduced relying on textiles produced from local materials will make AGOA into a much more integrated and successful program.

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Sub-Saharan African Textile and Apparel Inputs Potential for Competitive Production Investigation No. 332-502

I appreciate the opportunity to appear before the Commission in connection with its investigation of the potential for competitive production of textile and apparel inputs in Sub-Saharan Africa. I am appearing in my capacity as President of the African Coalition for Trade (ACT), which is a non-profit trade association of African private sector companies and associations that export to the United States under the African Growth and Opportunity Act (AGOA). Because much of the success of AGOA has been focused on the textile and apparel industries, ACT's members are likewise primarily from those sectors. ACT's members include many of the leading apparel producers in Africa and virtually all of the major textile producers. ACT's membership comes from the private sectors in Botswana, Kenya, Lesotho, Madagascar, Mauritius, South Africa, Swaziland, and Tanzania.

African exports of apparel to the United States have more than doubled under the AGOA duty-free preferences, creating an estimated 200,000 new jobs in Africa. But this success story was tarnished upon expiration of the Multi-Fiber Arrangement (MFA) in 2005, which exposed Africa's infant industry to competition from strong and well-established Asian producers, especially China, Bangladesh and Cambodia. Since 2005, U.S. apparel imports from Africa have declined by 25% with the loss of an estimated 50,000 African jobs. It is widely recognized that the competitiveness of Africa's apparel industry would be enhanced by the parallel development of a competitive textile industry to supply the inputs of apparel production. Without a viable upstream to supply competitively priced yarns and fabrics, the only means available to the African apparel sector to enhance its competitiveness is by cutting the wages paid its workers. That is not, however, the foundation upon which sustainable economic development can be built.

1. Context.

In the 1960s and 1970s, textile production was widespread across Africa. Due in part to the "import substitution" economic development theories then in vogue, Africa was largely self-sufficient in textile production, which was targeted at meeting the apparel consumption requirements of the local market. The African textile industry was supported by high tariffs that made foreign yarns and fabrics prohibitively expensive. And South Africa, which had by far the largest textile industry in Africa, was forced to become self-sufficient due to anti-apartheid economic sanctions.

As economic development theories evolved during the 1980s and 1990s, import substitution was replaced by the model of production for export. At the same time, large volumes of used clothing began to be imported from the United States and the EU, flooding local markets in Africa with cheap alternatives to locally produced garments, thereby significantly reducing the market for African textiles. As a result, there was a sharp contraction and concentration of textile production in just a handful of countries in Africa.

By the time AGOA was enacted in 2000, export quality apparel production was largely focused in just six countries in Africa: Kenya, Lesotho, Madagascar, Mauritius, South Africa, and Swaziland. Export quality textile production was likewise present in these same countries, except for Lesotho. South Africa and Mauritius had by far the largest textile industries in 2000. In addition, Zambia had a significant cotton yarn-spinning industry. Small amounts of “ethnic” fabric were still produced in West Africa, especially in Ghana and Nigeria, while a few textile plants producing lower quality yarns and fabrics for the local market remained in operation across the continent.

2. The Impact of AGOA.

As originally enacted, AGOA envisioned a gradual transition from use of imported “third-country” yarns and fabrics to greater reliance on African-origin inputs. This can be seen most clearly in the fact that the least developed country (LDC) AGOA beneficiaries were given access to third-country fabric for only four years, *i.e.*, 2000-2004, after which only garments made from U.S. or African-origin yarns/fabrics would qualify for duty-free treatment under AGOA. Similarly, non-LDC beneficiaries Mauritius and South Africa, both of which already had significant local textile production, were limited to using only U.S. or African-origin yarns/fabrics. AGOA’s encouragement of use of local inputs was an intentional policy choice, as it was widely recognized that apparel production is usually most competitive when it is vertically integrated, utilizing yarns, fabrics and other inputs from nearby sources, thereby reducing transportation costs and delays that decrease competitiveness. The success of vertical integration, however, depends upon the competitiveness of the cost and quality of the locally-produced inputs.

In response to AGOA’s formula, significant investments were made in yarn spinning and fabric weaving in Lesotho and Mauritius shortly after AGOA’s enactment. The viability of these investments in textile production was undermined, however, when Congress twice extended the LDC third-country fabric provision, first to 2007 and then to 2012.

According to Department of Commerce statistics, 90% of the apparel imported from Africa under AGOA has been made in LDCs using third-country fabric. Unfortunately, the original AGOA third-country fabric provision was scheduled to terminate on September 30, 2004, literally on the eve of the expiration of the MFA system of quotas on January 1, 2005, pursuant to the WTO Uruguay Round Agreements. I have no doubt that the AGOA apparel program would have collapsed if the third-country fabric provision had been allowed to terminate at virtually the same time as the MFA quotas were being lifted, thereby exposing Africa to direct competition from super-competitive Asian apparel exporters such as China, Bangladesh, and Cambodia. This illustrates one of AGOA's conundrums: extension of the third-country fabric provision was essential to prevent the collapse of the infant African apparel industry that had grown up in response to AGOA, but at the same time the extension of access to third-country fabric handicapped efforts to achieve vertical integration, which is essential to the long-term competitiveness of the African apparel industry.

Motivated in large part by a desire to minimize the harm to the African textile sector that had been caused by the extension of the AGOA third-country fabric provision, in 2006 Congress added a new provision to AGOA to encourage the use of African-origin yarns and fabrics that were determined to be readily available. Known as the “abundant supply” or “commercial availability” provision, this new measure proved unwieldy in practice, as the Commission is well aware, and threatened to undermine the African apparel sector at precisely the same time that it was facing unprecedented competition from Asia

in the post-MFA environment. In response to intense lobbying by U.S. apparel importers and retailers, Congress repealed the commercial availability provision in 2008.

3. Today's African Textile Industry.

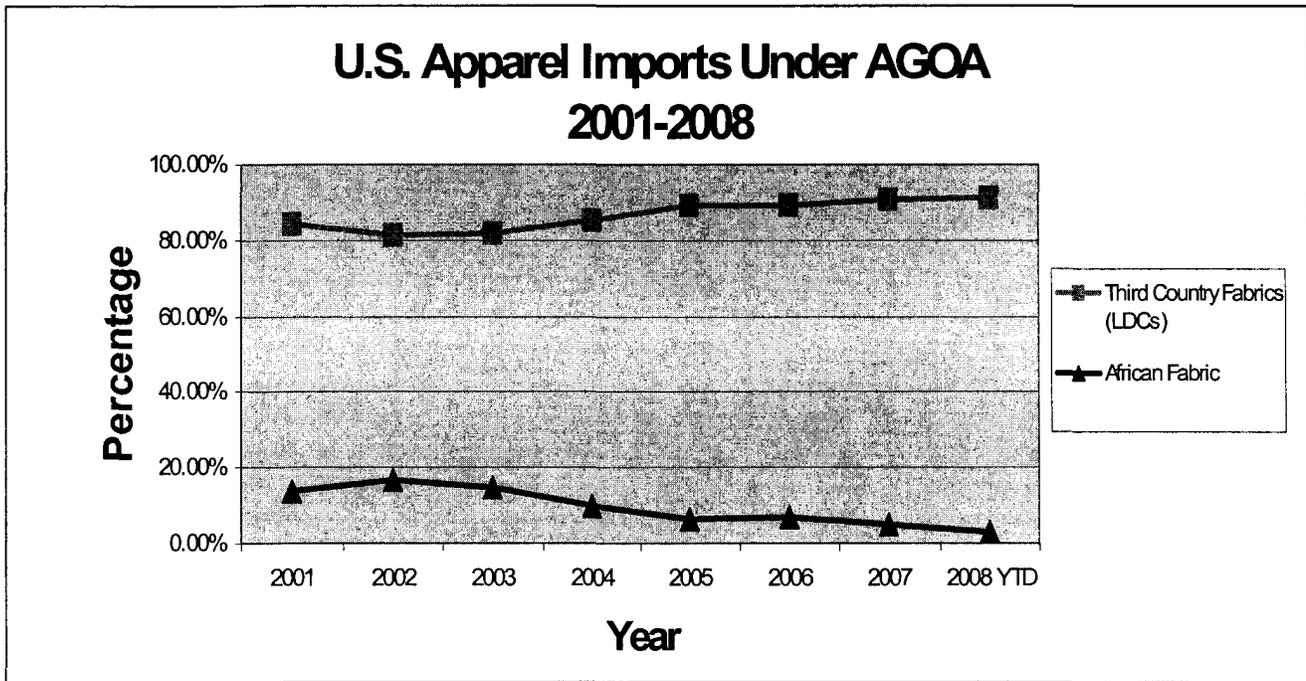
In this context, the African textile industry has been struggling to survive. The expiration of the MFA has not only stressed the downstream apparel sector, *i.e.*, the primary customer base of the African textile industry, the lifting of the MFA quota system and general liberalization of trade under the Uruguay Round Agreements have also directly threatened the African textile industry, as increasing volumes of foreign textile products, mostly from China, have been imported into Africa, further reducing the demand in the local market for regional yarns and fabrics.

Facing these new competitive threats, in the four years since the end of the MFA, several major African textile producers have ceased operations, including: BMD Textiles of South Africa (major yarn spinner and fabric weaver), CGM Textiles of South Africa (small yarn spinner and denim fabric weaver), and Socota Textiles of Mauritius (major yarn spinner and fabric weaver). And Nien Hsing Ltd., the largest denim producer in Africa, is seriously considering closing its Lesotho plant.

On the other hand, three new major textile plants have been built in Africa since 2004, and all three are located in Mauritius: CMT and Tianli, both major cotton yarn spinners, and RS Denim, a major cotton yarn spinner and denim fabric weaver. It must be noted that these three new textile operations were all built in response to AGOA incentives that no longer apply. Thus, both CMT and Tianli were built to supply African-origin cotton yarn to the Mauritian knitwear industry because Mauritius was originally classified as a non-LDC and, therefore, was prohibited from using third-country yarn/fabric under AGOA. In 2008, however, Congress granted Mauritius access to third-country fabric. While this was necessary to prevent the complete collapse of the Mauritian apparel industry (U.S. apparel imports from Mauritius had fallen by 50% since the end of the MFA), the extension of access to third-country fabric has undoubtedly diminished the demand for locally-produced yarn in Mauritius. In addition, the RS Denim factory was built in large part in reliance on the AGOA commercial availability provision. The repeal of that provision has significantly undercut the market for the denim fabric produced by RS Denim.

4. Competitiveness of African Textiles.

I am not aware of any comprehensive analyses of the competitiveness of the African textile industry. Drawing on anecdotal and indirect information, however, it is evident that, for the most part, African-origin yarns and fabrics are not cost-competitive with those manufactured by well-established Asian textile producers, especially China. This can be seen most clearly from the fact that as much as 90% of the garments produced under AGOA have consistently been made from third-country fabric. Even though regionally-produced fabric should have considerable advantages in lower transportation costs, quicker delivery times, etc., the share of AGOA apparel imports made from regional fabric has actually been falling, hitting an all-time low of just 3% in 2008.



Further confirmation that African textile products are generally not competitive with those produced in Asia comes from the fact that only extremely small volumes of yarns, fabrics and made-ups are imported into the United States from Africa.

U.S. Imports of Yarn, Fabric, Made-Ups from Sub-Saharan Africa 2006-2008 (million SME)

Country	2006 Imports	2007 Imports	2008 Imports (12/07-11/08)	% Change 2006-2008
Botswana	0.221	0.000	0.000	-100%
Ghana	0.011	0.037	0.038	+245%
Kenya	0.328	0.870	0.144	-56%
Lesotho	0.000	0.000	0.000	NA
Madagascar	0.019	0.213	0.308	+1,521%
Malawi	0.000	0.000	0.004	>100%
Mauritius	0.011	0.025	0.014	+27%
Namibia	0.503	0.001	0.004	-99%
South Africa	10.101	11.416	27.818	+175%
Swaziland	0.003	0.001	0.015	+400%
Rest of SSA	2.795	1.574	2.481	-11%
SSA Total	13.992	14.137	30.826	+120%

(Source: U.S. Department of Commerce, Office of Textiles and Apparel)

Although there has been some growth in textile imports from Africa during the past three years, some observations are necessary to put this data into perspective. First, Africa supplies only 0.1% of U.S. textile product imports. By contrast Africa supplies 1.3% of total U.S. apparel imports. In other words, apparel made in Africa from third-country fabric would seem to be much more competitive – perhaps as much as 10 times more competitive - than yarns, fabrics and made-ups produced in Africa.

