Technical Report

Uganda Private Sector Trade Policy Capacity Building Project

AGOA Textile and Garments—What Future for Uganda's Exports?

SUBMITTED TO
USAID/Uganda

SUBMITTED BY
Nathan–MSI Group

IN RESPONSE TO
OUT-PCE-I-807-98-00016

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Introduction

Two textile consultants visited Uganda from May 28 through June 6, 2001, under the aegis of USAID/Uganda's Private Sector Trade Policy Capacity Building Project with Nathan Associates and the Private Sector Foundation.[1] The team comprised Lynn Salinger, a textile economist who has evaluated the competitiveness of textile and clothing industries in Mali, Morocco, South Africa, and Vietnam, and Alan Greenwood, a textile industry engineer and marketing expert who has led marketing strategies for textile mills in South Africa.

The team's work followed an initial cross-commodity survey of Uganda's AGOA prospects conducted by Ms. Shawna Turner in October/November 2000. The team also coordinated with other USAID-supported activities improving competitiveness (COMPETE project) and addressing financial sector constraints (SPEED project) in key agricultural and agro-industrial sectors.

During their ten days in Uganda, the authors interviewed representatives of diverse sampling of Ugandan textile and apparel firms that might benefit from AGOA. Ugandan export prospects were considered both in terms of direct supply to the United States and in terms of regional supply to the sub-Saharan market for yarns and fabrics. Investment requirements on behalf of continuous processing plants (spinning, weaving/knitting) in Uganda were also evaluated.

Salinger and Greenwood were greatly assisted by the Private Sector Trade Policy Capacity Building project's Ugandan director, Mr. Nimrod Waniala, and Mr. Valentine Ogwang of the Ugandan Investment Authority. The authors wish to thank everyone who allowed them into their companies and shared detailed operational data with them. In addition, the authors thank the Ugandan Ministry of Tourism, Trade, and Industry, whose senior minister, the Hon. Prof. Edward B. Rugumayo, hosted them at a wrap-up seminar on June 6 in Kampala. This report summarizes the team's findings, which were presented and discussed with Ugandan stakeholders at that seminar.

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[1] Lynn Salinger is a Senior Economist with Associates for International Resources and Development (AIRD), Cambridge, Massachusetts (lsalinger@aird.com). Alan Greenwood is a textile engineer and marketing specialist and a consultant to AIRD (wood@mweb.co.za). AIRD is a member of the Nathan-MSI Group under the SEGIR/General Business, Trade, and Investment IQC with USAID.

Textile and Clothing Exports under AGOA—Opportunities and Limitations

The African Growth and Opportunity Act offers sub-Saharan exporters of apparel to the United States an average 17.5 percent duty advantage, relative to non-African suppliers. In addition, the Act offers duty-free access to the U.S. market for hand-loomed, handcrafted, and folkloric articles, as well as another 1,835 non-textile products not previously included under the Generalized System of Preferences. This report focuses on the apparel benefit and its potential impact on Ugandan textile and clothing firms.

There are several requirements that African countries must meet in order to qualify for AGOA. Countries with economic and political policies in place that promote open markets and political systems, implement policies to reduce poverty, make efforts to fight corruption, protect human rights and the rights of workers, and eliminate child labor practices are eligible for AGOA benefits. Uganda has already qualified for such eligibility, given its strong reform record. The second requirement is implementation of a certificate of origin customs visa subject to approval by the U.S. Government, necessary to prevent illegal transshipment from non-AGOA sources.[2] Finally, countries must agree to make their industries open and available to U.S. Customs Service inspection teams, while individual firms must maintain records of raw materials, employment, production equipment, and sales for five years after export for review by the U.S. Customs officials.

Once a country meets these conditions, AGOA offers duty-free access to the U.S. market for African apparel items made of fabric and yarns originating either in the United States or in eligible sub-Saharan African countries. In addition, for the continent's poorest members, including Uganda, third-country raw material sources are allowable until September 30, 2004. This latter provision is important, for it allows Uganda to "jump-start" its garment make-up sector into exports, using fabric which can be imported from leading suppliers around the world. At the same time, it sets a deadline by which time African fiber, yarn, and fabric (or U.S.-sourced raw materials) must be used in the garment industries in order to continue to benefit through the life of the treaty, which expires on September 30, 2008.

AGOA does *not* offer duty-free access for non-apparel textile products. Non-clothing textile products presently produced in Uganda, such as blankets, bed linens, handbags and carrying cases, cloth art, and religious accessories, would be taxed upon importation into the United States according to the rates specified in the U.S. Harmonized Tariff System (HTS). Current rates and rates expected in 2004 at the expiry of the Agreement on Textiles and Clothing for some of these products are presented in Table 1.

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[2] Uganda is still revising its proposed visa form in conjunction with feedback received on an earlier draft from the Office of the U.S. Trade Representative. Approval is likely still a month or two away.

