



Regional Market Assessment on Lint and Textiles

September 2003

**Prepared on behalf of the
RATES Center
Chemonics International, Washington DC
A USAID-funded Project
Contract #623-C-00-02-00089-00**

**By
Dr. John Cockcroft**

The RATES Center
P.O. Box 1555-00606
Nairobi, Kenya
email: rates@ratescenter.org

Table of Contents

Acknowledgements.....	iii
Acronyms.....	iv
Executive Summary.....	vi
Background.....	vi
Categorization.....	vi
Trading perspectives.....	vi
Possible interventions.....	vii
Regional strategy.....	vii
RATES input.....	viii
Chapter 1.0 Important Country Features.....	1
1.1 Uganda.....	1
1.1.1 Constraining factors.....	1
1.1.2 Encouraging trends.....	1
1.1.3 Specific developments.....	2
1.1.4 Conclusion.....	3
1.2 Tanzania.....	3
1.2.1 Constraining factors.....	3
1.2.2 Encouraging trends.....	4
1.2.3 Specific developments.....	4
1.2.4 Conclusion.....	5
1.3 Mauritius.....	6
1.3.1 recent developments.....	6
1.3.2 Cotton landscape.....	7
1.3.3 Future developments.....	8
1.3.4 Conclusion.....	8
1.4 South Africa.....	8
1.4.1 Recent developments.....	9
1.4.2 Present state of the cotton market in South Africa.....	10
1.4.3 Intra-regional trading.....	10
1.4.4 Conclusion.....	11
1.5 Malawi.....	11
1.5.1 Recent developments.....	11
1.5.2 Encouraging trends.....	12
1.5.3 Developments in the garment sub-sector.....	13
1.5.4 Conclusion.....	13
1.6 Zambia.....	14
1.6.1 Recent developments.....	14
1.6.2 Privatisation.....	15
1.6.3 Conclusion.....	15
Chapter 2.0 Important Trading Perspectives.....	17
2.1 COMESA, SADC & EAC.....	17
2.1.1 COMESA.....	17
2.1.2 SADC.....	17
2.1.3 Regional trade strategy challenges.....	18

2.2 AGOA.....	19
2.3 Imports from outside the region.....	19
2.4 WTO 2005 and China.....	21
2.5 Detailed International Trade Perspectives; Examples from Annex VI.....	22
2.5.1 Trademap	22
2.5.2 Imports into SACU	22
2.5.3 Exports.....	22
2.5.4 Denim fabrics.....	23
Chapter 3.0 Specific Practical Interventions for Consideration.....	24
3.1 Information	24
3.1.1 Format	24
3.1.2 Details	24
3.1.3 ‘Sales and Wants’	24
3.1.4 Methodology.....	25
3.1.5 Links	25
3.1.6 International trade information	25
3.2 Technical Assistance (TA).....	25
3.3 Finance.....	26
3.4 Regional Forum	26
3.5 More Regional Sector Information	27
3.6 Assistance with AGOA.....	28
3.7 Global and Regional Trade Information	28
3.8 A Regional Cotton Secretariat	28
3.9 Regional Networking.....	29
3.10 Regional Policy Potentials	29
3.11 Relevant calculations	31
3.12 Conclusion	31
Chapter 4.0 Towards a Regional Strategy for the Sector.....	34
4.1 Decisive factors for a regional strategy	34
4.2 Competition.....	34
4.3 Regional strategic approach.....	35

List of Annexes

I	List of references
II	List of persons contacted
III	Scope of Work
IV	Trade Act of 2002 and AGOA 1 & 2 Summary Tables
V	2002 + 2003 US Apparel Imports: Global; Sub-Sahara; China
VI	ITC Trademap: Regional Utilisation Potentials for HS Specific Categories
VII	Photographs: Bases for a Regional Strategy to Build Upon

Acknowledgements

The Consultant is deeply indebted to all persons indicated in the list of persons seen, who in all cases gave their time and views most generously, even when under difficult time constraints. In all cases, without exception, visits were characterised by the utmost co-operation and this was interpreted as a keen interest in the possibilities perceived by the RATES' approach.

Particular thanks are due to Mr. Stephen Walls, RATES' Chief of Party, to whom the Consultant was mandated to report and who took a perceptive general interest in all aspects of the SOW; to Mr. Tom Carr, Business Development Specialist at RATES, who was assigned by Mr. Walls to be in charge of day-to-day administrative and technical issues; and to the following who were closely involved in the facilitation of arrangements in their respective countries. Mr. Peter Oluput of the USAID/ Chemonics SPEED Project in Uganda; Mr. Joseph Salema of the Audit Control and Expertise company in Tanzania; Ms. Patyma Bhadain of Badain Consulting in Mauritius; Laetitia Gerber of Imani Development South Africa (Pty) Ltd; Mr. Jason Agar and Ms. MJ Souten of Kadale Consultants, Blantyre, Malawi; and Mr. John Kasanga of Independent Management Consulting Services Ltd., in Lusaka, Zambia.

Thanks are due to other members of staff in the RATES office, Nairobi, who at all times demonstrated considerable efficiency, courtesy and tact in response to various requests. Namely Diane, Susan, Fredah and James with respect to administration, Kimberly and Peter with respect to substantive points and Vincent Kaabungaa with respect to IT related work. And also to Ms. Emily Freidberg and Mr. Rhett Gurian at Chemonics, Washington DC, for their diplomacy and utmost consideration in responses to questions posed in rapidly changing situations.

Acronyms

AAMA	American Apparel Manufacturers Association
ACE	Audit Control and Expertise (Geneva and Tanzania)
ACP	Africa Caribbean Pacific (Countries' Trade Protocol with EU)
AGOA	African Growth and Opportunity Act (US) (Also AGOA's 2 & 3)
ARC	Agricultural Research Council (RSA)
ATPA	Andean Trade Preference Act
CA	Cost Accounting
CAD	Computer-Aided Design
CBI	Caribbean Basin Initiative
CTI	Confederation of Tanzanian Industries
CMT	Cur, Make & Trim
COMESA	Common Market for Eastern and Southern Africa
COTONOU	ACP-EU Trade Agreement, Cotonou, 2000
CDO	Cotton Development Organisation (Uganda)
DBM	Development Bank of Mauritius
DTI	Department of Trade and Industry (RSA)
EAC	East Africa Community
ECG	Export Credit Guarantee
EF	Equity Fund (Mauritius)
EPZ	Export Processing Zone
EPZDA	Export Processing Zone Development Authority (Mauritius)
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNP	Gross National Product
GOT	Ginning Out-Turn
HSRC	Human Sciences Research Council (RSA)
INDEBank	Investment and Development Bank of Malawi
IRC	Information Resource Centre (Mauritius)
IT	Information Technology
ITC	International Trade Centre (UN, Geneva)
JIT	Just-in-time
JV	Joint – Venture
KTA	Kosovo Trust Agency
LDC	Least-Developed Country (GNP less than \$1500 per capita)
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MDC	Malawi Development Corporation
MEPC	Malawi Export Promotion Council
MEPZA	Mauritius Export Processing Zone Association
MFN	Most Favoured Nation
MIDA	Mauritius Industrial Development Authority
MIPA	Malawi Investment Promotion Authority

Acronyms (continued)

MIS	Management Information Systems
MS	Material Sourcing
MSME	Million Square Metres Equivalent
NAKPO	National Cotton Growers' Association (RSA)
NAMC	National Agricultural Marketing Council (RSA)
NAFTA	North Atlantic Free Trade
NDA	National Department of Agriculture (RSA)
PDD	Product Design & Development
PTA	Preferential Trade Area
QC	Quality Control
RATES	Regional Agricultural Trade Expansion Support
RM	Ready-Made (Textiles: all made-up goods, inc. household)
RMG	Ready-Made Garments
ROI	Rate of Interest
RSA	Republic of South Africa
SACU	South African Customs Union
SADC	Southern African Development Community
SEARCS	Southern and Eastern African Region Cotton Secretariat
SHC	Second-Hand Clothing
SOW	Scope of Work
SPEED	Support for Private Enterprise Expansion & Development (Uganda)
SSA	Sub-Saharan Africa
TRADE	Trade for African Development and Enterprise Initiative
UN	United Nations
UK	United Kingdom of Great Britain & N. Ireland
US & USA	United States of America
USAID	United States Agency for International Development
TTF	Tax Task-Force (Tanzania)
WAEMU	West African Economic and Monetary Union
WS	Work-Study
WTO	World Trade Centre
ZAMTIE	Zambia Trade and Investment Enhancement Project
ZPA	Zambia Privatisation Agency

Executive Summary

Background

The assignment required the consultant to visit six countries, namely, Uganda, Tanzania, Mauritius, Republic of South Africa, Malawi and Zambia, to assess prospects for future success at each of the cotton sectors in each of the countries relevant in both national and regional terms. The emphasis of enquiry was placed upon discernment of apparent future potentials and prospects, utilising where possible and appropriate structurally oriented studies already conducted by RATES and others, to provide a current basis and some historical perspective.

Categorization

It was considered to be of value in the context of the evolution of regional policies, and possible RATES' catalysed interventions and strategies, to commence categorisation of manufacturing plants. Three categories were defined: *Category A*, comprising well-managed companies with good technology, quality products and already proven exporters into the global market. These could be described as sector leaders. *Category B*, comprising large and dated vertical plants but with a valuable technology core that could be built upon, given availability of finance and Technical Assistance; and *Category C*, where a profitable future must be in considerable doubt, as bases of plant and machinery further erode, without any apparent visible means of future support. Further work needs to be done through RATES to acquire a reasonably comprehensive *qualitative and quantitative* picture of the sector, in such terms, with a view to possible future interventions. For example, it is of little value in the *future* regional context to merely state that x company has y number of looms. The nature and quality behind such facts must be discerned and potentials understood.

Trading perspectives

Some current, regional and global trading perspectives are discussed in Chapter 2, including for example, SADC, COMESA, COTONOU, AGOA and WTO. Examples are given as to how countries in the region could benefit from available web-based trade information, such as that provided by the United Nations' International Trade Centre *Trademap* web-site in relation to specific country/HS product classifications. Such research is held to be of inestimable value in the development of a regional approach. Further work should be done by RATES to provide such a comprehensive trading picture, which should then be continuously updated.

In the absence of comprehensive computer modelling that could theoretically include huge permutations of variables that could be involved from the sector, from the finite international product classifications and from national and regional programmes, the method adopted here in drawing together the above findings, was to identify the most important constraints to development and to translate these into recommendations for potential RATES- sponsored or catalysed interventions.

Possible interventions

Several such measures are detailed in Chapter 3: Promotion of IT, including plant and trading information details for all countries; technical assistance; improvements in availability of finance, which is an absolute necessity in some cases and a valuable help in others in permitting finalisation of adequate funding for new and/or rehabilitation projects; promotion of regional dialogue, viz., ‘Networking’, initially through a forum at which all major regional stakeholders would be present – having affirmed their intention to participate if such an opportunity was to be accorded; Formulation of common positions and policies from the latter, as would for example be of value in AGOA negotiation, are also indicated; and accordingly, propagation of the potentials of the sector in the region, in which good potential investment opportunities could exist in the textile sector, to bring it into closer alignment with lint and apparel.

Regional strategy

Preferably following respective national inputs and observations at any such forum but in any case, based upon the findings of this study and related work, RATES would attempt to construct an initial regional strategy for the sector, as proposed in Chapter 4. It is suggested that this could take the form of an integrated producer/ginneries assault. The producer would aim to revive some of the once great and vertical companies, plus a few others, that possess a minimum core of respectable technology that could be commissioned and supplemented by newer, more versatile technology. This would be aimed initially at Category B companies and national and regional import substitution.

