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African Cotton & Textile Industries Federation

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FEATURE

REGULARS

ACTIF Focal point to International Interest

October 2011, ACTIF, represented by Chairman, Jas Bedi, and Executive Director, Rajeev Arora, attended the landmark 7th China International Cotton & Textile Conference, held inYancheng, Jiangsu, China.

Since 1999, the biennial event has been held successfully six times, getting wide attention from stakeholders in the industry from across the globe.The 2011 meeting was of significance to ACTIF members as it focused on issues that are crucial to competitiveness including technology, trade, sustainability and best practices from China and the rest of the world.

The three-day meeting together with trade talks between China National Textile & Apparel Council (CNTAC), the apex body representing the cotton value chain in China, and ACTIF on the sidelines of the meeting, is one of the highlights of this edition of Cotton Africa.

Following the meeting in China, ACTIF, Kenyatta University and the Kenya Association of Manufacturers (KAM) held the first East African Cotton, Textile and Apparel (CTA) value chain conference in the beautiful Coastal City of Mombasa in early November.

The conference focused on ways of improving competitiveness of the CTA sector in the region, and for the first time looked intently at the place of training and skills upgrading in assuring the sector's long term success. This was in recognition of the fact that the CTA sector faces a dearth of skilled personnel, who can provide leadership and catalyse innovation in the sector.

Still on regional matters, ACTIF argues for strong institutional frameworks in the CTA sector, as a critical first step in dealing with the myriadchallenges facing the sector. In the absence of strong institutions, Varun Vaid, the principal consultant of Wazir Africa writes, no policy intervention can bring results.

In country profiles, we feature Ethiopia, whose government has over the last decade invested heavily to make its CTA sector the leading export revenue earner by 2015, and Nigeria, which is investing N100 billion to return its CTA sector to the glorious days of 1970s and 1980s when the cotton/textile sector was the biggest employer, second only to the government.

Both Ethiopia and Nigeria have realized that they have the potential to put their CTA sectors on the global map and are making remarkable progress in attracting local and foreign direct investment (FDI), reshaping the regulatory framework and strengthening institutions as their industries prepare to take advantage of increased demand in the world due to expanding middle class income thus creating more consumption in China and India. The increased domestic demand and the rising cost of production could enable Africa not only to produce more cotton but also to add value and be competitive in the international markets.

If I can sum up the theme of this edition in one paragraph, it is that Africa needs to wake up and take advantage of the opportunities of the next decade, when investors are expected to troop into the continent, either to set up textile mills or source for raw materials. To reap the benefits, we must increase our competitiveness by investing in innovation and new technologies, bridging the gap between training institutions and the industry, embracing regional integration and developing cluster approach , in order to benefit from each other's strengths. At ACTIF our mandate is to identify the opportunities, to share knowledge and experiences and to get the continent to speak with one voice. We believe in the need to challenge governments to perform their role intelligently and consistently and the private sector to appreciate the importance of partnering with governments for a sustainable CTA sector. Through our 29 National Associations spread in 20 African countries we are in a unique position to work with all governments and regional economic blocs to implement the key priority activities of the Cotton-to-Clothing Strategies to guide us through the next decade.

I wish you a happy read, and look forward for your comments.

Mr. Rajeev Arora
Editor

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Thank you for introducing Cotton Africa. I found the articles both refreshing and educative. My hope is that the magazine will find a niche for itself editorially and commercially so that it can continue to play its rightful role in the CTA sector. I look forward to reading future editions.

Harminder Sahni

M.D. Wazir Advisors

Jas Bedi's success in an environment that was rather hostile to locally made apparel (JAS BEDI: Our Best Days are Still Ahead, Cotton Africa July - September 2011 page 44) is a classic example of what good leadership and innovation can do even in the harshest of environments. Through his example, we now know that Africa has the potential that many people thought it lacked.

Barry Fisher

Cotton/Textile Specialist

USAID - COMPETE

I enjoyed the article by Joseph Bonyo (Lions on the Move, Cotton Africa July - September page 32). I look forward to Africa taking its place as the prosperous continent that it is supposed to be. To succeed, however, regional integration must be given priority.

Frank Mugyenyi

Regional Techinical Advisor - COMESA

I have been reading the copy of your publication Cotton Africa and found it very interesting and valuable to the sector.

Prof. Dorothy McCormick

Institute for Development Studies

University of Nairobi

Quotes

They said it

What were the reasons that man-made fibers in general and polyester in particular were not able to replace cotton? The answer is simply that cotton is almost 2 times larger than polyester staple fiber production, 3 times larger than polyester staple fiber production for spinning, 8 times larger than cellulosic's production and 10 times larger than acrylics production.

Dr. Christian Schindler
Director General ITMF

The encouraging rise in apparel exports to the United States under AGOA has been fuelled by the confluence of higher operating costs in China and the high cost of cotton, which has made the AGOA duty-free preference much more attractive to U.S. apparel importers.

Paul Ryberg
President, Africa Coalition for Trade

Indeed, African cotton production is characterized by poor and declining yields. Improving these yields through better access to inputs and infrastructure, better natural resource management, and improved research and extension services is a necessary step in helping to generate adequate returns to cotton producers and in improving the competitiveness of African cotton.

Samuel K. GAYI
Head Special Unit on Commodities, UNCTAD, Geneva

Importation of second-hand clothes and the influx of synthetic fibres into the country are posing a big threat to the economic revival of this once vibrant sector. The cotton, textile and apparel industry is labour intensive and could be used to drive the growth of regional economies if stakeholders like government, industry and training institutions worked together.

Prof Olive Mugenda
Vice Chancellor, Kenyatta University, Kenya

Delivering hope: Linking the full value chain

There are two fundamental business realities that give me hope and a strong belief that the work we are doing will be of great reward, sooner rather than later. The first is that governments around Africa are responding to demands for greater investment in the cotton, textile and apparel (CTA) sector. Gradually, we are witnessing increased focus on cotton farming, technological re-engineering of textile mills and a deliberate move to bridge the knowledge and skills gap between universities and industry.

There is also increased focus on strong policy frameworks and institutions to implement and monitor key initiatives in the CTA sector. Though not widespread, we have governments that now require national institutions such as the military and the police to source their apparel needs locally.

The second reality is that fate is forcing the rest of the world to look to Africa, not just as a source of raw materials, but also as an investment destination for production of apparel.

The biggest producers of cotton, namely, China and India, have seen their domestic cotton consumption soar in the recent past, resulting in a scarcity of cotton elsewhere. This imbalance is expected to trigger production of cotton in African countries on a scale never seen before, creating jobs for hundreds of thousands of African youth. Globally, the next alternate supplier of cotton outside Asia is Africa. In addition to growth drivers for exports market, the rise of African middle class is also stimulating the domestic cotton, textile and apparel demand.

However, there is also a trend where finished products in China and India are increasingly being consumed within the two giant economies. This is forcing buyers to look for manufacturing bases beyond the traditional export economies.

It is against this background that ACTIF executive Director, Rajeev Arora, and I participated in the 7th China International Cotton & Textile Conference, held in Yancheng, Jiangsu, China last October. We were also privileged to hold trade talks with China National Textile & Apparel Council (CNTAC) at which the need for synergies between Africa and China particularly in the areas of information sharing and regular engagements to discuss opportunities was underscored. The potential for Chinese investment in Africa cannot be overemphasized. Indeed, the question today is not whether opportunities exist or not, but whether we are adequately positioned to take advantage of them.

Current statistics indicate that the African economy could exceed US$ 2.6 trillion by 2016, making it the fastest growing economic region in the world.

Despite this projected growth, we must remember that no economy is today insulated from external forces. The world economies are so dependent on each other that we can no longer act in isolation or remain fragmented. We must not only embrace regional integration, we must deepen it and use it to bargain for a better share of global opportunities.

This publication is one platform that ACTIF is employing to challenge governments and the private sector to play their part, especially on regional integration. Critically, the publication makes information available to players in the CTA sector for informed policy and decision making. I urge you to consider giving it your support so that it can become self-sustaining and not dependent on donor funding. As US President Barack Obama said, “Let’s be the change we want”. Let’s build a world class industry that is capable of weathering local challenges and global shocks. Enjoy reading.

Mr. Jaswinder (Jas) Bedi
Chairman of ACTIF

Third ACTIF Annual General Meeting held in Kampala, Uganda, 2011.

About ACTIF

ACTIF is a regional trade body formed in June 2005 by the cotton, textile and apparel sectors from across sub-Saharan Africa to create a unified and recognized voice in both regional and global trade affairs.

Individual countries recognized the fact that they could no longer act in isolation or remain fragmented in the face of current and future challenges to the cotton and textile industry, hence the need for regional integration that would in turn lead to market discovery, increased business linkages, trade and investment.

ACTIF's mandate is to bring the disparate needs of the cotton, textile and apparel sectors into cohesive and consensus driven positions at regional and international trade and development forums.

The aim is to promote African cotton, textile and apparel value chain from farm to fashion. Brand Africa – Origin Africa's campaign is designed to help Africa make its mark in the fashion world by showing buyers the scope of its design, fabrics and manufacturing facilities.

Mission

"To develop and successfully deliver services that enhance our membership's competitiveness in the world market."

Vision

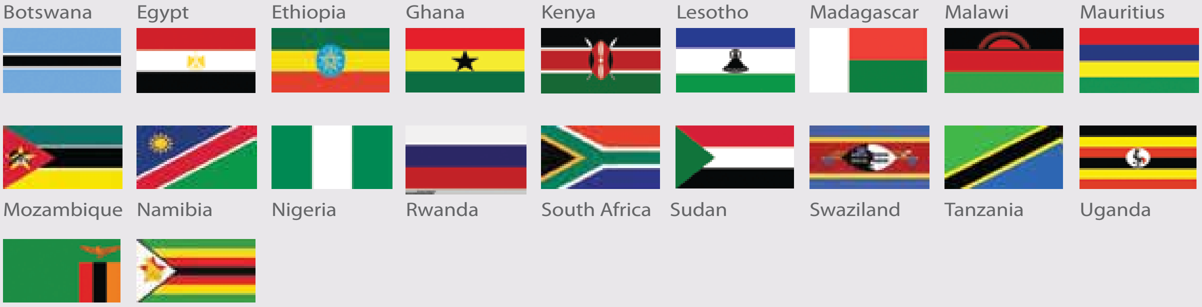
"An integrated cotton, textile and apparel industry that effectively competes on the world market."

Objectives

- Build cooperation, interaction, partnerships, alliances, networks and market linkages;
- Promote a regional supply chain, focusing on trade issues of all sectors of the value chain, building a platform for reducing constraints to regional trade;
- Address challenges and increase competitiveness in the global post-quota environment;
- Address key policy issues that negatively affect regional and global trade;
- Collect market data, generate information exchange and share regional expertise;
- Promote investment and encourage international alliances and affiliations;
- Recognize and support accepted principles of international codes of corporate conduct;
- Facilitate awareness of new technologies and represent the regional membership at regional and international fora and lead advocacy and lobbying actions for the best interest of ACTIF members.

ACTIF Continental Representation

Corporate membership includes National Associations from 20 countries



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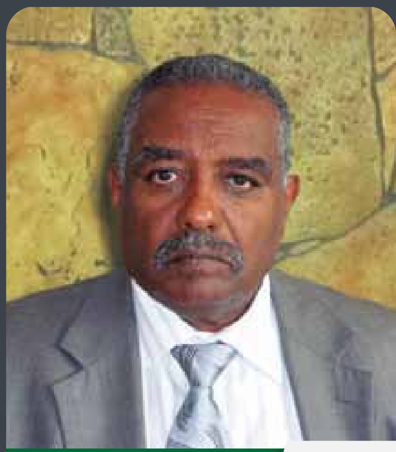

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Rajeev Arora
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USAID COMPETE's

East and Central Africa Trade Hub

COMPETE, through its East and Central Africa Global Competitiveness Hub (ECA Hub), provides technical assistance to African firms and governments to enhance their competitiveness in global markets and helps African businesses take advantage of trade opportunities available under AGOA. The ECA Hub has built strong working relationships with its regional partners to expand export opportunities and to promote increased interregional trade.

Based in Nairobi, Kenya, the ECA Hub is the one-stop shop in the region for business and national governments seeking to take advantage of AGOA, providing targeted assistance in two primary areas: firm-level assistance and AGOA national assistance. Firm-level assistance promotes direct business linkages between the United States and East and Central African firms. It addresses business development constraints; provides targeted technical assistance; educates private sector groups and associations about AGOA opportunities; and creates valuable business networking opportunities through trade shows, trade missions, business-to-business events and conferences.

National assistance helps AGOA-eligible East and Central African countries to develop action-oriented strategies to more systematically take advantage of AGOA opportunities and focus their efforts in areas of competitive advantage. For example, it encourages countries to integrate trade facilitation concerns into the national economic agenda and include private sector participation in national export diversification strategies.

Mr. Finn Holm-Olsen

Successes to Date

At the national level, the ECA Hub has directly assisted several countries in the region to look strategically at the US market for the very first time. Efforts by the ECA Hub have led to the establishment of public-private partnerships focused solely on AGOA and have contributed to advancing the agenda of Trade and Investment Framework Agreement (TIFA) talks with the US. The ECA Hub has also identified outstanding hurdles/roadblocks that the private sector faces, which need government action, and set out a clear roadmap of specific activities that each country must undertake to increase export trade with the US.

Since 2003, the ECA Hub - first as one component of a separate stand-alone project, and since 2009 under the broader COMPETE project - has worked with hundreds of firms assisting them to gain market access or expand in the US. Beneficiary companies have tripled their work force, created thousands of jobs throughout the region, hired hundreds of workers and increased production runs, penetrated the US market for the first time, and captured lucrative niche markets in the US.