Second, fully 90% of the textile products imported from Africa come from South Africa. This illustrates the fact that textile production, unlike apparel production, is dependent upon reliable and affordable infrastructure, especially electricity, water and waste water treatment facilities. But the requisite infrastructure is unavailable in much of Africa.

The notable exception to this pattern is Mauritius, which has been successful in developing and expanding upstream yarn and fabric production. Although this production has been largely built to serve vertically integrated operations between related company units, there has been sufficient production to supply yarns and fabrics to unrelated companies in Mauritius and even to export them to Madagascar. The Government of Mauritius has been proactive in its efforts to encourage the development of the textile sector. The public-private partnership in these efforts has been crucial to their success so far.

5. Factors Affecting Competitiveness of African Textile Production.

a. Economies of Scale.

One of the biggest competitive advantages that Asian textile producers have over their counterparts in Africa derives from their economies of scale. Because textile production is capital intensive, large volumes of production are necessary to bring unit costs down to competitive levels. To illustrate, during the 12 months ending November 30, 2008, China exported fully 25 times as much apparel to the United States as did all of Sub-Saharan Africa combined (7.7 billion sme's of apparel from China vs. 304 million sme's from all of Sub-Saharan Africa). As a consequence, the market for textiles in China dwarfs that in Africa.

In a very real sense, therefore, the African textile industry faces a "chicken-and-egg" problem. The downstream apparel industry is too small and geographically fragmented to justify the large capital investments necessary to achieve competitive large-scale upstream textile production. And in the face of unprecedented competition in the post-MFA era, it is uncertain whether the downstream apparel sector can achieve the critical mass necessary to justify investment in upstream textile production of sufficient size to be internationally competitive.

b. Infrastructure.

As noted above, textile production requires significantly more infrastructure than does apparel production. Reliable and affordable electricity, water and waste water treatment are especially important. Most of Africa, however, lacks the infrastructure necessary to support competitive textile production. It is not a coincidence that South Africa has the largest textile industry in Africa or that all of the new investments recently made in textile production in Africa have been in Mauritius. These two countries have the most advanced infrastructure in Africa. Significant U.S. Government-sponsored or multilateral support for infrastructure development will probably be necessary if textile production in Africa is to

become more internationally competitive.

c. Access to Financing.

As pointed out above, textile production is capital intensive. An investment of considerably more than \$100 million is typically necessary to develop a textile plant of sufficient size to benefit from economies of scale. But access to financing on this scale is limited in Africa. Further complicating matters, U.S. Government-sponsored financial facilities, including OPIC and Ex-Im Bank, have typically been reluctant to participate in financing textile projects in Africa due to the perception that such projects would be politically controversial. Access to U.S. Government-sponsored or multilateral financial support will need to be enhanced if textile production in Africa is to become more internationally competitive.

d. Need for Consistent Policy.

As discussed in the preceding sections of this statement, textile production in Africa has received inconsistent policy support from the U.S. Government. The extensions of the AGOA third-country fabric provision, although necessary to prevent the collapse of the African apparel industry, sent "mixed signals" to the African textile sector. This policy confusion was exacerbated by the 2006 enactment of the commercial availability provision, which was intended to encourage vertical integration, followed by repeal of the measure in 2008. Such "on again-off again" policies seriously discourage the large capital investments necessary to develop a competitive textile industry in Africa.

On a broader scale, efforts to extend AGOA-like duty preferences to apparel made in non-African LDCs that are already fully competitive (such as Bangladesh and Cambodia) will only further undermine efforts to develop a competitive textile industry in Africa.

It is recommended that the U.S. Government should adopt and pursue consistent policies aimed at encouraging the development of a competitive textile industry in Africa. As noted above, such policies should include support for infrastructure development and access to financial facilities. But the experience of AGOA has demonstrated that preferential market access is also necessary, especially in the post-MFA context. Some trade policy initiatives that warrant consideration as means to encourage the development of a competitive textile industry in Africa are:

- Enhance the market for African-origin textiles by modifying the rules of origin under various free trade agreements (FTAs) and trade development programs for other regions (such as the Caribbean Basin Initiative and the Andean Trade Promotion and Drug Eradication Act) so that garments made under such FTAs and trade development programs can incorporate yarns and fabrics made in Sub-Saharan.
- Extend duty-free eligibility to yarns, fabrics and made-ups from all AGOA beneficiaries. In 2006 Congress amended AGOA to extend duty-free status to yarns, fabrics and made-ups produced in LDCs, but that amendment excluded such products from non-LDCs like South Africa, which has the largest textile industry in Africa. As discussed above, South Africa has the best infrastructure in the region and, therefore, is among the most attractive locations for textile production, but the exclusion of South Africa's textile products from AGOA's benefits handicaps the entire region's ability to develop a competitive textile industry.

- Consider non-punitive incentives to encourage greater use of regional yarns and fabrics in garments made under AGOA. The commercial availability provision did not work in practice because its “carrot and stick” approach focused much more on the stick. That is, the punitive element for failing to use regional fabric far outweighed the positive incentive. But non-punitive incentives for using local fabric are available and are incorporated in other trade preference programs. For example, both the Dominican Republic under CAFTA and Haiti under the HOPE Act are permitted to earn the right to use third-country fabric by using specified volumes of regional fabric (2-for-1 in the case of the Dominican Republic and 3-for-1 for Haiti). A variant of this approach could be used to encourage greater use of regional yarn/fabric under AGOA.

I would be happy to answer any questions the Commission may have.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul Ryberg". The signature is written in a cursive style with a large, stylized "P" and "R".

Paul Ryberg
President



EMBASSY OF THE KINGDOM OF LESOTHO

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LW/GOV/24

February 24, 2009

Ms. Marilyn R. Abbott
Secretary
United States International Trade Commission
500 E Street, SW
Washington, D.C. 20436

Dear Ms. Abbott:

**Submission of Lesotho's Testimony on the Study by the Commission (ITC)
on "Sub-Saharan African Textiles and Apparel Inputs:
Potential for Competitive Production"**

I am pleased to submit, on behalf of the Kingdom of Lesotho, the attached Testimony relating to ITC's ongoing study on the textile and apparel inputs in the Sub-Saharan AGOA eligible countries.

I regret very much the fact that due to conflicting schedule, I was not able to give a viva voce account of our views to the Commission on this important subject for the growth and sustainability of Lesotho's textile and apparel sectors.

I look forward to your invitation on this and other issues of mutual interest in the future.

Yours sincerely,


DAVID MOHLOMI RANTEKOA
AMBASSADOR

Enc.

cc. PS Foreign Affairs and International Relations

RECEIVED
U.S. INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436
FEB 24 2009



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February 24, 2009

H.E. David Rantekoa
Ambassador of the Kingdom of Lesotho to the United States
Post Hearing Brief
United States International Trade Commission Hearing
Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production

I would like to thank the U.S. International Trade Commission for the opportunity to submit testimony for this important investigation into sub-Saharan Africa's textile and apparel sectors. I would also like to thank the government and the people of the United States of America for their generosity and the opportunities presented to Lesotho by the African Growth and Opportunity Act (AGOA) and all of the continuing work to expand and improve U.S. and sub-Saharan African economic relations.

Introduction

The purpose of this study is to identify yarns, fabrics, and other textile and apparel inputs that through new measures can be produced competitively in sub-Saharan Africa. As you know, Lesotho's textile sector is small compared to the apparel sector, as is the case for sub-Saharan Africa in general. The region as a whole remains a net importer of textiles, but several countries have managed to create important apparel export industries with support from preferential trade arrangements. Indeed, the apparel sector is Lesotho's largest formal sector employer, with the vast majority of production aimed at export to the US market. As regional supply of many textile and apparel inputs is insufficient for Lesotho's current production needs, vertical integration of the textile and apparel sectors remains a priority for the Government of Lesotho (GoL). Vertical integration will support the long-term export competitiveness of the apparel sector, and the GoL has pursued a variety of efforts to support development of the textile sector, including the development of industrial infrastructure, discounted rates on factory rent, and a variety of labor development and tax incentives.

Overview

The GoL stands ready to facilitate investment in textile and apparel inputs, yet patterns in international trade and developments in international trade policy continue to pose significant challenges for development in sub-Saharan's Africa's textile sector. Lesotho's own apparel sector is directly supported by the special rules of origin granted to certain 'least developed country' (LDC) beneficiaries under AGOA, also known as the third country fabric rule. Due to the previously noted inadequacies in regional textile and apparel input production, our apparel sector is dependent on the importation of raw materials into Lesotho. In the past, our apparel exporters have experienced significant export disruptions due to changing rules of origin (ROO)

allowances under trade relations with our major trading partners, the US and the EU, underscoring the precarious nature of dependency on temporary terms of trade.

The temporary nature of preferential trade arrangements creates further complications for attracting investment, as expiration of certain benefits may eliminate market incentives for investment. For example, Lesotho's apparel industry experienced a sharp decline upon expiration of a special derogation allowing relaxed apparel input rules of origin under the EU Lomé Agreement in 1995. Several factories were forced to reduce production, shut down, or to shift production to the US market. AGOA played a critical role in the recovery of Lesotho's apparel sector since 2000, but ROOs under AGOA continue to play a critical role in our trading relationship with the US. In 2006, the US generously extended AGOA's third country fabric provisions from 2008 to 2012, creating a small window of opportunity for development in the textile and apparel sector. As of the 2nd quarter of 2008, 31.6% of Lesotho's exports were destined for the U.S. market - the majority of that total being apparel - Lesotho's apparel producers are continually mindful of the looming expiration of access to third country fabrics under AGOA in 2012.

Challenges in Lesotho's Textile and Apparel Sectors

Despite such generous treatment from our major trading partners, development in each sector remains a constant challenge, as our producers face intense competition from very well established producers around the world, particularly in Asia. Several developments beyond the scope of AGOA have affected Lesotho's textile and apparel industry in recent years. For example, Lesotho's apparel industry has not yet recovered from the 2005 expiration of WTO Multi-Fibre Arrangement (MFA) apparel quotas. Lesotho's apparel exports to the US peaked in 2004 at over \$455 million, declining sharply to \$390 million in 2005 and falling slightly in each of the following years. Over the last one year period from December 2007 to December 2008, Lesotho's textile and apparel exports to the U.S. declined by 11.43 percent, a loss of almost \$44 million in business and approximately 7000 jobs; the sharpest year-on-year decline witnessed since 2005.

Trade over the last year has no doubt suffered due the global recession and the impact on US consumption. In addition to these recessionary effects, Lesotho's producers have faced uncertainty created by the December 31, 2008 expiration of US imposed safeguard quotas on imports of Chinese apparel products, part of the continuing impact of the 2005 expiration of the WTO MFA. When quotas were initially removed from Chinese imports in 2005, many buyers witnessed significant pricing adjustments. Even under a quota scenario, China constitutes some 35% of the US textile and apparel import market, while all of sub-Saharan Africa makes up little more than 1 percent of the US market. (Lesotho makes up just 0.36 percent of the US import market according to the most recent data from the U.S. International Trade Administration). The uncertainty associated with China's impact on apparel trade combined with continuing fierce competition from other Southeast Asian producers, notably Bangladesh and Vietnam, has hurt production and investment prospects in Lesotho and Sub-Saharan African in general. Additionally, the overall decline in regional exports over the last few years, especially exports from South Africa, has exacerbated the regional shortage of textile and apparel inputs.

