Note

Cotton-Textile and Apparel sector in EAC: Value chain analysis & Trade concerns

A Snapshot

By Elodie Arnell

Summary

Cotton, textile and apparel (CTA) subsectors are globally important and represent one of the main issues for negotiations at the WTO. The CTA sector has potential to improve social, economic and environmental issues which, is an opportunity for the East African Community (EAC) economies. Linking the EAC CTA sector to Global Value Chain (GVC) can be a good opportunity for poverty alleviation especially as EAC partner states have market access preferences on some of the major markets i.e. in the European Union (EU) and in the United States of America (USA). This note presents (1) an overview of the EAC and trade facilitation; (2) a focus on the EAC CTA value chain and (3) the regional SWOT analysis which provides some recommendations.
Overview: EAC Region

Background

The East African Community is a regional inter-governmental organization composed of 6 partner states; Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda. Its partner members’ economic well-being is closely tied to natural resources. The region’s surface is around 1.83 million sq. km with a population approximately about 156 million and a GDP of 147.5 billion USD (World Bank, April 2016). EAC is the world’s fastest reforming region and the second largest single market in Africa. All the members present a stable economic and political environment except Burundi and South Sudan. Since 2015, Burundi faces political instability that led to a recession which hampers the business environment. EAC’s partner States are faced with social issues. Gender inequality is high and poverty is widespread. The number of people living on less than 2$ a day is very high and three quarters of the population lives in rural areas and depends primarily on agriculture for a living. Effectively, agriculture is the main economic sector of the EAC with a labour force of 80% of inhabitants and a 30% contribution to GDP. The Cotton sector has a high significance in the region. It provides income for millions of people living in rural areas and it has potential for improving the quality of life of the people of EAC as well as contributes to the region’s development. Most of agricultural households are smallholder farmers, using crop rotation. In this respect, cotton can grow alternately with other crops such as the basic food and represents a complementary source of revenue since it’s grown purposely for sale. However, agricultural growth is constrained by poor infrastructure, weak institutions, and inadequate technical support for commercialization and supply chain development.

EAC’s Integration

EAC was first established in 1967 and comprised of Kenya, Tanzania and Uganda. It later collapsed in 1977. It was again established in 2000 among the same 3 countries. In 2007, Rwanda and Burundi became part of the EAC with South Sudan acceding in 2016. The integration of EAC has progressed since 2000 becoming a Customs Union (2005), a Common Market (2010), and working towards a Monetary Union. The Customs Union Protocol contains four elements which are: Internal Tariff elimination, non-tariff barriers (NTBs) elimination, Common external trade policy, and Sensitive products. EAC defined NTBs as a “quantitative restrictions and specific limitations that act as obstacles to trade that may be embedded in laws, regulations, practices, and requirements other than tariffs”.

The Common market, is the second stage following the customs union, it includes free movement of goods, services, labour and capital. It supposed to improve the EAC

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2 [http://www.uis.unesco.org/DataCentre/Pages/default.aspx](http://www.uis.unesco.org/DataCentre/Pages/default.aspx)
partner States economic and social conditions.

EAC’s Trade facilitation

According to the United Nations classification, the EAC is consists of 4 least developed countries (LDCs) (Burundi, Rwanda, Tanzania and Uganda) and one non-LDC (Kenya). Some developing countries and LDCs are eligible to benefit from Special and Differential Treatment under preferential acts such as: the African Growth and Opportunity Act (AGOA) and the Everything But Arms (EBA) initiatives.

EAC-USA: “African Growth and Opportunity Act”

AGOA is a preferential act that gives eligible countries duty-free and quota-free access to the US market in certain products including apparel. Burundi was the last partner states to be AGOA eligible but is not eligible for the Apparel provision. Since its implementation in 2000, bilateral trade has increased but not significantly (Figure 1). The benefits of AGOA are mitigated in some partner states and affect this trade’s development in the region. Uganda, Tanzania and Burundi have seen their exports to the US decline while those of Rwanda and Kenya have increased.

EAC-EU: “Everything But Arms”

Since Kenya is a non-LDC, the country is not eligible for the EBA initiative. The EU supports the EAC’s regional integration and is in line with their customs union protocol. It promotes the banishment of unjustified or discriminatory restrictions on imports and exports, which contribute to the EAC’s efforts to eradicate NTBs in intra-EAC trade. EBA grants full duty-free access to the EU for LDC exports, except arms and ammunitions. But, the bilateral trade between both regions has not sustained any real improvement that can be associated to the EBA’s initiative (Figure 2).