Key achievements in just the past two years include:
Over $50 million of exports in apparel, cut flowers, specialty foods, home décor and fashion accessories facilitated under AGOA as of April 2011 – all new business directly tied to COMPETE/ECA Hub:

- Apparel - $46+ million in exports from firms in Ethiopia, Kenya, Mauritius, and Tanzania
- Cut Flowers - upwards of $2.6 million in sales
- Specialty Foods - honey, macadamia nuts, spices, sauces, green beans orders close to $1 million
- Home Décor/Fashion Accessories - orders in the range of $600,000

Stronger more diverse economies – turning aid recipients into trading partners

As impressive as the above numbers are, it is also important to ensure that the businesses created have transformational impact and sustainability. The ECA Hub has taken an innovative approach to its programmatic assistance, introducing new strategies and initiatives that seek to broaden and deepen the commercial relationship between East African and US companies. COMPETE continues to leverage the trade platforms and organizations that the ECA Hub has created:

- The Origin Africa awareness campaign to change perceptions about doing business in Africa;
- The Friends of Africa Apparel Board of Advisors, a cross section of 33 leaders in the US apparel industry who are contributing knowledge and expertise to guide Africa through its growth as a global sourcing destination;
- Trade Shows in the U.S. via fully branded Origin Africa Pavilions
- A series of customized/targeted buyer missions composed of motivated US companies seeking to source from Africa.

What is Origin Africa?

Celebrating the spirit, style & innovation of modern Africa
Origin Africa is an ongoing campaign and initiative dedicated to improving African trade. Comprised of producers, designers, small businesses, exporters, buyers and retailers, we are working to develop, guide and promote African trade in the following sectors: textiles/apparel, cut flowers, specialty foods, home décor, and fashion accessories.

Many educated, talented and skilled African designers and entrepreneurs are quickly and indelibly creating change in their countries. Origin Africa matches their enthusiasm with experienced industry leaders to facilitate, coordinate and advance "trade, not aid" efforts, while Origin Africa events continue to attract and invite the most innovative minds to attend.

What do we want to achieve?

- Origin Africa's objective is to put Africa on the map as a preferred sourcing continent, and to demonstrate to international buyers and industry leaders that creativity and innovation are an integral part of Africa's future.
- Raise awareness about Africa as a place to do business and as a sourcing destination for U.S. companies.
- Change perceptions about doing business in Africa, targeting a global audience of buyers, business leaders and designers.

How do we work?
Origin Africa is a powerful trend in social entrepreneurship and empowerment, coupled with the recognition of Africa as the new frontier for business. Origin Africa translates into profitable, sustainable, and mutually beneficial long-term relationships. The Origin Africa awareness campaign is aimed at changing perceptions about doing business in Africa through such efforts as:

- The Friends of Africa Apparel Board of Advisors, which is made up of a cross section of 33 leaders in the U.S. apparel industry, who are contributing their knowledge and expertise to guide Africa through its growth as a global sourcing destination;
- A series of customized/targeted buyer missions made up of motivated U.S. companies seeking to source from Africa;
- An emerging network of designers, small businesses, manufacturers, and buyers who are building the value chain and leading the way in African trade;
- Outreach to millions in the U.S. via Africa-focused advocacy and cause marketing groups such as ONE, Invisible Children, Wrap Up Africa, and Indego Africa.

As is the case with any project with a defined life span, our key "leave behind" is paramount in our thinking and indeed shapes how we structure and implement our programs. Origin Africa - given all that it encapsulates and promises, an initiative that is meant to be for and by Africa - is meant to be that legacy.

Finn Holm-Olsen
Director, East & Central Africa Trade Hub
USAID COMPETE Program

Regional Textile players meet Academia to enhance competitiveness

Players in the cotton and textile industry recently unveiled a new strategy that seeks to revive the ailing sub-sector as part of the country's move towards industrialisation.

Speaking at the first East African Cotton, Textile and Apparel (CTA) value chain conference in Mombasa, African Cotton and Textile Industries Federation (ACTIF) officials said part of the new strategy was to streamline the value-chain from the farmer, manufacturer to the fashion designers. "The fashion designer should be part of the value chain," said Mr Jaswinder Bedi, ACTIF chairman. "We are looking at a formula that that is transparent at all levels."

He said while cotton prices had hit an all-time high, farmers had not benefitted from the boom until recently when the government intervened through the Cotton Development Authority (CODA) and raised prices from Sh20 a kilo to Sh65. But this was still low, he added, because if the value-chain was efficiently managed farmers would earn up to Sh100 per kilo.

The conference, which was organised by the African Cotton and Textile Industries Federation, Kenyatta University and the Kenya Association of Manufacturers (KAM) brought together the entire cotton, textile and apparel value chain. It explored ways of improving competitiveness in the sector through innovation, skills development, differentiation and strong policy framework.

ACTIF executive director, Rajeev Arora, said they were seeking to tap academia for new ideas in growing the industry, backed by adoption of new technologies to bring local players up to speed with international standards.
"Education and industry have to meet for us to move to the next level," he added. "That's why we have brought in Kenyatta University."

Mr Bedi, who is also the chairman of the Kenya Association of Manufacturers, said Africa can derive significant growth from the increased consumer spending in the region and focus by global investors in cotton growing areas. According to statistics, the combined size of African economy was approximately US$ 1.7 trillion in 2010. The continent has enjoyed a remarkable annual growth of about 11 per cent since 2000.

Projections indicate that at an estimated growth rate of approximately 7 per cent, the African economy could exceed US$ 2.6 trillion by 2016. This would make it the fastest growing economic region in the world.

"One of the questions we need to answer is how the CTA value chain can take advantage of the business opportunities presented by this growth to be in a position where we can compete on a similar platform with other big players such as China and India, among others," said Bedi, who is also the Chairman of KAM.

The meeting also focused on regional integration in light of the need for market enhancement, increased business linkages, trade and investment. The CTA sector in Kenya, Uganda, Tanzania, Rwanda and Burundi already enjoy preferential market access to the United States under the African Growth and Opportunity Act (AGOA) and Europe under the Economic Partnership Agreements (EPAs).

Another subject, which featured prominently is how training in local universities and other tertiary institutions can be made relevant to the needs of the market while making modern technology available in training institutions and textile mills.

"There's so much brain power but we don't know where it goes," said Dr Isabella Wandaka, head of Fashion, Design and Marketing Department at Kenyatta University.

She said Kenya was lagging behind in cotton production and textile industry compared to its neighbours, adding that collaboration with academia would create the necessary "competence to compete."

Synthetic fibre: *Latest threat to local cotton industry*

Textile players looking to biotechnology to increase production and cut costs.

The influx of synthetic fibres and growing popularity of second-hand clothes pose the greatest challenge to the revival of the cotton and textile industry in Kenya.

The manufacture of artificial fabric using modern technologies is the latest trend that is eating into the cotton market globally, more so in developing economies like Kenya where the sub-sector drives economic growth.

Speaking when she opened the First East African Cotton, Textile and Apparel (CTA) conference at North Coast Beach Hotel in Mombasa, Kenyatta University Vice Chancellor Prof Olive Mugenda said the sector's value-chain had been unable to attract new investments needed to upgrade technologies to improve production and efficiency. "Importation of second-hand clothes and the influx of synthetic fibres into the country," she said, "are posing a bigger threat to the economic revival of this vibrant sector." She said the cotton, textile and apparel industry was labour intensive and could be used to drive the growth of regional economies if stakeholders like government, industry and training institutions worked together.

In the 1980's Kenya had a thriving textile industry, which was the leading manufacturing activity in the economy, employing over 200,000 farming households and about 30 per cent of the labour force in the manufacturing sector. But by the 1990's the influx of manufactured textile goods into the local market had reduced average capacity utilisation in textile mills to 50 per cent.

Even then, the sector still faces a number of challenges, among them high cost of doing business, expensive credit and the use of old and outdated technologies. This makes it difficult for the sector to realise high profits needed for growth.

The conference, the first regional forum for the whole CTA value chain, was designed to help improve competitiveness of the entire industry. It was organised by the African Cotton and Textile Industries Federation (ACTIF) in partnership with and the Kenya Association of Manufacturers and Kenyatta University.

ACTIF chairman Jaswinder Bedi, who also chairs KAM, said adoption of modern farming methods like biotechnology would increase production of cotton and grow revenues for farmers. This was echoed by Cotton Development Authority, which said a policy and legislation of application of genetically modified organisms (GMO) in cotton was ready. "The cost of seed cotton is high due to expensive inputs, particularly chemicals," said CODA chairman Major (rtd) Dennis Ochwada. "One way to address pests menace is application of biotechnology in cotton production. The policy and Act are now in place for introduction of the technology."

ACTIF said part of the new revival strategy was to streamline the value-chain from the farmer, manufacturer to the fashion designers. "The fashion designer should be part of the value chain," said Mr Bedi. "We are looking at a formula that is transparent at all levels."

ACTIF executive director Rajeev Arora said Kenya's lack competitiveness had much to do with the inability to take advantage of each other's individual strengths and the failure to deepen the relationship between the private and public sectors.

"Much progress has been made in strengthening the East African Community," he said. "Together, we have a market of more than 100 million people. Some countries in the bloc have highly developed industrial sector. Others have large tracts of land suitable for cotton growing and still others have a relatively developed skilled workforce. You don't have to be good in everything. But we can save a lot of resources and significantly lower our cost of production by working together."

Friends of Africa:

Placing Africa on the Map as a Global Sourcing Destination

By Mr. J.C Mazingue,
Senior Apparel Trade Advisor,
USAID COMPETE

USAID/COMPETE is developing a campaign to raise awareness about doing business in Africa called Origin Africa. Friends of Africa is a group of US leaders in the Apparel industry who are contributing their knowledge and expertise to guide Africa through its growth as a global sourcing destination.

The group is raising awareness within the apparel sector about Africa's comparative advantage in niche markets like organic cotton, customized production, state of the art manufacturing facilities and viability as an ethical, sustainable, long term sourcing destination. The Friends of Africa Apparel Advisory Group was formed at the February 2010 MAGIC Apparel Trade Show when COMPETE launched Origin Africa to raise awareness about doing business in Africa. US Assistant Trade Representative for

Friends of Africa is a group of US leaders in the Apparel industry who are contributing their knowledge and expertise to guide Africa through its growth as a global sourcing destination.

Textiles, Gail Strickler, was the keynote speaker at the group's kickoff meeting.

From an initial group of 15 members, Friends of Africa has grown to a significant 30 members, representing US corporations in the Sourcing, Wholesale, Brands and Retail industries. At each of their meetings they study one of the East and Central Africa countries. Most recently they have studied Ethiopia, Kenya, Tanzania and Mauritius.

Over the last 12 months, Friends of Africa members have started or developed businesses in Africa in a few different sectors. A uniform company based in Florida, has visited Ethiopia, Kenya, and Tanzania on a buyer's mission organized by USAID/ COMPETE. They have placed a large order of polo shirts in Ethiopia and recruited a quality controller for ECA. A large e-commerce Corporation based in New York, visited Ethiopia, Kenya and Mauritius while another brand based in New York has placed orders for sleepwear in Mauritius.

A retail group based in Vermont, also member of Friends of Africa, is currently sourcing from 8 factories in Mauritius and Ethiopia.

One of the largest Apparel brands in the USA joined Friends of Africa in August 2011 and has already started sampling in Kenya and Ethiopia.

Since February 2010, when Friends of Africa was launched, USAID COMPETE estimates that more than USD 50 Millions has been sourced from East Africa alone.

In April 2012, Friends of Africa will organize a buyers' mission in East Africa. Buyers group will include uniforms, work wear, fashion and retail companies. This will be a great opportunity for African manufacturers to meet these buyers and showcase their factories and products.

If you are interested in contacting Friends of Africa or getting more information on the buyer's mission, please contact JC Mazingue at jmazingue@competeafrica.org *or Chad Schofield at* chad.schofield@threeglobal.com

Status Report on Campaign to Renew AGOA Third-Country Fabric Provision

Chairman Bedi meets Secretary Clinton during AGOA Forum 2011

By Mr. Paul Ryberg,
President, Africa Coalition of Trade

Mr. Paul Ryberg

Beginning with the expiration of the Multi-Fiber Arrangement (MFA) system of quotas in 2005, the infant African apparel industry that had sprung up in response to the African Growth and Opportunity Act (AGOA), for the first time faced unfettered competition from the super-competitive Asian apparel giants, especially China, Bangladesh, Cambodia and Vietnam. As Asian apparel exports to the U.S. market surged, African exports collapsed by 50% during 2005-2010.

But beginning in late 2010 and continuing through July 2011, the African apparel industry has experienced a modest resurgence. The encouraging rise in apparel exports to the United States under AGOA has been fueled by the confluence of higher operating costs in China and the high cost of cotton, which has made the AGOA duty-free preference much more attractive to U.S. apparel importers.

Country	January-July 2010		January-July 2011		% Growth	
	msme	$ million	msme	$ million	msme	$ million
Botswana	1.475	$6.616	1.650	$8.241	11.88%	24.57%
Ethiopia	1.725	$3.922	3.216	$5.936	86.36%	53.36%
Kenya	35.700	$99.914	41.205	$129.305	15.42%	29.42%
Lesotho	38.223	$144.518	37.876	$165.465	-0.91%	14.49%
Madagascar	14.421	$45.233	6.368	$22.276	-55.84%	-50.75%
Malawi	1.931	$4.533	2.263	$5.904	17.20%	30.26%
Mauritius	9.562	$60.827	12.405	$79.810	29.74%	31.21%
South Africa	0.505	$3.582	0.493	$3.945	-2.49%	10.14%
Swaziland	15.865	$54.783	13.188	$47.462	-16.87%	-13.36%
Tanzania	1.181	$0.515	3.130	$2.395	165.05%	365.05%
Rest of Africa	0.521	$1.627	0.943	$2.274	81.00%	39.77%
Total	121.109	$426.070	122.737	$473.013	1.34%	15.10%

But the tentative recovery of the African apparel sector comes at a critical time. The AGOA "third-country fabric" provision, which accounts for fully 95% of the duty-free apparel exports under AGOA, is set to expire on September 30, 2012. If the third-country fabric provision were allowed to expire, the AGOA apparel industry would be wiped out.

To prevent this from happening, ACTIF and its allies, including the African Coalition for Trade (ACT) and the African Diplomatic Corps in Washington, D.C., mounted a campaign in 2010 to renew the third-country fabric provision well in advance of its expiration. This campaign continues to date, but the Congressional impasse over the pending U.S. free trade agreements (FTAs) with South Korea, Colombia, and Panama meant no trade-related legislation was moving to which the third-country fabric renewal could be attached.