As noted, the capacity to produce yarn and fabric has been degraded due to declining exports from our regional partners over the last few years. Not only is the quantity of fabric produced in

sub-Saharan Africa insufficient for global export markets, but the region also lacks the variety of production available in other markets. Even in Lesotho's largely vertically integrated denim industry, our denim mills do not produce every type of fabric required by our buyers, nor do we have the capacity for dying and finishing services required for all types of apparel orders. Additionally, Lesotho is dependent on importing a large variety of non-textile apparel inputs, including zippers, buttons, hangers, boxes and other packaging. Each of these areas presents an opportunity for additional local production and employment, and new investments to produce these input items in Lesotho may increase the utilization of available industrial facilities, reduce the lead time on apparel products, and reduce production costs for apparel producers.

Opportunities for Development

Some constraints on Lesotho's textile and apparel input sectors could be alleviated through development of industrial infrastructure, particularly in the water and land transportation services. As Lesotho is a land-locked country, all of our apparel inputs are imported by truck or rail. The majority of our apparel inputs travel by rail, and additional investment in Maseru's rail yard are needed to facilitate processing and storage of shipping containers. Shipment by truck is sometimes more expedient, but tends to be more costly as less than a quarter of Lesotho's road network is paved.

As the textile production, dying and finishing industries are highly dependent on access to water infrastructure, the GoL has made development of water infrastructure a major component of our recently awarded Millennium Challenge Corporation Compact. Even so, additional water sector development is necessary in many other areas of the country, particularly in the Northern District of Leribe, where Maputsoe and Nyenye apparel production hubs are located.

Accordingly, in addition to projects such as our MCC partnership, the GoL has rolled out ambitious measures for the development of industrial infrastructure through a variety of Lesotho National Development Corporation projects, the Lesotho Highlands Water Project partnership with South Africa, and other GoL road, water, and energy development initiatives. The GoL is contributing \$31.8 million, or 9.1 percent of the capital budget this year, to water and sanitation infrastructure which will benefit communities across the country, both in urban and rural areas. In fact, the GoL has set aside \$60 Million over the next two years to support specific investments related to the provision of water, roads, factory shells and communications to the new firms that want to locate in our industrial estates.

We have developed a specific program aimed at restructuring the textile and clothing sector. We will create new institutional and financial facilities to support export-import businesses for existing and new foreign and local exporting firms; encourage existing firms to invest in the modernization and upgrading of their operations to take advantage of new global opportunities when the world economy recovers; and explore new export products and markets, including exports to SACU, SADC, EU and to the US.

As part of this textile and apparel sector recovery plan, the GoL will take equity in some of these companies; establish export-import facilities to be implemented by the Central Bank; ensure that Lesotho's Commercial Banks can issue pre and post-shipping Letters of Credit and negotiate appropriate discounted Letters of Credit; gradually bring the work being done by Agents in the Far-East to Lesotho; cooperate with China and its firms to deepen the skills in textiles and join

the African Export-Import Bank that was launched in 1993 by the African Development Bank to support African exports.

For construction and maintenance of urban and rural roads, \$87.3 million or 25% of the capital budget, has been set aside. Rural roads and bridges will receive \$21.5 million or 6.2 percent of the capital budget. Urban and main roads will receive \$63.9 million or 18.3 percent of the capital budget. In addition, part of the economic stimulus package has been set aside to finance industrial infrastructure development in Maseru and to complete infrastructure development for Ha Tikoe Industrial Estate as well as the expansion of Ha Nyenye Industrial Estate.

Recommendations for US Policies and Programs

As noted above, investment in the textile and apparel industry is necessary for Lesotho to take optimal advantage of AGOA and increase the long-term export competitiveness of our apparel industry. However, it is important to emphasize that increased investment in textiles or increased production of textiles is not the panacea for Lesotho's downstream apparel industry. Buyers demand a whole range of pre and post apparel production services that are lacking in Lesotho, many of which require capital intensive investment and long lead times for investments to come to fruition. As such, US policymakers must take a holistic approach to encouraging vertical integration of the textile and apparel industries in sub-Saharan Africa, being careful to improve incentives to increase investment in textile and apparel inputs while not undermining the critically important downstream apparel industry. Among other initiatives, the following changes to US policies and programs would support this goal:

- Extend the third country fabric provision of AGOA far beyond 2012.
 - Africa does not produce enough fabric to satisfy demand in the downstream apparel assembly industry. Without access to this provision, the industry faces collapse in 2012.
- Ensure that Sub-Saharan African countries' margin of tariff preference is maintained as progress is achieved on the WTO Doha Development Agenda.
 - While all WTO member countries should be encouraged to honor the commitments of the 2005 Hong Kong Ministerial Declaration, caution must be exercised in expanding duty-free and quota-free (DFQF) treatment to highly competitive textile and apparel export industries in the WTO LDC block. Even under duty paying schemes, many of sub-Saharan Africa's competitors in Asia are witnessing expansions in the US market as AGOA apparel trade continues to decline. A concerted effort must be made to balance the opening of new market opportunities for all LDCs against the need to protect critical sectors in small and vulnerable economies from highly competitive industrial competition.
- Allow new privileges for apparel made with African produced textiles.
 - In order to encourage investment and industrial development in AGOA eligible countries, the US could consider conferring relaxed rules of origin to products made in third countries (i.e. non AGOA states) using certain ranges of African made textiles.

- Enact new investment incentives to encourage vertical integration of the textile and apparel industries in LDC AGOA beneficiary countries.
 - Tax credits or investment financing should support the existing apparel sector as well as new investments in textiles and apparel inputs, there is a long lead time on textile investments, approximately two years, in which time the apparel industry may suffer further decline.
- Enact new funding for industrial infrastructure related to textile and apparel production and support additional financing mechanisms for private sector investments in the water, power, and transportation infrastructure sectors.
 - The global financial crisis has exacerbated the cost of capital for these already capital intensive projects, making government intervention or special partnership mechanisms all the more necessary.

Conclusion

If urgent measures are not taken to address the above challenges, there is a very serious likelihood that in as little as 3 years, sub-Saharan African developing countries like Lesotho will face economic collapse in their nascent textile and apparel industries. This would mean the loss of thousands of jobs in the world's poorest region and the unraveling of much of the progress achieved by AGOA and other preferential trade programs aimed at encouraging development through trade in Africa. The GoL welcomes the continued engagement and support from the US to facilitate trade development in Africa, and the opportunity to work with investors and our other international partners in trade to facilitate investment in Lesotho's textile and apparel sectors.

I again thank the Commission for the opportunity to contribute to this important study.

Sincerely,



David Mohlomi Rantekoa
Ambassador
Kingdom of Lesotho



Embassy of the Republic of Mauritius

MEW/ECO/01

15 January 2009

Dear Madam,

Investigation No: 332-502

Sub-Saharan Textile and Apparel Inputs: Potential for Competitive Production

I have the honour to submit herewith the written statement by His Excellency Keertecoomar Ruhee, Ambassador of the Republic of Mauritius for the hearing scheduled to be held on 29 January 2009 on Investigation No: 332-502 Sub-Saharan Textile and Apparel Inputs: Potential for Competitive Production.

Please accept the assurances of my highest consideration.

J. Nayeck
Deputy Chief of Mission

Ms. Marilyn Abbott
Secretary to the Commission
United States International Trade Commission
500 E St. SW
Washington, D.C. 20436

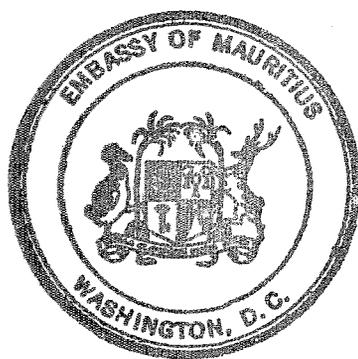
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OFFICE OF THE DEPUTY CHIEF OF MISSION

Before the
U.S. INTERNATIONAL TRADE COMMISSION
Washington, D.C.

Investigation No. 332-502
Sub-Saharan Textile and Apparel Inputs:
Potential for Competitive Production

Written Statement
Submitted by
Ambassador Keerteecoomar Ruhee
Republic of Mauritius

15 January 2009



ITC Investigation
Sub-Saharan African
Textile and Apparel Inputs:
Potential for Competitive Production

This statement is respectfully submitted by the Government of Mauritius in connection with the January 29, 2009 hearing before the U.S. International Trade Commission in Investigation No.332-502.

1. Introduction

A major objective of AGOA is to help Sub Saharan African countries develop a competitive textile and apparel sector with higher value addition. Fulfilment of this objective would necessarily call for vertical integration on a regional basis.

As far as Mauritius is concerned, given that textiles and apparel constitute the bulk of our manufactured exports, the vertical integration of the industry has always been given due prominence in our industrial strategy.

Vertical integration brings many advantages to local manufacturers who increasingly face tighter deadlines and fiercer cost competition. Moreover, it also increases the sophistication of the textile industry.

2. Investment in Spinning Activities in Mauritius

Recognising that vertical integration requires substantial investment, human and technological expertise, as well as a considerable time lag before yielding benefits, the Government of Mauritius adopted a package of incentives as from July 2002 to encourage spinning activities in Mauritius.

Moreover, the tariff liberalisation which started in 2005 is aimed at achieving a low and uniform level of protection for the manufacturing sector while preparing Mauritius to become a 'duty free island'. As of date 87% of tariff lines from our HS tariff book is duty free. All Industrial inputs including, cotton, yarn and textile are duty free in Mauritius, thus providing a significant impetus for spinning and weaving activities.

Four spinning mills are presently operating in Mauritius. The two mills that spin cotton yarn for knitwear are Tianli Spinning Co Ltd and CMT Spinning Ltd with a total capacity of 30,000 tons. Given that the local demand for cotton yarn for knitwear in Mauritius is 48,000 tons, there is a shortage of 18 000 tons of cotton yarn. The two mills that spin cotton yarn for denim fabric are Denim de l'Ile and RS denim with total capacity of 21 000 tons. For denim yarn there is a yearly surplus of 9000 tons. A more detailed breakdown is given below:

Table 1: Spinning Operations in Mauritius

	COMPANY	PRODUCTION CAPACITY OF YARN (TONS)		EMPLOYMENT
		Cotton Yarn	Denim Yarn	
1	Tianli Spinning Co. Ltd	13,000		255
2	CMT Spinning Ltd	17,000		300
3	Denim de L'Ile Ltee		9,000	150
4	RS Denim Ltd		12,000	300
	Total	30,000	21,000	1005

It is important to note that several textile groups have in-house spinning activities but these have not been included since they produce for their own consumption only.

3. Competitive Production in the Region

Imports of Cotton by Mauritius

The increase in spinning activities in Mauritius has boosted our imports of raw cotton. The table below gives an indication of the evolution of cotton imports (not carded or combed) for the period 2003-2007, including the percentage of imports from AGOA eligible countries.

Table 2: Imports of Cotton by Mauritius

Year	Total Imports of cotton not carded or combed (Rs million) (Avg. exchange rate: US \$1= Rs.30)	Imports from AGOA eligible countries as a % of total imports (%)
2003	442,300,154	82.23
2004	786,636,127	39.57
2005	697,115,628	54.61
2006	1,088,218,009	57.90
2007	1,082,098,072	76.72

The preceding table shows that between 2003 and 2007, the consumption of cotton by Mauritian enterprises has more than doubled. Moreover, as from 2003, imports of cotton from the region have consistently increased. For the year 2007, 76.72% of imports of cotton (not carded or combed) came from AGOA eligible countries which included, Zambia, Mali, Cameroon, Chad, Mozambique, Burkina Faso, South Africa, Benin, Tanzania, Ethiopia, Uganda. It is worth noting that for the year 2007, Zambia was the largest supplier of cotton to Mauritius with imports from this country totalling Rs 390,321,750.