The ginneries could evolve around the best capacity in the region - and there are scattered instances of extraordinary assets. Such Category A companies would constitute the sinews of a recovery strategy. Every possible means should be mobilised when needed, to support such companies in their efforts to expand, whether at existing sites or elsewhere in the region. They could be held as examples of what can be achieved and the standards necessary for that achievement. They have already proved themselves capable of forging sophisticated trading links capable of withstanding global market pressures.

This could lead to greater intra-regional investment and knowledge and technology transfer. Countries where labour costs are now becoming high for basic apparel manufacture such as Mauritius, could dictate greater regional involvement in mainland Africa, by that country either in apparel or upstream integration, or both.

Over 15 potential regional investments are currently on hold pending AGOA non-regional yarn and fabric sourcing clarification and acquisition of adequate commercially acceptable finance. Certainly, with gradual phase-out of such sourcing, the lint production could increase nearly three times for the regional market, yarn by a similar amount and fabric by five times, in each case for the regional purposes alone and for AGOA alone. But any such estimates must inevitably be viewed with caution, for reasons indicated and also in the absence of a harmonised regional system of statistics.

RATES input

It is also suggested that the two most developed countries in the region, both with strong cotton sectors, could provide by example and experience, some particular impetus in the promotion and implementation of a regional strategy. The idea is not new. Most of the countries are now stating the need for an increasingly regional approach. SADC has openly stated the need. Recent government sector strategy papers in for example Malawi, Mauritius and South Africa have also stated this need. Effective implementation would almost certainly require a small regional cotton Secretariat. If feasible this should be employed during the course of RATES' activities, leading to greater chances of sustainability in the future.

Movement towards such an entity could be initially catalysed by RATES, through initiation of substantive functions such as the facilitation of the Regional Forum; consequent networking; regional web-building from existing national and/or member sites; compilation of web-based regional sector information to company and technology levels; creation of a company trade linkage site; collation of comprehensive regional international trade information, including volumes, values, tariffs by country and product; and web-based provision of latest international trade agreements/modifications. A Secretariat, once in place, could be self-sustaining through industry/government funding, in continuing the above functions and in then promoting the region as a major player, versus China, India, Pakistan, Bangladesh, and CBI and NAFTA countries.

It is a sobering thought that without such assistance as indicated above, textile companies may gradually erode, particularly the Category B companies and even to some extent Category A, which might be more disinclined to invest further in the region. Apparel companies might remain in something like current positions in the short-term, pending AGOA clarification. But if for example, third-country imports were not allowable into the Sub-Saharan LDC's, then their positions would quickly erode without textile support. Manufacturing companies on the other hand, although losing out in the regional market, could continue to develop in supplying the global lint market, with the assurance of continuously increasing global demand for cotton. A 'regional sector' presents both challenge and opportunity to the international community and countries alike. Over 2 million sustainable jobs could be added.

As evidence of this, licence is being taken by quoting a few words from the admirable South African Strategy document: ... 'Indeed, it is hoped that the process of collective strategy development that has been followed in South Africa over the past year will be the forerunner of an analogous, but much more broadly based, process for revitalising the cotton industry in the region – as an integral producing and trading bloc before long'... (37). In the meantime, further research on other countries is being undertaken by RATES and it is anticipated that the findings will support the need for a greater intensification of the regional approach (38). A RATES focus on cotton is evidently justifiable. It is most timely in many respects, not least as a follow-on from the AGOA Forum held in Mauritius in January 2003 (39); and is consistent with the objectives of the wider 'Multi-Agency US Government Initiative Implemented by the Agency for International Development', Trade for African Development and Enterprise (TRADE) (40).

1.0 Important Country Features

This chapter briefly indicates current significant national governmental and associational features and positions that could be of value in the future. Subsequently, in Chapters 2-4, indications are given as to how these might be drawn together, along with the production features, into the regional perspective. Contrary to much international scepticism concerning future Sub-Saharan African (SSA) cotton manufacturing potentials, as distinct from lint cotton production, are in both respects sufficiently encouraging to suggest that a regional approach could be justified and successful.

1.1 Uganda

There are a number of reports with direct relevance to Uganda. These include two from the USAID Uganda Private Sector Trade Policy Capacity Building Project, dated June 2001 (1) (2); two commissioned by the current USAID Project, Support for Private Enterprise Expansion and Development (SPEED). These were essentially technical and marketing studies for one of the principal manufacturing companies, Southern Range Nyanza, dated June 2002, (3) (4); and a further SPEED-sponsored study, Impact Analysis of Enterprise-linked Extension Programmes: Ntakatonzi Growers Cooperative Union and North Bukedi Cotton Co., dated 2003 (5).

1.1.1 Constraining factors

There is some pessimism in Uganda deriving from two principal current characteristics. First, the fact that although Ugandan cotton lint was historically well regarded in world markets (indicating good quality and staple length of approximately 1.16 ") production has progressively fallen from a peak of approximately 400,000 bales per annum to the current level of approximately 100,000 bales. Secondly, bearing some relationship to the first, is the overwhelming presence of imported second-hand clothing (SHC) and other Ready-Made (RM) goods in the domestic market, sold to wholesalers by weight, which is claimed to seriously inhibit any significant progress by local RM manufacturers for the domestic market. This is evidenced by the fact that only 10,000 bales out of the 100,000 are utilised domestically. Of the remaining 90%, approximately 15% goes to Kenya, with other significant percentages going to the UK, a traditional market, and Malaysia.

1.1.2 Encouraging trends

On the other hand, there are some recent positive developments that give reason for selective optimism. As far as lint production is concerned, the largest global trader has significantly extended its interests in Uganda in terms of acquisition of ginning capacity. It has become extremely active in farmer support through broadcasts and village-based agronomy education, focusing on increased yields, parasite identification, and potential cash returns to the farmers and so on.

Several such measures are conducted in close co-operation with the well-informed Cotton Development Organisation (CDO), a Government organisation. Discussions at CDO, SPEED and with the above company, indicate that there is a general belief that lint production could increase to 500,000 bales by 2005, with a possibility of even 1 million bales being produced within 5 - 7 years, for national, regional and global markets. The company quotes Zambia as an example, where production has allegedly increased ten-fold over the last few years, utilising the same farmer-based approach.

The 'national' expectation is however, heavily qualified domestically, by future government policy towards SHC, plus government policies and actions of banks, which increasingly turned away from textile manufacture of any kind over the last decades, simultaneously with the drop in lint production.

1.1.3 Specific developments

Irrespective of these SHC and Banking situations, there are a few extremely notable corporate developments currently taking place downstream. It is not known in these cases how financing was acquired but each represents in its own way an exceptional enterprise, in terms of managerial approach, strategic positioning, planning, organisation and technology. Each is expected to have a strong future in the regional and even global context.

One such company is carving out a niche market (potentially global) through its installation for super-combed cotton and knitted T-shirts and sweat suits. It is still a relatively small enterprise, capable of employing approximately 120 persons, technically proficient but could benefit from marketing. The Managing Director is Japanese and extremely well informed and progressive.

Another company is a vertical mill currently employing over 1100 persons, of whom 460 are engaged in ready-made garment (RMG) production on single-shift and over 200 persons in weaving, on a three-shift, 7-day week system. The weaving technology is good, with wide-width Sulzer projectile looms but about 20 years old and which management would like to progressively replace. The spinning section is currently being re-equipped with new draw-frames and spindles. The mill itself was originally built and owned by Calico Printers Association of the UK and although the mill infrastructure and processes are comprehensive, there remains a need for training. There is a desire to expand into a denim manufacturing plant but this possibility is currently thwarted because of the scale of investment required, superimposed upon current working-capital needs and capital expenditures. Over \$10 million would be required to ensure overall product quality and install the denim facility.

A third company visited during this research is also very modern and well organised, and has good production lines and lay-out. It has trained its 1400 operatives in its own training school and has a policy of recruiting potential trainees from villages throughout the country. It sells to the EU and to the US under AGOA.

1.1.4 Conclusion

There is probably significance in the fact that the two major companies above are foreign –owned. Other manufacturers locally owned and currently producing on a small scale, state categorically that the non-availability of local finance is the one main problem inhibiting growth. Such companies include a high- quality Safari suit manufacturer, a hygiene product manufacturer and a large vertical mill that currently operates to less than 20% of its capacity and is now for sale. Another large vertical mill, although busy domestically, is verging on the technologically obsolete, needing substantial investment to reach external markets

The overall situation in Uganda is that all the downstream producers are well aware of and understand each other’s problems. There is extreme criticism of SHC, which supplies over 85% of the domestic market and is now a delicate political issue; of the non-availability of finance; of high energy costs; of high freight costs (a container from Uganda to the US costs six times more than from Kenya); of any relevant infrastructure, including training; and that in the current situation AGOA is generally seen rather as something to be avoided, because of volumes, quality and deliveries. The latter despite the fact that there is a knowledgeable and capable Special Presidential Assistant on AGOA and Trade.

There is a commonly felt need to break out of the current situation and talks indicating initiatives that RATES may be able to take in alleviating problems and placing Uganda into a regional cotton perspective, would be generally welcomed by all players. In any such discussions, a mix of government, associational and producers as mentioned above, would hope to be present. There does not appear to be a sector strategy.

1.2 Tanzania

1.2.1 Constraining factors

It would not be inappropriate to suggest that some of the principal pessimism surrounding the sector in Tanzania is close to that facing the sector in Uganda. This is why these have been to some extent elaborated upon previously. Certainly finance is again the number one problem in Tanzania, particularly as Banks have become nervous of the sector following qualitative decline in physical assets during state ownership in the late- 1980’s and 1990’s. Quality standards and awareness of that need in the regional and export contexts is another. The lack of infrastructure and training facilities constitute impediments. High cost of energy plus power cuts affect unit costs of production. Second-hand clothing is an issue, although much less so than in Uganda. And the generally obsolete technology levels in the mills are obstacles to future progress.

1.2.2 Encouraging trends

As in Uganda, there are important exceptions to the situation, which may provide some grounds for optimism for the future. There is a growing awareness in government that the sector is and can still be a most valuable asset in socio-economic terms. It can provide tens of thousands of jobs. It can earn foreign exchange and it can provide invaluable import substitution.

Although there is not much external literature on the sector in Tanzania, the Government provided copy of three internal papers that provide some indication of its determination to resuscitate the sector and to do so in a regional and global context. These papers are: Brief Report on Textile Sector in Tanzania (6); List of Textile Industries in Tanzania (7) which gives the current status under the largely successful government mill privatisation programme; and significantly, opportunities availed by Tanzania's Participation in Multilateral Trading Arrangements (8), which emphasises upon the development of Sub-Saharan Africa trade.

1.2.3 Specific developments

Within this increasingly positive government position, some new developments in the sector are worthy of particular note. There is now increasing government attention to promote production of lint cotton from its current annual level of about 400,000 to 750,000 bales by 2006/7. There are over 60 ginneries in the country, forty more than in Uganda, with control and extension therefore relatively more amorphous. Following the transition from public to private ownership, many trading connections with the local mills were lost but attempts are being made to revive these. Over 80% of lint production is now exported, with between 20% and 30% of the total now going to Kenya, South Africa and Burundi. The Tanzanian Cotton Lint and Seed Board is making impressive attempts to assist in this expansion. Credit for these upstream operations can be readily available to farmers under a scheme promoted by Audit Control & Expertise (ACE), Financing of Contract Farming Based on Warehouse Receipt System (9). It also offers a wide range of credit support services, as given in their Directory of Credit Support Services for Financial Institutions, Insurances, Traders and Suppliers (10).