When the Obama Administration came into office in early 2009, they inherited the three FTAs that had been negotiated by the Bush Administration, but had never been approved by Democrat-controlled Congress. The Obama Administration was willing to support approval of the FTAs, provided certain revisions were negotiated to reflect their policy priorities on matters such as labor and the environment. While the pending FTAs were being modified, virtually all other trade legislation was put on hold – or held hostage – by Republicans in Congress to ensure that the Administration actually would follow through with the FTAs. In the interim, other trade programs began to expire, including the Generalized System of Preferences (GSP), which provides duty-free preference to numerous products from developing countries; the Andean Trade Preference and Drug Eradication Act (ATPDEA); and the Trade Adjustment Assistance (TAA) program, which provides retraining benefits to U.S. workers who lose their jobs due to import competition.

By June 2011, the Obama Administration had completed the revisions it wanted before moving forward with the pending FTAs. The expectation was that once the FTA implementing legislation had been approved, a post-FTA trade package would move through Congress, including renewal of GSP, ATPDEA and TAA. ACTIF's strategy was to include renewal of the AGOA third-country fabric provision in that post-FTA trade package. AGOA's supporters in Congress were also in agreement with this plan.The situation became more complicated in July, however, when the Administration disclosed that it planned to include the GSP, ATPDEA and TAA renewal measures in the FTA implementing package. Because all three programs had already expired, they were considered more time-sensitive than the AGOA third-country fabric provision, which would not expire until September 30, 2012. ACTIF's main concern, however, was that if GSP, ATPDEA and TAA were all renewed as part of the FTA implementing package, the need for a post-FTA trade package - to which the third-country fabric provision could be added - would be much diminished.

Accordingly, ACTIF mounted an intensive, albeit brief, campaign to try to squeeze the AGOA third-country fabric renewal into the FTA package. These efforts met with strong resistance from almost all quarters. The Administration and the leadership of the House Ways and Means Committee and the Senate Finance Committee were unified in refusing to consider any "extraneous" amendments to the FTA package that might complicate or slow down the approval process.

Consequently, a tactical decision was made to cease efforts to include the third-country fabric provision in the FTA package itself, and instead, to focus on the next trade package likely to move after the FTAs had been approved. ACTIF received assurances from key officials in the House and Senate that they would try to ensure that the third-country fabric provision would be included in whatever trade-related bill moved first after the FTAs. In this context, Rep. Jim McDermott (D-WA) introduced a bill, H.R. 2493, on July 11, 2011, to renew the AGOA third-country fabric provision through September 30, 2015. Rep. McDermott is widely recognized as one of the "fathers of AGOA," and he once again stepped forward to take the lead in the efforts in Congress to renew the critical third-country fabric provision. Indeed, even before he had formally introduced H.R. 2493, Mr. McDermott offered the measure as an amendment to the FTA implementing legislation, which was being considered by the House Ways and Means Committee on July 7, 2011. Due to complicated procedural rules governing consideration of the FTAs, McDermott's third-country fabric amendment was ruled out of order, which led to his introduction of H.R. 2493 four days later.

On the Senate side, Senator Ron Wyden (D-OR), Chairman of the Finance Trade Subcommittee, similarly expressed willingness to try to attach the third-country fabric provision to the FTA package. Although Senator Wyden was prepared to offer renewal of the third-country fabric provision as an amendment to the FTA package, the Senate Democratic Leadership insisted that no amendments be added to the FTA package. As a result, Senator Wyden was not able to offer the third-country fabric provision, after all. Nonetheless, he remains willing to be the lead Senate sponsor for the third-country fabric renewal in the post-FTA trade package, in much the same sort of role as Rep. McDermott is playing in the House. Congress began its consideration of GSP and TAA renewal in early September. This is a prelude to consideration of the pending FTAs. The House passed a bill on September 16, 2011, to renew the GSP through 2013, retroactive to its expiration on December 31, 2010. That bill was sent to the Senate, which debated it and Republican amendments during the week of September 19. Only one Democratic amendment was offered: an amendment to add renewal of the TAA. The amended bill was approved on September 23 and was sent back to the House, which held it awaiting the White House's formal submission of the FTA implementing legislation. President Obama formally introduced the implementing legislation on October 3. Congress is expected to approve the implementing legislation within the following few days. Once the FTA bills are enacted, the House will pass the GSP/TAA renewal bill, which has already been approved by the Senate. The House will then send the GSP/TAA renewal bill to the White House for the President's signature.

This complex approach is being used because TAA is popular in the Senate, but unpopular in the House, while GSP is popular in the House, but faces controversy in the Senate. Specifically, Senator Jeff Sessions (R-AL) wants to have sleeping bags from Bangladesh removed from GSP eligibility (there is a sleeping bag manufacturer in Alabama), but Minority Leader Senator Mitch McConnell (R-KY) insists on retaining sleeping bags in GSP (the importer is based in Kentucky). This disagreement has prevented Senate action on renewing GSP, but by linking GSP to the much more important FTAs, both sides in the standoff have a face-saving device. The FTA implementing legislation and the amended GSP/TAA legislation should be approved by Congress by mid-October, which should make it possible for the FTAs to be approved by the end of October or during November at the latest. The first post-FTA trade package will, therefore, probably not move until mid-to-late November.

Given the broad support in Congress and the Administration for renewing the AGOA third-country fabric provision, due in large part to ACTIF's two-year campaign, it remains likely that the measure will be extended. Given the complex situation surrounding the pending FTAs, as well as renewal of GSP and TAA, the difficulty is in predicting when a post-FTA trade package will be taken up by Congress. There is a chance that the AGOA third-country fabric renewal provision might not be enacted until sometime early next year. In any case, ACTIF will continue to be in the vanguard of the efforts to renew the third-country fabric provision as quickly as possible, and hopefully before the end of this year.

Mr. Bernard Kagira

Overview

East African Community

By Mr. Bernard Kagira, Trade Economist

The regional inter-governmental organisation was established in 2000 between Kenya, Uganda and Tanzania but has grown to five countries including Rwanda and Burundi. The five member states have a population size of 130 million people and total Gross Domestic Product of US$74 billion.

A Customs Union was created in 2005, while the Common Market was launched in July 2010 and the countries are currently working towards a Monetary Union envisaged for launch in 2012. A Political Federation is envisaged by 2020.

The cotton sectors in the main three countries are at various stages of growth with each country having an upper hand in a different niche. Kenya is strong in apparel, thanks to the AGOA arrangement, even though its production end is still low. Tanzania, on the other hand, is strong in production without much value-addition. Uganda is also strong in cotton production including organic cotton.

The EAC presents a perfect opportunity for building synergies in the cotton sectors – from production to value-addition and marketing. The 130 million population is a big potential market that can benefit locally manufactured products, which is why the current efforts in filling the gaps in the value chain in the cotton sector are important.

Select Macroeconomic Indicators in EAC Pertinent to the CTA Industry – GDP and Inflation Rate

Indicator	Benchmark	Partner State	2006	2007	2008	2009	2010
GDP Growth Rate	7% pa	Uganda	7.0%	8.1%	10.4%	3.9%	5.6%
		Kenya	6.3%	7.0%	1.5%	2.6%	5.6%
		Tanzania	6.7%	7.1%	7.4%	6.0%	7.0%
		Rwanda	8.6%	7.7%	11.5%	6.1%	7.5%
		Burundi	5.2%	3.6%	4.3%	3.5%	3.9%
Inflation - Annual Average Rate	5% pa	Uganda	7.2%	6.1%	12.0%	13.0%	4.0%
		Kenya	6.0%	4.3%	16.2%	10.5%	4.1%
		Tanzania	7.3%	7.0%	10.%	12.1%	5.5%
		Rwanda	8.8%	9.1%	15.4%	10.3%	2.3%
		Burundi	2.7%	8.3%	24.5%	10.5%	6.5%

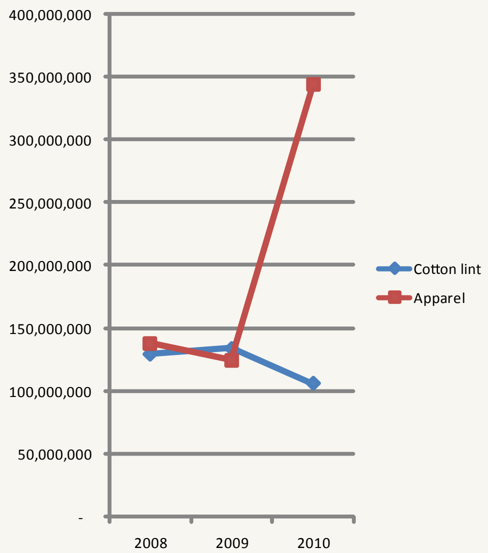
Products originating from the EPZs and Rules of Origin

Companies operating under Export Processing Zones (EPZ) Schemes in the EAC are allowed to sell in the domestic market (EAC Countries) up to 20 percent of their total production. The EAC Rules of Origin must be met on the following categories: Wholly obtained products; imported material whose CIF (cost, insurance and freight) value does not exceed 60 percent of the total value of the materials used in production of the good; Value Added from the process of production accounts for 35 percent of the ex-factory cost of the goods; and change in Tariff Heading (Substantial Transform – EAC ROO Second Schedule).

EAC Rules of Origin for Apparel – The EAC Rules of Origin Second Schedule

	Description of goods	Origin Criteria	Explanatory Notes
Chapter 61	Articles of apparel and clothing accessories, knitted or crocheted	Manufacture from yarn	This excludes manufacture from fabrics
Chapter 62	Articles of apparel and clothing accessories, not knitted or crocheted	Manufacture from yarn	This excludes manufacture from fabrics
Chapter 63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	Manufacture from yarn	This excludes manufacture from non originating fabrics
Ex 63.05	Sacks and bags, of a kind used for the packing of goods.	Manufacture from yarn except that of heading 53.07 which should be wholly produced	This excludes manufacture from non originating yarn of heading 53.07

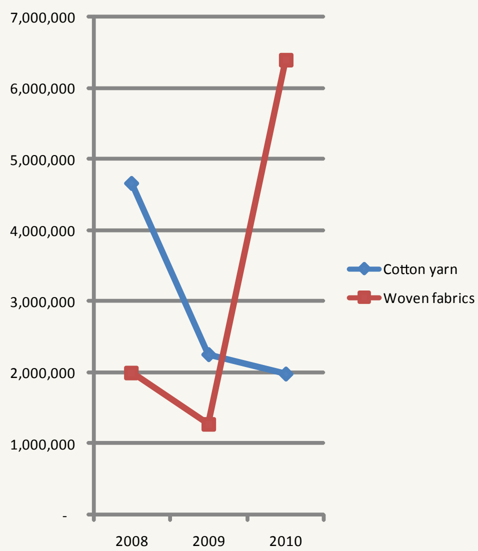
EAC Trade Cotton, Textile and Apparel



EAC Total Exports of Lint and Apparel in US$, 2008 - 2010

	2008	2009	2010
Cotton lint	129,793,736	134,353,738	106,305,198
Apparel	137,893,556	124,891,208	343,735,654

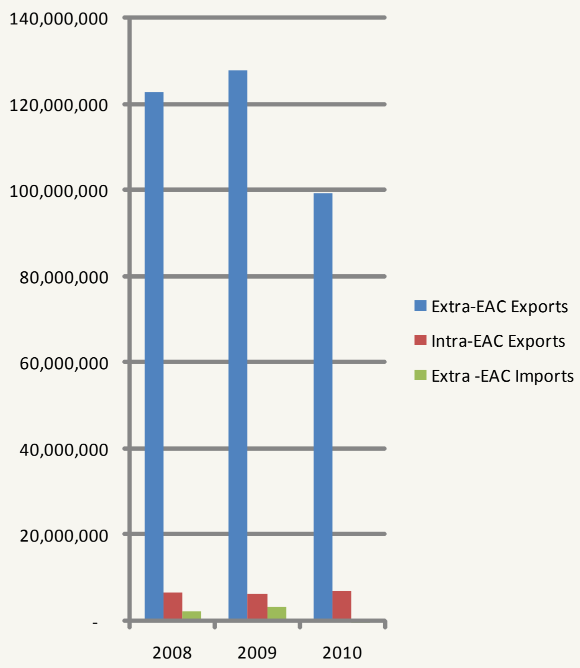
EAC Trade Cotton, Yarn and Fabric



EAC Total Exports of Yarn and Fabric in US$, 2008 - 2010

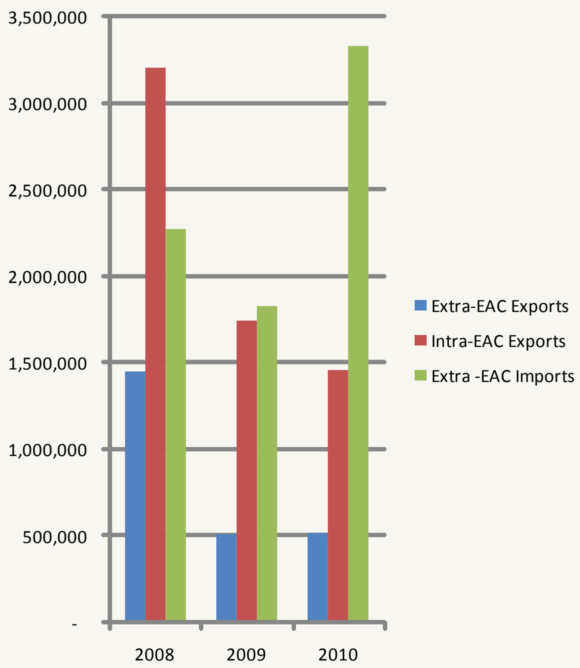
	2008	2009	2010
Cotton yarn	4,662,841	2,256,719	1,984,117
Woven fabrics	1,994,717	1,273,300	6,397,770

EAC Trade of Cotton Lint, Values in US$



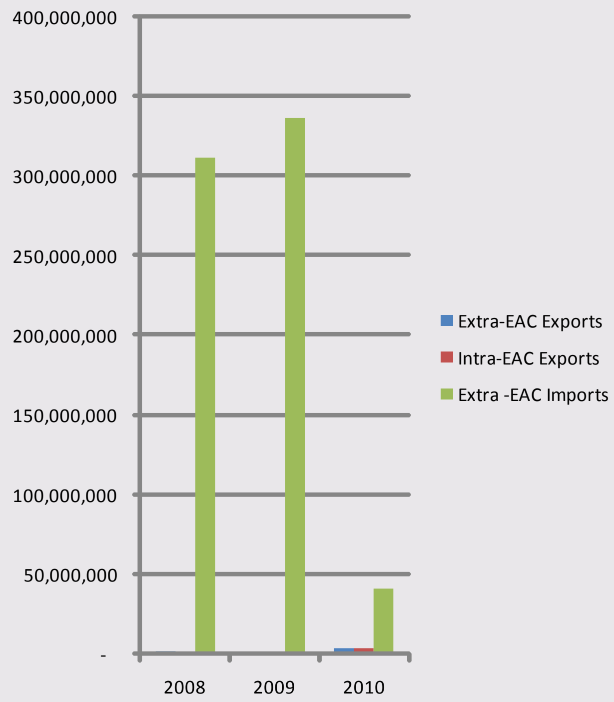
	2008	2009	2010
Extra-EAC Exports	122,966,225	128,062,522	99,245,848
Intra-EAC Exports	6,827,511	6,291,216	7,059,350
Extra -EAC Imports	2,516,868	3,473,042	50,396