Some early experiences with AGOA have been frustrating. In a potential upset to Mauritian exports to the United States and to South African suppliers of yarns into Mauritius, a sample order of lamb's wool sweaters were subject in February 2001 to duty by the Customs Service upon arrival in the U.S. The Customs Service argued that the knit-to-shape panels from which the sweaters were assembled are not "fabric," and thus not eligible for duty-free consideration into the U.S. market. The interpretation was sharply rebuked by the originators of the Act in the U.S. House of Representatives Ways and Means Committee and by the National Retail Federation in the United States.[3]

Table 1. Normal Trade Relations Rates for Non-Apparel Textile Items

HTS category	Product description	Current ad valorem rate	Expected ad valorem rate
42029260	Bags, cases, with outer surface of cotton	6.6	6.3
61171020	Shawls, scarves, of man-made fibers	11.5	11.3
62143000	Shawls, scarves, of synthetic fibers	5.3	5.3
62149000	Shawls, scarves of fibers not elsewhere specified (incl. cotton)	11.3	11.3
63014000	Blankets, of synthetic fibers	9.8	8.5
63022130	Bed linens, of cotton, printed, containing trimmings, napped	15.5	11.9
63022150	Bed linens, of cotton, printed, containing trimmings, n/napped	21.8	20.9
63022170	Bed linens, of cotton, printed, not containing trimmings, napped	4.0	2.5
63022190	Bed linens, of cotton, printed, not containing trimmings, n/napped	7.0	6.7
63041905	Bedspreads, not knitted or crocheted, of cotton, containing trimmings	12.5	12.0
94049010	Pillows, of cotton	5.5	5.3
94049020	Pillows, other than of cotton	6.0	6.0

Source: U.S. International Trade Commission database

Although there is no limit on the export volume of garments assembled in beneficiary African countries from fabrics wholly formed and cut in the United States, the volume of duty-free African apparel exports to the United States made of fabric sourced from regional (African) or world markets is subject to quantitative limitation. From October 2000 through September 2001, this cap is equal to 1.5 percent of the aggregate square meter equivalents of all apparel articles imported into the United States in the previous year. This is to be filled on a "first come, first served" basis from all eligible African countries. Based on total apparel imports in 2000 of 16,430 million square meters equivalent (SME), the cap for the first year's period is set at 246.5 million SME. It is scaled upward every year, according to the implementation schedule outlined in Table 2, until 2007/08 when it will be calculated as 3.5 percent of the previous year's volume of imports. Exporters may track cumulative fill rates at the Department of Commerce's web site, which is updated monthly.[4]

[3] "African clothes not duty-free in U.S.," *Business Day.* Also, House Committee on Ways And Means press release, March 6, 2001, http://waysandmeans.house.gov/press/press3-6-01.htm.

[4] http://otexa.ita.doc.gov/agoa-cbtpa/agoa-cbtpa.htm

Table 2. AGOA Apparel Imports Cap

Period	Cap Definition (%)
October 1, 2000 – September 30, 2001	1.50
October 1, 2001 – September 30, 2002	1.78
October 1, 2002 – September 30, 2003	2.06
October 1, 2003 – September 30, 2004	2.34
October 1, 2004 – September 30, 2005	2.62
October 1, 2005 – September 30, 2006	2.90
October 1, 2006 – September 30, 2007	3.18
October 1, 2007 – September 30, 2008	3.50

Source: USTR (2001), pp. 54-55

While the cap may at first glance seem quite low, Africa's apparel exports to the United States were an extremely small portion of total apparel imports in 2000 (0.6 percent, see Table 3). Thus the cap actually offers substantial growth potential from current levels.

Table 3. U.S. Apparel Imports, 2000

Partner	*Million M2*	% of Total
World	32,865	100.0
NAFTA (Mexico, Canada)	7,951	24.2
China, Hong Kong, Korea, Taiwan	5,886	17.9
Pakistan, India, Bangladesh	4,376	13.3
ASEAN	4,228	12.9
Caribbean	3,788	11.5
EU-15	1,863	5.7
Sub-Saharan Africa	187	0.6

Source: U.S. Department of Commerce, Office of Textiles and Apparel

Results of AGOA'S First Year

As of May 2001, 35 African countries have been declared eligible for AGOA benefits. Of these, five countries have had their certificate of origin visa systems approved. These include Kenya, Lesotho, Madagascar, Mauritius, and South Africa. Eight additional countries are awaiting such approval, including Uganda.

In 2000, exports of African apparel to the United States rose by 28 percent (51 percent for knitwear, 16 percent for wovens). While the act was not implemented until October 2000, firms had clearly already begun their marketing processes. The export response was particularly strong from Lesotho, South Africa, and Madagascar. Over 90 percent of African apparel exports to the United States in the twelve-month period through February 2001 came from just six countries: Kenya, Lesotho, Madagascar, Mauritius, South Africa, and Swaziland. Of these volumes, close to 90 percent consisted of just five categories of cotton apparel: men's/boys' knit shirts, women's/ girls' knit blouses, men's/boys' woven shirts, men's/boys' trousers, and women's/girls' slacks.

Table 4. AGOA Apparel Exports to United States

Status of exports, October 2000 – April 2001	
Imported apparel assembled from regional fabric:	
Mauritius	1.047 million SME
South Africa	0.522 million SME
Imported apparel assembled from foreign fabric from lesser developed countries:	
Kenya	3.850 million SME
Madagascar	0.030 million SME

According to the U.S. Department of Commerce's Office of Textiles and Apparel, 5.5 million SME of apparel has been imported from Africa into the United States since October 2000 through April 2001, representing just 2.2% of the 246.5 million SME cap reported above (Table 4). In addition to its exports under AGOA, Mauritius has also exported garments under HTS section 9802, which assesses duty only on the value-added processing of apparel made from U.S.-cut fabric made of U.S. yarn.

In anticipation of AGOA's implementation, regional and international investors began preparing for expansion of Africa's textile and clothing industries. The first annual report on AGOA implementation, newly released by the U.S. Trade Representative's office (USTR 2001), presents a long list of investment projects underway across the region. In Kenya, a Mauritian group will open two production units. Mauritian investments are also flooding into Madagascar (where apparel

exports are expected to reach 10 percent of GDP and provide for the employment of 70,000 workers by 2005), and anticipated in Senegal, along with Malaysian investments. Eleven new factories and four expansions have been proposed in Lesotho, for a total foreign direct investment injection of $122 million and the creation of 10,000 new jobs, equivalent to *four* times the level of official development assistance. European and Taiwanese investments have doubled textile and garment employment in Malawi. Business is booming in Mauritius, to the point that new air travel alliances are being built between Air Mauritius and American air carriers. In South Africa, investments are coming in from Malaysia to the tune of $150 million, and regional trade integration via fabric exports to neighboring countries is also on the rise. In Uganda, Asian and Ugandan investors are refurbishing two textile mills, while a third offers investment opportunities as well.