It is estimated that half of the 750,000 bales will be exported, with the remainder for domestic consumption. This suggests optimism over the progress of domestic mills, which on the basis of certain criteria, may not yet be sufficiently justified for some of the reasons indicated above. There are important exceptions, already discernible, that could be indicative of wider potential.

One recent huge investment in two wide-width state-of-the-art printing machines, with a capacity of 75,000 metres per day, plus RM capacity in brand-new purpose-built premises, indicates a massive confidence in the future. This new plant is scheduled to commence bulk production in September 2003 and will complement relatively obsolete spinning and weaving capacity bought out of the Privatisation Programme, by a Pakistani

textile family based in Dubai. It should have the capacity to supply 50% of the domestic market for some particular products, and has the clear capability to print higher quality/higher value-added goods.

Another large enterprise, with a 51% Chinese shareholding is carefully preparing its strategy and honing down its investment plans, over its spinning, weaving and RM sections. It employs over 1280 persons, produces over 45,000 metres of woven fabric per day and also possesses a high Stork Rotary printing capacity, currently supplying an estimated 30% of the domestic market for the two principal national fabrics, printed kitenge and khanga. A weaving efficiency of merely 61% over the two 8-hour shift operations demonstrates by the companies' own admission, the current obsolescence of its looms. Spinning and dyeing & finishing efficiencies are at a more acceptable level of 80%. Performances are closely monitored and bonus schemes are in operation. Computer-aided design (CAD) assists in finalising print designs and colour mixing.

Another large enterprise in the North of the country accounts for much of the remaining national dress market from an old manufacturing technology level. It also exports T-shirts under AGOA. It is a feature of both the first two previously mentioned enterprises, that apart from the extensive investment decisions they have already taken or are about to take, their approach is highly cautious and staged. For example, they are fully aware of the opportunities potentially provided by AGOA but will not be tempted to target the US market until they are certain that quality and production control procedures are fully adequate. One of them is already selling household textiles to Canada, which is obviously helpful in the learning curve.

1.2.4 Conclusion

The above-mentioned companies are currently the exceptions to the general status in the manufacturing sector(s). Although it is true that the privatisation process was in itself successful, most of the privatised companies now lack the finance to rehabilitate or re-equip. Their technological base is therefore gradually being eroded, as compared with competitors in the global market place. The allocation of Export Processing Zone (EPZ) status to individual enterprises might assist some companies but as of now bears no relevance to the majority of companies that cannot qualitatively improve. This also applies to Export Credit Guarantees (ECG's).

Unless some of the specific points are adequately addressed, particularly finance, the good intentions of privatisation will be lost, whilst possible Foreign Direct Investment (FDI) will be deterred. The Government is apparently aware of the position and some relief measures will undoubtedly emerge from the Ministry of Finance's Tax Task Force (TTF); from the Textile Working Group of the Confederation of Tanzanian Industries; from the Tanzanian Investment Centre of the President's Office; and from the Tanzanian Chamber of Commerce which works with the US Embassy in Dar Es Salaam on AGOA issues. There is awareness, for example, that Tanzania has 'lost' two years or more, as compared with other countries in the region, of progress under AGOA.

The following statement highlights both the problems in Tanzania and the relationships between the various stakeholders. The Confederation of Tanzanian Industries (CTI) writes thus: ‘In April last year, we were invited by the Parliamentary Foreign Affairs Committee to demonstrate our role in the promotion of FDI to Tanzania. We informed the Committee that we *advocated* (authors’ Italics) a conducive business environment characterised by a transparent legal and regulatory framework, fair taxes, and good infrastructure in the form of roads and railways and access to affordable capital. We mentioned the importance of good quality power at reasonable tariffs and the reliability of water supply. We *challenged* (authors’ Italics) the Government to support measures that would reduce the cost of doing business in Tanzania, estimated to be 30% higher compared to the rest of the world. We made the Committee aware that in 2000 Tanzania received a mere 0.4% of all FDI coming to Africa while South Africa received 50%’ (11). The Committee then made the suggestion that its interaction with CTI should be enhanced.’

There is a general recognition of the problems and it is considered that with urgent and intensified government, associational and producer interaction, the current problems will be more readily solved. All major stakeholders are interested in discussions as to how RATES might be able to influence national and regional progress.

1.3 Mauritius

There are fewer problems in Mauritius. In fact those now faced by Mauritius are virtually a generation ahead of those faced by Uganda and Tanzania. From an idea over twenty-five years ago, Hong Kong garment manufacturers, with their concerns over their status from the 1990’s, were offered key incentives to re-locate. An enabling environment was created, with increasing results throughout the 1980’s and 1990’s, in terms of created businesses and jobs, investment and foreign exchange earnings. Following the classical *Rostow* model of economic growth, the textile industry led the economic growth of the country. Now, with a rapidly changing global trading environment, the problems faced by the industry in Mauritius are principally those of *adjustment*.

1.3.1 Recent developments

As a producer of ‘standard’ garments par excellence, supplying Europe and the US, the country by the late-1990’s had few peers, but the strong entry of China into the world apparel market has begun to break down previous trading arrangements. Whereas five to ten years ago, Chinese manufacturers would have been interested in investing in Mauritius and in fact did so for the production of such articles, this interest can no longer be there, as wage costs of \$500 per month are now relatively high for an apparel producing country. There are however strenuous efforts being made to increase value-added content, with movement to more exclusive’ niche’ products with global marketing potential. Downstream, new spinning mills are being built, that could bring AGOA derived benefit to Mauritius and the region. Likewise, probably for similar reasons, there

is a distinct possibility that current companies' weaving capacity will be expanded, and FDI will create further new spinning mills and/or weaving mills and/or vertical mills.

It is a mature adjustment that will increasingly be made. The major difference here, compared with most other countries in the region, is that all governmental and infra-structural policies and mechanisms are already employed to provide that real enabling environment, not only for business establishment but also for *change*. Such mechanisms have been built-up, tried and tested during the years of strong sector development. The Ministry of Industry and Trade works in close partnership with the esteemed Mauritius Chamber of Commerce and Industry (MCCI) and with the development entities, such as the Development Bank of Mauritius (DBM) with its Equity Fund (EF), the Mauritian Industrial Development Authority (MIDA), and the highly developed Mauritius Export Processing Zone Association (MEPZA). Company heads are appointed to a rotating chairmanship of the latter and there is strong evidence everywhere of continuous interaction between all stakeholders.

1.3.2 Cotton landscape

It can be seen that although Mauritius has pride in its progress, this has been hard earned, through rigid application to financial and production disciplines and increasingly to design, commercial flair and higher value-added. Challenges and opportunities are highlighted, as evidenced by increasing deference to regional considerations and the emergence of AGOA 1 and 2. Sector information is also published by Export Development Zone Development Authority's (EPZDA) Information Resource Centre (IRC), covering such items as new books and technical manuals; web-sites such as the American Apparel Manufacturers Association (AAMA) at www.americanapparel.org; calendars of International Fairs and Events; and lists of Full-time and Part-time Courses offered by Training Centres in the textile sector.

The current net result of this Mauritian interest in the sector is approximately 160 garment companies, providing 80,000 direct jobs out of a national total of 400,000; and exporting in excess of \$1 billion per annum. Some of the plants are of exceptional sophistication, manufacturing cashmere and merino sweaters products for the most exclusive purchasing houses in the US and EU (13). In addition there is a mill manufacturing and making-up denim; a French- owned mill with production links to Madagascar that weaves with exceptional skill and modern technology, plain volume fabric plus more intricate coloured and textured fabrics for both export in the piece and for domestic apparel producers (14); two other weaving mills; plus a Chinese-owned spinning mill under construction, scheduled to come on stream in September 2003, with an initial capacity of 5000 tons p.a., compared with a national consumption of 42,000 tons.

1.3.3 Future developments

There is growing unease about the future of the cotton sector in Mauritius. About the national over-dependence on the sector; about the relative competitive position in the global market and in the WTO, 2005 context; about the degree and extent of adjustment that will be required, in terms of product and technology; about the emergence of China; about rising energy and water costs; about greater strictness in lending; about closures of several factories, for example sweater factories, where apparently six out of eight manufacturing a particular level of product have recently closed although the remaining two are managing to adjust, through their technical capability to increase value-added and range of designs; about the losses sustained by investors in the sector in Madagascar; and even now, about the status of Mauritius and South Africa with respect to AGOA classified LDC's, which, it is contended, places them at a double disadvantage - labour costs and material input costs.

1.3.4 Conclusion

The realisation that a regional outlook could now be helpful, in terms of mutual trade and possible investment situations, is very much apparent. The skills and enterprise demonstrated in Mauritius could be directed to volume production on the African mainland, with its lower labour costs. Residual Mauritian business would be relatively high value-added and possibilities for production differentiation and upstream integration could be presented. The lessons learned during the 'Mauritian Experience' could greatly contribute to development of the sector on the mainland, whether in terms of government, association or producer functions.

As MEPZA has stated this year in relation to Regional Investment and Trade: 'Madagascar has been the beginning. In order to benefit from the LDC status and to be able to satisfy the big volume orders of the US buyers, MEPZA members, mostly textile and clothing firms, have been investing in the region, mainly Senegal, Mali, Malawi, Mozambique. Even regional trade has grown and increased from countries like South Africa, Lesotho, Swaziland and this due to increased sourcing of AGOA-eligible raw-materials such as yarns, fabrics, accessories' (15). Certainly the growth in Swaziland and Lesotho has been dramatic, the latter allegedly now employing over 30,000 persons in garment manufacture, from zero a few years ago. But whether this growth has actually been supported, in the main, from regional yarn and fabric remains to be seen.

1.4 South Africa

It has previously been supposed that because of RSA's relatively advanced position in terms of economic development, there could potentially be extreme divergences of views compared with other countries in the region. Although Mauritius is also relatively developed in terms of, say, GDP per capita, it is more obviously dependent upon the sector, which as seen, contributes approximately 20% of GDP and one might anticipate a greater commonality of interests with other countries. In the case of RSA, this share has allegedly been small in recent years, ranging from 2% in 1999 to 1.2% in 2002 (16). But

this figure, utilised in isolation gives a very misleading impression of the value of the sector in both social and economic terms to the country.

1.4.1 Recent developments

In each of the last five years, RSA's investment is equated with approximately 55,000 employees, but this is only in spinning and woven textile production. If those involved in factory knitting for piece goods and garments, 11,000; and in the apparel industry, 122,000 are added in, then the combined figure of 122,000 represents 14.8% of all industrial employees, providing 4.2% of value of ex-factory sales. Furthermore, if those involved in growing and ginning, estimated to be at least 80,000, or 7 – 8% of agricultural employment are included, then the total employment in the *sector* is stated to be approximately 200,000 out of a total of approximately 2 million national manufacturing and agricultural employees (17).

Expressed in such terms, although lint processed has decreased from 25,000 tons in 2000/2001 to 17,000 tons in 2002/3, it becomes less remarkable to observe that RSA has recently developed and supported strong plans, to dramatically reverse this trend, and with it also a revival of the manufacturing sector, within the framework of a *multi-stakeholder driven South African Cotton Industry Strategy* (18). Of the current consumption by the sector of approximately 50,000 tons, approximately only one third is produced domestically (19). The shortfall is made up principally from other regional producers, in particular, Zambia, Malawi and Mozambique

It is also noteworthy that this RSA thinking has developed not only against the backdrop of the historically proven supply-side potentials, with, as an example, 400,000 bales per annum in 1989/90. It has also developed against the demand side potentials of approximately 650,000 bales as could be needed to take maximum advantage from allowances under AGOA alone, viz., a nine-fold increase over current domestic lint production (20).