Figure 2. EAC’s exports in the EU

Source: Author’s elaboration based on Eurostat Comext- statistical

CTA Value Chain Analysis

CTA global value chain: overview

Main definition

Global Value Chain (GVC) describes the series of activities, from conception to its end use and beyond, that add value to the products. In this note, it’s used to analyse cotton-textile and apparel commodities’ value chain through the quantitative analysis of inputs and outputs, prices and value added with a policy dimension. The objective is to see how EAC countries are globally integrated and to gain competition from a bottom-up approach to help create jobs and increase the region’s exports.

CTA value chain (VC): mapping

African firms are usually stuck at the bottom of value chain and export primarily raw materials while importing finished goods. The EAC CTA sector allows working from the cotton to apparel sub-sectors (Figure 3) and has a high socio-economic impact. In the EAC, Burundi, Tanzania and Uganda are significant cotton producers but quantities are small on global scale and at the other end of the VC, Kenya and Rwanda are more integrated in fabrics and apparel made-ups. In terms

Figure 3. EAC’s CTA VC and competitive members by segments

Source: Author’s elaboration

http://trade.gov/agoa/eligibility/index.asp
of quantity (Figure 4), cotton production is high especially, in Tanzania and Uganda, but for both countries production is unstable. While Uganda mainly exports her production, domestic consumption in Tanzania is as high as her export. Burundi’s production and consumption is very poor so is Kenya’s production. Kenya’s cotton consumption is higher than its production because the country has better finished goods production infrastructure and specializes in apparel and made-ups production. EAC countries are not self-sufficient along the value chain. Each country is part of the cotton production except Rwanda. Effectively, Rwanda is not competitive in producing quality cotton due to its soil and climate. The country has decided to import from neighbouring countries such as Burundi to develop her textile sector with her two manufacturing company: UTEXRWA which products for the local market but fails in meeting the domestic demand and C&H Garments Ltd, a Chinese company which products manufacturing only for exports since 2014. Meanwhile, Rwanda is Burundi’s main customer in “Cotton, carded or combed”, but in terms of quantity production remains low and so is the yield.

Figure 4. Production and Consumption of Cotton supply, 2007-2015, in 1000 MT

According to the customer-supplier matrix (Figure 5) Trade between EAC Partner states remains a challenge, especially for Burundi and Rwanda. Burundi is the only country that does not fully take advantage of the EAC regional integration in the CTA production. Kenya, Tanzania and Uganda are the main participants in this value chain because they first begun their cooperation as early as 1917, and Burundi and Rwanda became full members of the EAC only recently, in 2007.

EAC’s share in international trade:

In 2014, Burundi, Kenya, Rwanda, Tanzania and Uganda experienced an external deficit in their merchandise trade balance (UNCTAD stats, 2016). Regarding the economy attractiveness as the Africa Region is dynamic and rich in natural resources, it is very attractive for foreign direct investment (FDI) (Table 2). Indeed FDI inflows have increase in 2008 with the global financial crisis only in developing countries and then a slowdown in 2009 for Burundi and Uganda. Burundi takes a non significance increase in inwards FDI between 2008 and 2013 whereas the other members saw their attractiveness increase. Some countries attract more FDI than others; and EAC countries are not the main beneficiaries. Nevertheless, despite the world economic instability and the politic uncertainty of 2012, FDI increased since 2013 even in Burundi (7 million USD in 2013 and 32 million USD in 2014).

Table 2. FDI inflows, 2008-2014

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BI</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>KE</td>
<td>96</td>
<td>115</td>
<td>178</td>
<td>335</td>
<td>259</td>
<td>505</td>
<td>989</td>
</tr>
<tr>
<td>RW</td>
<td>102</td>
<td>119</td>
<td>251</td>
<td>119</td>
<td>255</td>
<td>258</td>
<td>268</td>
</tr>
<tr>
<td>TZ</td>
<td>729</td>
<td>842</td>
<td>544</td>
<td>894</td>
<td>1205</td>
<td>1096</td>
<td>1147</td>
</tr>
<tr>
<td>UG</td>
<td>1383</td>
<td>953</td>
<td>1813</td>
<td>1229</td>
<td>1800</td>
<td>2131</td>
<td>2142</td>
</tr>
</tbody>
</table>

Source: UNCTAD stat, 2016

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9 http://www.eac.int/about/EAC

Investments in infrastructure and in raw material exploitation (cotton field) have to be done throughout the value chain in order to improve the CTA sector and to allow the partner states to be more competitive. Effectively, EAC partner states are each more competitive in a segment of the value chain, but thorough analyses show that only Uganda is competitive at the international level (2nd in "Cotton carded or combed" exports with a share of 8.7% in world exports, Table.3). Burundi, Kenya and Tanzania share in their more exported cotton’s product in the world is zero and Rwanda very marginal (0.2% in world exports).