Status of the Ugandan Textile and Clothing Sector

DIVERSITY OF UGANDA'S TEXTILE AND CLOTHING INDUSTRY

Uganda's textile and clothing industry currently spans a broad range of sizes and capabilities:

- Some firms have been in existence for over thirty years, others are still on the drawing board.
- Some are formerly state-owned companies, bought out during recent privatization efforts, others have always been private, family-run operations.
- On the one end, industrial textile mills with vertically integrated continuous processing from spinning to weaving or knitting exist; on the other end, there are small handicraft cooperatives which hand-spin and hand-weave fabric.
- Most firms specialize either in textiles or in clothing manufacture; however, one firm is integrated all the way through to finished garments and home textile products.
- Among garment manufacturers, most only service the domestic market, of which the largest percentage of manufactured output is for school, military, and work uniforms. These are usually sewn of Ugandan cotton fabric. Other tailoring operations purchase imported fabric from domestic dealers and sew specialty products. A few companies source African-made fabric or trims directly from Kenya, Rwanda, the Congo, or even Mauritius.
- Some companies, in particular those with foreign or Asian-Ugandan partners, have some sense of how international markets are organized and how to go about finding contract opportunities. Others may have sent goods over the borders into neighboring countries, but have never exported or had contact with the international market.

UGANDA'S ASSETS AND CONSTRAINTS

There are many positive assets that define Uganda's textile and clothing sector. The country's agricultural sector produces raw material (cotton lint) of outstanding quality, medium-to-long staple fibers, with good color, low micronaires, and high quality ginning. Private ginneries process some 100,000 bales per year of lint (compared with a peak production years back of 400,000 bales),[5] 90+ percent of which is immediately sold to international markets. Ginneries have existed in Uganda for a long time, and all are now in private hands. Continuous processing also has a long history in Uganda. Most integrated mills were begun just after independence in the mid-1960s. Despite the country's

[5] While a slump in world prices has contributed to depressed domestic production, there are also problems at the farming stage. Poor agricultural practices result in yields of only 200-500 kg. per hectare.

turbulent history and the ensuing effects on its industrial operators, an installed capital equipment base still exists in Uganda. There is ample supply of ready-to-work, inexpensive laborers. Many of the managers of the country's larger textile and garment firms display sound managerial capacity and reasonable technical and marketing skills. Often, this skilled manpower has already been abroad for professional textiles training or has worked overseas for some period of time. Some of these are Asian-Ugandans who were exiled in the 1970s and have since returned to take up where they left off, others are Africans who have been overseas or in neighboring Kenya and gained valuable training there.

On the other hand, it would be naive to paint too rosy a picture or unduly raise expectations. In many instances, the industrial base we saw is outdated and inadequate—sometimes completely so—for producing export-caliber goods. This lack of modern capital greatly hampers labor productivity. The fact that the domestic consumer market is largely comprised of consumers with very low purchasing power means that low-quality production has been acceptable until now. Thus there has been no incentive to invest in more advanced technologies and work processes to produce high-quality goods. As a land-locked country, Uganda clearly bears the brunt of a natural taxation in terms of the additional cost and delays incurred in having to ship overland. Rail and road transport are slow, whether via Mombasa, Dar es Salaam, or Durban. As direct shipping lines do not exist between Mombasa and the United States, containers must be transshipped in Oman before proceeding on to the States. The lack of financial sector depth results in high interest rates and low availability of credit for financing working operations and modernization investments.

A final concern is with respect to market concentration. One firm is trying to become a showcase of modern integrated textile and garment production. Yet by integrating vertically all the way to final products, Nyanza Textiles (formerly NYTIL Picfare) runs the risk of creating excessive market concentration in one company. In essence, the firm will be competing against the rest of its client base for access to the supply of export-quality of fabric it would mill, having to decide whether to supply its own make-up section exclusively with export-quality fabrics or whether to sell such fabrics on to other processors. Unless the garment section is spun off as a separate venture, Nyanza may handicap itself relative to its other garment firm clients in the market, who might look outside Uganda's borders for suitable fabrics.

International Best Practices

In order to assess whether Uganda can restructure its sector to be able to compete, it helps to understand what internationally competitive firms in the textile and clothing industries look like.[6] In particular, one needs to understand how garment manufacture is organized industrially, as well as two important pipeline innovations going on in the United States with respect to lean retailing and short-cycle/mass-customization production strategies.

INDUSTRIAL GARMENT MANUFACTURE

Organizing large-scale manufacture of garments takes careful planning and management of the process of converting fabric into clothing. Clothing companies normally pay attention to throughput volumes (the amount of work that can be completed in a specific amount of time), throughput time (the amount of time it takes for a single unit of a style to go from cutting to shipping), and work in process (the number of garments under production at any given time). Attention must also be paid to flow-through and constraints along the production line, where a myriad of operations are required to convert flat goods into apparel. Production managers normally think in terms of how many "standard allowed minutes" (or hours) it takes for a normal operator to complete one operation using a specified method. These productivity standards allow for more careful planning of production operations, as well as benchmarking operators to make future efficiency improvements. Operations must be scheduled and balanced along the work line in order to avoid bottlenecks.