EAC Trade of Cotton Yarn, Values in US$



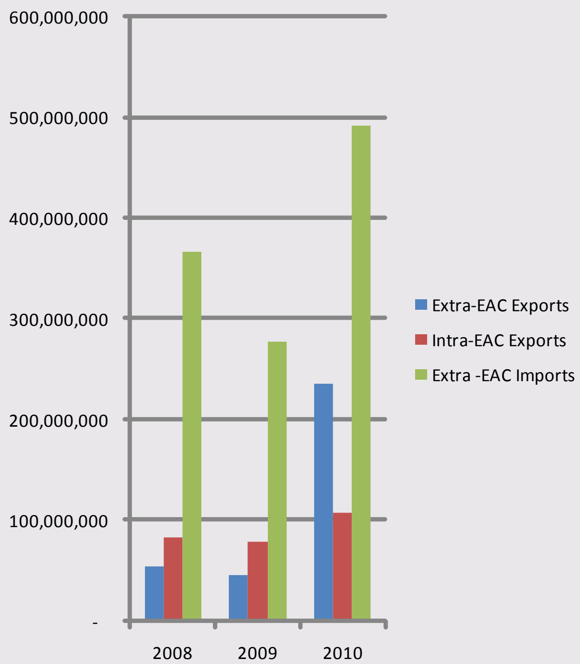
	2008	2009	2010
Extra-EAC Exports	1,455,775	508,944	519,875
Intra-EAC Exports	3,207,066	1,747,775	1,464,242
Extra -EAC Imports	2,271,221	1,828,519	3,332,936

EAC Trade of Cotton Fabric, Values in US$



	2008	2009	2010
Extra-EAC Exports	1,475,825	542,031	3,119,154
Intra-EAC Exports	518,892	731,269	3,278,616
Extra-EAC Imports	311,692,063	336,918,425	41,599,513

EAC Trade of Apparel, Values in US$



	2008	**2009**	**2010**
Extra-EAC Exports	55,006,531	45,848,467	236,448,803
Intra-EAC Exports	82,887,024	79,042,742	107,286,851
Extra -EAC Imports	367,311,618	278,055,069	492,608,884

Conclusions and Way Forward

The East African Community has a huge regional trade potential for apparel estimated at US$400 million and fabric at US$42million. But there's need for an enabling policy framework and a review and training in Rules of Origin to ensure understanding and better implementation. Customs' officials capacity to understand the textile and apparel industry should also be enhanced.

Advertorial

CENTRE POUR LE DEVELOPPEMENT DE L'ENTREPRISE
CENTRE FOR THE DEVELOPMENT OF ENTERPRISE

THE CDE:
PARTNER OF THE ACP PRIVATE SECTOR

MANDATE

The Centre for the Development of Enterprise (CDE) is a joint institution of the ACP Group of States (African, Caribbean and Pacific) and the European Union, created within the framework of the Cotonou Agreement.

The Center provides non-financial services (technical assistance, studies, training) to ACP companies and to joint initiatives undertaken by ACP and EU economic operators in various economic sectors, with the main aim of enhancing the competitiveness of ACP enterprises.

More specifically, the CDE's objectives are as follows:

- to facilitate ACP-EU business partnerships;
- to facilitate the development of enterprise support services in ACP countries (capacity building within private sector organisations and service providers);
- to lend support to investment promotion activities and organisations;
- to support transfer of technologies and management skills

RESOURCES

The financial resources of the CDE are derived largely from the European Development Fund (EDF). Further amounts are availed through co-financing as well as from funds provided by various partners and by the client enterprises who contribute to part of the costs of the interventions.

Mr. Farai D. MAJURU
Head of Regional Office for Eastern Africa

BENEFICIARIES

The CDE lends assistance to:

- ACP enterprises: starting-up, expending or in process of diversification or restructuring;
- private sector organisations - professional associations, federations, technical centres, investment promotion bodies, etc;
- ACP consultants and advisory companies, to build their capacity to meet the needs of enterprises.

FIELD OF ACTIVITY

The CDE's support to ACP enterprises and intermediary organisations consist of two approaches:

- **a structured (over a 3 to 5-year period) approach via programmes for** groups of enterprises and intermediary organizations;
- **ad hoc assistance to individual enterprises, intermediary organizations and service providers** of the private sector

BASIC ELIGIBILITY CRITERIA TO OBTAIN CDE'S SUPPORT

- Private company status
- Based in ACP country
- EU promoters can be assisted for investment projects destined for ACP countries

Size of enterprise/investment in defined SME range:

- net assets of at least €80,000 and/or a turnover of €250,000
- maximum net assets: €10 M
- at least five employees

Cost-sharing principle:

- Contribution of up to 2/3 of the cost of intervention
- Beneficiary is expected to contribute the remaining 1/3 which can be in kind
- Maximum contribution by the CDE: 50,000 /year per enterprise

GET IN TOUCH WITH THE CDE

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For all requests, please contact the relevant region office.
The addresses of these contacts, including a simplified online form to apply for assistance are available on the website: **www.cde.int**

Pictorial

L to R : Paul Ryberg, Jas Bedi, Rep. Ed Royce, Rajeev Arora, James Kiiru (Kenyan Embassy, Washington)

CTA China Conference 2011

Vietnam - South South Training visit 2011

COMESA CTA strategy meeting, Nairobi, Kenya 2011

Pictorial

ACTIF meeting with CNTAC at China CTA conference 2011

Jas Bedi addressing CTA conference in China

Meeting at Ralph Lauren in Hong Kong, China

East and Southern Africa Stakeholders meeting in Kampala, Uganda 2011

The Ethiopian Textile and Apparel Sector: *The rise of a 'sleeping giant'*

Ethiopian Designer Ms. Fikirie Addis after she won Origin Africa Award for fashion 2011.

Mr. Endalkachew Sime

By Mr. Endalkachew Sime, Secretary General, ETGAMA

Much has been said about the role of the cotton, textile and apparel (CTA) sector in developing economies.

In Ethiopia, the capital requirements of the CTA sector, coupled with labor utilization levels makes it a strategic investment choice. Ethiopia has a huge potential in CTA with vast land suitable for cotton production (estimates indicate between 2.6 million hectares and 3.1 million hectares) and a growing population that is largely young. Despite this potential, the sector's performance and its contribution to the GDP and exports, remain modest.

Since the launch of the National Industrial Development Strategy a decade ago, the Ethiopian Textile and Apparel (TA) sector has undergone two major phases of growth and is now going through its third developmental stage.

The first phase was at the beginning of the past decade when the sector received a lot of attention and was considered key to economic development. As indicated in the table below, Local investments flourished during this phase.

Country	Power Tariff (USD per KwH) Grid
China	0.09
India	0.10
Pakistan	0.08
Turkey	0.10
Ethiopia	0.03

Country	Power Tariff (USD per KwH) Grid
Turkey	600
China	175
India	125
Pakistan	80
Ethiopia	50

The second phase, experienced during the last five years, was a time of a strategic approach to the sector following the development of a five year strategy (2005-2010), with the assistance of China Textile Planning Institute of Construction (CTPIC). The third phase, dubbed the phase of Growth and Transformation Plan (GTP) also covers five years (2011-2015) and targets placing the CTA sector at the top of other manufacturing sectors in export revenues.

Though the Ethiopian CTA sector is not yet on the global textile map, remarkable and foundational activities were performed under the leading role of the Government. The pre-investment, investment and post-investment incentives that encouraged both the local and foreign investors to invest in the sector have begun to bear fruit. The shape, posture and regulatory framework are becoming more organized with several key steps such as the establishment of Textile Industry Development Institute (TIDI), for instance.

Sub-sector	Unit	Base Year 2009/10	Target for 2014/15	Multiples
Textile	Export earning $ million	21.8	1,000	45.9 times
Leather	Export earning $ million	75.73	496.9	6.6 times
Sugar	Production in million tons	0.314	2.25	7.2 times
Cement	Production in million tons	2.7	27	10 times
Steel & Engineering	Gross value-added in million birr	6	101.4	16.9 times
Fertilizer (Urea)	Production in million tons	-	300	-
Pharmaceutical	Domestic market share	15%	50%	-
Agro-processing	Export earning in $ million	35.2	300	8.5 times

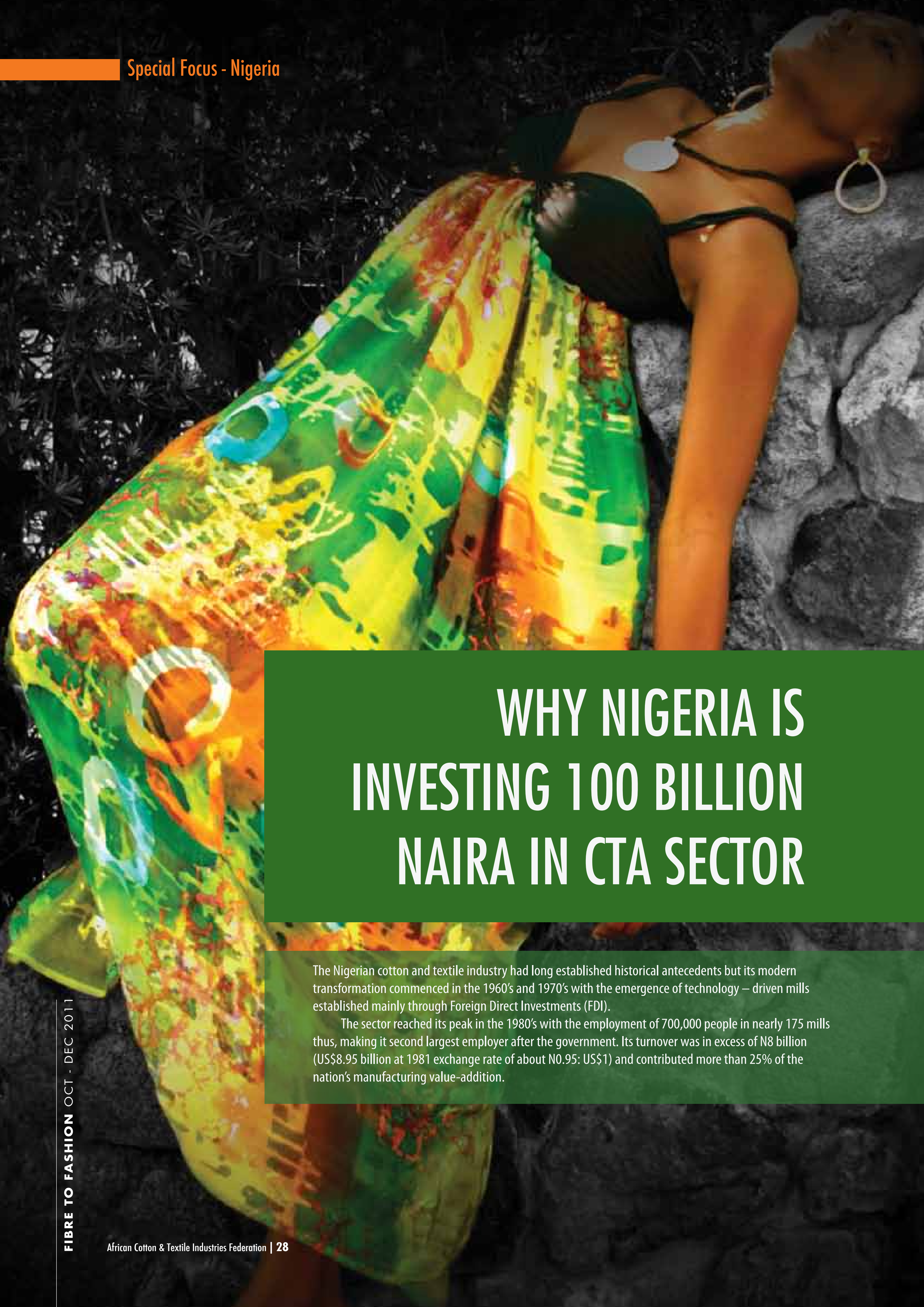
The third phase needs greater focus, commitment and action-oriented endeavors to overcome inherent hurdles in the sector. Some of these challenges are related to local raw material base, access to working capital, duty structure and availability of adequate manpower.

The ever-expanding textile processing capacity is facing shortage of cotton supply while the state-of-the-art and huge garmenting capacity is facing chronic shortage of local fabric supply. The working capital provision, especially for the garment sub sector, looks constrained. The major policy financier, the Development Bank of Ethiopia (DBE) is a key player in the growth and expansion of investments and is doing its best to address the ever-increasing working capital requirements of the sector. The three-band duty structure of the sector, that treats fibre, yarn and fabric and apparel together, is hampering the growth and expansion of the fabric-apparel value addition ventures and favours the import of finished garments. Supply (both in terms of quality and quantity) and stability of the industrial labor force are the other core issues that need serious attention.

Despite the challenges, we have seen good and encouraging signs of awakening of the sleeping giant during the past three phases. But we still are far away from realizing the full potential of the sector. Beyond the public-private partnership, the role of local bodies such as ETGAMA and regional players such as ACTIF, in creating synergies to develop the sector must be emphasized.

God bless Ethiopia, God bless Africa.

Endalkachew Sime is the Secretary General, Ethiopian Textile and Garment Manufacturers' Association (ETGAMA)



WHY NIGERIA IS INVESTING 100 BILLION NAIRA IN CTA SECTOR

The Nigerian cotton and textile industry had long established historical antecedents but its modern transformation commenced in the 1960's and 1970's with the emergence of technology – driven mills established mainly through Foreign Direct Investments (FDI).