Table 3. Most exported product and their share in world export by countries, 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Most exported product</th>
<th>Exported value 2015, USD million</th>
<th>Share in world export (%)</th>
<th>Ranking in world exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>BI</td>
<td>Cotton, carded or combed</td>
<td>57</td>
<td>0</td>
<td>55</td>
</tr>
<tr>
<td>KE</td>
<td>Woven cotton fabrics</td>
<td>924</td>
<td>0</td>
<td>74</td>
</tr>
<tr>
<td>RW</td>
<td>Woven cotton fabrics</td>
<td>5</td>
<td>0.2</td>
<td>122</td>
</tr>
<tr>
<td>TZ</td>
<td>Cotton, not carded or combed</td>
<td>17,200</td>
<td>0</td>
<td>32</td>
</tr>
<tr>
<td>UG</td>
<td>Cotton, carded or combed</td>
<td>19,073</td>
<td>8.7</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Trademap, 2016

The unsteady production and subsidies lead to significant price fluctuation as well as a dependence of imported garments. EAC’s partner states face high competition from global textile manufacturers. Subsidies to the cotton sector worldwide including direct support to the production increased during 2014/15 period compared to the previous period (ICAC, 2015). There is a negative correlation between subsidies and cotton prices (Figure.6). Indeed, the inland subsidies distort the mechanism of trade and depress prices. At the global level, “the Cotlook A Index declined from an average of 91 cents per pound in 2013/14 to an average of 71 cent per pound in 2014/15, and subsidies provided to cotton growers increased” (ICAC, 2015).

Export subsidies and domestic support for cotton disrupt the international cotton market and have severe socio-economic impacts on African cotton producing countries, especially on LDCs. It affects mainly four of the EAC partner states; Burundi, Rwanda, Tanzania and Uganda. Moreover, the trend in world cotton prices during the recent years was highly unfavourable for Africans cotton producers and exporters.

Figure 6. Direct assistance to cotton and prices

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Figure 6. Direct assistance to cotton and prices

The regional SWOT analysis (Figure.7) points various weaknesses and threats throughout the CTA sector. The main challenges being:

1) Subsidies are a big threat to take into account and within the World Trade Organization (WTO), it is one of the most contentious issues. Concerning the most recent development within the WTO, the “Nairobi Package” as adopted during the WTO’s Tenth Ministerial Conference in Nairobi (Kenya), in December 2015 includes a decision regarding cotton which “prohibits export subsidies and calls for a further reduction in domestic support. It also calls for improvements to market access for LDCs. The decision aims to level the playing field for cotton exporters in the poorest countries, where the cotton sector is of vital importance to economies.” The implementation of such an agreement will help EACs countries become more active in international trade.


12 https://www.wto.org/english/tratop_e/minist_e/mc10_e/briefing_notes_e/brief_cotton_e.htm
funding for cooperatives and ginners.

] More than ¾ of water use in the EAC region is intended for agricultural use and the remaining ¼ is shared between domestic and industrial use. EAC members suffer from a lack of access to energy which affects the CTA sector. However, Kenya, Tanzania and Uganda bordering the Lake Victoria fuel their economies with hydropower and Burundi and Rwanda benefit from it as well. The Basin houses around a third of the total population of East Africa and 50% of them live in poverty. The environmental degradation affects livelihoods, food security and employment. The Lake Victoria Environment Management Program was established 10 years ago by the EAC to tackle those challenges.