A very authoritative source within the regional cotton growing/ginning companies anticipates that a production of over 1.5 million bales per annum should be achievable over the next few years from all SADC countries, including notably, RSA, Zambia, Malawi, Mozambique, Tanzania and possibly Zimbabwe. In the case of RSA, the increases would derive from commercially- driven and intensified activities of the 50 largest farmers and the 250 medium-sized farmers on the one hand; and in particular through increased national support measures, including credit, for the 3000 or so small farmers (40% female), who are potentially seen as the key players in the recovery (21).

But such AGOA uptake would translate into an active manufacturing base of something approximating to several more times than current qualitatively appropriate levels in the Region. Furthermore, such an overall uptake would require reactivation/rehabilitation of much of the manufacturing capacity currently held at zero or low utilisation – principally through lack of finance at commercially viable rates. And if AGOA excludes LDC 'third country' sourcing, the point assumes immense significance.

1.4.2 Present state of the cotton market in South Africa

At present, although the manufacturing base in the sector is not huge overall, with 3000 looms and 400,000 spindles, it is quite comprehensive in its capacities and products, covering industrial, domestic, household and apparel textiles. There are in excess of 250 companies engaged in some aspect of textile production. At least four of these are vertical mills, with many of these also involved in downstream textile garment production under AGOA. Such mills, as in the case of the Mauritian mills, can be held up as examples of what is possible to achieve within the region; and also the standards necessary to sell into the global market.

Companies generally do not need technical assistance but if it was potentially available in very specific cases, there is little doubt that it would be requested. For instance, one particular manufacturer is currently operating at only 40% capacity and really needs regional marketing assistance. Such a company, with specialist, niche, and high value-added capability should be assisted. In recent months, several of the potentially exporting mills have suffered from the abnormally strong Rand, which has increased by 25% against the \$US since last year.

Some success has also been attained by specifically garment companies with respect to AGOA and RSA as it now usually ranks within the top four supplier countries, despite, as is also the case with Mauritius, its relatively disadvantaged sourcing status as compared with the majority of AGOA- supplying countries.

1.4.3 Intra-regional trading

There are already several actual illustrations available of intra-Regional trading. For example, one of the large cotton producers sells lint to a South African spinner, who then sells to a Mauritian weaver, who then processes into its own garments, or supplies fabric to Mauritian or other regional apparel manufacturers, for instance in Madagascar. Another illustration is regional lint, to a South African spinner and weaver and on to an apparel manufacturer in Lesotho. Current thinking in RSA now takes 'regionalisation' as a norm and as a necessity for the future. As clearly expressed in its strategy document, 'goals of recovery and future expansion will be attained only by close engagement and interaction with other SADC countries' (22).

The engagement in preparation of the strategy included: National Department of Agriculture (NDA); Programme: Trade & Business Development; Department of Trade and Industry (DTI); Cotton SA; National Cotton Producer's Forum; Small Cotton Producer's Forum; National Agricultural Marketing Council (NAMC); Delta-Pine; Agricultural Research Council (ARC), Institute for Industrial Crops; Monsanto South Africa (Pty) Ltd.; Clark Cotton; NSK; Makhatini Cotton; South African Cotton Textile Manufacturers' Association; Frame Group; Land Bank; Human Sciences Research Council (HSRC), Integrated Rural and Regional Development; University of Pretoria, Dept. of Agricultural Economics; and Marketing and Planning Consultancy Services.

A further strategy paper, independent of the foregoing was due to be released by the National Cotton Growers Association (NAKPO) during late-August 2003. It has not yet been seen but it is likely to contain many references to the need for increasing national support for the smaller SA farmers and a more integrated approach to the sector. On the basis of what has been expressed above and sheer commercial imperatives, a corresponding and appropriate inclusiveness will logically have to extend into the regional dimension.

1.4.4 Conclusion

It is of great importance to emphasise at this point, that although all AGOA countries are appreciative of the opportunities accorded and many have already benefited, the emerging global market situation has increasingly brought inherent conflicts of interest to the fore. SA and Mauritius now find themselves at one pole due to non-third country yarn and fabric sourcing, whilst the LDC's now find themselves at the other. Yet, there is a developing national recognition that there are many underlying factors that suggest an increasing commonality of interest with the wider region.

With the current rate of interest (ROI) ranging between 15-17%, interest payments with respect to recent AGOA-inspired investments are increasingly difficult to service. Uncertainties over the AGOA regional fabric decision have led to pending basic financial, trading and investment issues that are of relevance across the region, although with national variations.

1.5 Malawi

As is the case with RSA and other regional countries, much is currently being written, not only about respective national textile sectors but also on the increasing need for a regional approach, for information, maximisation of commercial opportunities, regional sector policy representation and so on. There are a number of shared fundamental problems that hold a greater chance of resolution with shared and co-ordinated action. To some extent, Malawi could be seen as a microcosmic example of the problems of the wider region.

1.5.1 Recent developments

The Government recently published its Growth Strategy (23). Within this, 'cotton' has been named as a growth sub-sector. This particular nomination relates to cotton growing and ginning. However, 'Textiles' (here meaning manufacturing – yarn, fabric weaving, dyeing, finishing, printing etc.) and garment manufacture are also so designated. The objective is to build a cotton/textiles/garment cluster, aided by the creation of a Cotton Council, for which legislation could pass through Parliament during the autumn of 2003. According to the Growth Strategy document, 'A group of Stakeholders representing the

Cotton Industry are working on a detailed action plan to implement the strategy. This will be included in Part 3 of the Growth Strategy. The proposed Cotton Council will in due course become the representation body for the Cotton Industry Strategy' (24).

The idea for this strategy was loosely promulgated during the late 1990's and increasingly provided a momentum for the sharing of stakeholder views. A working group of thirteen persons (plus occasional invitees, i.e. from Transport and Customs) was formed, including representatives from the Ministries of Agriculture and Trade and Industry, the major players in cotton, NAIFAM, Great Lakes and Clark Cotton, and the Garment and Textile Manufacturers. The transition from initial discussion to the imminent '*Cotton Act of 2003*' has been remarkably swift and it is of note that this development has a primary place within the national economic Growth Strategy.

The consultant concurs with the 19 constraints and consequent strategies and actions given in the above-mentioned Textile and Garment Strategy Paper that will be included in Part 3 of the national Growth Strategy (25). He concurs with the findings of the 'Cotton Strategy' section of the National Growth Strategy and with the constraints listed there. Discs of both strategy papers are available.

1.5.2 Encouraging trends

Although cotton lint production in 2002 was at one of its lowest levels in recent years, at 5280 tons (26), with most of this exported to RSA, the major cotton players are expressing cautious optimism. This is mainly due to an increase to 12,000 tons in 2003, with similar increases in subsequent years and to specific credit and extension measures, particularly taken by these large companies to assist the smallholder farmers who account for over 90% of national cotton growth.

The companies are in effect carrying the costs of much extension work that is normally borne by the government. This obviously circumscribes these companies' activities. It is understood that donors have to some extent assisted in these activities but more assistance could bring greater farmer education, yields and areas under cultivation, given some price guarantees to the small farmers.

It is interesting to note that stakeholders and the Textile and Garment Strategy Paper itself have clearly stated the need for the continuation in business of the large vertical mill, David Whitehead (27). The site, buildings, and factory infrastructure remains intact. The technology core of wide Sulzer looms could provide an initial basis for re-activation of the factory on a meaningful scale. As seen earlier, over 150 similar looms but eight years older are in 3- shift operation in Uganda, 7 days a week. The products could initially support domestic and regional clothing needs.

An investor would most probably supplement a loom installation with more flexible machinery that could process the large variety of textures and designs as would be required for export, to Europe and to the US under AGOA. A serious sector investor (as opposed to asset stripper) would know just how to utilise the facility to maximum effect.

The David Whitehead company was in fact very recently privatised but the sale is currently under an injunction and Commission of Enquiry. It is hoped that the result will be such as to assist in developing the integrated sector desired. It could also hugely support the AGOA-oriented sector regionally, with specialised products for AGOA, i.e. drill, twill, and gabardine and plain trouser and shorts fabric, given the attainment of good quality standards. Such cost-effective re-commissioning of this and similar Regional productive assets could clearly augment capacity to fulfil AGOA potential and other export opportunities.

1.5.3 Developments in the garment sub-sector

Further upstream in the garment sub-sector, two Taiwanese-owned companies each employ over 2500 persons on a Cut, Make and Trim (CMT) basis under AGOA. Uncertainties over the specifics of the future of AGOA are naturally impacting upon holding companies' strategic investment decisions. For example, no roll-over of third-country sourcing and the companies could merely close or relocate. A curious twist could be, with respect to the region generally, that if rollover was abandoned, such companies might themselves be interested in diversification downstream, with new plant and machinery or in rehabilitation of older plants. According to one manager, financial availability could tip the balance in favour of any such corporate strategic moves.

The remainder of the garment sub-sector is relatively small, most plants having closed through the impacting of SHC's. Approximately seven continue to produce with two Malawi-owned companies currently supplying the US under AGOA. Last year one of these companies targeted AGOA on the rebound from a financially damaging dispute with RSA under SADC, in which the latter contested the Malawi input percentage. The other, in the vanguard, commenced trading under AGOA last year and is gradually increasing production for that market. Largely as a result of this success, one of the largest US garment buyers was in Malawi in August 2003.

1.5.4 Conclusion

From the RATES perspective, it is interesting that calculations regarding a basic T-shirt suggest that without cotton or cotton industry subsidies, Malawi would be able to compete with China, if it added value throughout the cotton chain. This is a bold claim, but on the assumption of appreciating Chinese currency and wages, there could be some justification. Even more so, if slightly more design value was added. If this Malawian commercial thinking is incorrect, why should US buyers continue to build-up AGOA production and visit, particularly in the context of possible ending or possible phasing-out of third-country sourcing?

In theory, the infrastructure could look good for FDI into Malawi. Ignoring the landlocked location, to some extent offset by low wage rates, most of the appropriate agencies exist, such as the Malawi Investment Promotion Agency (MIPA) with one-stop facilities; the Malawi Export Promotion Council (MEPC); the Malawi Development

Corporation (MDC); the Malawi Confederation of Chambers of Commerce and Industry (MCCCI); the Investment and Development Bank of Malawi (INDE Bank); and EPZ's. President Muluzi in a foreword to the new and attractive Investor's Guide to Malawi refers to a reduction of administrative red tape in responding to and granting investor requirements (28). Very useful information for the commercial investor is available in that publication and from MIPA.

1.6 Zambia

USAID's Zambia Trade and Investment Enhancement Project (ZAMTIE) recently completed a study of Zambia's cotton sector (29). The aim here is to characterise the nature of the sector in relation to the regional trade, constraints to development and to ascertain thoughts concerning possibilities of a regional approach.

In some respects it is good that Malawi and Zambia constituted the authors' final two country visits. Each in its own way is highly symbolic of the current status, constraints and potentials of the region. In the case of Malawi, we have noted strong attempts by all stakeholders over the last twelve-fifteen months to develop a comprehensively represented sector authority; whilst in contrast, in Zambia, the lack of such an entity is frequently cited as a major constraint to future progress.

1.6.1 Recent developments

Zambia is an active regional player, in terms of supply of lint, particularly to South Africa during its recent dip in its own domestic lint production. Zambia's 2002 production of lint was approximately 40,000 tons, of which approximately 14,000 were utilised domestically, with most of the remainder to RSA.