Production systems commonly used to mass produce apparel in industries around the world include the progressive bundle (as bundles of garment parts are moved sequentially from operation to operation), unit production (automated overhead transportation of garment components from station to station for assembly), and the modular production system (wherein modules or teams of equipment and operators operate as mini-factories). Most of these notions are quite foreign in Ugandan clothing firms. As enlarging production capacity and improving efficiency of complex production operations become progressively more important in Uganda's industries, workforce training in these areas will become critical.

LEAN RETAILING

Modern garment suppliers' operations are tightly linked to the retail sector. Because of the high degree of concentration in the retail sector in the United States, stores exert great power vis-à-vis garment producers. The latter must be able to label, track, and respond to product orders in real time according to style, color, fabric, and size. This is done on the basis of electronic information exchange between retailer and producer. Bar codes on sales tags contain "SKU codes" (stock-

[6] This section borrows heavily from Abernethy et al. (1999) and Glock and Kunz (2000).

keeping units) which are in turn read by computers at the point of sale. These computers track (small) in-store inventories and automatically launch replenishment orders by SKUs to producers. For competitive international suppliers, adoption of these practices is a minimum entry requirement for doing business in the united States. Because "lean" retailers seek to minimize their in-house inventories, garment manufacturers are expected to pick up the slack and hold greater quantities themselves in order to be able to replenish "just-in-time" (within a week). Obviously, a Ugandan firm cannot manage that end of the supply chain itself, but it must be prepared to work with wholesalers and private label suppliers who do operate in that environment.

In modern operations, garment design and patternmaking is computerized. A particular style is worked up using specialized software, which automatically converts into patterns and marker layouts for cutting. Computer-driven cutting systems and die-cutting presses are also common in the most advanced garment manufacturers. Assembly operations, however, still require more human skill to be undertaken properly and thus tend to be less computerized. The size of the firm may vary from several hundred workers in casual garment operations to much smaller enterprises where fashion sewing is concerned.

Uganda's garment firms tend to be quite small, with the exception of Nyanza's make-up department (325 workers in garments make-up) and Phenix Logistics (100 operators plus technical staff, when it opens). Aside from a few groups with 20-40 operators each (e.g., Eladam, Ex-Ken, Kwera, Uganda Brassieres[7]), most Ugandan clothing companies are in the 1-10 person class size.[8] Given order sizes of many tens of thousands of units which are typical into the U.S. market, this raises an important question of whether "jobbers" are (or could become) available locally in Kampala. Jobbers are private individuals or firms acting as market intermediaries, assisting with cash-flow financing, collecting orders, subcontracting them out among smaller scale operations around the city, and then handling export freight logistics. Such packagers also offer an attractive clearinghouse for foreigners seeking to enter the Ugandan business scene. This model has been used quite successfully in Hong Kong, for example, to source garments from throughout East and Southeast Asia. It is likely that someone with international connections could step into the Ugandan market to do the same.

MASS CUSTOMIZATION

Another element in the continuous innovation of industry best practices is with respect to mass customization. Technological applications are being explored in the United States which will allow consumers to custom order garments by fit or design characteristics unique to them. Body image scanning and computerized garment design stations are just two of the techniques being researched

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[7] Another firm, WOMEX (Women in Exports Ltd.) is being planned by the Uganda Women's Entrepreneurs' Association, to be organized on a fairly large scale (50-100 sewing operators).

[8] In the informal sector, sweatshops of 20-50 persons are commonly found, even in downtown Kampala. These house individually employed tailors, who operate in communally rented space and operate their privately owned manual treadle sewing machines. It is not known whether the men and women possessing these sewing skills could be re-organized industrially to allow for large-scale manufacture of garments for export.

that would allow products to be developed efficiently under mass production settings but with unique characteristics and delivered to the consumer's door.

The definition of international best practices with regard to textile mills starts with technology. In the 1970s, a number of innovative technologies emerged, such as open-end spinning and shuttleless looms, which dramatically changed the efficiency of the industry. Open-end spinning boosted the rate of yarn four times over ring-spinning and reduced the number of steps involved in yarn manufacturing from 15 to less than 4.[9] Shuttleless looms that move at rates of over 1,000 picks per minute allowed loom productivity to increase from 8.3 square yards of fabric per loom hour in 1975 to 34.7 square yards per loom hour. A wooden shuttle loom takes 13 minutes to weave the fabric necessary for a man's shirt, while today's air jet loom requires but 3 minutes.

Technology is also important in terms of achieving the right quality of output. Fiber testing, blending, blowing, carding, drawing, combing, spinning, rewinding, warping, slashing, weaving, inspection, and finishing operations each must be controlled so that smooth, homogenous yarn and clean, tight, flawless fabric with good feel and sheen are produced. Innovation and attention to detail at each stage of the process determine the competitiveness of the mill in and of itself.

Because of the lean retailing model described above, linking garment manufacturers to retailers, garment manufacturers in turn are increasingly requiring tight coordination between themselves and their flat-goods suppliers. There is an inherent tension, however, between textile mills and garment producers, in that large minimum order sizes and long lead times are characteristic of the former, while specialized order composition and short supply time requirements are the hallmark of the latter.

One approach for improving pipeline coordination is for retailers to work more directly with textile companies, who control the manufacturing process by developing and manufacturing fabric according to final customer requirements, cut the fabric to garment design specification, and then outsource the final assembly. This shift in pipeline relationships is aided in the United States by customs code provisions which allow "outward processing" in foreign countries, i.e. only assess import duty on the value-added contributed by the foreign make-up firm as long as U.S. yarn/fabric is the raw material source. These are known in the United States as 9802 operations, after the HTS code under which they re-enter the United States.