Figure 7. Regional SWOT analysis

Source: Author’s elaboration

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
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<tbody>
<tr>
<td>- Contribution to poverty alleviation</td>
<td>- Poor infrastructure (transport, energy and telecommunications)</td>
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<tr>
<td>- Improvement of food security</td>
<td>- Unstable production (irregular quantity and quality)</td>
</tr>
<tr>
<td>- Intrinsic quality advantage because it is hand picked</td>
<td>- Low cotton yield at farm level</td>
</tr>
<tr>
<td>- Climate and soil conditions support cotton growing (except for Rwanda)</td>
<td>- Poor agronomic practices</td>
</tr>
<tr>
<td>- Authorities are focusing on the growth of the sector</td>
<td>- Low quality chemicals</td>
</tr>
<tr>
<td>- Development of regional strategies, including the African Cotton Association which is building a new business plan</td>
<td>- Low input-low output</td>
</tr>
<tr>
<td>- Market access preferences = strength for CTA product exports</td>
<td>- Lack of investment capital by smallholders farmers</td>
</tr>
<tr>
<td>- Potential to produce more with better agronomic practices</td>
<td>- Ginning over capacity and low ginning outturn ratio</td>
</tr>
<tr>
<td>- High production assistance for EAC partner states unable to support their cotton industry</td>
<td>- Lack of empowered from ginning companies</td>
</tr>
<tr>
<td>- Investment opportunities in: yarn production, production of fabrics &amp; apparel, investment components</td>
<td>- Lack of latest machinery</td>
</tr>
<tr>
<td>- Building of local capacities</td>
<td>- Limited fabric and apparel manufacturing</td>
</tr>
<tr>
<td>- Important sources of foreign exchanges earnings</td>
<td>- Weak supply chain linkages</td>
</tr>
<tr>
<td>- EAC partner states by specializing in areas where they are competitive will strengthen the regional integration and will increase regional exchange</td>
<td>- Country specific inefficiencies along the value chain</td>
</tr>
<tr>
<td>- Recent decisions from the tenth ministerial conference in Nairobi</td>
<td>- Poor efficiency</td>
</tr>
<tr>
<td>- Unfair infrastructure (transport, energy and telecommunications)</td>
<td>- High maintenance and business cost</td>
</tr>
<tr>
<td>- Unstable production (irregular quantity and quality)</td>
<td>- Under developed domestic market</td>
</tr>
<tr>
<td>- Low cotton yield at farm level</td>
<td>- Lack of skill development and training programs</td>
</tr>
<tr>
<td>- Poor agronomic practices</td>
<td>- 85% of cotton production is export in lint form =&gt; Limited value-addition in terms of manufacturing of finished goods/garments</td>
</tr>
<tr>
<td>- Low quality chemicals</td>
<td>- Domestic subsidies affect trade, reduce prices (Cotton index), shrinking partner states export markets thus their revenue declines</td>
</tr>
<tr>
<td>- Low input-low output</td>
<td>- Trade restrictions have a negative impact on world prices</td>
</tr>
<tr>
<td>- Lack of investment capital by smallholders farmers</td>
<td>- Largest collection of duties on textiles by developing countries</td>
</tr>
<tr>
<td>- Ginning over capacity and low ginning outturn ratio</td>
<td>- Dependence on imported garments because of the underdeveloped sub-sector</td>
</tr>
<tr>
<td>- Lack of empowered from ginning companies</td>
<td>- Competition from global textile manufacturers</td>
</tr>
<tr>
<td>- Limited fabric and apparel manufacturing</td>
<td>- Market access preferences (strength for CTA product exports) can be a threat to the lower and middle level of the CTA VC</td>
</tr>
</tbody>
</table>


USAID (2014), Strengthening the Cotton, Textile and Apparel Value Chain in East Africa: An Assessment draft,Trade Hub, August 2014


### Online resources:

- East African Community: http://www.eac.int/
- Food and Agriculture Organization - statistic: http://faostat.fao.org/
- Food and Agriculture Organization: http://faostat.fao.org/site
- International Cotton Advisory Committee: https://icac.generation10.net/index/index
- ITC, Trade Map: http://www.trademap.org/
- Nairobi package, December 2015: https://www.wto.org/french/thewto_f/minist_f/mc10_f/981_1.htm
- Tanzania chamber of commerce, industry and agriculture: http://www.tccia.com/tccia/index.php
- Trade preference program, USA department of commerce, international trade administration: http://web.ita.doc.gov/tacg/eamain.nsf/d511529a12d016de852
- 573930057380b/51db5734b1807a8852573940047e9167/Open Document
- UN Comtrade Database : http://comtrade.un.org/
- EAC’s Trade Helpdesk: http://tradehelpdesk.eac.int/trade/result
- ITC, Guide de l’exportateur de coton: http://www.guidedecoton.org

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**Bibliography**
CUTS International, Geneva

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The PACT EAC2 project builds capacities of East African stakeholders for climate-aware, trade-driven and food security-enhancing agro-processing in their region. Web: www.cuts-geneva.org/pactea2

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