It has also been seen that Zambia exports yarn within the region, in this case to Mauritius. The yarn derives from good Zambian cotton spun by a modern spinning mill. One of the most sophisticated apparel manufacturers in Mauritius is willing to pay a slight premium for its combed and doubled (plied) yarn which is superior in appearance, quality and strength to potential alternatives from outside the region and which is utilised in production of up-market sweaters for US clients. This is a feature of potentially wide regional significance.

However, although the spinning plant is modern, it is now unable to realise its high production capabilities because it simply does not possess the working capital to support its capital investment in full. Moreover, the impacting of decisions surrounding AGOA can and should be carefully noted from the fact that during a recent period, in which the company was developing trade with companies with Namibia and Botswana, the two countries were accorded LDC status and the orders with Zambia were immediately cancelled.

As in other countries visited, such as Uganda, Malawi and Tanzania, there is now a growing opinion that with appropriate action, the national sectors could be able to revive but with more modern characteristics assisted by the international community, Although the sector as a whole has been in progressive - and some sceptics would say terminal - decline over recent years.

1.6.2 Privatisation

Improved regional trading environments, whether through SADC or COMESA or both, or better still, through an increasing harmonisation between these partially interconnected groupings into a wider African Customs Union, can increasingly provide a more tangible demand-side framework for recovery prospects than existed during the years of decline. Similarly, recent and current important privatisation in these countries should potentially improve the supply-side position.

As in Malawi, a potentially important large vertical mill, with good rehabilitation potential, is currently in the privatisation process. In Malawi, the results of the post-sale injunction and Committee of Enquiry are awaited. In Zambia, prospectuses are now available for the sale of one of the two former state-owned companies that together had approximately 80% of the Zambian domestic market share of the most widely utilised products, such as Chitenge (30). The active Zambia Privatisation Agency (ZPA) is handling the sale.

It is important in the current context to realise the chain of events that led to the increasing demise of such companies. In the case of the latter company, depreciation of the Kwacha from K6.85: \$1 US in 1989 to K134 by early- 1992, triggered off a chain-reaction from which the company has never recovered. Such a rate of depreciation rendered repayment of hard currency loans an impossibility whilst the financial noose tightened liquidity to the extent that inputs could not be purchased and operatives could not be paid. It was hardly surprising that employees who were owed months' of salaries resorted to strike action that closed the company for over four months (31). With the region, as elsewhere in the world, under increasing competitive pressures from Asia, the company has never reverted to full production.

1.6.3 Conclusion

As with the similar vertical companies in Uganda and Malawi, a core of good technology still exists: and the fact that such is still of commercial value is vividly demonstrated by the high capacity utilisation in Uganda. The complement of 100+ 3 metre- width Sulzer projectile looms (plus over 300 older Picanol looms) in Zambia and Malawi, equates in commercial potential, with that current high capacity-utilisation core in Uganda.

There are approximately fifteen other smaller private spinning and/ or weaving companies in Zambia, plus several small making-up factories. The companies are located mainly in the area around Livingstone in the South and in the Copperbelt to the North.

Most of the goods produced by these trade-linked companies are for national and regional niche markets, including household textiles. The majority utilises cotton but some utilise wool and/or acrylic yarn, for blanket manufacture.

One of the other striking characteristics of the domestic sector is that the majority of the garment and /or fabric knitting companies described on structural lists and so on, have in effect now become mere handlers of imported goods. Garments are merely re-boxed and/or re-labelled for the domestic market and, in full knowledge of all concerned in the transaction, the Zambian wholesaler and/or retailer then buys it. Loose border controls assist such activities, and an argument utilised is that such companies would close altogether unless such diversification occurred - all parties involved being winners, including the populace with cheap SHC's.

A striking feature of discussions in Zambia was the self-admission that more needs to be done in terms of developing a national representative entity for the sector; and in developing sector strategy accordingly. Strong interest was expressed in the possible RATES interventions tentatively indicated; and in any possible regionally-contexted forum. Strong minds were notably keen to revive the sector to its potential and position of importance in the economy, which only a decade ago, contributed approximately 10% to GDP.

2.0 Important Trading Perspectives

2.1 COMESA, SADC & EAC

It is of importance to appreciate that the regional focus of this study on the cotton sector can be placed within the wider regional macro-economic parameters already in existence, namely the South African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The principal purposes of which are the enhancement of regional integration and trade liberalisation in a potential market of some 450 million persons. Such intentions are further intensified by the East African Community (EAC), which initially includes three member states, Kenya, Tanzania and Uganda and for which the recent creation of a Common External Tariff is seen as a step towards the creation of a customs union and ultimately a common market.

2.1.1 COMESA

Just how the EAC will complicate existing SADC and COMESA provisions is not yet clear. COMESA originates from 1994 and now includes 20 countries. It effectively replaced a Preferential Trade Area (PTA) that was established in 1984. The combined population of the twenty countries is in excess of 380 million persons. It implemented a Free Trade Agreement (FTA) in 2000 and by 2002 at least nine member countries agreed to provide duty-free access for goods originating from member countries.

These nine countries are Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe. The remaining countries, including Rwanda, Comoros, Uganda, Burundi, Ethiopia, Swaziland, Namibia, Angola, Congo, Eritrea and the Sudan, enjoy Most Favoured Nation (MFN) status with tariffs in the range of 20% - 40% of the general tariff. Strict Rules of Origin apply but if local value-added exceeds 35% of the ex-factory cost, then a product is eligible for certification (in the cases of Uganda and Egypt the requirement is 45%).

2.1.2 SADC

SADC originated in 1992, with 14 countries, 8 of which now also belong to COMESA. Seven of these eight countries are Zimbabwe, Malawi, Zambia, Swaziland, Namibia, Angola and the Congo. Others in the 14 include South Africa, Tanzania, Mozambique, Lesotho and Botswana. A primary objective is, again, to foster trade between members.

A subsequent SADC Trade Protocol has as its main objective the enhancement of intra-regional trade through progressive reduction of tariffs, and the introduction of an FTA by 2008 in which 85% of intra-SADC trade will have been liberalised. Eleven members initially signed the Protocol, Botswana, Lesotho, Malawi, Mauritius, Mozambique,

Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe, with Congo and the Seychelles intending to sign. Strict Rules of Origin also apply within the SADC, with a double-stage processing required from within a country, or in the case of exports to South Africa, single-stage processing is allowed until 2007 for goods from Malawi, Mozambique, Tanzania and Zambia. An important stipulation is that materials sourced outside the area should not account for more than 10% of the ex-factory product price.

Just how far the objectives of COMESA, SADC and the EAC will in fact be achieved remains to be seen. Just for how long the similar stipulations and objectives will continue to exist as disparate entities, despite a nexus of dual, or even triple, memberships, is a moot point and to the non-aligned external observer, appears to beg the question of whether there exists a strong rationale for prompting discussions on whether this would be to the net economic (and political?) advantage of all member states in the region.

If the thrust of one of the principal objectives here, in relation to the cotton sector - which might apply also to other sectors - is relatively unfettered trade within the region, then it would appear anomalous to have constraints on trade between certain countries but not between others. If a Regional Strategy would have as its intention the maximisation of use of all available assets and freedom of choice for Regional investment decisions, based upon potential regional trading synergies, then obviously with groupings, fewer options would exist. But any such intentions could still theoretically be accommodated in the Region, particularly so, in those countries with dual or triple memberships.

2.1.3 Regional trade strategy challenges

The situation is complex. Even the regional entities mentioned above, although of immense regional significance, are experiencing problems with the negotiation of new bilateral trading arrangements, with depressing significance for some countries. For example, the socio-political situation in Zimbabwe has disqualified SADC from negotiating an FTA with the US. Instead, the US is now negotiating with Botswana, Lesotho, Namibia, South Africa and Swaziland. Mauritius would have been included in SADC but is not included in the South African Customs Union (SACU). The reason for this exclusion should either be ascertained, or Mauritius should be docked to SACU. Negotiation delays, over memberships among others, appear to suggest that the first US FTA in Africa will now be with the West African Economic and Monetary Union (WAEMU), which could place East & Southern Africa at a temporary relative disadvantage.

There are macro arrangements already in place that will potentially provide frameworks for the anticipated development of trade within the region. A working basis already exists, as evidenced in two recent RATES' Papers, Regional Flow of Cotton Trade, for which the statistical source was, interestingly, COMESA; and Enhanced Regional Cotton Trade. The question of regional co-operation could assume immense importance in the context of AGOA.

2.2 AGOA

Although AGOA has catalysed development of the apparel industry dramatically in particular countries, such as Malawi, Lesotho, Swaziland, Kenya and Madagascar, the impetus will be just as dramatically lost unless the requirement for regional or US fabric and yarn sourcing from 30 September 2004 is modified. AGOA is now in its second stage, commonly referred to as AGOA 2, as provided for under the US Trade Act of 2002. Some documentation showing changes between AGOA 1 and 2 are included as Annex II. The current speculation is about the status of the above-mentioned modification and an AGOA 3.

A delicate balancing of intentions and regulations is seriously required over the next few years. The spirit of the above provisions is to encourage the development of the 'missing link' in the cotton value-added chain, viz., yarn and fabric manufacture in the region, whilst at least according some deference to US manufacturers (see below, 4.3). The current realities however is that there is not as yet, anywhere near adequate manufacturing capacity of appropriate quality within the region.

Possible expansion on site or in the region by the few good quality companies will take time to accomplish, even though needs are fully realised and pressing. The time-scale for significant expansion of further weaving installations at currently existing sites would take a minimum of two-three years to achieve, longer when operational factors such as quality and production control functions have to be perfected. A new installation at a site away from existing facilities, with all that this implies in terms of logistics, training, expertise, infrastructure, etc., would probably require three-four years. For machine-knitting installations, possibly a year and two years would be required respectively. But both weaving and knitting would be required. Even then the picture is incomplete. Probably printing and certainly yarn and piece dyeing would also be required and the time-scales given should be regarded as optimistic.

2.3 Imports from outside the region

In the meantime, LDC's are heavily dependent upon sourcing of knitted and woven fabric and yarn from outside the region. To emphasise the scale of the situation, 83% of all AGOA duty-free imports currently derive from such fabric, mainly Asian and increasingly Chinese. In terms of million square metre equivalents (MSME's), the following examples can be cited from the principal current LDC countries in 2002.

Table 1.

Country	Total Duty-Free Imports	Non-Regional Fabric	%
Kenya	33.901	33.901	100%
Lesotho	83.157	83.143	99.9%
Swaziland	22.555	22.425	99.5%
African Fabric			
Botswana	1.445	1.445	100%
Mauritius	18.343	15.289	83.3%
South Africa	16.556	16.123	97.7%

An interesting contrast is seen here in Botswana, where, although production is small, there could be something of significance. Mauritius and South Africa are not classified as LDC and are therefore already obliged to utilise Sub-Saharan or US fabric.

The balance for Mauritius is made up of 0.700 msme. of cut and un-cut US fabric, short-supply fabric and cashmere and merino sweaters, reflecting relative sophistication. A fact for those who would suppose that any third-country shortfalls could be replaced by US fabric, is that only 1.287 msme. of US fabric was utilised out of a total of 199.508 msme, viz., 0.6%, with over half of that amount utilised by Mauritius.

The figures above are significant as far as African fabric is concerned. Apparel Producers in Mauritius and South Africa have utilised 83.3% and 97.7% of African fabric respectively in their duty-free apparel exports under AGOA. The point of regional capability is confirmed. The aim must be to now spread that capability more widely.