The above data demonstrate that the Sub Saharan African region is competitive in the supply of raw cotton. Mauritius has been a consistent buyer for its spinning activities and thus contributes to vertical integration in the region. The import figures also show that the region is

as good as traditional suppliers of cotton outside Sub Saharan Africa, such as India, Pakistan, Egypt, China.

Exports of Cotton Yarn and Fabric by Mauritius to the Region

Given that spinning activities boosted our yarn and fabric production, this has enabled Mauritius to export on the regional market. Madagascar and South Africa constitute our main buyers in the region.

The table below illustrates cotton yarn and fabrics exports from Mauritius to Madagascar and South Africa:

Table 3: Exports of Cotton Yarn and Fabrics to Madagascar (Rs. Million) (Avg. exchange rate US\$1=Rs 30)

	2007		Jan - Sept 08	
	Madagascar	South Africa	Madagascar	South Africa
Yarn	35,072,382	15,176,511	20,464,958	5,666,188
Fabrics	232,843,788	68,997,072	135,763,109	58,184,917

The fact that these two apparel producing countries are buying raw materials from Mauritius indicates that a key objective of AGOA, namely regional sourcing of materials is being achieved, albeit on a fairly small scale so far.

4. Future Investment in the Textile and Apparel Sector of Mauritius

The development of the textile and apparel sector has thus far been largely in response to the incentives provided by the AGOA duty preference. As preferential market access gives way to a globalized economy characterized by market liberalization, Mauritius has adopted a bold economic reform program to enhance our competitiveness.

In this context, Mauritius would welcome more investment in the spinning sector, especially for synthetic yarn for which there is no spinning mill at present. The attractive business environment fostered by the Business Facilitation Act of 2006 would help promote higher value addition in our manufacturing sector. The procedures relating to Foreign Direct Investment have also been substantially simplified and streamlined. At present the time for setting up of businesses is 3 days for a small and medium enterprise and 14 days for other businesses. Subsequent to the passage of the Business Facilitation Act, Mauritius has improved its ranking in the World Bank Doing Business classification: Mauritius is now 24th in the world and first in Africa in terms of the ease of doing business.

5. Conclusion

Given that spinning and fabric production require huge investment, we propose that the US explores the possibility of making available to all AGOA eligible countries a line of credit (which could take place via OPIC, EXIM or other financial facilities) for private sector firms with viable expansion/modernisation projects in the textile and apparel sector. To assist further in overcoming financing constraints to competitive textile and apparel production, the US may also wish to consider making available an equity fund that would co-invest with local and foreign

enterprises in the equity of projects in the sector. Mauritius would welcome investments by US firms in the textile and apparel sector.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Keertecoomar Ruhee', with a long, sweeping underline.

Keertecoomar Ruhee

Ambassador of the Republic of Mauritius

15 January 2009



EMBASSY OF THE UNITED REPUBLIC OF TANZANIA
WASHINGTON, D.C.

Ambassador

Ref : No. WE/T.10/25/43

February 6, 2009

Ms. Marilyn R. Abbott,
Secretary,
United States International Trade Commission,
500 E Street, S.W.,
WASHINGTON, DC 20436.

RECEIVED
OFFICE OF THE SECRETARY
US INTERNATIONAL TRADE COMMISSION
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Madam Secretary,

I have the honor to attach herewith the original and fourteen (14) copies of my government's written submission in connection with the United States International Trade Commission's public hearings related to Investigation No. 332-502 on Sub-Saharan African Textile and Apparel Inputs: Potential for Competitive Production.

Sincerely,

Ombeni Sefue
AMBASSADOR

**TESTIMONY BY WRITTEN SUBMISSION ON ITC INVESTIGATION
NO.332-502 ON TANZANIA'S POTENTIAL FOR COMPETITIVE
PRODUCTION OF TEXTILE AND APPAREL INPUTS.**

1.0 Introduction

The textile industry is one of the economic sectors with the highest potential of boosting Tanzania's capacity for industrial production and national development due to its extensive value chain and labor intensive nature. Strengthening and making this sector competitive will, among other things, create employment, increase government revenue, increase and stabilize farmers' incomes and engender rural development and poverty reduction in cotton growing areas.

2.0 The Current Status of the Textile Sector in Tanzania

Tanzania has more than 20 large scale textile industries. Most of them were established in the 1970s as state-owned enterprises. As part of Tanzania's economic reforms in the mid and late 1990s, all these industries have been privatized and are all privately owned now. Most of them are integrated. In eight (8) of them, manufacturing processes start from spinning to printing. Four (4) extend their processes to garment manufacturing. The rest are not integrated. Two (2) undertake spinning only, one (1) does the pruning and two (2) are engaged in garment manufacturing.

The quality of woven fabrics from Tanzania is, at the moment, not competitive. As a result, producers of garments for export rely on imported fabrics. The textile sector absorbs only 30% of the cotton

produced in the country. Industrial capacity utilization is 47.2% on textiles and only 39.1% on apparel.

The apparel sector is less diversified. Most of the industries are engaged in printed fabrics (*khanga and kitenge*) for the local and regional market. The applied technology is old (more than 30 years old) and inefficient. This further undermines the sector's competitiveness.

3.0 Potential for Competitive Production of the Textile Sector in Tanzania

Tanzania has a very favorable environment for the development of the textile sector, for the following reasons:

- a) Tanzania has one of the largest cotton growing areas in the whole of Africa. According to January 2009 statistics from the International Cotton Advisory Committee in Washington, DC, Tanzania with 450,000 hectares under cotton cultivation is second only to Burkina Faso (466,000 hectares) on the African continent. Quality cotton can be grown in more than 13 out of 21 regions in mainland Tanzania.

- b) Tanzania has a sizeable domestic market of about 40 million people, and a regional preferential market of over 200 million people. Tanzania is a member of both the Southern African Development Community (SADC) and the East African Community (EAC).

- c) Tanzania has access to other preferential markets in rich industrialized countries in the USA (through AGOA), the EU (through Everything but Arms), Japan, China and Canada. Because of capacity issues, Tanzania is using only a tiny fraction of these opportunities for export of textiles and apparel.
- d) Tanzania has an attractive and competitive investment regime managed by the Tanzania Investment Centre (TIC), as well as the Export Processing Zones (EPZ) and Special Economic Zones (SEZ) managed by the Export Processing Zones Authority (EPZA). With support to build more such zones, and make them efficient, Tanzania can easily double or triple its textile and apparel exports.

4.0 Challenges in Tanzania's Textile and Apparel Sector

The following challenges facing the textile sector in Tanzania need to be addressed in order to realize the underlying opportunities in this sector:

- a) Outdated and inefficient technologies, which results in poor quality products and low productivity.
- b) Inadequate skilled labor in the textile industry.
- c) Stiff competition from other countries such as China which produces at low cost because of cheap labor and better technology.
- d) Limited diversification of production in the industries in terms of product mix (home textiles, clothing textiles, hospital textiles such as bandages and industrial textile).

- e) Lack of finance for long term investments.
- f) Infrastructural bottlenecks, including unreliable power and water.
- g) Insufficient local production of high quality fabrics to feed the apparel industries.

5.0 The AGOA Market Access Opportunity

Tanzania has not fully utilized the AGOA market access opportunity despite its potential in view of the country's abundant resource base. For example, exports of textile and apparel products to the US under AGOA were approximately only US\$2.8 million, \$3 million and \$2.8 million for the years 2005, 2006 and 2007 respectively (see table below).

The textile and apparel exports constitute, on average, about 90% of all exports to the US under AGOA. This indicates that the sector has the potential to perform much better and be competitive quickly, if the challenges and constraints mentioned in this submission are addressed. Current production remains small and cannot fulfill large orders from US importers. Local manufacturers/exporters of textiles and garments, as well as other products, are encouraged to team up and form associations such as export houses to meet US orders which are normally too large for a single Tanzanian exporter to sustainably handle.

Tanzania Exports to the United States under AGOA (in USD 1000)

PRODUCTS	YEARS		
	2005	2006	2007
Agricultural Products	0	26	0
Forest Products	0	0	0
Chemicals and related products	0	0	0
Textiles and apparel	6929	6752	6131
Minerals and Metals	0	0	0
Machinery	0	0	0
Electronic products	0	0	0
Miscellaneous manufactures	2	3	5
Special provision	0	0	0
Total Tanzania Exports to US under AGOA (all sectors)	2,812	3,022	2,815

Source: US Department of Commerce

6.0 Policy and Strategic Issues for the Development of the Textile Sector

It is the policy of Tanzania to maximize access to preferential markets in the region and internationally. Access to the AGOA market is a top priority. This can be achieved through strengthening the textile sector which has huge potential and whose global exports are to be increased from USD\$130 million currently to USD\$1, 300 million by 2020. Some of the strategic actions to be taken by Tanzania (and for which US support is needed) in tackling the challenges include:

- a) Encouraging the textile industries to produce under Export Processing Zones (EPZ) in which different factories engage in different stages of the textile value chain and complement each other.

- b) Facilitating the establishment of textile design centres and engineering colleges.
- c) Improving accessibility to diverse financial products through establishing a policy framework that favors credit financing and credit guarantees. Credit facilities in terms of direct loans, pre-export financing and loan guarantees are especially important.
- d) Designing sector specific incentives for the textile sector, such as tax reduction and inexpensive production sheds within Export Processing Zones.
- e) Facilitating financing and product marketing of individual small scale garment establishments.
- f) Provision of technical assistance and transfer of technology.
- g) Capacity building under competitive hubs to be done frequently to provide specialized business development to improve competitiveness of SMEs in respect of AGOA related activities.
- h) Encouraging and facilitating foreign investment in the textile and apparel sector from the U.S. and elsewhere.
- i) Investments to guarantee power and water in textile and apparel Special Economic Zones.

7.0 Conclusion

Tanzania's textile sector has the potential to grow and can contribute significantly to the country's export earnings. It has a latent capacity to be competitive. However, the sector needs to be revamped, new investments have to be made, and skills and technical expertise need to be developed. The US government is requested to provide technical assistance in this area, as well as work with Tanzania to address the supply-size constraints mentioned in this written submission. This will build physical, human and institutional capacities in Tanzania to take full advantage of existing market opportunities.



Ombeni Sefue

AMBASSADOR OF TANZANIA TO THE USA

February 19, 2009
REF NO/LTEA/184/09

*Late filing
Accepted on Chairman's
O.C. 3-10-09 (C.M.)*



Lesotho
Textile Exporters
Association

The Secretary
United States International Trade Commission
USITC Building
500 E Street SW
Washington DC 20436
United States of America

INVESTIGATION NO. 332-502
SUB-SAHARAN AFRICAN TEXTILE & APPAREL INPUTS: POTENTIAL FOR
COMPETITIVE PRODUCTION

Dear Sir / Madame,

1. I refer to the above investigation, details of which were published in the Federal Register of 25th November 2008 (Vol. 73, No. 228).
2. Kindly find attached a written representation from the Lesotho Textile Exporters Association (LTEA).
3. The LTEA would like to thank you in advance for considering this submission.
4. Should you require any further information or clarity kindly contact us.

Yours sincerely,


Jennifer Chen
President

- CC. Mr. Teleko Ramotšoare, Principal Secretary, Lesotho Ministry of Trade & Industry, Co-operatives and Marketing
Mr. Tebello Metsing, Principal Secretary, Lesotho Ministry of Foreign Affairs & International Relations
H.E. David Rantekoa – Ambassador of Lesotho to the United States of America
Honourable Macaefa Billy – President, Factory & Allied Workers Union (FAWU)
Mr. Daniel Mariasane – General Secretary, Lesotho Clothing & Allied Workers Union (LECAWU)
H.E. Robert B Nolan – United States Ambassador to the Kingdom of Lesotho
Mr. Jas Bedi – President, African Clothing & Textile Industries Federation (ACTIF)

**SUBMISSION OF THE
LESOTHO TEXTILE EXPORTERS ASSOCIATION
TO THE
UNITED STATES INTERNATIONAL TRADE COMMISSION**

**SUB-SAHARAN AFRICAN TEXTILE & APPAREL INPUTS
POTENTIAL FOR COMPETITIVE PRODUCTION
(USITC INVESTIGATION NO. 332-502)**

SUMMARY:

Pursuant to USITC request for submissions towards an investigation into new investment and other measures towards making the textile/garment industry in SSA more competitive, the Lesotho Textile Exporters Association would like to propose the following interventions:

1. Policy Certainty around AGOA Legislation:

The immediate extension of both the AGOA legislation, and the Third Country Fabric provision thereof to 2020. This will bring about long term certainty for new investors to recoup their investment, and act as an incentive for existing ones to upgrade their existing facilities.