[9] Open-end spinning yarn is not as smooth and the fibers are not as uniformly twisted as with ring-spinning, leading to a resurgence in industry preference for the latter for finer fabric applications.

Can Uganda's Textile and Clothing Firms Compete?

"Competitiveness" is a term frequently heard among hard working, private sector oriented policy makers in Africa today, and Uganda is no exception. Given current international best practices, can Uganda compete in international markets? In textile milling, there is no cotton cloth being manufactured in Uganda today which meets the standards of the U.S. market. With respect to garments, on the other hand, it is certainly possible that with the right combination, garments could be manufactured here that would meet U.S. customers' specifications.

Competitiveness in the textile and clothing industries, as in most other sectors, is a function of cost, qualitative, and technical factors. Understanding these variables and deciding how to strategically improve them are the great entrepreneurial challenges for stakeholders in this industry in Uganda.[10]

In terms of cost, Uganda's textile and clothing products must clearly meet U.S. market price-points. Unit export costs will be affected to a large extent by labor costs, the prices paid for imported materials (fabric and trims), and the cost of capital to finance operations and investments, each of which is addressed below.

COST AND PRODUCTIVITY OF LABOR

Labor costs, at first glance, seem low in Uganda. Starting pay for unskilled textile and garment workers ranges from $30 (Mbale) to $50-90 (Kampala) per month in Uganda (8-hour shifts, six days per week), depending on location. Work intensity ranges from a few hours per week in garment firms where there are few orders to three shifts per day, seven days per week in the Nyanza Textiles spinning and weaving operations.[11]

However, worker productivity in Uganda is quite low, due to a combination of low starting skills, poor or non-existent training, lack of information on the part of managers of efficiency standards in other parts of the world, ineffective wage incentives (although piece rates are paid in some assembly plants), small-scale of production (particularly for garments), lack of bundling production flow-through, and use of outdated equipment that breaks down frequently or that does not allow for higher through-put.[12]

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[10] For analyses of textile and clothing industry competitiveness elsewhere (South Africa, Mali, Vietnam), see Salinger et al. (1998, 1999), and Salinger (2000, 2001).

[11] Nyanza's garment make-up department works one shift per day, six days per week, and its finishing department works only four days per week.

[12] Low productivity was cited as a constraint to expanding exports from South Africa in Salinger et al. (1998) and more recently by a study team of the U.S. Cotton Board The study found that it took twice as long (22-24 minutes) to make a pair of five-pocket jeans in South Africa as in Asia. See http://www.cottonboard.org/importer/ subsaharan.cfm, which also explores competitiveness of production in Lesotho and Mauritius.

There is no practice of benchmarking worker productivity relative to international standards. Thus, though labor may appear to be a good deal in Uganda, its potential likely pales when compared with labor productivity achieved in textile and garment industries elsewhere around the world.

DUTY-FREE ACCESS TO IMPORTED RAW MATERIALS

For garment manufacturers who will need to import raw materials in the short run until Uganda's textile mills produce acceptable export-quality fabrics, duty-free access to imported fabric is essential. No export-oriented clothing industry anywhere in the world expects its firms to pay duty on imported raw materials and still compete internationally. Countries usually employ some combination of duty drawbacks or exemptions, bonded warehouses, or physical siting of plants in export processing zones in order to accommodate such access, should normal rates of protection be high in the domestic market (Radelet 1999).

In Uganda, we heard of import duty rates varying from 7 percent on imported greige (not dyed nor printed) fabric to 35 percent on imported finished fabric for products destined for the local market. Trims and findings imported from within COMESA are dutied at 6 percent, while the same sourced from Asia is assessed at a rate of 17 percent. However, firms manufacturing for export from Uganda are allowed to import their raw materials either under a bonded warehouse or bonded factory scheme, or with a duty rebate returned ex-poste. Most firms indicate that the rebate system works well, albeit with 30-60 day delays. One firm indicated that it is having difficulty procuring a bonded factory license from the Uganda Revenue Authority. The latter is said to be waiting for Uganda's AGOA approval before issuing the license.

IMPACT OF SECOND-HAND CLOTHING IMPORTS

Some concern has been expressed that the second-hand clothing market in Uganda is hurting the country's export prospects. In fact, the two are not related, and imports of used clothing should be of no concern to companies preparing for the U.S. market.

The second-hand clothing market exists because average Ugandan consumers have extremely low purchasing power. They prefer to buy already worn garments priced in the local market at a significant discount, rather than pay a premium for new clothing. As long as Uganda's garment producers only had the domestic market to supply, this was clearly of concern to them. The domestic market for locally produced clothing has shrunk to the point where it only supplies the local market for uniforms, including school wear, military uniforms, and work wear.

However, demand and supply forces for second-hand clothing in Uganda have *nothing* to do with producing for the export market, where global demand is infinite, from Uganda's perspective. The products and their markets are completely separate, and thus this should not pose a policy issue with respect to AGOA strategizing. The local market is likely to be lively for factory seconds of export quality production.

COST OF FINANCING

Financing also promises to pose severe challenges for textile mills and garment exporters. On the textile side, there is a lack of market intermediary to cover storage costs in the upstream pipeline,

between ginneries and mills. As the seed cotton is harvested, it must be ginned in a timely fashion or risk lint quality. By the end of the ginning season, which runs from November to April, gins need to sell all their output in order to cover their up-front purchasing costs. The world market provides a ready and willing buyer.