The sector reached its peak in the 1980's with the employment of 700,000 people in nearly 175 mills thus, making it second largest employer after the government. Its turnover was in excess of N8 billion (US$8.95 billion at 1981 exchange rate of about N0.95: US$1) and contributed more than 25% of the nation's manufacturing value-addition.

ACTIF meets Nigeria cotton value chain stakeholders.

However by 1985, aggregate employment started to decline and by the year 2009, a report from Nigerian Textile Manufacturers Association revealed that the Industry was on the verge of collapse. Even though they claimed that 40 (Forty) textile mills of different categories remained operational at different levels of activity, the report expressed need for urgent intervention.

As observed, the industry had been on a progressive decline due to the following reasons:

- *The collapse of infrastructural facilities in the country (road networks, power and water, among others) resulting in high cost of production.*
- *Lack of government support and incentives in the wake of the industry's collapse, which had been predicted much earlier.*
- *Gross under capitalization in the face of emerging new technologies.*
- *Unconstrained competition from smuggled fabrics, especially counterfeited smuggled items from Peoples Republic of China, which displaced Nigeria's export to West African market.*

Despite the challenges above, the cotton/textile industry in Nigeria remains the largest in the manufacturing sector after agriculture and the oil industry, even after the closure of some 150 companies and the subsequent loss of employment.

The textile industry is unique in the sense that it uses a high percentage of locally produced raw materials such as cotton and polyester, unlike other sectors. When considered along the entire value chain, it has the potential to re-emerge as an important contributor to the national economy. Its contribution to commercial agriculture development, industrial production, employment and export earnings were, and can become very significant in the years ahead. The healthy development and rapid growth of the industry is therefore vital to the overall economic development of the nation.

Ultimately, the sector stands the chance of being revived when the constraints identified above are removed through deliberate Government policy intervention. It is in recognition of this that the Federal Government of Nigeria in June 2009 approved and authorized the Debt Management Office to issue a long term low coupon rate N100 billion Bond in tranches for the provision of funds to Bank of Industry Limited for on-lending to businesses under Cotton, Textile and Garment value-chain.

Why the investment?

The key objectives and benefits of the intervention for reviving the textile value-chain are enormous as stated earlier. The textile industry in Nigeria remains the largest in the manufacturing sector despite the challenges faced. On a replacement basis the present installed textile manufacturing capacity in Nigeria represent a US$ 2 billion investment. This investment must be protected. The textile industry is unique in the sense that it uses a high percentage of locally produced raw materials such as cotton and polyester, unlike other import dependent sectors. This will trigger production of cotton thereby creating employment to the teeming youth population. Therefore, a healthy development and rapid growth of the industry is vital to the overall economic development of the nation.

The main objective of the revival of this sector is to return it to its past glory in view of the fact that:

- *There is growing local demand for textiles to meet the country's clothing needs of 140 million people;*
- *Nigeria has the potential to serve textile demand of ECOWAS sub-region as it accounts for about 70% of the installed regional textile capacity.*
- *The export potential has been broadened by the introduction of AGOA and other export initiatives.*
- *It will create jobs opportunities (historic high of 600,000 jobs and 1.3 million cotton farmers to support their 17.2 million dependents)*
- *It will create the opportunity to reduce the textile/trade deficit by up to US$ 2 billion.*
- *A strong linkage can be established between the cotton, textile sector and garmenting sub-sector, thus completing the production value-chain and placing it in a position to exploit the opportunities offered by AGOA and other export windows.*

Conclusion

The Federal Government of Nigeria has demonstrated its commitment to the revival of the textile industry. The Bank of Industry being the administrator of the CTG Fund and the oldest Development Financial Institution, and in line with its mission to transform Nigeria's industrial sector and integrate it into the global economy is willing to assist serious minded industrialists to access the CTG Fund with a view to restoring the Nigerian Textile Industry's lost glory.

BANK OF INDUSTRY LIMITED
23, MARINA
LAGOS, NIGERIA

ACTIF Builds Synergy with China CTA Appex Body,CNTAC

A synopsis of the visit to China by Rajeev Arora, Executive Director, ACTIF

ACTIF meeting with CNTAC at China CTA conference

CTA China Conference

Meeting at Ralph Lauren in Hong Kong, China

China to invest in good agricultural practices in Africa

China will help in developing the capacity of ACTIF members in good agricultural practises to enhance cotton production in Africa.

This was agreed during trade talks between China National Textile & Apparel Council (CNTAC) and ACTIF on the sidelines of the 7th China International Cotton & Cotton Textile Conference, held in Yancheng, Jiangsu, October 15-17, 2011.

The two trade bodies underscored the need for developing synergies between Africa and China sharing data, organising at least having one to two meetings per year to discuss opportunities for enhancing trade between Africa and China, sharing membership and arranging for a trade and investment delegation for the next origin Africa.

ACTIF Chairman, Mr. Jaswinder Bedi, whose speech was one of the highlights of the meeting, said there were tremendous opportunities in Africa both now and in the future.

Mr. Bedi observed that current statistics, showing the combined size of African economy at approximately US$ 1.7 trillion in 2010 and a remarkable annual growth of about 11% since 2000, as well as projections indicating an estimated growth rate of approximately 7%, the potential for value addition in the CTA sector in Africa, was monumental The incredible growth in consumer oriented industries, particularly infrastructure, agriculture and resources, he said, was good news for investors in Africa.

In spite of the existing opportunities regionally via trading blocs such as EAC, COMESA, SADC, ECA and internationally via AGOA and EPAs, the current market share of Africa's CTA exports to EU and US, remained insignificant.

Bedi said by rooting for stronger championing a common regional trading bodies and voice for all CTA issues in Africa, as well as leading the negotiations for extension of AGOA and Third Country Fabric Provision, ACTIF was playing a fundamental role in developing regional and international competitiveness for the African CTA sector.

Drawing from the discussion, the two bodies agreed on the following action points to develop trade between Africa and China:

- Strengthen linkages between ACTIF and CNTAC through joint ventures and partnerships
- Promoting Chinese Cotton, Textile & Apparel investments in Africa
- promoting participation of CNTAC and Chinese companies in the Origin Africa Go to event in Ethiopia in April 2012
- Addressing member concerns between ACTIF and CNTAC for stronger relations
- Special features of Chinese interest in Africa in ACTIF publications including the quarterly magazine, Cotton Africa.

Since its debut in 1999, the biennial event has been held successfully six times, getting wide attention from stakeholders in the industry from across the globe.

At the 2011 workshop, representatives from the industry, institutes, cotton suppliers, machinery manufacturers and cotton textile mills at home and abroad, focused on technology, trade, sustainability and case studies from China and the rest of the world, to keep participants abreast with the latest developments in the CTA value chain.

Since only 20 % African cotton is used in the textile production, the rest being exported in raw form, ACTIF has dedicated itself to increasing added value through developing the cotton textile industry in Africa.

It was therefore a great opportunity for ACTIF to visit China and share with the participants about Africa being the next frontier for trade and investment, developing value addition for the existing cotton production and increasing production by developing good agricultural practises.

The conference was, therefore strategic for Africa with regard to future sustainability, value addition as well as investment and trade.

The theme of the conference was 'Industry Adjustment and Sustainability – the World and China' and a sub theme under the title Textile Globalization and Industrial Restructuring.

The areas covered included Structure Adjustment and Development Trend of International Textile Industry Chain; Analysis of Textiles Trade Environment at Home and Abroad; Transformation from Labour Intensive to Technology & Capital Intensive Development;

A Look into the World Cotton Market and Strategies for Reducing Risks; and Cotton and Textile Industry in Africa.

Other areas covered were Technology Innovation, Green Production and Sustained Development; Optimization of Resources Allocation and Industry Transfer; Application Prospect of New Raw Materials in Cotton Textile Industry; New Technology of the Global Textile Machinery Industry; Improving Labour Productivity by Information Technology and Intelligentization

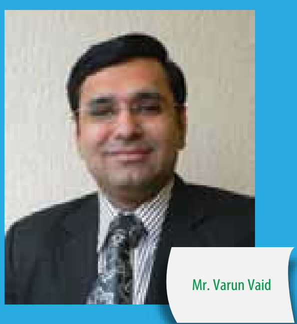
The conference also included two key seminars, on Cotton Textiles, Raw Materials and Market Demand and the approach to Enhance Core Competitiveness of Enterprises.

Over 400 delegates from China and other countries participated in the conference. The Chinese delegates came mostly from key cotton enterprises, big consumers of cotton, yarn and cotton cloth.

The key speakers were drawn from Chinese Ministry of Industry and Information Technology, industry leaders, academics and business elites from China, Pakistan, Germany, United States, India, Africa and Japan.

Jas Bedi addressing CTA conference in China

Cotton Textile & Apparel in EAC: Addressing challenges to achieve high growth



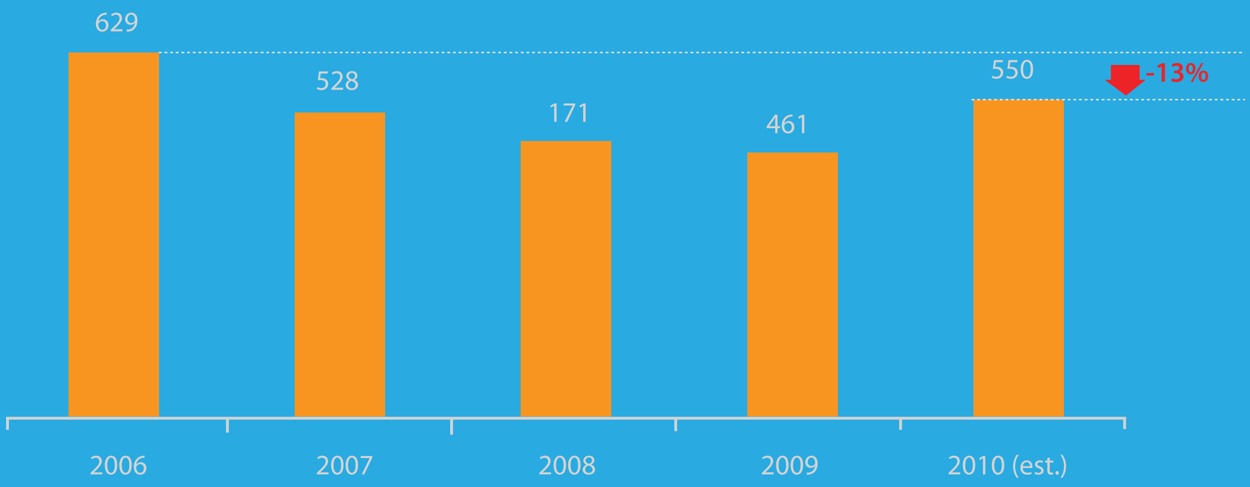
Mr. Varun Vaid

By Mr. Varun Vaid - Senior Consultant
Wazir Advisors

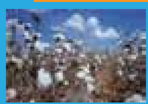
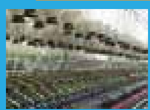
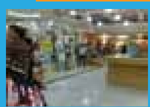
The Cotton, Textile and Apparel sector is one of the most important within the EAC providing employment to millions of people directly and indirectly and earning valuable foreign currency for the EAC countries.

The region enjoys preferential market access to major global markets of USA, EU and other developed countries under agreements like African Growth and Opportunity Act (AGOA), Economic Partnership Agreement (EPA) with EU and others. Despite this fact, the global share of trade in CTA sector from EAC region has seen a decline in recent years

Figure 1: EAC Region CTA Sector Exports (in US$ mn.)



(see figure 1).
However, changing global dynamics have thrown up some interesting trends which have made Africa one of the focus areas for investors across the globe. The key factor which is expected to work in favour of Africa is the availability of cotton. Increasing domestic consumption of cotton produced in China and India, two of the largest cotton producers, has resulted in a scarcity of cotton elsewhere. Africa is one alternate supplier to which the global industry would soon turn their focus. The reason that even the finished goods produced in largest textile economies of China and India are being consumed more and more within the country have forced the buyers to look for manufacturing bases beyond them. EAC region which enjoys preferential market access can be one of the good options. In addition to growth drivers for exports market, the rise of African middle class is also stimulating the domestic cotton, textile and apparel demand. However, the industry in region faces a lot of challenges which has prevented the realization of actual potential *(see figure 2).*

Value Chain	Key issues
Cotton farming 	Less area under cultivation Low productivity Inconsistent quality Inefficient farm practices Lack of credit availability Major exports in raw form
Ginning 	Outdated technology Low utilization Lack of credit availability
Manufacturing 	Outdated technology High cost of doing business Lack of credit availability Lack of market linkages Lack of market orientation Low level of value addition Poor support infrastructure
Marketing 	Less area under cultivation Low productivity Inconsistent quality Inefficient farm practices Lack of credit availability Major exports in raw form
Support Institutions 	Lack of skill development initiatives

These major issues which impact the sector negatively have been discussed widely at several forums and today there is a well formulated common regional COMESA strategy for cotton clothing value chain in place. However, implementation of the same has not been up to the mark till now.

Growth of any sector, anywhere in the world, may be catalyzed by Governments through a range of fiscal and non-fiscal promotion policies. Governments may act as facilitator to promote sectors, which will eventually bring significant returns to the nation in terms of increased employment, foreign exchange earnings, growth of allied sectors, less dependence on imports, increased tax collection, among others. Across the globe, different states have focused on different sectors and formulated policies to aid specific sectors' growth. Good examples include the financial sector in Singapore, oil in Middle East economies, manufacturing in China, services in India and tourism in Malaysia, among others. Often, it happens that well-defined policy initiatives drafted for growth of the sector have suffered setbacks in the absence of any implementing and/or monitoring agency. Likewise, there are certain initiatives which need to be undertaken on a regular basis like maintaining supplier database, export performance statistics, etc. Every initiative would first of all require an institution for its implementation and for

monitoring the ongoing performance and measure the deviations of the results achieved versus the planned outputs.
In the absence of a strong institution, none of the interventions can bring results. Hence, establishment of a strong institutional framework (see figure 3) at a country level which is mandated to oversee growth of the CTA sector should be the first step in addressing the issues.