2. Non-Extension of AGOA-like Preferences to Cambodia, Bangladesh:

The LTEA opposes the extension of AGOA-like preferences to Cambodia and Bangladesh. Competition from these advanced garment producers would erode any market share that Lesotho currently enjoys.

3. Finance Support for Development of Industrial Infrastructure:

The US Government to extend financial support to the Government of Lesotho to develop modern industrial infrastructure to support expansion of Lesotho's textile and apparel manufacturing base.

4. Support for Firm Competitiveness:

Creation of a fund that would engage consultants who can advise individual firms on interventions that would increase their competitiveness. Interventions would target areas such as skills development, design and quality of fabrics, energy and water efficiency.

5. Trade Privileges to Apparel made with African Textiles:

The US Government to consider extension of preferences to garments made with African textiles to non-AGOA countries.

6. Increased Support for USAID Trade Hubs:

Expand support for USAID Trade Hubs to enable them to more extensively market textile/apparel industry in Africa to promote exports to the US and Europe, and to encourage intra-African trade, and develop efficiency of transport links.

1. Standing of the Lesotho Textile Exporters Association

- The Lesotho Textile Exporters' Association (LTEA) is a voluntary association of Lesotho textile and apparel manufacturers. It represents the majority of Lesotho's export orientated textile and garment manufacturers. In February 2009 the LTEA estimated that it represented 52% of all sectoral manufacturers, who collectively employed about 75% of the total workforce engaged in the sector.
- A sectoral breakdown of the LTEA's membership is as follows:

	LTEA Membership	
	Firms	Workers
Woven garments	5	10,065
Knit garments	16	18,017
Textiles	1	1,030
Garment finishing	2	260
Total	24	29,372

- The LTEA represents the interests of its members in interactions with a wide range of stakeholders. It spends considerable time working with Lesotho government ministers and bureaucrats. It also regularly meets with representatives of the country's organised labour movement; as well as with a range of external stakeholders (e.g. the International Monetary Fund, the World Bank, and other donors and development agencies such as USAID and United Kingdom's Department for International Development (DFID), etc).

2. Lesotho's Garment & Textile Industry : Situational Analysis

2.1. Industry Enterprise Profile

- Lesotho garment firms specialise in the production of denim garments (mainly jeans, but also some chinos), and garments made from cotton knit fabrics (mainly t-shirts, polo shirts, tracksuits & fleece). It is estimated that Lesotho's 46 apparel firms make 90 million knitted garments, 26 million pairs of jeans, and a growing range of other woven garments.

- Supporting Lesotho's garment industry are three commission garment screen printers and two garment embroidery firms. Some garment firms also have in-house capacities to undertake embroidery, screen-printing, and heat transfer processes. The Formosa denim mill (investment of over US\$85 million) uses African cotton to make about 18 million yards of denim fabric a year, and about 10,800 tons of cotton (and cotton blend) yarns which is suitable to make knit fabrics (most of these ring-spun yarns are currently exported but it is hoped that a knit fabric mill will establish itself in Lesotho in order to use these yarns to make knit fabrics for local consumption).
- A basic industry profile of Lesotho's entire textile and apparel value-chain is as follows:

Sector	February 2009	
	Firms	Workers
woven garments	11	13,881
knit garments	28	23,501
textiles (denim / cotton twills)	1	1,030
garment finishing (embroidery, screen-printing)	6	523
Total	46	38,935

2.2. Industry Employment

- The industry remains Lesotho's single largest formal sector employer – even though employment dipped significantly below its mid-2004 peak. About 85% of industry employees are women; on average it is estimated that each worker could support another 5 family members¹.

Industry Employment	Jul 99	Jul 00	Jul 01	Jul 02	Jul 03	Jul 04 ²	Jul 05	Aug 06	Jul 07	Jul 08
	9 847	16 417	23 518	33 140	44 345	53 087	40 364	45 889	47 040	45 310

- The contribution of the industry to Lesotho's economy goes beyond the sector itself – there are important employment and economic multipliers. A range of formal / informal sector activities occur that feed into and off the industry, e.g. a packaging industry; road freight transport; courier services; clearing and forwarding agents; security; passenger transport; traders that sell food to workers; residential accommodation; water, electrical and telecommunication utilities; etc.
- The direct employment provided by the industry is vital. In mid-2008 the Government of Lesotho (GoL) employed 41 908 civil servants; the numbers of migrant Basotho employed in RSA mines stood at 52 710 (down from 61 525 in 2004); approximately 2 076 were employed in Lesotho's footwear industry; and about 900 people were employed by Lesotho's diamond mines. There are no other sizeable formal sector industries – although a nascent disjointed electronics components / household electrical goods sector appears to be emerging. There are no other sizeable formal sector industries.

¹ It is estimated that the population of Lesotho is about 1 870 000. If the average household size is about 5 then about 194,675,000 people could be dependant upon the income earned by textile and garment workers.

²

2.3. Wages & Working Conditions

- The wages earned by employees engaged in Lesotho's textiles and garment industry is of vital importance to Lesotho's economy. These wages are estimated to be around USD 60 million per annum. The wages earned by Lesotho garment workers play a huge role in poverty alleviation.
- With effect from October 2008 skilled garment workers have been guaranteed a monthly minimum wage of about USD100. Lesotho's labour laws enshrine all aspects of the ILO's core conventions (no child / forced labour; non-discrimination; freedom of association), regulate maximum working hours (45 normal & 11 hours overtime per week); and minimum leave.
- While the application of Lesotho's labour laws is regulated by the inspectorate of the Lesotho Ministry of Labour, many Brands that source garments from Lesotho also monitor factory conditions. Gap Inc and Levis Strauss (in particular), but also Wal-Mart, Children's Place, etc. regularly inspect the working conditions of workers employed by their Lesotho vendors.

2.4. Exports

- It is estimated that over 80% of Lesotho's textile and garment exports go to the United States US). Lesotho continues to remain the largest Sub-Saharan African (SSA) exporter of garments to the US. Between January and November 2008 Lesotho apparel firms exported to the US garments worth US\$287.7million (in the period January-November 2008 Lesotho exports constituted 26.3% of total SSA garment exports by value; and 25.9% by volume).

Lesotho's USA Exports in US\$	1999	2000	2001	2002	2003	2004	2005	2006	2007
	111m	140m	214m	321m	393m	456m	391m	387m	384m

- South African (SA) retailers are the next biggest purchaser of Lesotho made garments; Canadian retailers its 3rd largest (2007 US\$7.2m); followed by European Union (EU) retailers. Smaller volumes also go to places like Dubai, Qatar, Chile, Japan and Taiwan. Lesotho's denim mill also exports denim fabric to Nicaragua, Botswana, Kenya, Egypt, Madagascar and Mauritius; while it sells large amounts of ring spun yarn to regional textile mills who use it to knit fabrics.
- In spite of EU trade preferences (via Cotonou; and now via the Economic Partnership Agreement (EPA)) Lesotho's garment exports to the EU have been negligible.

Lesotho's EU Exports in €	1999	2000	2001	2002	2003	2004	2005	2006	2007
	173 000	1.8m	3.8m	2m	1m	850 000	632 000	857 000	1.4m

- Purchasers of Lesotho's garments include well known Brands such as: the Wal-Mart, Family Dollar, Dollar General, the GAP, Levis Strauss, JC Penny, Reebok, K-Mart, Footlocker, Gloria Vanderbilt, etc. It is thought that much of its garment exports to the

EU are specialist items (chefs jackets and workwear), product for Gap Inc. stores, and jeans for Penneys / Primark. In recent times there has been growing interest in Lesotho's garment industry from regional retailers Woolworths, Pepkor, the Edgars group, Pick 'n Pay Clothing and the Mr. Price group.

2.5. Crisis & Challenges

- Between January and March 2005 seven Lesotho factories (all of which made knit garments) closed their doors; while many other factories retrenched portions of their workforces, or put workers on short-time. The main reasons behind the closures / downsizing were :
 - Currency Strength: since 2002 the Loti (which is tied to the SA currency (the "Rand")) at par has significantly strengthened in value. At the end of January 2002 US\$1 would buy M11.44; in January 2003 M8.65; in January 2004 M6.85; and in January 2005 M5.93 (at one point in December 2004 the US\$ plummeted to M5.58. The strong currency meant that Lesotho's garments were too expensive for US buyers.
 - Agreement on Textiles & Clothing: the expiry of the World Trade Organisation's (WTO) Agreement on Textiles & Clothing (also known as the "MFA") in December 2004 also had an impact. In terms of the MFA countries such as the USA, EU members, and Canada were no longer able (after December 2004) to impose quantitative restrictions on the imports of clothing exports from countries such as China. Upon the MFA's expiry Chinese garment exports, especially in those categories of products that Lesotho firms' specialise in producing, flooded into the US (and into other Lesotho market – especially that of the SA. Some Brands took advantage of cheaper Chinese goods and ceased / radically reduced orders which "normally" would have gone to Lesotho.³
- Between 2004/5 and now Lesotho has faced at least five other serious challenges:
 - Export Incentives: the Southern African Customs Union's (SACU) Textile and Clothing Industry Development Programme (TCIDP a.k.a. the Duty Credit Certificate Scheme (DCCS)) rewards exporters with tradable value based financial incentives⁴. In the past four years the TCIDP has played a major role in supporting the apparel export drive of Lesotho. However in recent times the SA has, for its own reasons, downgraded the importance of the TCIDP. As a result of changes in the operation of the scheme (induced by the SA) the value of the incentive earned has been significantly downgraded. In addition because SA was not keen on the scheme there were often long delays in getting the legislative / regulatory

³ The fact that the US (and the SA) imposed some safeguards on certain Chinese textile and apparel exports (until end 2008) has benefited Lesotho; and some orders have now returned to it. However some retailers / Brands that left Lesotho in late 2004 have developed alternative global procurement programmes that do not involve Lesotho.

⁴ As a Least Developed Country (LDC) Lesotho is allowed to operate an export incentive scheme.

instruments in place – this has created significant uncertainty in the eyes of Lesotho textile and apparel manufacturers.

➤ Preference Erosion: there are two “preference erosion” issues.

Firstly, arising from the WTO’s Doha Ministerial it was agreed to further reduce industrial tariffs on a worldwide basis. If the industrial most-favoured-nation (MFN) tariffs of the world’s rich states (which have extended tariff preferences to Lesotho) reduce it will undermine the preferences that Lesotho enjoys when its apparel products enter their economies. Currently Lesotho’s exports enjoy significant tariff advantages as a consequence of AGOA and of the EPA (with the EU). If the USA were to drop their MFN tariffs on clothing it would mean that the value of the 0% duty preference enjoyed by Lesotho would diminish (perhaps disappear altogether).

Secondly, the efforts of some US lawmakers who want to reduce tariffs on Bangladeshi and Cambodian⁵ products (including textiles and apparel products) to 0% has also played a role in undermining the confidence of existing Lesotho investors and ones that may consider making an investment. Should the US extend unfettered duty and quota free access to apparel products from these two states it may have the ultimate effect of locking-out Lesotho (and other SSA) made apparel.

With both of these scenarios many existing Lesotho firms have generally been reluctant to invest in significantly upgrading plant and machinery; while new potential investment partners (that would strengthen and provide more cohesion to the value chain) have been reluctant to make these investments.