In order to compete for some of the domestic supply before it is exported, Ugandan textile mills must be prepared to buy and store six to eight months of cotton lint requirements. From the time the bales are opened in the blow room at the beginning of the milling process, it supposedly takes 45 days for receipt of payment for the fabric that will ultimately be milled from it. In case cash flow is tight, and six to eight months of bales cannot all be procured up front, the alternative is to buy bales from nearby Tanzania, which comes on to the regional market at other times during the year. Tanzanian cotton imported into Uganda is more costly and, because of less favorable growing conditions, is a lesser quality raw material. Ugandan mills have to blend much more carefully under those conditions in order to assure some homogeneity of final product.

On the garment side, the cash-flow problems loom even larger. Most firms find it onerous to buy imported raw materials out of own-cash, and would prefer to borrow against letters of credit (LCs) supplied by the foreign customer. However, letters of credit are likely to be difficult to arrange for new entrants onto the U.S. supply scene. Firms can receive 60-90 percent on an LC to cover operating expenses, but the terms are risky. If the loan is borrowed in dollars, the interest rate is 6 percent, with significant foreign exchange risk.[13] If the loan is for Ugandan shillings, interest rates may be as high as 20-27 percent (compared with inflation of just 5-6 percent).[14] In addition to such exposure upstream, exporters will have to wait in all likelihood 75 to 90 days before receiving payment from U.S. clients, just accounting for long delivery times between ex-factory and New York City (six weeks minimum, probably[15]) and normal 30-45 day payment terms by U.S. firms, before taking into account bank clearing delays once the U.S. dollar payment is received in-country.

Such tightness in the capital market obviously makes large investments in rehabilitation of factory equipment difficult to finance. In addition to the $1.8 million already spent in rehabilitation out of own resources by African Textile Mills, foreign partners are currently sought for $4 million via joint venture, preferential partnering, or loan guarantee in order to launch significant renovation and new purchasing. The country's other two large plants, Nyanza Textiles (Jinja) and Phenix Logistics (Kampala, formerly UGIL) have already attracted significant capital to upgrade facilities and expand capacity. The former is now run by an Asian industrial group, while the latter has benefited from private Japanese and Singaporean support.

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[13] Exchange rate fluctuation has been a problem in Uganda, especially more recently since the coffee market bust and ensuing terms of trade difficulties.

[14] High real rates of interest are said to be due to a combination of 1) tight monetary policy being pursued by central bank authorities in order to control overheating of the economy during the previous coffee boom and with foreign capital rushing in for a wide range of agricultural, industrial, and service sector projects and 2) underdevelopment of investment lending by excessively risk-averse Ugandan private banks who can earn a better, less risky return from high-yielding Treasury bills (GOU 2001).

[15] One estimate given was 4-5 days to get to Mombasa, a week sitting in port, 4 weeks to sail to New York, and 3 days to clear through the New York Port Authority.

Investments in new production capacity are presently being contemplated by a number of groups. The group Industrial Promotion Services (under the auspices of the Aga Khan Foundation), which owns and runs Uganda Fishnets, is contemplating investments to introduce garment manufacture alongside its fishnet manufacturing line. Megha Industries, a Ugandan firm which produces foam mattresses for local and regional customers, would like to expand into apparel for export. The garment company Ex-Ken is looking to expand present capacity. And members of the Uganda Women's Entrepreneurs Association who are already producing garments for the local market are contemplating setting up a new garment company, Women in Exports (U) Ltd., or WOMEX, to supply the U.S. market.

PRICING GOODS FOR EXPORTS

Many firms with which we spoke indicated that they are unsure how to price their goods for export. There are two approaches that should be used. One is to work back from U.S. price points, accounting for all margins, and deriving an equivalent ex-factory price. The other is to build up a selling price from known costs.

For the former method, the producer should undertake some market research to know what the expected U.S. retail price will be for the garment s/he exports. Retail mark-ups on wholesale prices range from 50-100 percent. Between CIF and wholesale are costs of clearing agent, U.S. representative or agent, storage, and transport. These will likely take 10 percent on top of the landed (CIF) price in New York (or other port of entry).

Price quotes for bringing a 20-foot container, which holds 6 tons of clothing (equivalent to about 18,000 shirts), by road or rail to Mombasa and cleared through the port, ranged from $800 (quoted by the Uganda Clearing and Forwarding Agents Association) to $2300 (quoted by private importers bringing goods in through Mombasa to Kampala). There are trains to Mombasa two or three times per week. The rail is considered somewhat more secure than truck traffic. On the other hand, rail wagons are not always available and a minimum of 24 tons is charged.[16] Dar es Salaam may be a less expensive and less congested port alternative to Mombasa (about $100 less per container). Others have suggested that rail to Dar es Salaam and on to Durban is another interesting proposition.

Alternatively, if the garments being produced are of sufficiently high value, they could possibly be sent out by air. There are no direct flights between Entebbe and the United States. However, Egypt Air has shipped some fish to New York via Cairo. The Ugandan air freight carrier DAS has six flights per week, via Europe. Official air freight rates set by IATA are in the range of $7-11 per kilogram. However, it is possible to negotiate better rates. Entebbe-Europe can presently be had for $1.50 per kilogram. With much smaller volumes to the United States, it was guesstimated that $3.00 per kilogram might be a reasonable rate. At three shirts per kilogram, that would add $1.00 to the cost of each shirt (versus 25 cents per shirt by road/sea, per above). While the cost is obviously significantly higher, transshipment time would presumably be cut to one week, rather than six by sea.

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[16] Maersk/SeaLand in Kampala recommends shipping by road to Mombasa, and for a 6-ton, 20-foot container going by road from Kampala to Mombasa quotes costs of $1350 for overland freight, $40 for bill of lading, $70 for terminal handling charge, $125 for "bank adjustment factor" (fuel factor), and $2515 for basic sea freight charge from Mombasa to New York. This means a total shipping fee of $4100 for 6 tons, equivalent to 18,000 shirts, or a per-shirt cost of about $0.25. This includes all clearing costs in Mombasa.