Nevertheless the above figures conceal the true nature of some of the countries' apparel exports to the US. For example over 75% of Mauritian exports to the US utilise Third-Country materials, paying full duties. The same is true to a lesser extent from RSA. Because of the tightening of global competition and the inability of those countries to maintain their positions on such a basis, there is a lobby to accord LDC provisions to those countries, in the expectation that such provisions will in fact be extended to 2007/8

This exposes a key policy dilemma for the US. If roll-over is extended to say, 2007/8, then the increasingly savage global pricing will impact so heavily upon the SA and Mauritian spinners, weavers and knitters, that severe and lasting damage would be inflicted, certainly with several company closures. If roll-over is not extended, then the majority of the new LDC AGOA-based garment companies could collapse in, for example, Malawi, Uganda, Lesotho and Swaziland.

The Continent cannot afford to lose such valuable assets, investments, skills and so on – ‘desertification’ is the danger –and a compromise should be constructed that potentially favours both sides of the equation, whilst bringing them closer together.

The potential of what is regionally at stake is suggested by the facts that in the period 1 October 2000 – 30 September 2001, during Year 1 of AGOA, only 17% of the then cap was utilised. Annual increases have since occurred as additional garment capacity has come on stream but is likely to remain a seriously unfilled gap as the cap increases from 1.5% to 3.5% of US apparel imports over the AGOA eight year period to 2008.

2.4 WTO 2005 and China

It is important to gain some perspective in relation to regional exports to the US. Garment imports to the US in 2002 totalled \$56 billion. Of this, over \$9 billion derived from China, with a growth rate of 60% in the first three months of 2003 compared with those months in 2002, whereas \$ 1 .119 billion derived from Sub-Saharan Africa, with a growth rate of approximately 25% in the first three months of this year.

Another way of expressing the point more generally is that Chinese garment exports to the US will soon exceed garment exports from all AGOA and Caribbean Basin Initiative (CBI) countries put together, viz., 58 countries, and are still increasing at a faster rate (32). Future gains in China’s market share will inevitably affect SSA countries’ AGOA export potentials. There is a relationship here in that the provisions of CBI formed the basis of AGOA. This potentially raises important US policy decisions and is of immeasurable significance for the future of the sector in SSA. China has attained such levels without any preferences. Some illuminating statistical data is included as Annex V, which shows apparel imports to the US in 2002 and for the first three months of 2003 compared with 2002, from the World, China and Sub-Saharan Africa.

Overall, from whatever source, impact of textile and garment imports into the US has resulted in considerable job losses - as compared with potential gains that could have been made with higher duties aimed at China and other Asiatic producers. And without preferences through Trade Blocs such as CBI, the North Atlantic Free Trade Area (NAFTA), the Andean Trade Preference Act (ATPA), AGOA and more recently in bilateral arrangements with Jordan and Morocco. Over 480,000 US job losses occurred in the US apparel industry between December 1994 and April 2003, with a further 273,000 being lost in the textile industry itself, over the same period (33). These facts are mentioned as they may, with the WTO fall-out, influence US trade policy decisions that could affect AGOA countries.

Moreover, under WTO provisions from 1 January 2005, there is a strong possibility, that unless restraints, constraints, anti-dumping measures are taken by the US in relation to China, then the good intentions of AGOA and the CBI may well be virtually neutralised. This combined WTO/‘China Effect’ (to some extent this can be read to include other active Asian producers of yarn, fabric and garments) may apply similarly around the

globe. The European Unions' (EU) preferences accorded by Lome and subsequently COTONOU (34), under which provisions the Mauritian industry in particular was able to develop prior to any AGOA's and which still absorbs over half that countries' apparel exports, could also be in danger of negation.

2.5 Detailed International Trade Perspectives; Examples from Annex VI

It is not feasible to comprehensively illustrate intra-regional and out-of- region cotton trade flows under all relevant international classification headings. It is, however, appropriate and useful to provide a few examples as to how such information already available could be utilised and comprehensively developed to give such international perspectives. This is done by including a few examples in Annex VI.

2.5.1 Trademap

The system suggested is the International Trade Centres' *Trademap*. From the first example included in the Annex, it can be seen that under Product Classification 520100, Cotton, not carded or combed, Zambian world exports totalled \$US 5.2 millions, out of which \$US 2.8m, 1.9m. and 0.5m. went to South Africa (SACU), Switzerland and Congo respectively. In terms of quantity this represented 4,600, 2,400, 2000 and 300 tons respectively. It will be seen that several further permutations of information are available from the same page by keying in such refinements as Supplying Markets; Importing Markets (HS-); Product Clusters (HS6) exported by Zambia; Product Clusters (HS4) exported by Zambia; World Exporters (which is of great value in indicating size of world market/future scope); World Importers (valuable for identification of future target markets; Mirror Data; Selection Menu; and Bubble Graph. All these refinements are available for whichever regional product from whichever regional country.

2.5.2 Imports into SACU

Utilising another illustration with respect to 520100, in this case imports into 'South Africa (SACU)', it is shown that these totalled 42,900 tons in 2001, of which, 20,000, 8,500, 1500, 1,100 tons were imported from Zimbabwe Zambia, Mali and Malawi respectively. Differences between the Zambia/South Africa (SACU) figures in this and the preceding paragraph are most probably accounted for by differences in statistical reporting systems and this is a potentially valuable area for Regional harmonisation.

2.5.3 Exports

As another example, in that same year, Malawi exported 2,300 tons of lint, of which 41% by value went to both Mauritius and South Africa (SACU) and 8% to Zambia, whereas only 10% was exported outside the region. Similarly, in a fourth example from the

Annex, out of Uganda's exports of 3,100 tons under 520100, 14% by value went to Kenya, with the remainder outside the region, i.e., 37%, 18%, 17%, 10% and 5%, to the UK, Malaysia, Germany, Netherlands and Singapore respectively. A global orientation is also shown by Tanzania, with 28%, 21%, 15%, 11%, 11%, 10%, 1%, 1% and again 1% to Indonesia, Thailand, Malaysia, UK, Hong Kong, Mauritius, China, Zambia and the Philippines respectively.

The illustrations given in the Annex are intended to be illustrative only, but suggest the value of undertaking a more comprehensive analysis by countries in the region and products. Other examples included relate to exports of Product 520533, cotton yarn $\geq 85\%$, multi, uncombed 232.56 dtex. /192.31 from Tanzania; a different cotton yarn specification from Tanzania; and the same category of yarn imports to Mauritius.

2.5.4 Denim fabrics

Similarly, as far as fabrics are concerned, imports of product 520942 Denim fabrics of cotton, $\geq 85\%$, more than 200 gm/m² to Madagascar (of which Mauritius provided 73%, compared with 3% from China!); Imports of the same product by Kenya (of which Hong Kong provided 73%, China 16% and Mauritius 11%); Importing markets for the same product classification from Mauritius (48% to Madagascar, 16% to Zimbabwe, 3% to South Africa (SACU)); Supplying countries for Product 520819, woven fabrics of cotton, $\geq 85\%$, not more than 200 gm/m², unbleached into South Africa (SACU), 84% of which was from SACU itself; Importing markets for the same product exported from Mauritius (with 22% to South Africa (SACU), 21% to Madagascar and 10% to Zimbabwe); and Importing markets for a further Product classification 520832, Plain weave cotton fabric, $\geq 85\%$, $\geq 100\text{gm/m}^2 =$ to 200 gm/m², dyed, of which 88% went to the Seychelles.

The exercise provides the basis for a detailed and promising line of enquiry. To assist in the development of the process, lists of relevant product classifications are also included in the final sections of the Annex. These include approximately 100 similar fabric classifications; 17 yarn classifications and 16 apparel classifications. The classification lists can be self-extending from further numbers that would appear from utilisation of the system, particularly from the product clusters previously mentioned.

It should be mentioned that ITC has an arrangement with USAID, that if useable by this project would obviate the need for specific RATES' Registration at \$3000, unless Chemonics has its own registration, as is probable.

3.0 Specific Practical Interventions for Consideration

Discussions with all relevant parties in all countries visited indicate that agreement could be feasible on a regional basis, on the following technical needs that may be of interest to RATES. Although it is stating the obvious that different degrees of emphasis are noted with respect to different parties/countries, the following represent views on interventions for which it appears that degrees of consensus currently exists.

3.1 Information

Although most associations, government departments and individual companies have their own web-sites, consideration should be given to RATES amalgamating whatever is appropriate from these into a comprehensive Regional Cotton Site. It has been noted that in Mauritius there is an IRC, whilst both SADC and COMESA are equipped to provide information. RATES may be able to assist in drawing elements together to form a Regional Cotton Sector Network

3.1.1 Format

The basic format would be for each participating country to have its own section. Each country section would then be sub-divided further, into sub-sections providing contact information on:

- Related Government Ministries and Departments
- Relevant associations
- All companies with summarised product/process details.

3.1.2 Details

More complete details of any company, so wishing, could then be provided with respect to products/processes, including a statement of potential interest in joint venture, or even sale of business.

3.1.3 ‘Sales and Wants’

Additionally to the above, ‘Sales and Wants’ business notices could be posted, i.e. apparel manufacturer in country x, requires 100,000 metres of woven fabric to a particular specification. Or, a fabric manufacturer in country y might wish to dispose of 20,000 metres of a particular fabric and invite offers. Or a spinning mill in country z might wish to offer ongoing supplies of particular counts of yarn to particular specification, to weavers or knitters wherever they might be located in the region.

3.1.4 Methodology

Similarly, the services and/or methodology of the site could be used or illustrated (and even linked) for the users, when seeking potential customer identification in more developed country markets. For example, a shirt manufacturer in the region might wish to broaden his market base outside the region but has no knowledge of potential customers. That manufacturer could select his target market(s) and if it was a large European market, say France or the UK, as many as 50 – 100 company players in the shirt market could be identified and further categorised by nature of activity, such as Wholesaler, Specialist Retailer, Chain Store, Hypermarket, Buying Agent, Selling Agent and Designer. Full contact details for the appropriate function could then be downloaded.

3.1.5 Links

Similarly, as described in Chapter 2.4 demonstrations of regional and global linkages could be incorporated in relation to international trade information available from the web for specific and relevant HS product classifications. Total global imports of that product could be shown, then in descending order, the principal country importers of that product, plus, if required, the market shares held by national suppliers to that country, etc., plus other features, including tariff information as already discussed above.

3.1.6 International trade information

Continuously up-dated international trade information, concerning new trade agreements, modifications and so on, could be provided. For example, this could include basic procedural and eligibility points concerning AGOA, with directions as to how to contact AGOA representatives for further information and assistance. It could be of value in provision of information on the status of possible cessation in September 2004, of ‘third country’ sourcing of fabric by the LDC’s. It could also highlight any significant arrangements, such as may be made with the US concerning moderation of fabric and apparel imports from China (irrespective of WTO 2005) and which could have implications for AGOA producers.

3.2 Technical Assistance (TA)

There is a need for TA in several relevant areas. These needs will obviously differ from country to country and company to company but across the Region could include the following areas of expertise:

- Agronomy and Extension
- Cotton lint Testing
- AGOA Procedures
- Information Technology (IT), including computer and web-site utilisation.
- Quality and Quality Control (QC)
- Productivities/ Work-Study (WS)
- Cost Accounting (CA)
- Product Design and Development (PDD), including Material Sourcing (MS)
- Textile Marketing: a. Global fabric; b. Global apparel; c. Regional yarn & fabric.
- Production Planning, especially in relation to just-in-time (JIT) situations
- Management Information Systems (MIS)
- General Management

3.3 Finance

The principal obstacle to development of the sector, particularly in Uganda and Tanzania, is finance on reasonable commercial terms. Although Tanzania has recently undertaken a successful privatisation programme of some twelve spinning/weaving mills, the future of the mills must be a source of considerable concern, except for domestic and some basic regional production where quality is not at a premium. Finance for rehabilitation of the technology of the mills in these countries is not available at anywhere near competitive commercial rates of interest (ROI). Treasury Bills in Tanzania remain at a premium and constitute one of the disincentives for the banks to entertain the more speculative industrial investments.