➤ Buyer Requirements: some buyers of Lesotho garments have been pressurising firms to improve their capabilities to manufacture more complex garments. In this context some buyers want Lesotho firms to be able to undertake more sophisticated wet and dry washing / finishing processes on denim / knit garments (i.e. to add value to basic commodity garments). Lesotho firms have generally been unable to respond to the challenge of garment finishing mainly because they do not have the strategic partnerships with globally operative garment finishing companies; and because industrial waste water cleaning facilities that are required to support laundering and garment dyeing operations are not publicly available.

Of course one of the reasons that the “commercial availability” (a.k.a. “abundant supply”) provision did not work as was expected was due to the fact that it is not the textile factories nor the garment manufacturers themselves that specify the types of fabrics that are suitable to be used in garment construction. It is the brands and the retailers that specify the products that could be used to make the products that they will sell.

⁵ Both Bangladesh and Cambodia are categorised as LDC states. In spite of this categorisation of developmental status they have very significant and highly competitive textile and apparel industries.

- AGOA Uncertainty: when AGOA was introduced the intention of US lawmakers was that most SSA apparel producers would initially source the fabrics that they used to make garments from anywhere in the world. In the medium terms they expected them to source SSA made fabrics. In the end only a limited number of upstream textile manufacturers established themselves in SSA states; there were insufficient to be able to supply the wide ranges of quality and competitively prices fabrics that African producers wanted. There were therefore many anxious moments among African apparel producers as they waited while US law makers debated ranges of options to extend the life of AGOA; and the third country fabric rule. This uncertainty often put expansion and other refurbishment programmes on hold.

2.6. Addressing Problems Proactively

- The Government of Lesotho (GoL) and a range of other stakeholders have attempted to improve circumstances for the industry, to this end they have done the following:
 - Inter-Ministerial Textile & Apparel Industry Task Team (IMTT): in June 2004, on the basis of concerns raised by the private sector, the Lesotho Prime Minister directed that an IMTT should be established to work on industry concerns. The IMTT (comprising government, the private sector, organised labour) finalised its deliberations in September 2004. Its report covered a wide range of issues, including: tax collection, industrial incentives, speeding-up import and export transactions, the need for Lesotho to have a knit fabric mill, the issuance of work and residence permits, improving security in industrial areas, and a range of industrial infrastructural issues. The IMTT has had considerable success in achieving positive outcomes. Subsequent to the adoption of the IMTT main report the IMTT (led by the Lesotho Trade Minister) meets frequently in order to monitor progress in implementation, and to address new issues.
 - Improving Firm Competitiveness: continual firm level performance improvement is vital if Lesotho garment firms are to remain in the global garment trade. It is encouraging to note that some Lesotho firms have invested in the training of their staff – some trainings have had spectacular results (one ComMark⁶ co-financed programme has resulted in a firm improving output by about 35%). Of course significantly more training needs to be conducted.
 - Order / Investment Promotion: In order to ensure that Lesotho's US garment exports remain strong, a multi-stakeholder delegation (led by the Minister of Trade) has twice visited the US in order to cement relationships with the US retailers / Brands that purchase (and do not purchase) Lesotho garments.

In addition the Lesotho National Development Corporation (LNDC – a government investment promotion parastatal) has implemented plans to attract further

⁶ A Lesotho based textile and clothing industry development project financed by the United Kingdom's Department for International Development (DFID).

investments to Lesotho. These investment promotion efforts have been spectacularly successful. There has been a regional (mainly from the Southern African Development Community (SADC)) explosion of interest in Lesotho as a destination where one can locate textile and garment production units. Interest has been shown by mainly apparel manufacturers; but some textile firms have also indicated that they may be interested in establishing operations in Lesotho to supply the regional (mainly Lesotho and South Africa, and export markets).

Lesotho has however experienced significant problems in converting this investment interest into functioning employment creating manufacturing units. The main problem has been that Lesotho has insufficient public industrial infrastructure that can support these new investors. Public industrial infrastructure in the form of serviced industrial estates that provide the following to investors: industrial site roads, storm-water drainage, street lighting, security, etc; factory shells that could be rented; adequate utilities (electricity, water, sewage, telecommunications); industrial (hazardous) solid waste disposal land-fill sites; industrial waste water treatment plants; etc.

- Tax Concessions: the GoL, cognizant of the problems being faced by the existing industry, and in an effort to give the LNDC a significant tool to attract more industry, announced (in February 2006) a reduction in the corporate manufacturing tax rate from 15% to 0% for those manufacturers that make product in Lesotho and which then that export that output to destinations out side of SACU. For other producers (i.e. with sales within SACU) the manufacturing tax rate was reduced to 10%.
- Business Environment: the Gol recognising that the business regulatory environment is important has in the past few years initiated a range of reforms that have reduced the “cost of doing business”. Work in this area is ongoing.

3. Proposals

3.1. Policy Certainty - AGOA

At this point in time the AGOA preferences expire in the last half of 2015 (the third country fabric provision in 2012). The LTEA is of the view that these timelines may put off additional investment because they would not have sufficient time to recoup their investment. In this regard the LTEA would support initiatives that would support the extension of AGOA – and its third country fabric provision until at least 2020. This should be done now (as opposed to immediately before the preferential regime is set to expire) so as to provide long-term policy certainty to any potential investors; and to those existing investors that would want to upgrade existing facilities.

On another policy level some certainty must be given *vis a vis* the “Duty Free, Quota Free” issue as it relates to Bangladesh and Cambodia. We are of the view that it is unlikely that any additional value chain investment will materialise should this issue

remain unresolved – with the looming threat that they will be given much better access to the USA than what they currently already have.

Without some degree of certainty on these issues it will be difficult to induce any additional investment and value chain upgrading.

3.2. Finance to Support the Development of Industrial Infrastructure

In Lesotho's case one of the major drawbacks to the development of a sustainable industry is that of size and scale. The lifespan of Lesotho's existing garment industry would be greatly enhanced if there were more manufacturing units operating in the country – this would mean a greater offering of product available to potential buyers (currently Lesotho firms offered a very limited range of products). The industry would be significantly strengthened if there were additional textile and garment trim firms operating in the country too. Additional upstream suppliers would mean that Lesotho firms could more easily meet the brand and retailer requirements that the time from when an order is given until it appears on the retailer shelves is kept to a minimum.

In this regard the LTEA is of the view that the US could consider providing to the GoL significant financial resources that would enable it to develop all the modern industrial infrastructure that would be required to support an expansion of Lesotho's textile and apparel manufacturing base. In essence, the LTEA is proposing the creation of a Millennium Challenge Corporation MCC / MCA) type of financing facility which would be used entirely to provide modern infrastructure that would support private sector led growth.

3.3. Support for Firm Competitiveness

Governments can negotiate better trade agreements and could grant their domestic manufacturers all manner of benefits. However these efforts will be worth virtually nothing if the recipient firms are themselves uncompetitive. Consideration should be given by the US – perhaps via USAID – to making available a pot of funds that can be accessed by firms to engage consultants that will advise them on modalities for achieving greater levels of competitiveness. In this regard the funds could be accessed by firms to get guidance on how firm production staff could be better skilled; on what sorts of in company changes could be made in order that firms become more energy and water efficient (greater profitability, and reduced carbon footprint); on how textile firms could improve the design and quality of their fabrics; etc. In addition to support for consultancies, co-finance resources could also assist in implementation / roll-out of recommended interventions.

3.4. Extending the Trade Privileges to Apparel Made with African Made Textiles

In order to assist some of African textile producers to be able to expand their sales of fabrics made in AGOA eligible states perhaps the US could consider conferring relaxed trade rules of origin to products made in third countries (i.e. non AGOA states) using certain ranges of African made textiles (e.g. European jeans made with African made

denim fabrics would enter the US at a 0% duty – quota caps could be put on these EU jeans sales). Greater throughput in African textile firms will strengthen their ability to remain viable in the long run.

3.5. Strengthen Financial Support to USAID Competitiveness Hub

Sustained orders are the lifeblood of any industry. To date textile and apparel manufacturers in Lesotho have been received support in their efforts to gain additional orders from the USAID funded Southern African Global Competitiveness Hub (based in Gaborone). The Hub has helped co-finance some Lesotho manufacturer's attendance at US apparel industry trade shows (e.g. in Las Vegas' "Magic Show" and New York's "Material World"). In addition, the Hub has hosted "Business-to-Business" ("B2B") meetings in SA in order to drum-up more regional business for Lesotho firms. All this work has resulted in additional orders.

The LTEA is of the view that interventions by the Hub have been very beneficial. We would therefore support any initiatives that would strengthen the work of this Hub and lengthen its lifespan. With an extended lifespan (and financial resources) it would be able to develop a longer-term textile and apparel buyer development strategy (including the EU and Canada).

We are of the view that some resources could be allocated to a specific Hub programme that would assist AGOA-eligible textile producers to better market their production. For example, financial resources that would enable Lesotho's Formosa textile (denim) mill to be able to expand the sales of their fabrics in other AGOA eligible states (Formosa is not familiar with denim / cotton twill garment producers in SSA); to expand their sales into the EU; and the US. Many of these programmes may focus in on marketing the fabrics produced to the ultimate buyers of apparel – the retailers and brands.

19 February 2009



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 Chairman's Office
 2-26-09 (EHR)

for

Before the
 U.S. INTERNATIONAL TRADE COMMISSION
 Washington, D.C.

Investigation No. 332-502:
Sub-Saharan African Textile and Apparel Inputs
Potential for Competitive Production

Statement on behalf of Nien Hsing Textile Co., Ltd.

09 FEB 27 2009
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 U.S. INTERNATIONAL TRADE COMMISSION



February 23, 2009

Ms. Marilyn Abbott
Secretary
United States International Trade Commission
500 E Street, SW
Washington, DC 20436

Dear Secretary Abbott,

I wish to thank the Commission for the opportunity to submit this statement on behalf of the Nien Hsing Textile Co., Ltd. in connection with the Commission's investigation of the potential for competitive production of textile and apparel inputs in Sub-Saharan Africa.

Nien Hsing is a specialized vertically-integrated denim fabric and jeans manufacturer. Our manufacturing process consists of yarn spinning, dyeing, weaving, cutting, and sewing, culminating in the final jeans product. We currently have investments of denim mills and/or garment factories in Lesotho, Mexico, Nicaragua, and Southeast Asia, with annual worldwide production of five million dozen pairs of jeans and a workforce of over 35,000 workers in least developed countries around the world.

Nien Hsing is the largest denim fabric producer in Africa. Our Lesotho denim plant (known as Formosa Textile in Lesotho) has a capacity of 27 million square meters annually. In addition, our Lesotho plant uses exclusively African-origin cotton, consuming approximately 16,000 tons of cotton annually from Malawi, Zambia, Mozambique, Tanzania, and Benin, etc.

Nien Hsing has invested \$120 million in the development of our denim mill, spinning plant and jeans factories in Lesotho. We employ 8,000 workers at these Lesotho facilities. Our investment in Lesotho was mainly made in reliance upon the original provisions of the African Growth and Opportunity Act (AGOA), in particular the understanding that the third-country fabric provision would expire on September 30, 2004. The expiration of the third-country fabric provision would have provided a stable customer base, which is necessary to justify the massive investment required to build a denim factory.

Although the denim fabric industry has been one of the largest and most competitive sectors of the African textile industry, the African denim industry is currently under serious economic stress. The combination of the end of the Multi-Fiber Arrangement (MFA) system of quotas in 2005, coupled with Congress' extension of the AGOA third-country fabric provision,



subjected the African denim industry to intense competition from Chinese denim and simultaneously reduced our potential market in Africa.

The resulting harm was partially mitigated by the enactment of the so-called “commercial availability” provision in 2006, which was intended to encourage vertical integration as a means to increase the competitiveness of the African textile and apparel sectors. The enactment of this commercial availability provision, including in particular the determination that denim was commercially available, made it possible for Nien Hsing to maintain our operations in Lesotho.