Table 5. Reference Price of a Men's Shirt

Reference Price Estimate		
U.S. retail price	$35.00	
U.S. wholesale price	$17.50	50% of retail price
U.S. CIF price, New York	$15.90	90% of wholesale price
FOB price, ex-factory Kampala	$15.65	See footnote 16

Thus, the ceiling price, ex-factory, for a $35 pair of trousers being sold in the U.S. retail, would be $15.65/unit. This is the maximum which the exporter could charge the client, given the intervening margins and the price-point faced in the U.S market.

As a cross-check, the manufacturer also needs to know how to accurately cost his/her production. The cost-price of a garment should incorporate the cost of

- Materials (fabric, thread, trims),
- Wage compensation (inclusive of benefits, if any),
- Overhead (rent, utilities, finance charges, equipment depreciation, representation and advertising, research),
- Transportation (to port and overseas), and
- Profit (covering some return to ownership).

Clearly, in order for an order to be profitable, the unit cost-price of a garment ex-factory must be less than its international reference price equivalent.

QUALITATIVE FACTORS AFFECTING COMPETITIVENESS

Besides cost, other factors influence a firm's ability to sell goods overseas competitively with foreign suppliers. Upstream, the firm must be able to ensure high quality of the raw material. This may be done via partnerships or strategic contracting with suppliers, such as are undertaken by Uganda's textile mills with partner ginneries in order to ensure adequate domestic supply of lint.

Inside the manufacturing process, firms are hampered by persistent erratic electricity supply. In Kampala, the supply appears to be better, although quick outages were observed during visits to small-scale producers. However, during the week of May 28 in Mbale, the African Textile Mill observed on Thursday morning that the power had been out all of Monday, half of Tuesday, and was wildly fluctuating on Wednesday. Business is completely interrupted by such outages. When power is resumed, the electricity board charges the factory for spikes in demand which, of course, would not occur were it not for the outages in the first place.

It will be critical that Ugandan firms manage the logistics of production and shipping as efficiently as possible. This means, for instance, that Ugandan partners must be continuously responsive in their telecommunications with the U.S. American partners, or international brokers selling to American clients, must know that when they phone or email about an order, their Ugandan partner will respond to them immediately. Uganda's mobile telecommunications appear to be in good

working order, and even the smallest firms in Kampala either already have an email address or know how to get one.

In addition to worker productivity, i.e. the number of garments produced by a sewing operator per day, the quality of workmanship will also be closely reviewed by U.S. importers. Sizing of garments must be conform with orders. The U.S. market expects tight stitching, uniform seams, careful finishing of raw edges, proper tacking of corners and edges, and the like. Variation from garment to garment is not tolerated. Shipments will be refused if the defect rates exceed pre-specified thresholds. In addition to make-up, garment producers are expected to label, attach hang-tags, and pre-package individual items so that they are shelf-ready when taken out of their shipping containers.

DEFINING NICHE MARKET AREAS

One way to compete is to avoid producing what everyone else produces. Given the higher costs of doing business in Uganda, it may be advantageous to think of niche market areas where Ugandans could establish a special foothold. This may include organic cotton products, Afro-centric garments, church wear, or hand-woven/hand-dyed specialty items. Another specialty item that might have a market could be embroidered collars for a women's fashion blouse. While the markets for these niche products are certainly much smaller than that for standardized clothing, they may allow certain Ugandan enterprises to gain a particular piece of the U.S. market. Research would need to be undertaken to gauge the particular entry requirements of these specialty markets.

WORKFORCE DEVELOPMENT

For all of these reasons, workforce training will have to be an important component of a Ugandan strategy to export garments to the United States. or yarns and fabrics to the region for cut and assembly and re-export to the United States.

Managers need training on technical standards, trade and business management, and worker productivity and quality standards. They will need advice on machinery and process upgrades in order to attain high quality. In turn, workers will need to be trained in a variety of procedures to ensure that they work as efficiently and flawlessly as possible.

TECHNICAL COMPETITIVENESS

As stated above, producing export-quality fabric requires both good quality raw material (cotton lint) and attention to detail at each processing stage: initial fiber testing, blending of the bales, and carding; drawing and combing; spinning, rewinding, warping, and slashing; weaving; inspection; and wet processing.

At the raw material stage, Uganda grows very good cotton. Farmers hand pick the seed cotton, and it comes out of the ginneries quite clean. The fiber is of a good length—76 percent is from 1 and 1/8 to 1 and 3/16 inches—and fiber fineness is good, at 3.8 to 4.2 micronaires. The color of the fiber is also good, quite light. Also, there is ample raw material grown in country to supply local processing plants, although more than 90 percent of it is presently exported.

As the lint enters processing, there are several points where attention to quality begins to break down. Blending practices require improvement, as bales from different ginneries should be blended

at a time to strive for a more homogeneous output. At present, no overhead cleaning or combing is being done. As a consequence, too much nep and short fiber is being left in, which gives the finished yarn a homespun, unclean look. Between 8 and 20 percent comber "waste" is normally extracted at this stage, which international mills will sell to open-end spinners. Ring spinning equipment is old in most facilities, and of concern as well. The resulting yarn count range is limited and yarn appearance is poor. Open-end spinning is also being done in one facility, although the international market now puts a higher premium on ring-spun yarns.

In preparing to weave, the spinning problems noted above result in a high rate of yarn breakage as the warping is done. Equipment for the slashing/sizing of warp threads looks to be in fairly good condition. However, problems were noted with respect to lost and crossed ends.