Development Banks do not yet exist in Uganda or Tanzania. The Equity Fund in Mauritius is administered by the Development Bank and is fully supported by the government. MIDA is frequently involved in arranging new finance, particularly for capital investment.

There are a few notable exceptions to the above in Uganda and Tanzania, for which funding has come from outside the normal national banking systems, for example private funds; parent companies in other countries; and through Joint-Venture (JV) operations, as for example with the promising Chinese / Tanzanian joint-venture vertical mill, in which China has a 51% controlling interest.

Even where a mill has re-equipped with state-of-the-art technology, as is allegedly the case of the spinning mill noted in Zambia, there are difficulties in sustaining full operations, because of under-capitalisation. The end-result of this situation could be disastrous.

It may be that RATES could play a part in endeavouring to facilitate a system for long-term soft loans and easing of the problem of short-term working capital, through the multilateral donors, itself playing a part in the screening of any subsequent applications and Business Plans. Knowledge of the existence of such potential finance could assist in promotion of investment.

It should be realised that external potential investors may be inclined to look elsewhere, where labour costs are low, where similar textile traditions exist but where technology and skill bases are generally not as obsolescent as on the African mainland and where there is proximity to large markets. Several countries in the Balkans are in this category, where privatisation programmes are currently proceeding, such as under the Kosovo Trust Agency (KTA).

3.4 Regional Forum

There would be interest from all major national stakeholders in a Regional Cotton Forum, whether led by RATES or any other entity. It would be regarded as a potentially

constructive and substantive follow-on from an AGOA Forum held in Mauritius in January of this year. It would be similarly consistent with the encouraging trend towards increasing numbers of regional discussions on trade, such as that recently organised by SADC. The possible representatives from each of the countries visited, for a mini 'Pilot Forum' have already been notified to RATES on request.

After due consideration of potential interventions as outlined above, an initial statement could be made by say, RATES, as to what could be in its capacity to offer. It could then invite suggestions from the participating stakeholders, for further initiatives that could be helpful in their own respective interests. Some factors could thereby be identified that could potentially assist in a regional approach.

It would be the intention to emphasise the foregoing in a Regional context and to begin to delineate a regional policy, particularly comprehensive identification of both, existing specific intra-regional commercial links and potential trading intra-regional trading synergies. Opinions and discussion might also be invited concerning possibilities for the establishment of a small Southern and Eastern African Region Cotton Secretariat.

3.5 More Regional Sector Information

Ideally, more information should be acquired by RATES for both its web site and in support of development of a regional strategy, particularly with respect to the quality and nature of mills in the region. Brief details of some have been noted here but it would be invaluable to know in each country, just what quality and nature lies behind a bland statement of a particular number of looms and other equipment. The exercise would not constitute classical inventories but rather, brief but informed plant appraisals in relation to the future, i.e. AGOA and WTO. It could also include full details of processing capabilities and capacities, plus details of major products and trading alignments. It is only through such an intensive/comprehensive exercise that a meaningful basis can be provided for future policy purposes. It would not take an experienced person more than a day to make an assessment of each selected company, which would initially come both from word of mouth and later, from information from 3.1.

In the context of an evolving regional strategy and as potential candidates for any 'concessionary' finance and TA, it is suggested that textile plants would be sorted into three categories. *Category A* would include the best of the older plants that could accord a great regional contribution in terms of import substitution and could probably accelerate specific technical rehabilitation, given some TA and long-term financial assistance. It would be anticipated that these could be qualitatively improved over time, into serious at least regional exporters. *Category B* would be the most modern textile plants in the region that have already proved themselves managerially, technologically and qualitatively, as global exporters. Attractive finance could further encourage such companies to expand with 'more of the same' in current locations, or elsewhere in the region as is already being evidenced. *Category C* would be the oldest plants, probably beyond redemption and thus excluded from any initiatives that might arise from RATES' interventions.

3.6 Assistance with AGOA

Reference was made in Chapter 2 concerning the dilemma currently facing AGOA policy-makers regarding roll-over, which could seriously affect either the LDC apparel makers on the one hand, or the SA and Mauritian manufacturers on the other. It is considered that RATES could make its observations known to USAID and if feasible contribute to a constructive resolution by a compromise that could actually strengthen both by bringing them closer together.

A compromise might include simultaneously for example, a gradual phase-out of third-country yarn and fabric for LDC's, over a period of say 5 years; a financial package (subject RATES and Banking vetting) that would enable requesting production companies in the chain to up-grade and/or expand; financial encouragement for regional upward or downward integration; to preclude non-regional FDI in Apparel factories unless accompanied by commitment to also build spinning or weaving or dyeing/printing/finishing mills; and a broadening of the base of AGOA-eligible categories, to include for example, home-textiles, of particular potential benefit to SA.

Above all, a clear and definitive statement is urgently required with regard to the future of AGOA, particularly with respect to third - country sourcing. A clear statement would enable potential regional investors to make their assessments accordingly. It is understood that there could currently be up to twelve or as many as fifteen investment plans in the region that are being delayed pending clarification.

3.7 Global and Regional Trade Information

As discussed, the Consultant considers that it could be of great value to develop a simplified appreciation of the results of research by regional country/ product classifications, by indicating these on a large wall-map. Different colour lines could be utilised for lint, yarn and fabric and different strengths of line would correspond to approximate strengths of trading relationship. It could also be of value to provide similar indications of exports from the region globally. The data would derive from the more comprehensive information described in 2.4.

3.8 A Regional Cotton Secretariat

It would certainly assist some of the above activities if they could be conducted from a Regional Secretariat. It could construct and manage the company and trade databases; act as general IRC; arrange policy meetings; stage meetings giving secretarial back-up; act as a focal point for negotiations both within and outside the region; and so on. The question of location could be contentious but most probably Mauritius or South Africa would be the most appropriate. Possibly, to accord maximum effects, there should also be nationally agreed representative authorities within each country based say in the offices of an appropriate Association or Ministry. The Secretariat would be a mechanism through which Regional Policy formulation could be co-ordinated and through which implementation of a Regional Strategy could be supported.

3.9 Regional Networking

It now appears that only limited networking exists in the wider regional dimension. Yes, there is obviously specific networking between companies already in a trading relationship. The large ginning companies have formed their own trading networks established over a considerable period of time. Beyond that, for textile and apparel companies although specific relationships exist as observed above, these are limited in number and nowhere near the number of potential relationships that could exist. Yes, some networking can presumably derive from memberships of SADC and COMESA, but there is as yet, no formalised structure and mechanism through which relationships may be catalysed, as a deliberate policy, for the entire region.

The types of RATES' interventions indicated in this chapter can only serve to enhance the prospects of greater regional knowledge and commercial opportunities. Greater interaction across the wider region would potentially create a platform from which issues of common interest could be discussed and, if formalised into a structure, from which regional policy initiatives could be taken.

The author has no doubt as to the necessity of such an approach, not only from supply side enhancement, through greater economies of scale deriving from greater capacity utilisation (etc.) but also from the pressing world trading issues as indicated in the previous chapter. In order to compete in the emerging global market conditions, the region will have to harness its assets to work together to maximum advantage.

Global competition will dictate that this is done. The alternative, with notable company exceptions, will be oblivion. Certainly China (fabric and apparel) with its 3.5 million employees in the sector will be a major threat; certainly India, Pakistan (yarn, fabric and apparel) and Bangladesh (apparel) with their relatively large sectors will be a threat; and certainly the CBI, NAFTA and North and West African countries and so on, will be grouping for their shares of the US, EU and other fabric and apparel markets

3.10 Regional Policy Potentials

Potentially, assuming the major regional weaknesses of lack of information, investment, working capital and future trading uncertainties surrounding AGOA can be eased, there could be great commercial opportunities to be taken in the region. The ginning companies are already set to increase their lint production for a global market, whether or not the region becomes a greater consumer. The apparel companies, assuming third-country rollover to be phased out will have a huge demand for yarn and fabric of which approximately 80% is currently sourced outside the region. The textile sector could therefore represent a significant commercial opportunity.

This possibility is recognised by potential investors in new and rehabilitation scenarios across the region, some of which are already active and others which are on hold, pending easement of the weaknesses referred to above. For example, the two new

spinning mills referred to in Mauritius are already under construction and two more are pending; the US \$35 million vertical mill with garment production is on hold in Zambia; whilst other planned investments may occur in Tanzania, Lesotho, Kenya, Madagascar, Namibia, Mozambique, South Africa and Swaziland.

Cotton farmers would potentially benefit from the considerably enlarged regional market. The current status of the principal regional producers could be enhanced from within the more integrated regional activity. Thus the lint production figures below could be increased several times over, as is in any case in line with plans by the major regional players, Dunuvant, Clark and Great Lakes:

Country	'000 bales		
	Production	(Usage)	(Export)
	<u>1265</u>		
RSA	90	315	30
Zimbabwe	550*	130	375
Mozambique	110	10	100
Zambia	170	65	115
Malawi	30	5-10	20-25
Tanzania	285	55	200
Kenya	20	55	15

[* N.B. This figure cannot be confirmed]

The above figures are of regional interest in a number of respects. First, they do not appreciably differ from the national figures as given in chapter 1, except in the case of Tanzania. Second, they illustrate that apart from RSA (Zimbabwe figures should be ignored until the actual situation there can be verified, although ZAMTIE estimated that current lint production is off by at least 50%), they illustrate that domestic consumption ranges from only 10% - 30% of lint produced in these lint producing countries, when potentially these proportions could be considerably higher. Third, a significant proportion of exports is within the region and this basis could presumably be built upon.

What we are currently seeing (again excluding Zimbabwe) from the six countries is the equivalent of approximately 163,000 tons or 140,000 tons, dependent upon the correct figure for Tanzania. It can be taken from Chapter 1 that current yarn consumption in RSA and Mauritius combined is currently in the region of 110,000 tons, but if full advantage was to be taken of the AGOA 2 cap, in the context of say a five-year phase-out of third-country LDC sourcing of yarn and fabric, a minimum of an approximately three-fold increase in regional lint and yarn and a five-fold increase in regional fabric would be required in the former cases to over 440,000 tons and in latter cases to provide over 1 billion m² of (as compared for example, with current RSA production of woven cotton fabric production of 160 million m² and knitted fabric production of 144 million m², much of which is from man-made fibres).

Further detailed regional calculations should be carefully undertaken, following the same line of enquiry, viz., to obtain more precise figures of regional textile capacity needs, in relation to apparel opportunities. This enquiry should obviously be linked to both the results of the enquiry suggested in 3.5 and also a comprehensive investigation into the full nature of any reported possible new regional investment, as mentioned.

3.11 Relevant calculations

A few indications of the types of relevant calculations in the regional context are as follows. With regard to textile Category A companies, the Sulzer loom installations in the three countries, could *each* produce over 10 million m² per annum, as follows: 1 loom operating at a theoretical speed of say 100 insertions per minute for fabric at 50 picks per inch, would produce 2” of fabric per minute, 3metres per hour, 72 m. /day on 3x8 hour shifts, 504m/wk, 23,184 m. /year x 2 if double-width = 46,368, x2 because actual speed is over 200 insertions = 92,732m, but with only 75% efficiency = 69554 m., say 70,000 metres/loom/year x at least 100 looms = 7,000,000 m., but looms are 3metre, therefore can weave three fabrics of 1m² per loom- width, therefore can add 50%,giving total core plant production from reasonably good technology of at least 10,500,000 m²/year, or with 150 looms, approx 15,000,000 metres per year. There are at least three such plants, as seen, in Uganda, Zambia and Malawi, thus giving a combined production potential of approximately 40,000,000 metres/year. Further fieldwork would identify more such Category A companies.