Nevertheless, last year Congress repealed the commercial availability provision, thereby once again putting our Lesotho denim operation in jeopardy. The threat to the African denim industry has been intensified by the current international financial crisis, which has significantly reduced demand and simultaneously made it much more difficult for both our customers and denim producers themselves to obtain the credit necessary for normal operations. In these critical circumstances, therefore, it is essential to the survival of the African textile industry generally, and Nien Hsing’s denim factory in Lesotho in particular, that further consideration be given to additional means to assist the African textile industry to become more internationally competitive.

It should be obvious from the foregoing that the African textile industry would not be competitive without the incentives provided by AGOA. The duty-free preference provided by AGOA has been the catalyst that led to the creation of the African denim industry. But even the AGOA duty-free preference, which amounts to an advantage of approximately 16% compared to duty-paid denim garments from other regions, barely offsets the competitive challenges facing African textile producers, which include:

- Inadequate infrastructure, especially inadequate and inefficient port facilities, high inland transportation costs, and high utility costs;
- High ocean freight costs and infrequent sailing dates;
- Lack of economies of scale, especially compared to our competitors in Asia, who have been in business for decades;
- Inadequate vertical integration, which is essential to efficient operation; and
- Relatively high labor costs and unskillful labor, especially compared to Asia.

Nien Hsing believes these competitive disadvantages can be significantly reduced, and



the viability of the African denim industry thereby maintained, by taking addressing two issues: (1) maintaining an adequate market base; and (2) improving infrastructure.

As noted above, the now-repealed commercial availability provision was intended to provide a stable market base for African textiles that is necessary to attract the large investment required to build a textile plant. Although the commercial availability provision has been repealed, the need for such incentives remains if Africa is to develop a competitive textile industry. Nien Hsing respectfully suggests that the market for African-origin textiles can be dramatically expanded by amending AGOA to provide that garments made with African-origin textiles would qualify for duty-free eligibility under the United States' various free trade agreements (FTAs) and trade development programs for other regions (such as the Caribbean Basin Initiative and the Andean Trade Promotion and Drug Eradication Act). This "cumulation" would provide access to a new customer base, estimated to be significantly larger than under AGOA, that is currently unavailable to African textile producers. Although significant transportation costs would be involved in any such sales, we believe the 16% duty preference would offset such transportation costs.

Second, as noted above, inadequate African infrastructure, especially transportation infrastructure, is constraining the development of a competitive textile industry. Significant U.S. Government and/or multilateral support for infrastructure development will probably be necessary if textile production in Africa is to become more internationally competitive.

Nien Hsing is available at the convenience of the Commission and your staff to provide whatever assistance may be needed in this investigation.

Respectfully,

John Chen
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APPENDIX F
Additional Trade Data

TABLE F.1 Exports of textile and apparel inputs, by SSA country, selected other countries, and world, 2003–07
(1,000 \$)

Country	2003	2004	2005	2006	2007
Group 1 countries:					
South Africa	297,158	342,615	298,851	304,090	300,457
Mauritius	31,936	63,918	48,454	51,949	63,104
Nigeria	28,814	48,106	40,186	20,900	20,654
Tanzania	9,151	16,651	11,842	16,041	20,349
Lesotho	635	2,580	12,635	15,943	19,224
Zambia	25,947	31,404	35,505	20,239	14,532
Madagascar	8,538	10,241	10,982	11,217	10,560
Swaziland	14,400	11,959	9,771	9,594	9,803
Kenya	8,968	9,944	8,917	10,099	7,998
Ethiopia	8,256	6,901	3,596	3,108	3,059
Subtotal	433,801	544,317	480,738	463,179	469,740
Group 2 countries:					
Ghana	4,686	6,381	4,602	1,477	2,812
Uganda	289	2,498	2,394	2,262	1,833
Mozambique	232	112	396	425	1,754
Namibia	113	1,052	691	3,868	1,550
Botswana	18	314	211	259	1,096
Malawi	130	249	165	86	252
Subtotal	5,468	10,606	8,458	8,379	9,296
Group 3 countries:					
Togo	3,929	3,138	8,858	4,586	5,470
Burkina Faso	1,779	1,242	1,083	3,493	2,470
Benin	4,041	3,393	963	1,127	2,118
Mali	604	857	1,170	959	1,411
Senegal	619	1,273	848	603	1,337
Cameroon	1,573	1,359	1,090	1,153	1,137
Chad	48	50	42	106	33
Subtotal	12,593	11,312	14,053	12,027	13,977
Group 4 countries:					
Sierra Leone	845	1,772	1,974	3,487	3,424
Djibouti	29	565	396	603	324
Niger	307	1,099	698	294	292
Seychelles	10	672	300	346	248
Gambia	150	763	425	277	238
Congo, Dem. Rep.	51	62	32	89	221
Guinea	164	95	114	258	168
Burundi	701	207	34	139	144
Cape Verde	7	139	105	94	143
Comoros	11	49	0	17	108
Liberia	97	132	248	25	65
Rwanda	258	522	282	103	58
Gabon	59	455	77	164	45
São Tomé and Príncipe	165	85	11	6	43
Congo, Rep.	22	41	38	5	20
Angola	30	36	10	21	14
Guinea-Bissau	2	129	266	69	5
Subtotal	2,910	6,821	5,009	5,999	5,561
Total, SSA countries	454,772	573,057	508,258	489,585	498,573

TABLE F.1 Exports of textile and apparel inputs, by SSA country, selected other countries, and world, 2003–07
(1,000 \$)—*Continued*

Country	2003	2004	2005	2006	2007
Selected other countries and world:					
China	17,981,607	22,202,533	25,590,702	28,562,818	29,403,449
India	3,454,472	4,082,057	4,123,694	4,067,153	4,688,820
Vietnam	197,181	309,949	349,174	470,933	695,791
Cambodia	180,500	261,083	252,978	253,354	257,547
Bangladesh	10,779	17,258	24,046	15,207	11,164
World	125,138,957	142,654,498	144,869,637	145,917,316	149,185,911

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE F.2 SSA-country exports of textile and apparel inputs, by product group, by destination, 2003–07 (1,000 \$)

Product group and destination	2003	2004	2005	2006	2007
Carded or combed fibers:					
SSA countries	2,503	5,819	4,356	9,156	10,101
Rest of world	31,310	36,578	32,937	33,901	29,631
EU	57,572	57,559	47,933	49,905	51,254
United States	641	2,407	585	1,199	1,179
Total	92,025	102,363	85,811	94,160	92,165
Knit fabric:					
SSA countries	4,233	8,615	9,465	10,828	14,044
Rest of world	5,186	6,327	7,821	8,453	8,661
EU	2,527	2,688	1,353	1,030	881
United States	1,316	1,690	1,187	1,822	1,998
Total	13,262	19,320	19,826	22,133	25,584
Manmade fibers:					
SSA countries	2,750	2,867	3,367	3,443	3,628
Rest of world	10,524	6,040	6,093	6,280	6,188
EU	17,329	23,668	21,908	10,909	14,195
United States	73	1	1	1	6
Total	30,677	32,576	31,368	20,634	24,016
Other fabric:					
SSA countries	3,749	4,074	4,078	3,870	4,461
Rest of world	3,488	7,285	4,333	6,528	8,914
EU	17,370	22,228	18,134	18,740	26,167
United States	2,056	1,144	2,585	4,189	394
Total	26,663	34,730	29,130	33,327	39,936
Thread:					
SSA countries	1,130	1,455	1,731	1,985	1,423
Rest of world	1,014	2,638	1,993	2,239	2,144
EU	7,412	10,214	13,450	16,700	13,349
United States	52	11	37	13	10
Total	9,608	14,318	17,210	20,937	16,927
Trim:					
SSA countries	7,495	10,839	12,804	12,381	13,405
Rest of world	5,581	5,849	5,288	5,643	5,993
EU	7,368	9,662	10,724	12,116	12,885
United States	6,886	9,733	7,483	6,777	5,302
Total	27,331	36,083	36,299	36,917	37,586
Woven fabric:					
SSA countries	45,490	67,598	62,785	59,495	76,534
Rest of world	23,568	39,813	33,607	22,902	18,242
EU	42,514	52,636	36,963	35,821	36,407
United States	4,917	5,671	4,365	4,864	3,025
Total	116,489	165,718	137,720	123,082	134,209
Yarn:					
SSA countries	30,682	28,627	18,258	15,596	22,813
Rest of world	28,269	41,728	46,638	42,848	36,302
EU	67,979	88,472	75,897	67,818	60,903
United States	11,788	9,122	10,100	12,132	8,132
Total	138,718	167,949	150,893	138,394	128,151
Total, SSA countries	454,772	573,057	508,258	489,585	498,573

Source: World Bank, World Integrated Trade Solution Database (accessed December 3, 2008).

TABLE F.3 SSA-country exports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)

Product group and SSA country	2003	2004	2005	2006	2007
Carded or combed fibers:					
South Africa	89,134	97,362	80,524	85,664	82,643
Tanzania	1,003	2,349	2,810	4,049	3,892
Nigeria	181	149	734	2,307	2,214
Lesotho	0	0	0	1,280	1,240
Mali	0	0	412	12	679
All others	1,707	2,503	1,331	848	1,498
Total	92,025	102,363	85,811	94,160	92,165
Knit fabric:					
South Africa	8,014	12,439	9,882	10,768	12,149
Mauritius	3,057	4,747	8,023	9,160	10,975
Tanzania	346	921	694	910	1,672
Kenya	321	496	500	776	369
Djibouti	0	0	1	1	88
All others	1,524	718	726	519	331
Total	13,262	19,320	19,826	22,133	25,584
Manmade fibers:					
Nigeria	9,007	15,791	17,592	10,461	12,485
South Africa	20,504	15,813	12,600	9,077	10,769
Togo	51	53	178	188	261
Botswana	0	0	2	0	110
Kenya	436	389	706	269	90
All others	678	531	291	639	302
Total	30,677	32,576	31,368	20,634	24,016
Other fabric:					
South Africa	25,536	32,571	26,823	30,890	36,973
Sierra Leone	56	518	796	948	833
Botswana	0	212	133	142	531
Kenya	351	128	349	221	411
Ghana	7	52	11	24	220
All others	713	1,249	1,018	1,102	969
Total	26,663	34,730	29,130	33,327	39,936
Thread:					
South Africa	8,301	11,809	15,383	19,301	15,764
Mauritius	835	1,465	958	1,156	581
Congo, Dem. Rep.	3	0	1	1	107
Swaziland	199	626	165	58	97
Kenya	85	81	186	70	72
All others	186	337	517	352	306
Total	9,608	14,318	17,210	20,937	16,927
Trim:					
South Africa	19,249	25,934	23,043	22,347	22,841
Swaziland	3,275	3,040	3,571	5,495	5,265
Madagascar	1,538	2,712	4,736	4,066	4,227
Mauritius	1,800	2,402	2,090	2,514	2,613
Togo	23	59	1,489	1,307	1,417
All others	1,447	1,936	1,371	1,186	1,222
Total	27,331	36,083	36,299	36,917	37,586

TABLE F.3 SSA-country exports of textile and apparel inputs, by product group, 2003–07 (1,000 \$)—*Continued*

Product group and SSA country	2003	2004	2005	2006	2007
Woven fabric:					
South Africa	55,825	67,624	59,255	49,972	48,944
Mauritius	23,848	44,745	28,095	25,349	30,166
Lesotho	63	2,579	12,343	14,402	17,288
Tanzania	4,979	8,806	4,084	5,067	8,763
Madagascar	2,202	5,413	5,072	6,360	5,513
All other	29,572	36,550	28,871	21,931	23,535
Total	116,489	165,718	137,720	123,082	134,209
Yarn:					
South Africa	70,594	79,063	71,341	76,070	70,374
Mauritius	2,187	10,286	8,835	13,513	18,610
Zambia	25,502	30,969	34,882	20,014	14,323
Tanzania	2,567	4,192	4,075	5,752	5,866
Kenya	4,501	6,583	5,370	6,066	5,106
All others	33,368	36,857	26,391	16,979	13,872
Total	138,718	167,949	150,893	138,394	128,151

Source: World Bank, WITS Database (accessed December 3, 2008).