Figure 3: Institutional framework for CTA Sector Development

CTA Sector Development Authority

- Formulation of broad level growth strategy for the sector
- Advocacy with different arms of Government eg finance, commerce, infrastructure
- Oversee functioning of institutional network

Institutional Framework

Farm Level Support	Manufacturing Level Support	Capacity Building Support	Market Development Support	Investment Promotion Support
Cotton productivity Fibre contamination	Value addition Technology Supply chain linkage Infrastructure *(Logistics, power, financial)*	Training Education	Export Domestic market development	Foreign Direct Investment Domestic Investment

Such an organization can then take up the sector's development in a holistic manner, since it represents the entire spectrum of CTA sector. The schemes and policies for the sector which have been formulated todate can then be entrusted to this body for implementation and monitoring.

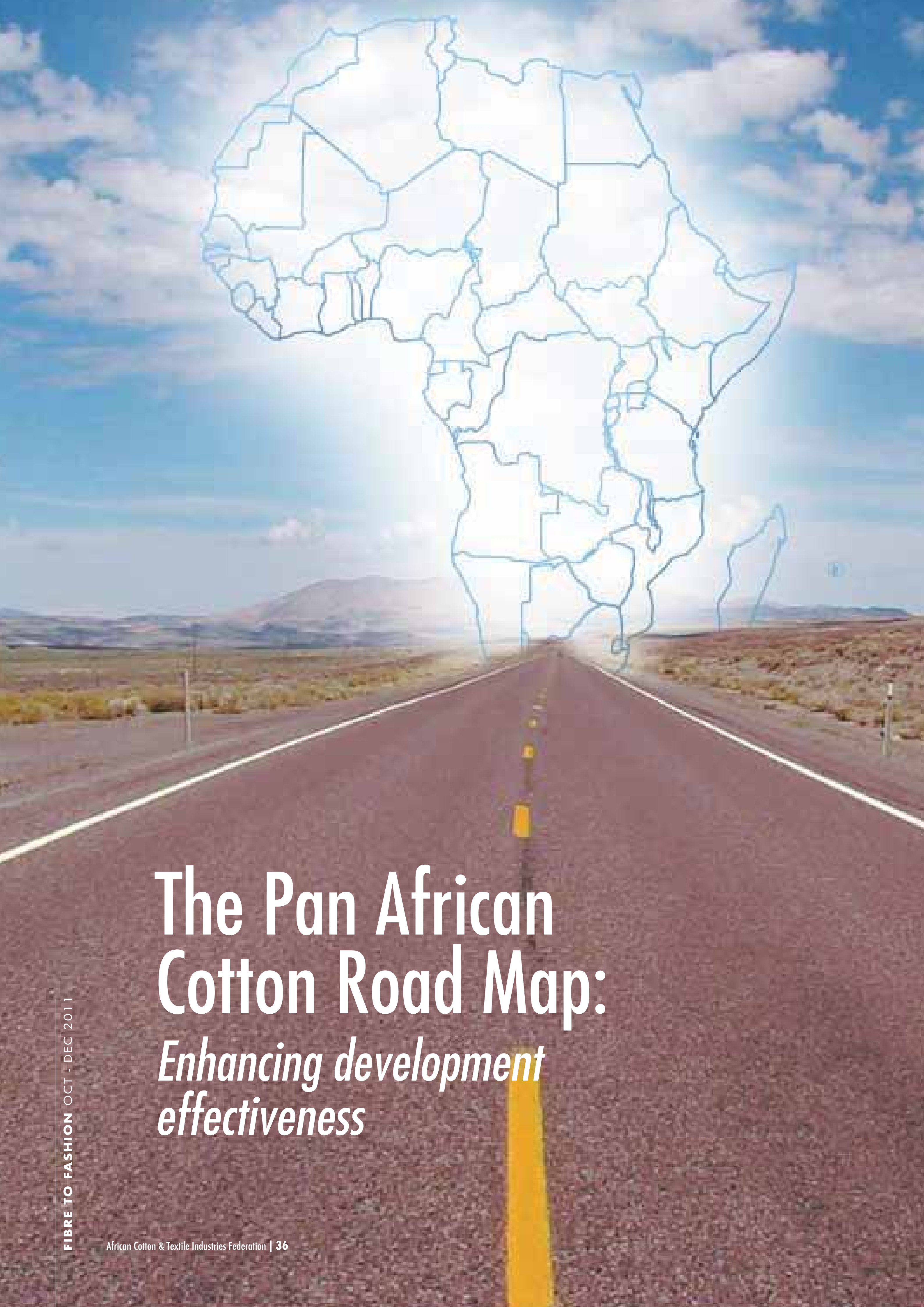
An important intervention which should be looked into by the region is to adopt a cluster based approach for growth of the sector. Clusters or industrial zones can be established in the countries to attract investments in CTA sector by providing special incentives for the same, like:

- Interest and capital subsidy on selected plant and machinery
- Fiscal incentives for exports
- Exemption from customs duty, VAT, corporate tax, etc. for a period of 10 years
- Providing readymade infrastructure to the businesses e.g. roads, ETP, power station, training center, display halls, residential complex etc.
- Single window clearances for investments, etc.

Presence of an organized and integrated value chain at a specific location along with well-developed support infrastructure and supporting policies will prove a boon to the manufacturing sector.

CTA sector in EAC region has the potential to grow and can contribute significantly to the region's overall growth. It has a latent capacity to be competitive. However, the sector needs to be revamped, new investments have to be made and skills and technical expertise need to be developed to realize the actual potential.

Varun Vaid is the Principal Consultant, Wazir Africa Pvt. Ltd.



The Pan African Cotton Road Map:

Enhancing development effectiveness

Pan African Cotton Meeting in Benin, 2011 to discuss the road map for cotton value chain

Mr. Samuel K. Gayi

Mr. Samuel K. Gayi
Head, Special Unit on Commodities, UNCTAD, Geneva

Traditionally the aid debate has been cast in terms of its sufficiency or quantity, rather than how effectively it is used, that is, its quality and development effectiveness. Recently, however, the two dimensions of aid have come to be emphasized in more or less equal measure. Indeed, the growing recognition that the quality of aid is critical to maximizing its development effectiveness is reflected in a flurry of conferences on the subject in a space of five years – Rome and Paris (2005) and Accra (2008), just to mention a few. The Paris Declaration, an outcome of the discussion of both donors and recipients, undertook commitments to take specific steps towards improving aid effectiveness underscored by five principles – ownership, alignment, harmonization, development results, and mutual accountability. The Accra Agenda for Action identifies three main principles for improving aid effectiveness, viz: ownership, inclusive partnerships and delivering results.

The Pan African Cotton Road Map (henceforth the Road Map) attempts to make a contribution to attaining these objectives with regards to the African cotton sector. Originally conceived of as a "Multi-stakeholder Meeting on Cotton" in 2008, by the Secretary General of UNCTAD, Dr. Supachai Panitchpakdi, the idea soon evolved to encompass development partners and various stakeholders along the entire cotton value chain. This meeting, which brought together African trade ministers, the director-general of the World Trade Organization, high level government officials and representatives of international and civil society organizations, reviewed the situation of the cotton sector and discussed the particular challenges of low-income cotton-exporting countries. The need for action to remedy the problems of the African cotton sector was strongly highlighted and a request was made by the participants that UNCTAD organize a multi-stakeholder meeting specifically to address the challenges of African states dependent on cotton exports.

Following this meeting UNCTAD held extensive discussions with the Common Fund for Commodities (CFC), the COS-coton and the International Cotton Advisory Committee (ICAC). We also held multiple consultations with the West African Economic and Monetary Union (UEMOA) and the Common Market for East and Southern Africa (COMESA), as well as regional associations, including the African Cotton Association (ACA), the African Cotton Producer's Association (AProCA), and African Cotton and Textile Industries Federation (ACTIF).

Inputs were also sought from multi-lateral and bi-lateral development partners, including the International Trade Centre (ITC), the United Nations Development Programme (UNDP), the West Africa Cotton Improvement Programme (WACIP) of the United States Agency for International

Development (USAID) and the French Ministry of Foreign Affairs.

Later, discussions were held with the Comprehensive Africa Agricultural Development Programme (CAADP) of the NEPAD Agency. The objective of these consultations was to ensure that the proposed meeting was in line with the approach of CAADP and the EU-Africa partnership on cotton on the continent. The principal aim of the Pan-African Cotton Meeting which was eventually held in Cotonou in June 2011, was to arrive at an agreed outline for a plan of action (henceforth, the Road Map) to address the challenges of the sector for the next 10 years at three levels: productivity, value addition and marketing.

Why cotton?

Cotton is a key commodity for many countries in West and Central Africa. Overall, it generates fifteen million jobs in 27 countries of the region. The cotton sector is also a major export earner for many countries in the region, some of whom depend on it for between 30 to 60 per cent of their export earnings. The African cotton sector nonetheless suffers from severe problems. Yields are low and have been declining in the past decade. Low levels of producer prices, long delays in payment to producers, and the dismantling of institutional arrangements have led to falls of production of up to 50 per cent in some of the major cotton producers in the region.
That there is an urgent need to address the problems of the African cotton sector is not contested. Cotton prices are high historically, and are expected to remain so in the coming years. This creates many opportunities to improve returns to producers and other African stakeholders in cotton value chain. The lack of progress in international trade negotiations also suggests that improvements in the international trading environment for African cotton are unlikely to come about in the near future. It is therefore even more important that the African cotton sector undertake domestic reforms to improve its competitiveness.

As a response to this need, the Road Map aims to provide a clear action plan to overcome the challenges facing the African cotton sector. It builds on existing strategies (based on the needs of harmonization and alignment), and outlines a clear way forward for improving African cotton's productivity, marketing, and value addition.

The Pan African Cotton Road Map

a. *Building on existing strategies*

This Road Map is based on the discussions and outcomes of the June 2011 Cotonou meeting. It aims to provide a clear way forward for African cotton producing countries and their development partners to work towards integrating and completing existing processes in order to attain mutual objectives more effectively – that is, revitalizing the African cotton sector. Accordingly, the Road Map sets out clear short- and medium-term actions and objectives for a range of stakeholders, with clearly defined roles for each of these taking into account their areas of expertise. It also sets out the timelines for these actions as well as indicators to measure their success. In particular, the Road Map addresses the severe problems of the African cotton sector in three areas: productivity, value addition, and marketing.

Indeed, African cotton production is characterized by poor and declining yields. Improving these yields through better access to inputs and infrastructure, better natural resource management, and improved research and extension services is a necessary step in helping to generate adequate returns to cotton producers and in improving the competitiveness of African cotton. The African cotton sector also suffers from poor marketing systems. Underutilization of risk-management mechanisms and a lack of linkages and information exchanges along the various stages of the cotton value chain need to be addressed in order to ensure that cotton production and transformation are in line with frequently changing market requirements. Finally, it is necessary to reverse the current situation whereby most of the value added to cotton produced in Africa accrues to value chain participants outside the region.

The Road map builds upon the existing regional strategies for the African cotton sector. These strategies are WAEMU's cotton-textile agenda, COMESA's regional strategy for cotton-to-clothing value chain, and ECCAS's cotton-textile-clothing regional strategy. The three regional strategies are generally unanimous in their identification of the problems of the cotton sector in Africa (as outlined in the preceding paragraph) and in their proposed solutions under each of the three themes of the Road Map.

Beyond these areas of agreement, the three regional strategies also present similar weaknesses. Most notably, they appear to be insufficiently grounded in the national and sub-regional context of existing agricultural, industrial, and trade policies. This is shown by the lack of alignment between the regional strategies and the policies, mechanisms and programmes that are in place on the ground. There is therefore a clear need for a common framework that will be able to harmonize and exploit the synergies between the various existing sectoral, industrial, and trade policies. While issues of climate change are top of the development agenda these days, regrettably, the three regional strategies did not address the issue of environmental sustainability.

b. Anchored on aid effectiveness principles

The Road Map has been elaborated in a way that conforms to best practice in current development thinking. In particular, as mentioned earlier, it seeks to apply the key principles of aid effectiveness as enshrined in the Paris Declaration of 2005 and the Accra Agenda for Action of 2008.

The principle of *ownership* means that developing countries set their own strategies and policies according to their own priorities and that of alignment dictates that development partners should align their objectives (e.g., as in the EU Africa Partnership on Cotton and its Action Framework) with those set out by the recipient countries, and seek to make use of local systems (e.g. CADP/NEPAD framework and national agricultural strategies). The extensive consultation throughout the process leading to the elaboration of the Road Map has ensured that it reflects the views of the stakeholders in the African cotton sector. Further, the Road Map does not seek to supersede the existing national and regional strategies pertaining to the cotton sector. Rather, it builds upon these strategies, seeking to achieve greater harmonization, exploit synergies, and address neglected issues in order to increase their impact and effectiveness. At the same time, it has an in built flexibility that accommodates regional and national specificities.

The principle of *harmonization* is at the heart of the Road Map as it takes into account the existing strategies and brings them under a unified and streamlined framework of action for all stakeholders in the African cotton sector at national, regional, pan-African, and international levels. And so is the principle of *delivering results* as the clear objectives and indicators of achievement of the Road Map are designed to ensure that the actions undertaken will have a strong impact on the cotton sector and its stakeholders in Africa, be measurable. Finally, the Road Map has been designed to conform to the principles of *mutual accountability* and *inclusive partnerships* not only through the extensive consultation of stakeholders in its design and but also through the inclusion of these stakeholders in the evaluation and monitoring of the actions carried out according to clearly set out objectives and indicators. This near-exhaustive consultation process has also ensures that it meets the principle of ownership.

What are the next steps?

The Road Map will be sent to a number of key stakeholders of the African cotton sector in order to collate their final comments and general feedback. Once these inputs have been adequately reflected, it will be presented to all relevant stakeholders in November 2011 during the cotton donors' meeting in Bamako. Once validated and accepted, the Road Map will move into its implementation (and monitoring) phase as set out in the detailed matrix of activities, taking into account the main principles of aid effectiveness. Required changes to the Road Map will be made consonant with the outcome of a regular monitoring process. Indeed, it is crucially important that this Road Map is not taken as a rigid instrument, but rather as a framework for sectoral coordination at the pan-African level that is adaptable to changing circumstances and new initiatives. The on-going process of elaborating the Road Map has already yielded one positive outcome. By bringing together the Eastern and Southern African countries and their counterparts in West Africa under one roof to deliberate common problems of the cotton sector and try to identify common solutions, it has created a platform for sharing experiences and learning from best practices on the continent.