The new printing facility in Tanzania will have a capacity of 75,000 metres per day, or approximately 24,000,000 metres per year. Already existing plants, for example in Tanzania, which is currently in full production and Malawi, which is currently dormant, could each process at least 10 million metres per year.

With regard to opportunities for regional lint production in relation to the full AGOA 2 cap equivalent equivalents, it is estimated that only 37% of that potential can currently be filled from the region; with regard to yarn, interestingly, in relation to the previous figure, 36%; and with regard to fabric, only 20%, possessing the appropriate quality. The author is fully aware that such statements must inevitably be fully qualified and can be open to discussion. But that is the point, to collectively agree, as a region, approximate ballpark figures for policy formulation and a strategy.

3.12 Conclusion

Calculations of weight of lint and yarn requirements will depend critically upon the base-line average fabric weights utilised. Apparel fabric weights may differ by a factor of at least 10, with for examples, voiles at 30gm, or heavy fustian at 300 gm; calculations of loom production rates may differ by a factor of up to five or even 10, dependant upon the technologies and the loom widths; spun man-made fibres are utilised in mixed fibre fabrics, that may be defined in statistics as ‘>50% cotton’, or as ‘>65% ‘cotton, etc’; and whatever figure we are searching for must assume requisite quality and that there are no

disruptions due disastrous crop years, political upheavals, and so on. But there is a value, at this stage in endeavouring to convey some orders of magnitude.

If such possibilities can be anywhere near fulfilled, the impact upon regional employment for producers could be dramatic. Cynics might suggest that such would occur in any case, as those major companies are gearing-up for increases in their global marketing, but here we are merely providing indications of the potentials that could be presented across the region, on the assumption that regional yarn qualities and prices are appropriate and competitive in the context of a global lint market characterised by subsidies. It is estimated that nearly 200,000 persons are currently engaged in cotton production and ginning in RSA. It is accordingly estimated that total regional production employment (exc. Egypt & Sudan) could increase to over 1.5 million.

Similarly, given regional cotton from lint and yarn and fabric, the development of apparel activities could continue and moreover, expand to take full advantage of AGOA 2. A regionally integrated sector could thereby potentially add in excess of 2.0 million jobs, assisting the gender, literacy and poverty issues.

It is argued by some apparel and textile manufacturers that with in-country and even in-region complete value-added chains; their products could compete with any of the major future trading areas. There would appear to be little reason why this could not be so, given such intervention measures as described previously, good management and technology and having regard to comparative wage rates.

The investment sensitivity to this latter factor is vividly illustrated in the case of the success-story Dominican Republic, where, with garment exports to the US of approximately double the entire AGOA countries under corresponding arrangements, a decision has very recently been taken by the major garment producers, to invest in neighbouring low labour-cost Haiti. It might also be noted here, that Central American garment producers, without a regional representative authority have recently sent an awkward multi-signatory plea to the US for unrestricted yarn and fabric sourcing.

The integrated regional value-added chains and relatively low labour costs in some of the countries, could theoretically at least, place South and East Africa in a position of medium and long-term comparative advantage. An interesting refinement to the integrated regional value-added chain theory was heard at COMESA, where it was suggested that this possible comparative advantage would be strengthened on a regional basis by a classical division of labour, viz., land-locked ginning companies would concentrate on cotton and lint and those countries with easy port access on textile and apparel.

There is a dire need for countries to come together to discuss regional potentials, to formulate policies and to advocate them on the international stage, whether in terms of finance, technical assistance or trade agreements a regional participation should eventually be driven and 'owned' by the sector itself but with governmental participation. RATES can play a catalytic role in attaining this position, through regional promotion as

an entity, by the forum or forums, leading to increased networking and possibly the representative regional institution or Secretariat.

It is of the utmost importance that all countries in the region should be included in such discussions. Ideally, such countries, for example, Lesotho, Swaziland, Botswana, Lesotho, Mozambique, Madagascar, Sudan and Ethiopia should first be similarly visited; and the regional positions of Sudan and Egypt in relation to the aims of RATES' activities and objectives should be assessed for further enquiries and possible inclusion.

4.0 Towards a Regional Strategy for the Sector

4.1 Decisive factors for a regional strategy

Many of the discussed points are inter-related and contain the seeds of a Regional Strategy. The idea of such a policy is not new. The players in all countries regard it as sensible, timely and necessary. Such indications have already been noted in Uganda, Tanzania, and Mauritius and by definition from SADC and COMESA. It would be a practical expression of the new macro-economic arrangements in the area. It is considered vital, particularly if third-country fabric sourcing comes to an end for the LDC's in September 2004, or alternatively, as may now be the case, by 2007/8.

There is a strong view in the region that without financial support, the middle pillars in the national/regional cotton value-added production chain will merely collapse - and with it many hopes for industrial regeneration of parts of Africa and all the socio- economic and political advantages of greater regional stability which that could bring.

The stakeholders themselves argue that this would be an unnecessary tragedy. In the context of AGOA, it would also be totally *illogical*. The first elements in the value-added chain could probably continue to expand, with careful nurturing, by the big regional companies Associations and Governments. A good working partnership exists for example in Uganda, with the CDO working closely with the large companies, which are now purchasing more ginneries in the North, up to the Sudan border. Extension services, agronomy education, yields, and ginning out-turns (GOT's) are all being increased. As also seen, current production is expected to rise from the current 800,000 approximately bales per annum, to well in excess of 2 million, within five years. World demand for cotton lint will increase overall, whether the downstream processing is done in the country, region, or elsewhere in the world, such as China, India or elsewhere in Asia.

4.2 Competition

At the other end of the value-added chain, AGOA has indeed provided an opportunity and a stimulus to export from several countries in the region, such as Mauritius, Lesotho, Kenya, South Africa and Swaziland, irrespective of the progress of Chinese apparel exports. The Chinese presence does not end there and the story is repeated in several places around the world - and even in the African region itself, where it is authoritatively stated that over 75% of the fabric now utilised in Mauritian garment exports to the US are from China, or Chinese-regionally sourced fabric and thereby outside AGOA.

The Chinese market penetration takes three main forms. Direct fabric exports for the piece-goods trade world-wide; direct RM exports (although this is complicated by some of its own sourcing within SE Asia - a point of interest here in a regional context; and fabric exports to other countries for make-up into RM's. It should be noted that direct Chinese apparel exports to US, have been attained despite duties of approximately 17%.

India does not intend to be found wanting under the new WTO rules from 2005. Great efforts are being made at national level to make qualitative improvements to its competitive position by the creation of a one-stop national marketing facility, where over 200 exhibitors can display their products in Delhi, through engagement of top designers to work with top companies and other related measures.

In the current and imminent global marketplace, it may be reasonably asked what hope there is for the African regional player, with its several diverse countries and generally speaking, outmoded technology base. Moreover, any potential external investors are holding back investment interest or decisions, pending clarification of the third-country sourcing provision under AGOA, and evidence of new patterns of trading that will emerge subsequent to the WTO changes in 2005.

4.3 Regional strategic approach

It is nevertheless suggested that a regional strategic approach could still be legitimately applied, to potentially enhance the regional value-added chain that could become progressively mutually re-enforcing.

The strategy could support the rehabilitation of the Category B low-technology mills, with the initial emphasis on domestic self-sufficiency but continuously moving, as knowledge and practice permit, towards export markets. Greater regional co-operation might also lead to early answers to apparent paradoxes concerning existing technology. For example, the Sulzer projectile looms being utilised round-the-clock in one of the great old mills in Uganda, in contrast to their equivalents in Uganda and Malawi. The region cannot afford to neglect any such scarce technological capacities and potential business opportunities and consideration should be given to encouragement for a regional solution.

The strategy could take the best of what already exists in the regional category A companies and build upon it. A few very notable exceptions exist to the general rule of low level and obsolete technology. Some examples are the brand-new investment in Tanzania in the two Laxmi wide-width printing machines from Austria; the new RM facilities for both household textiles and garments at the same company; and the brand-new spinning capacity in Uganda, as a first stage of modernisation of the large vertical mill referred to above.

It would be an interesting regional point to determine whether the huge wide-width printing capacity of the Tanzanian mill would have surplus capacity to more profitably process fabric from the wide Sulzer looms in the Ugandan mill, or from the Malawi Mill. Such synergies may exist throughout the region and the proposed Secretariat could have a role to play in assisting their identification.

An example of excellence is the modern spinning mill in Zambia, that supplies 400 tons of combed and plied yarn annually, to one of the premier Mauritian garment companies.

Another one is the brilliant and modern facility (in a former coffee processing complex) employing 1400 persons in Uganda, which is making-up apparel for export to Europe and to the US. The question is therefore justifiably posed as to why there are so few points of excellence in the region, when such achievements are so vividly evidenced.

Such modern mills and garment-making facilities should be encouraged in all possible ways to further develop. A few photographs are included at Annex VII of a representative selection of Category A and B spinning, weaving and apparel plants. Additional photographs are available. Here is *proof* that a few companies with excellent management and technological capabilities exist in the region. They could constitute the initial regional pillars for sophistication of production and product that could stand up in the face of global competition.

As discussed, the Mauritian apparel industry has in a sense, peaked, through a now relatively high labour cost of \$500 per month, but the sector could further develop along vertical production and 'niche' garment lines; and as a supplier of both yarn and fabric to the more sophisticated of the Madagascan and mainland apparel producers. The new spinning mills currently being constructed, the first with an annual capacity of 5,000 tonnes, and the second with 12,000 tonnes, together represent approximately 40% of Mauritian annual cotton yarn consumption. It is likely that this upstream integration will next encompass weaving. A small country that has the capability to sustain exports of cashmere sweaters to critical buyers in the US and EU clearly possesses consummate textile skills.

Its experience in development finance, EPZ's, sophisticated marketing, quality control, AGOA (etc.) procedures and its skills could provide a spearhead, in parallel with South Africa, for regional development of the sector, which could also include 'knowledge transfer' and possibly 'technology transfer' to the mainland, to supplement its already existing and honed relationship to Madagascar, assuming political calm in the latter. In so doing, the strategy would be re-enforced. The process has actually already begun, with allegedly for example, investments in Malawi and Lesotho, following losses on earlier investments through the recent instabilities in Madagascar.

It is considered that a credible Regional Strategy could be developed around such elements. Governments with their own National Strategies or quasi- strategies and other stakeholders such as Associations and significant companies could be supportive of such a RATES Regional approach as outlined above. They could be interested in discussions to determine details that could enhance their own strategies and respective national advantages, whilst simultaneously thereby enhancing the broader Regional Strategy.

As evidence of this, licence is being taken by quoting a few words from the admirable South African Strategy document: ... 'Indeed, it is hoped that the process of collective strategy development that has been followed in South Africa over the past year will be the forerunner of an analogous, but much more broadly based, process for revitalising the cotton industry in the region – as an integral producing and trading bloc before long'... (37). In the meantime, further research on other countries is being undertaken by RATES

and it is anticipated that the findings will support the need for a greater intensification of the regional approach (38). A RATES focus on cotton is evidently justifiable. It is most timely in many respects, not least as a follow-on from the AGOA Forum held in Mauritius in January 2003 (39); and is consistent with the objectives of the wider 'Multi-Agency US Government Initiative Implemented by the Agency for International Development', Trade for African Development and Enterprise (TRADE) (40).