TABLE F.4 Exports of apparel, by SSA country, selected other countries, and world, 2003–07 (1,000 \$)

Country	2003	2004	2005	2006	2007
Group 1 countries:					
Mauritius	970,002	955,126	804,680	836,398	942,147
Madagascar	362,559	560,570	538,767	576,546	695,774
Lesotho	427,502	494,244	421,636	418,338	413,792
Kenya	207,741	305,190	296,556	287,010	269,584
South Africa	412,868	329,339	240,277	200,268	206,913
Swaziland	153,052	190,550	169,532	142,822	143,184
Tanzania	5,146	8,097	7,380	8,635	7,984
Ethiopia	2,100	4,687	5,219	6,177	5,886
Zambia	97	367	339	92	582
Nigeria	802	531	601	1,159	503
Subtotal	2,541,869	2,848,701	2,484,988	2,477,444	2,686,348
Group 2 countries:					
Botswana	14,386	34,871	37,665	36,397	43,109
Malawi	42,200	48,209	48,492	40,444	37,455
Namibia	45,089	83,366	56,569	35,505	31,452
Ghana	5,271	8,732	7,921	10,822	9,341
Uganda	3,318	4,789	5,702	1,665	1,608
Mozambique	4,262	4,589	5,418	3,007	960
Subtotal	114,526	184,556	161,768	127,841	123,923
Group 3 countries:					
Togo	2,336	1,879	6,753	4,977	5,907
Mali	417	200	746	526	3,900
Cameroon	2,030	1,832	1,923	3,075	2,724
Senegal	548	758	723	1,074	2,605
Burkina Faso	72	799	640	600	1,293
Benin	134	106	108	91	89
Chad	446	38	490	655	71
Subtotal	5,983	5,613	11,383	10,997	16,590
Group 4 countries:					
Cape Verde	7,487	8,456	7,620	6,112	7,887
Sierra Leone	6,370	3,442	1,308	1,856	2,781
Gambia	248	282	283	399	449
Niger	218	234	85	297	411
Seychelles	116	20	406	557	381
Liberia	1,068	376	900	181	357
Gabon	89	411	67	183	347
Guinea	61	137	154	179	336
Comoros	63	311	36	36	303
Congo, Dem. Rep.	185	240	789	337	248
Burundi	200	495	460	160	127
Djibouti	17	96	2,135	397	86
São Tomé and Príncipe	566	39	5	10	56
Angola	92	31	256	19	38
Congo, Rep.	6	78	33	15	25
Rwanda	387	192	22	63	10
Guinea-Bissau	1	33	11	3	5
Subtotal	17,173	14,873	14,568	10,804	13,847
Total, SSA countries	2,679,551	3,053,743	2,672,707	2,627,086	2,840,709

TABLE F.4 Exports of apparel, by SSA country, selected other countries, and world, 2003–07 (1,000 \$)—*Continued*

Country	2003	2004	2005	2006	2007
Selected other countries and world:					
China	59,689,176	70,318,393	89,149,423	100,431,095	115,460,327
Bangladesh	6,332,666	7,937,933	8,026,906	10,391,892	11,117,914
India	6,192,628	7,005,535	9,461,037	10,343,893	10,973,151
Vietnam	3,930,908	4,481,528	4,821,399	6,037,498	7,770,533
Cambodia	1,965,326	2,433,113	2,697,289	3,320,103	3,753,441
World	222,577,855	248,309,858	265,954,493	285,747,305	310,780,523

Source: World Bank, WITS Database (accessed December 3, 2008).

APPENDIX G
Additional Cotton Data

TABLE G.1 Cotton production in SSA-countries, MY 2000—07 (1,000 bales)

Country	Marketing year							
	2000	2001	2002	2003	2004	2005	2006	2007
Group 1 countries:								
Ethiopia	64	64	92	60	92	82	85	85
Kenya	20	20	20	20	20	25	25	25
Lesotho	(^a)							
Madagascar	73	55	18	37	60	60	60	60
Mauritius	(^a)							
Nigeria	400	450	390	415	420	400	400	450
South Africa	155	83	70	125	95	68	52	46
Swaziland	(^a)							
Tanzania	188	230	280	235	525	575	200	310
Zambia	133	170	240	325	350	400	160	160
Group 2 countries:								
Botswana	(^a)							
Ghana	87	37	32	25	30	40	40	23
Malawi	44	46	48	80	90	90	109	130
Mozambique	75	110	95	153	110	165	165	100
Namibia	(^a)							
Uganda	85	90	95	125	200	90	95	60
Group 3 countries:								
Benin	640	790	640	635	750	367	475	500
Burkina Faso	525	725	750	965	1,180	1,367	1,300	675
Cameroon	430	450	425	500	500	415	365	210
Chad	300	325	325	225	350	335	200	190
Mali	480	1,100	825	1,200	1,026	1,003	792	450
Senegal	40	65	65	100	100	90	100	88
Togo	225	275	320	325	325	140	80	110
Group 4 countries:								
Angola	20	5	5	5	5	5	5	5
Burundi	(^a)							
Cape Verde	(^a)							
Comoros Islands	(^a)							
Congo, Dem. Rep.	15	15	15	15	15	15	15	15
Congo, Rep.	(^a)							
Djibouti	(^a)							
Gabon	(^a)							
Gambia	(^a)							
Guinea	37	69	55	40	14	14	14	14
Guinea-Bissau	(^a)							
Liberia	(^a)							
Niger	5	5	5	5	5	5	5	5
Rwanda	(^a)							
São Tomé and Príncipe	(^a)							
Seychelles	(^a)							
Sierra Leone	(^a)							

Source: USDA FAS, PS&D Online.

^aNo production available.

APPENDIX H
Summary of Selected Regional Free Trade
Agreements and Organizations

Agreement	Member states	Key characteristics
Common Market for Eastern and Southern Africa (COMESA)	Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe	<ul style="list-style-type: none"> • COMESA was founded in 1981 as the Preferential Trade Agreement (PTA), and in 1994 was renamed the Common Market for Eastern and Southern Africa. • COMESA plans to achieve an economic community with a common currency and unified monetary policy. Stage one of the integration plan is a preferential trade area with lower tariffs on intraregional trade. Stage two is a free trade area. Stages three and four are a customs union and a common market. COMESA is currently between the first and second stages.
East African Community (EAC)	Burundi, Kenya, Rwanda, Tanzania, and Uganda	<ul style="list-style-type: none"> • Agreement for the establishment of the permanent Tripartite Commission for East African Cooperation was signed on November 30, 1993. • The EAC's customs union became effective on January 1, 2005. The EAC maintains a common external tariff. The EAC countries are working toward the establishment of a common market by 2010, a monetary union by 2012, and ultimately a political federation of the East African states.
Economic Community of Central African States (ECCAE)	Angola, Burundi, Central African Republic, Chad, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Republic of the Congo, Rwanda, and São Tomé and Príncipe	<ul style="list-style-type: none"> • The ECCAE was established in December 1981. The ECCAE became inactive in 1992 and was reactivated in February 1998. • The ECCAE seeks economic cooperation and a regional market for its members.
Economic Community of West African States (ECOWAS)	Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo	<ul style="list-style-type: none"> • ECOWAS was established on May 28, 1975. An updated ECOWAS Treaty was signed in 1993. • The 1993 treaty seeks increased political cooperation, a common market with a single currency, a common parliament, a Court of Justice, and increased responsibility in solving regional conflicts.
Inter-Governmental Authority on Development in Eastern Africa (IGAD)	Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, and Uganda	<ul style="list-style-type: none"> • IGAD began in 1996. • IGAD's purpose is to enhance cooperation and coordination of macroeconomic policies, agricultural development and food security, and environmental policies; encourage conflict prevention, management, and resolution; encourage respect for the rights of persons to benefit from humanitarian assistance; and promote trade and the harmonization of trade, transport, and communication policies.

Agreement	Member states	Key characteristics
Southern African Customs Union (SACU)	Botswana, Lesotho, Namibia, South Africa, and Swaziland	<ul style="list-style-type: none"> • SACU began in 1990. Updated agreements were reached in 1969 and 2002. • Under SACU, the member states form a single customs territory in which tariffs and other barriers are eliminated on substantially all the trade between the member states for products originating in these countries; there is a common external tariff that applies to nonmembers. All members except Botswana share a common monetary area (CMA), and within the CMA, the currencies of Lesotho (loti), Swaziland (lilangeni), and Namibia (dollar) are tied to the South African rand.
Southern African Development Community (SADC)	Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe	<ul style="list-style-type: none"> • SADC was established in April 1980. • SADC seeks economic cooperation, regional economic integration, similar political system choices, and regional solidarity. The SADC trade protocol was implemented in 2000. By 2012, 98 percent of SADC merchandise trade is to have zero tariffs, in effect making SADC a free trade area.
West African Economic and Monetary Union (WAEMU)	Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo	<ul style="list-style-type: none"> • WAEMU was established on January 10, 1994. • WAEMU's goals include tariff elimination and common monetary and commercial policies for its members. A common monetary zone was launched in 2000, and the WAEMU Inter-Parliamentary Committee has held discussions about creating a regional framework.

Source: Compiled by Commission staff.

APPENDIX I
Basic Economic Indicators Definitions and
Sources

TABLE I.1 Definitions and sources for basic economic indicators		
Indicator	Definitions	Source
GDP (current US\$)	GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. For a few countries where the official exchange rate does not reflect the rate effectively applied to actual foreign exchange transactions, an alternative conversion factor is used.	World Bank, World Development Indicators Online.
GDP growth (annual percent)	Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 1995 U.S. dollars.	
GDP per capita (current US\$)	GDP per capita is gross domestic product in current US\$ divided by total population, calculated by Commission staff.	
Population (millions)	Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship—except for refugees not permanently settled in the country of asylum, who are generally considered part of the population of their country of origin.	
Inflation, consumer prices (annual percent)	Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a fixed basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.	
Literacy rate, adult total (percent of people ages 15 and above)	Adult illiteracy rate is the proportion of the population 15 years of age and older who cannot, with understanding, read and write a short simple statement on everyday life.	
Labor force, total (millions)	Total labor force comprises people who meet the International Labour Organization definition of the economically active population: all people who supply labor for the production of goods and services during a specified period. It includes both the employed and the unemployed. While national practices vary in the treatment of such groups as the armed forces and seasonal or part-time workers, in general the labor force includes the armed forces, the unemployed, and first-time job-seekers, but excludes homemakers and other unpaid caregivers and workers in the informal sector.	

TABLE I.1 Definitions and sources for basic economic indicators— <i>Continued</i>		
Indicator	Definitions	Source
Foreign direct investment, net inflows (BoP, current US\$, millions)	Foreign direct investment is net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy.	
Gross capital formation (current US\$, millions)	Gross capital formation (formerly gross domestic investment) consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress." According to the 1993, net acquisitions of valuables are also considered capital formation.	
Lending rate (percent)	Lending rate is the bank rate that usually meets the short- and medium-term financing needs of the private sector. This rate is normally differentiated according to creditworthiness of borrowers and objectives of financing.	
Manufacturing value added (current US\$, millions)	Manufacturing value added refers to the net output of industries belonging to International Standard Industrial Classification divisions 15–37 after totaling outputs and subtracting intermediate inputs.	
Prevalence of HIV, total (percent of population 15–49)	Prevalence of HIV, adults is the percentage of people ages 15–49 who are infected with HIV.	
Goods exports (current US\$, millions)	Goods exports include all merchandise that subtract from the stock of material resources of a country or territory by leaving the country's economic territory.	WTO, Statistics Database: Time Series on International Trade.
Goods imports (current US\$, millions)	Goods imports include all merchandise that add to the stock of material resources of a country or territory by entering the country's economic territory.	
<i>Source:</i> As cited. Compiled by the Commission.		