Samuel K. GAYI is Head, Special Unit on Commodities, UNCTAD, Geneva

Textile East Africa

Promoting sustainable trade in the East African cotton, textile and apparel industry

Textile East Africa is a Danish-Kenyan collaboration, supporting sustainable development of the East African cotton, textile and apparel industry. The purpose of Textile East Africa is to strengthen the Kenyan cotton, textile and apparel (CTA) industry and promote CTA export from Kenya into Europe.

THE PROGRAMME
The programme targets a limited number of important actors in the Kenyan CTA sector including manufactures, technical schools and business associations. Over a 1½-year period the participants will receive training, consultancy and technical assistance in order to strengthen their potential for penetrating the Danish and European markets. The programme collaborates and coordinates activities and strategy with CTA institutions across the East African region.

THE FOCUS As European buyers are increasingly concerned about the social and environmental impact in the entire value chain of the product, Textile East Africa adopts a value chain approach and integrates capacity building within quality, productivity, design and export with strategic corporate social responsibility.

ACTIVITIES The three groups of actors in the project are subjected to different activities:

1. Companies A limited number of Kenyan textile and apparel exporters will be selected for the programme. Barriers to quality, productivity, design and CSR will be identified throughout the exporters' value chains. Companies in the chain will participate in consultancy and workshops in order to remove the identified barriers.
2. CTA business associations Workshops and consultancy will strengthen the capacities of African Cotton & Textile Industries Federation (ACTIF), Kenya Association of Manufactures (KAM) and Association of Fashion Designers – Kenya (AFADK), in facilitating members' access to European markets.
3. Technical training schools Technical training schools will receive capacity building and assistance, focused on upgrading their curriculum and content of courses. INDUSTRY INTEGRATION AND BUSINESS PROMOTION Network activities will promote linkages between the three groups of actors, supporting the coherence of the sector. Furthermore, the Kenyan actors in the programme will be linked with Danish textile importers, business associations and technical schools for transfer of knowledge of market trends, knowhow and technology, and for the promotion of trade.

KEY PARTNERS:
Textile East Africa is designed and run by: · Danish Fashion and Textile (DFT): Trade association for Danish textile and clothing companies, representing 340 of the strongest players in the Danish fashion and textile industries. · African Cotton & Textiles Industries Federation (ACTIF): Regional business organisation representing the CTA sectors of 20 African countries, promoting trade and increased market access for the cotton, textile, and apparel industry in Africa. · Danish Federation of SMEs (DFSME): Trade association for Danish SMEs, representing more than 20,000 members across various sectors The programme is supported by DANIDA.

DANSK MODE AND TEXTILE

ACTIF African Cotton & Textiles Industries Federation

HÅNDVÆRKSRÅDET The Danish Federation of Small and Medium-Sized Enterprises

DANIDA

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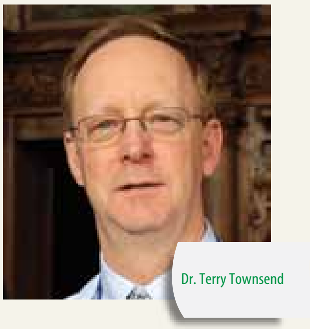
Causes of Cotton Price Volatility in 2010/11: *The Need for Better Statistics and Predictable Government Policies*


Dr. Terry Townsend

By Dr. Terry Townsend,
Executive Director, ICAC

During the 1970s, 1980s and 1990s, the average level of the Cotlook A Index, an indicator of prices of cotton, not adjusted for inflation delivered to importing countries, averaged 74 U.S. cents per pound. During the 2000s, the average price level dropped by 19% to 60 cents per pound, but the A Index rose to 78 cents in 2009/10 (August 2009 to July 2010) and then exploded to $1.64 in 2010/11.

Tight Stocks

There are both fundamental supply and demand factors, and other factors outside the traditional measures of cotton supply and demand, that caused prices to rise in 2010/11. The fundamental factor, one that was at least partially anticipated, is that stocks of cotton in gins and warehouses in producing countries, on board ships, trucks and trains moving in transit and in warehouses near textile mills, fell to 34% of consumption at the end of 2009/10, the third lowest ratio of stocks-to-use since the 1950s.

Different industries have different value chains and thus they require differing levels of stocks. In the cotton industry, stocks at the end of July each season have usually been equal to or greater than six months of use (a stocks-to-use ratio of 0.50). There have been years when stocks fell to five months of use, a ratio of 0.42, but the ending stocks-to-use ratio of 0.34, or just 4 months of consumption at the end of 2009/10, was too low for uninterrupted operation of textile mills, and the market reacted by raising prices sufficiently to ration demand. The roots of the rise in cotton prices during 2010/11 were established during the recession in 2008 and 2009 when inventories throughout the cotton value chain, from cotton producers to retailers, were drawn lower. As consumer demand rebounded with unanticipated vigor in 2010, participants in the cotton value chain scrambled to fill pipeline stocks, resulting in upward pressure on prices.

A lesson from the experiences of 2010/11 is that enhanced transparency is necessary to improved cotton industry performance. Governments can facilitate better decision making in the cotton value chain by improving efforts to collect and publish timely, relevant, accurate statistics on cotton supply and demand, and particularly data on physical stocks. Universal use of metric measures in reporting cotton supply and use would promote international transparency and market efficiency.

Interruptions to Exports

In addition to the interplay between buyers and sellers regulated by market mechanisms, there were other factors that caused cotton prices to more than double in 2010/11, including limits on exports.

Many consuming countries are wholly or largely dependent on imports for supplies to their textile sectors. China is the largest cotton consuming country, and imports accounted for 28% of Chinese mill use during 2010/11. Imports accounted for 15% of cotton mill use in Pakistan and 60% of use in Turkey. Bangladesh, Indonesia, Korea, Thailand, and Vietnam together account for 9% of world mill use of cotton, and each country is totally reliant on imports. Therefore, disruptions to trade in cotton have significant consequences for many countries in the cotton value chain.

Because of the adoption of biotechnology, some countries have transitioned from being significant net importers of cotton in the early 2000s to being large exporters by 2009/10 and 2010/11. The emergence of these newly-ascendant exporting countries has reshaped the structure of the cotton industry and the world map of cotton trade. In 2001/02, a country that is today a newly-ascendant exporter, had net imports (imports minus exports) of 510,000 tons of cotton. However, by 2009/10, this country accounted for 1.3 million tons of net exports, equal to 17% of world trade.

In early 2010, a policy was announced requiring that exports of cotton, which had previously been allowed without restriction, were to be registered with a government agency and taxed. By September 2010, exports were capped, and shipments during 2010/11 are estimated at 1.1 million tons. In the absence of restrictions on exports, it is estimated that exports during 2010/11 would have been equal to the level of shipments during 2009/10, a difference of approximately 300,000 tons or 4% of world trade. In commodity markets, prices are determined on the margins of availability, and limits on exports in 2010/11 were a significant source of volatility and upward pressure on cotton prices.

The pernicious impacts of limits on exports are far reaching. Decisions to limit exports can be particularly disruptive to markets if announcements are made after the cotton season has already commenced and with retroactive application to export contracts that are already registered. Imports are the mirror image of exports, and policies to restrict one are intellectually and practically identical to restrictions on the other. Retroactive disruptions to the fulfillment of contracts exacerbate problems of contract defaults and distort markets by channeling shipments to the advantage of some and the inherent disadvantage of others. Such policies are rarely, if ever, imposed on trade in polyester and other chemical fibers. Therefore, limits and distortions on trade in cotton have negative long-term impacts on the entire cotton value chain worldwide as spinners respond to such disruptions by reducing cotton use in favor of other fibers.

Governments often intervene in trade matters in response to requests from segments of their own cotton value chains that are seeking economic advantage by shielding inefficiency behind government policies. The cotton industry has benefited from the improvements in the efficiency in trade in cotton textiles and clothing since the ending of the Multifibre Arrangement in 2005, and industry players and trade associations that seek to take the cotton value chain backward through requests to governments for trade protection are receiving harsh reproach. Some who have benefited the most from the elimination of MFA quotas are now among those involved in limiting trade.

The events of 2010/11 suggest that government policies that are transparent and well publicized would facilitate better private sector planning. Markets can adapt to changes in policies, but frequent changes in domestic and trade policies force market adjustments that result in added price volatility.

Exploring business linkages between the African cotton sector and the Vietnam textile industry

South - South Training visit, Vietnam

Mr. Matthias Knappe

By Mr. Matthias Knappe, Senior Officer and Programme Manager, Cotton, Textile & Clothing, ITC

The Vietnamese market

Textile and clothing is the biggest export sector of Vietnam, accounting for 15.6% of total exports in 2010, followed by aquatic products (6.91%) and crude oil (6.90%).

The clothing sector is by far the largest export earner mainly operating under CMT business. Approximately 70% of export production is made under sub-contract arrangements under which international buyers provide 100% of the materials or nominate suppliers outside of the country.

In the spinning sub-sector, Vietnam counted 70 major spinning mills in 2010, according to a survey conducted by the Vietnam Spinning Association (VCOSA) . 1% of the companies were state-owned, while 45% were joint-stock companies, 17% were private limited companies, and 37% were foreign-owned companies. Altogether they had a production capacity of 3.65 million spindles, producing 514,000 tons of yarn per year. Due to the weak weaving and dyeing capacity in the textile industry, only 60% of the domestically produced yarn is processed into fabrics to serve the clothing industry. Over 40% of the yarn produced is exported.

In 2010 Vietnam consumed approximately 360,000 tons of cotton annually, of which 98% were imported. Imports for 2011 are estimated to be 380,000 tons. Vietnam is thus the 6th largest cotton importing country in the world, consuming as much cotton as East and Southern African countries jointly produce.

According to the VCOSA survey,

the 70 largest spinning mills imported a total of 72,000 tons of cotton from Africa in 2010.

With a textiles and clothing export target of US$ 18 billion in 2015 and US$ 25 billion in 2020 (in 2010 Viet Nam exported US$ 12 billion), cotton demand in Vietnam is expected to increase to 600,000 and 800,000 tons, respectively. With such an important and growing market potential, ITC organised a market visit for African cotton stakeholders to better understand the value chain, market conditions, Vietnamese business practices as well as African cotton consumers and their final clients. The visit-cum-training was organised jointly with the Vietnam Textiles and Apparel Association (VITAS), the Vietnam Cotton Spinning Association (VCOSA) and the Ministry of Industry and Trade of Vietnam. 23 African cotton producers and ginners from Ethiopia, Kenya, Malawi, Mozambique, Tanzania, Uganda, Zambia and Zimbabwe as well as representatives from COMESA, the African Cotton Textile Industries Association (ACTIF), and MoZaZiMa explored possibilities to establish direct feedback-loops with their clients. The programme covered a conference on cotton trade between Africa and Vietnam, buyer-seller meetings in both, Hanoi and Ho Chi Minh City as well as factory visits to various spinning and textile mills as well as garment enterprises in the north and in the south of the country.

Outcomes

The market insights gathered in Vietnam will allow African cotton ginners and exporters to target preferred buyers as well as negotiating better terms with international cotton merchants. The delegation could see Ugandan cotton in the warehouse of 2 companies, apart from other African origins such as Benin, Burkina Faso and Mali. Landed C&F prices as well as the selling traders were revealed. Overall, many spinners had experience with African cotton, which is appreciated for its quality, low short fibre content and low neps, even though spinners perceive cotton contamination to be on the higher side, depending on origin. One important aspect was bale discovery, i.e. stakeholders could see the various bales and its packaging in the warehouses and compare its appearance against that of competitors. As a bale is the visiting card of a ginner, its clean and neat appearance is importance to give a good first business impression. While most spinning factories are reluctant to engage in any direct trade, all stakeholders emphasised the need to build direct feedback loops to improve quality and transparency along the value chain. Reluctance in direct trading relationships was fuelled by the high price volatility in the market and the fact that everyone is scared about contract defaults.

However, some spinning factories explained that their approach was to develop longer-term relationships with preferred suppliers they know and trust. Their aim is therefore not to buy origin but rather cotton ginned in a specific ginnery they know and appreciate. Such spinners would be ideal targets for African ginners that would like to develop lasting relationships with preferred buyers. Such an approach would need to be long-term, starting with getting to know each other and building trust. A Zimbabwean ginner has already started the process with a first trial order of 100 metric tons.

Moreover, at the special request of the Kenyan delegation, ITC organised a visit to a factory specialising in sanitary cotton products such as e.g. sanitary towels. As this factory does not need large quantities, they source lint from textile manufactures, which is expensive. A Kenyan ginner therefore saw the business opportunity to export lint and, in parallel, partner with the Vietnamese company to produce sanitary cotton products in Kenya, for which there is a large market. Both sides agreed in principle that the ginnery will be selling lint directly, which will then be processed in Vietnam and exported to Kenya for final packaging of sanitary products. The Kenyan idea is to work backwards, learning from the Vietnamese experience, and adding value subsequently at each stage of production until they have a full sanitary cotton plant. The ginnery sees a market opportunity because Kenya's new constitution makes it mandatory for the government to supply sanitary towel to all girls' schools. Moreover, the company will also be able to process and supply hygienic cotton for general use to hospitals.

Conclusions

These are examples of how the south-south cooperation and market linkages facilitated by ITC are taken up by African cotton stakeholders, resulting in lasting business relationships and contributing to growth of the cotton sector in Africa, including value addition, and thus supporting the sector's role in reducing poverty.

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From Vietnam, lessons for Africa's cotton industry

Value Chain and Market Transparency: Promoting Eastern and Southern African Cotton in Vietnam

Mr. Joseph Nyagari,

By Mr. Joseph Nyagari,
Trade Policy & ICT Manager, ACTIF

The visit to Vietnam between 18th and 24th August 2011 provided an opportunity to gain an insight into the Vietnam textile and garment industry, explore trade opportunities and establish direct linkages with key support institutions. The mission to Vietnam was sponsored by the International Trade Centre under the South-South cooperation, in collaboration with the Vietnam Textile Association (VITAS), Vietnam Cotton & Spinning Association (VICOSA) and Vietnam Ministry of Industry and Trade.

The African delegation comprised 25 members from eight East and Southern African countries and three regional institutions. The countries represented included: Ethiopia, Kenya, Malawi, Mozambique, Tanzania, Uganda, Zambia and Zimbabwe. The three regional institutions were African Cotton & Textile Industries Federation (ACTIF), Common Market for East and Central Africa (COMESA) and MoZaZiMa (Mozambique, Zambia, Zimbabwe and Malawi).

During the visit, the Vietnam textile and garment industry expressed a strong interest to trade with Africa especially on raw cotton as they heavily rely on imports (99%) to satisfy their huge demand. It also emerged that there was a huge gap of information between the two regions especially because most of the cotton purchased from Africa was done through global merchants with limited direct contacts with African Producers.

The issue of contaminations dominated the discussions about African cotton. But many Vietnam spinning companies expressed interest to purchase more cotton from Africa owing to its superior fibre properties, even at a premium price, provided the issue of contamination is addressed.

The African delegation expressed willingness to interact and trade with Vietnam especially in areas of mutual benefit including attracting investment in cotton production and value addition. It was also noted that despite the global success that Vietnam was experiencing in the textile and garment industry, there is a significant amount of effort from both the public and private sector to increase their capacities and also protect the existing industry, owing to the strategic importance that they have placed in the industries. This was a good lesson to the African delegation on the need to prioritise the development of the cotton, textile and apparel sectors in order to generate the much needed foreign exchange, employment and overall contribution to the economy.

MARKET KNOWLEDGE AND INTELLIGENCE

It was interesting to learn that the Renewal Process of Vietnam, also known as Doi Moi, which was launched in 1986 has been working very well for them, leading to significant growth of its economy. The primary aim of the renewal process was to shift economic priorities from heavy industries to three major economic programmes: production of food, production of consumer goods and production of exports; to open trade relations with the outside world; encourage foreign and domestic private investment; and reduce state intervention in business. During our visit in Vietnam, it was very clear that the government had a special emphasis on developing their core industries. It was also evident that the infrastructure was very well developed, including road network and ports. It was interesting to learn that despite the textile and garments sectors, Vietnam had also significantly developed other industries for export including: Seafood, Rice, Rubber, crude oil, coal, Footwear, Electronics and computer components, Wooden products, pepper and tea.

BUSINESS PROSPECTS WITH VIETNAM

In the textile sector, Vietnam has 141 spinning mills located mainly in the south of the country. They are equipped with four million spindles and altogether have a production capacity of 500,000 tons of cotton yarn per annum. Currently, Vietnam consumes 300,000 tons to 400,000 tons of non-carded/non-combed cotton annually of which, import supplies 99% and the domestic production provides 1%. Many

Vietnamese spinning and garment companies import cotton materials directly from foreign suppliers and stock them in their own inventory, according to their production and trading needs. They have their own import and export units to deal with selling and buying products and materials.

Due to the weak weaving and dyeing capacity, only 60% of the yarn produced by Vietnamese spinning mills are processed into fabrics to service the garment sector, the rest of 40% is exported in raw material form.

Vietnam has proven to be a good land for cotton production. However, cotton cultivation is in fierce competition with other crops that have higher income such as pepper, rice, and coffee. During several years, in spite of the government's incentive measures for cotton cultivation, the planted areas of cotton were reduced sharply from nearly 21,000 hectares in 2006 to 5,800 hectares in 2008 and to about 2,500 hectares in 2009 and 2010 respectively. Accordingly, total raw cotton production was reduced from 28,600 tons in 2006 to 8,000 tons in 2008, and 3,500 tons in 2009 and 2010 respectively. With the information above, some of the business prospects between Africa and Vietnam include: Cotton Exports: With only 1% of its domestic demand being produced locally, Vietnam is anxious to increase its cotton imports from Africa. Currently, almost all the cotton they are buying from Africa is done through international merchants. They are however willing to establish direct relation-ships with African traders for cotton supply

Investment in cotton production: While Vietnam is laying a strong emphasis in cotton to increase its current production of 10,000 MT to 30,000 MT annually, they accept that they face a strong challenge of competing with other crops that farmers find to have better rewards and require less effort. Vietnam Cotton Company has the potential of investing in cotton production in Africa, to enhance the regional output and also have enough for export.

Technology transfer: With its advanced textile industry, Vietnam has the capability of exporting technical expertise to Africa which is still developing its textile sector.

Yarn imports: With over 40% of its yarn being exported in raw form, Vietnam has the potential of exporting yarn into Africa.

Other imports: With significant export potential of other products from Vietnam, there is an opportunity of doing cross trade of different products, e.g. cotton from Africa and rice and from Vietnam.

LESSONS LEARNED

- *Many of the spinning companies in Vietnam that were consuming African cotton expressed their satisfaction on the fibre qualities. However, contamination of the cotton fibre stood out as a key challenge. There is therefore an urgent need for Africa to increase its investment in production of cotton.*

- *A quality incentive / bonus could be offered to cotton farmers in order to promote quality management, considering that the spinners are also willing to pay more for higher quality cotton*

- *Africa has unique advantages of climate and availability of arable land which need to be exploited in partnership with Vietnam, especially in cotton production.*

- *It is important for Africa to pursue a regional approach to address both regional and international trade. This is especially to take off key concerns by Vietnam traders including: financial systems, arbitration system, trading standards and rules & logistics support.*

- *There is need to build confidence in African brands. While a lot of complaints were received regarding the quality of African cotton, it was also clear that there was limited information of the African market, little awareness on the key institutions in CTA trade in Africa and lack of awareness on the progress that Africa was making in addressing contamination, lack of awareness on existing systems and infrastructure in Africa. All these make trading with Africa directly seem very risky to the Vietnamese trader. Branding of our CTA products through a regional approach is therefore of high importance.*

- *Vietnam experiences in cotton production have shown that there is need to invest in modern technology such as Bt cotton and modern production methods. For sustainability of cotton production, the ordinary farmer needs to be convinced of the value and this can only be done in a model where cost of production is kept at a minimum and high yielding technologies are adopted.*

- *A strong public and private partnership is essential for the development and success of the cotton, textile & apparel sectors. Vietnam experience showed how interconnected the government and the private sector was and this was working very well for their industries.*

The Vietnam visit was sponsored by the International Trade Center (ITC) under the South to South program, 18th – 24th August 2011

New Trends in the World Textile Market: *Opportunities and Challenges*

Dr. Christian Schindler
Director General, ITMF

A Look Back at the Global Financial and Economic Crisis of 2008/2009
By Dr. Christian Schindler, Director General, ITMF

The world textile industry has seen fundamental changes in the past decades which are mainly associated with two major developments: First, the integration of the textile sector into the general framework of the WTO in 1994 after more than 40 years initiated the termination of the traditional quota-regime by the end of 2008. Second, the gradual opening up of the Chinese economy since the early '80s and at a later stage the formal integration of China into the framework of the WTO at the end of 2001 accelerated the process of what is generally known as globalisation.

Both developments have led to an ever more integrated world economy and have certainly contributed to the immense increase in global trade. Global trade of manufactured goods soared between 1990 and 2009 by around 250% to around 8'355 billion USD. In the same time span global trade in textiles jumped by around +100% to around 211 billion USD. In clothing global trade surged by +192% to around 316 billion USD.

The year 2009 was certainly one of the most difficult and unpredictable in recent history. It brought to the surface structural changes which have been looming under the surface for quite some time. First, the world economy was facing the end of a long and strong investment boom cycle. Second, the end of the business cycle had been accelerated and intensified by the world financial and economic crisis.

The global financial and economic crisis led to an unseen decline in demand and investment which resulted in shrinking GDPs, lower trade, higher unemployment levels and saving rates and finally into a recession in most of the industrialised countries.

According to IMF data, global output fell in 2009 by -0.7%. While production in advanced economies fell by -3.7%, emerging and developing countries recorded a positive growth rate of +2.8%. With their huge domestic markets booming, China and India were able to weather the crisis well registering strong growth rates of +6.8% and +9.2%, respectively.
Also Brazil was able to prevent a major setback and registered only a relative small GDP reduction of -0.6%.
Advanced economies on the other hand shrank by -3.7%.
Export-oriented economies like Germany (-4.7%) and Japan (-5.2%) suffered badly, while the decrease of GDP in the US reached only -2.6%.

The year 2010 saw a remarkable and somewhat unexpected rebound with global output up by +5.1%. GDP in both emerging and developing economies rose strongly by +7.3 and +3.1%, respectively. Within the emerging and developing countries the BIC countries Brazil, India and China registered growth rates of +7.5%, +10.1% and +10.3%, respectively.

Global trade contracted by -10.7% in 2009 hurting export-oriented economies like Germany and Japan considerably. With the extremely strong rebound of economic activity in 2010 world trade expanded by +12.8% last year and is expected to expand by +7.5% this year and by +5.8% in 2012.

Since the ifo indicator for the world economy climate – which is the average of two indicators assessing the current economic situation as well as the economic expectations by the end of the next 6 months – peaked at 113.6 in the third quarter of 2007, this number fell continuously to a new record low of 50.7 in the first quarter of 2009. However, since then the indicator saw a strong and steady increase to 107.7 in the second quarter of 2011. But In the third quarter of 2011 the indicator fell significantly as a result of both a weaker economic situation and weaker expectations.

The global textile and apparel industry has been hit very hard by the global financial and economic crisis. This becomes evident by looking at import and export figures for apparel and clothing.

While imports reached a monthly average of USD 30 billion in 2008, this number fell to USD 27 billion in 2009 and USD 26 billion in 2010.

Global Apparel & Clothing Exports & Imports

Source: Wendler Marketing formation

Looking at the individual months since January 2009 the scale and scope of the global economic crisis becomes even more visible. In May 2009 imports of apparel and clothing amounted to only USD 21.5 billion. The accelerated pick-up of imports in the next two months to almost USD 32 billion shows again the strength and speed of the recovery.

Nevertheless, since then imports dropped again and are in 2010 – on a monthly average – below the 2009 and certainly below pre-crisis levels.
ITMF's State of Trade Report (STR), in which data of yarn and fabric production in major textile producing countries is published on a quarterly basis, confirmed the general

The strong rebound in global yarn and fabric production was mainly driven by Asia in general and China in particular.

downward and the v-shape recovery since the second quarter of 2009. The strong rebound in global yarn and fabric production was mainly driven by Asia in general and China in particular.

Since the global financial and economic crisis in 2008/2009 the global textile industry has undergone very difficult times. After the worst global recession since the Great Depression in the 30s of the last century the global economy experienced a remarkable recovery.

The recovery was fueled by continued strong demand in emerging countries like China or India and an upswing in demand from the recession-hit industrialized countries like the US or Europe. An important role played certainly also by the restocking of the entire textile value chain which was depleted as result of the recession.

The speedy and strong recovery from such a recession was only possible through strong expansionary monetary and fiscal policies around the world. Loose monetary policies and countless stimuli programs helped to prevent a second Great Depression. Nevertheless, the side effects of these policies were creating new challenges. One major consequence was the surge of commodity prices in general and cotton in particular. According to the International Monetary Fund (IMF), cotton was the single most volatile commodity in 2010.

From a long-term average of around USD 0.60/lb. cotton prices were soaring until March 2011 to unknown highs of approx. USD 2.40/lb, only to fall back to approx. USD 0.90/lb. in September 2011.

What were the reasons for such a development? There are long- and short-term reasons for this development. The main long-term reason was the unsatisfactory price level of cotton in the past decade. As a consequence farmers in many countries switched from cotton to food and/or ethanol crops. On the demand side also stronger than expected demand for cotton textiles after the recession, especially from emerging countries, contributed to this development. As a result global cotton stocks fell to new lows. Higher energy costs and the depreciation of the US Dollar also contributed to rising cotton prices. In addition speculative money found its way into the cotton market. Finally, psychology also played an important role.

Before this background it did not need much to make cotton prices soar. Some short-term reasons fueled this unprecedented cotton rally. In July/August of 2010 floods in Pakistan had a negative effect on the outlook of cotton production. Then in September/October the Indian government limited cotton exports from India. In October/November also the cotton crop in China was downgraded. These negative news from the supply side were followed by rising global demand to cover cotton requirements.

In the short-term it was not possible to increase sufficiently the production of polyester – to a certain extent a substitute for cotton. Consequently also polyester prices started rising albeit not as fast and strong as those of cotton.

What were the reasons that man-made fibers in general and polyester in particular were not able to replace cotton? The answer is simply that cotton is almost 2 times larger than polyester staple fiber production, 3 times larger than polyester staple fiber production for spinning, 8 times larger than cellulosic's production and 10 times larger than acrylics production.

The time to increase polyester staple production in a meaningful way is about one year. To set up a new PTA plant takes at least 3 years and requires time. Investments further upstream require even more time and capital. On the other hand, cotton could only be substituted to a limited extent. Fabric and dyeing/finishing technologies were attuned to specific fiber types. When cotton prices started falling, the consumers and therefore the retailers reacted quickly. There were enough stocks in the pipeline to meet weakening demand. Fierce competition between retailers and the negative economic outlook pushed fiber prices down quickly.

Theoretical Pass-through Analysis of Cotton Prices

In this context it is interesting to know how much soaring cotton prices really have an impact on retail prices of apparel. A theoretical pass-through analysis of cotton prices was conducted by Mr. Jon Devine, economist at Cotton Incorporated, and Mr. Alejandro Plastina, economist at the ICAC. They took 4 typical apparel products – T-shirt, polo shirt, woven shirt and a pair of jeans – and calculated how much an average increase of 0.85 US cents/lb. has on the final retail price (the average increase of cotton prices in the season 2010/2011 compared to 2009/2010 was 0.85 US cents/lb).

Based on the required amount of cotton in all these products (T-shirt: 0.41 lbs.; polo shirt: 0.54 lbs.; woven shirt: 0.50 lbs. and pair of jeans: 1.92 lbs) the theoretical price increases would have been 0.35 US cents for an T-shirt, 0.46 US cents for a polo shirt, 0.43 Us cents for a woven shirt and 1.63 US dollars for a pair of jeans. Based on the average retail prices for these products the price increases would have been between 1.8% for a T-shirt and 4.5% for a pair of jeans.

Devine/Plastina then had a look at how prices in the textile value chain – from fiber to retail – actually changed since 2010. A relative good correlation over time between changes in cotton prices on the one hand and cotton yarn and fabric prices on the other hand could be observed. This was not the case – or at least with a considerable time lag – between cotton prices on the one hand and garment as well as apparel retail prices on the other. While garment prices started rising slowly during 2010 – after a long period of falling garment prices – apparel retail prices only started moving upward in the second quarter of 2011.