There exists a high proportion of wooden shuttle looms in the weaving stands. These result in low speeds, and also incur a high cost in terms of spare shuttles. Moreover, the stands are not capable of supplying fabric with the minimum defect rates as required by the U.S. market. Overall, efficiency is poor when compared to international standards.

The team only visited one flatbed knitting plant, operating hand flats. Sweaters are being produced for the local market in this operation. The lack of control of the stitch length makes it difficult to meet exacting garment sizing specifications. Overall garment construction is poor, as when pieces in key areas are overlocked without linking. This is not surprising, as garments are constructed to meet local price points and the manufacturer is presently not interested in producing to exacting standards required for export.

Wet processing offers a different story. This area appears to have had more investment than has dry processing. While attention to detail may be necessary in some areas here, plant capability and spare capacity do exist.

A technical assessment of the clothing make-up sector suggests that strong tailoring skills already exist in the Ugandan industry. However, many enterprises are small, making it difficult to supply large orders. Currently, one sees a wide variety of products being manufactured over a small number of machines. One would need to specialize products and operations in specific plants, developing production bundling processes to manage work flow-through. Productivity improvement requires urgent attention. There is a need to benchmark Ugandan worker productivity relative to other international players in order to begin to make improvements.

Selling Into the U.S. Market

UNDERSTANDING THE U.S. MARKET

Understanding the pipeline structure and behavior of the U.S. clothing market is important for Ugandan firms to figure out where their niche might be. There are many ways to stratify that market, according to destination consumers, season, or degree of complexity of the garments. Men's/boys garments are somewhat distinct from women's/girls, although that is less true for basic/commodity clothing like trousers, jeans, knit shirts, woven shirts/blouses. Casual clothing is far easier to outsource, because it is less subject to seasonality, than are higher fashion items. Clothing seasons used to be much more easily demarcated in American stores, but garments hang for a much shorter period of time in the shops nowadays.

It would be useful for Ugandan entrepreneurs to understand what American consumers buy and how they buy it. For starters, many Americans no longer shop in stores. Instead, they browse infinite numbers of mail-order catalogues. Filled with glossy photographs of garments in a variety of colors, consumers can call the distributor using a toll-free number and their credit card to place an order. The order is usually at their door in three business days. As a result, national mail-order companies are doing enormous volumes of business, to the detriment of retail shops' market shares.

American consumers used to buy largely brand label clothing. Design and manufacture of these garments was controlled through branded name companies, and then distributed to retail outlets. Cost is less of a deciding factor to the brand label consumer, who is seduced by the brand image into paying a higher price for his/her article of clothing. Today, many retail companies seek to cut out the middleman and design their own lines of clothing that they contract for manufacture via private label clothing firms. Cost is definitely a deciding factor for private label consumers, many of whom are attracted specifically to the lower price points. As a consequence, private label manufacture tends more frequently to be sourced from low-cost suppliers overseas than from domestic garment companies.

The tools for researching U.S. consumer tastes in clothing include the Internet, magazines, and mail-order catalogues. Many U.S. clothing companies and retail outlets have commercial web sites which can be browsed for ideas on what is being sold, although the quality of the small electronic images does not allow for a lot of detail penetration. If names of such web sites are unknown, one can start by going to "shopping" web sites, such as the one at Yahoo. Via several clicks of the mouse, an interested market researcher can explore apparel sites, broken out by garment categories. Fashion and home furnishings magazines are another way to get great glossy photographs of what consumers are buying today, what colors are big, what "look" is in. These may be available for browsing through embassy cultural center libraries. Finally, mail-order catalogues are received by diplomatic personnel, and could be available informally to Ugandans.

Similarly, for getting a better understanding of how the U.S. industry operates, there are a number of extremely useful web sites. Bobbin Magazine (www.bobbin.com) and the Apparel Industry Magazine (www.aimagazine.com) have articles on their web sites that detail industry innovations, focusing largely on the U.S. market. Another somewhat more international site is www.just-style.com. Industry associations in the United States also have web sites with information, including the U.S. Association of Importers of Textile and Apparel (www.usaita.com), the American Textile Manufacturers' Institute (www.atmi.org), and the American Apparel and Footwear Manufacturers' Association (www.americanapparel.org).

For official statistics and information on AGOA, the government web site is www.agoa.gov. Textile and apparel trade and industry information is available from the Department of Commerce's Office of Textiles and Apparel (www.otexa.ita.doc.gov).

U.S. INTEREST IN FOREIGN SUPPLY—HOW TO GET ORDERS

Why are Americans increasingly turning to foreign sources of supply for their apparel needs? Quite simply, either because a foreign supplier can offer better value for the money, can provide a product that does not yet exist in the U.S. market, or can supply a product with better attributes.

We were delighted to learn that some members of the Ugandan textile and clothing industries already have some understanding of the international market and how to sell product. This may be due to the fact that they are an expatriate and move easily in and out of the country. It may have come from historical circumstance, when Ugandans were forced abroad for some time, but returned with new business connections. Or it may be the result of footloose Kenyan firms relocating in Uganda and bringing their market links with them. In any case, for the larger companies, it appears there is some base knowledge of how to connect with American or international brokers and generate business.

However, for the micro, small, and medium enterprises that have only ever produced for the local market, the prospect of identifying potential buyers in the United States is extremely daunting. It will be important for textiles *and* garment manufacturers to be organized into one association, so that any visiting delegations or foreign business partners can find their way to key companies and people easily. In other countries, for example, the local textile/clothing association publishes a directory which identifies firms and their contact information, indicates their production capacity, product range, and may even note previous export experience. This could be print or on-line, the latter perhaps installed on the Uganda Investment Authority's web site.[17]

For a potential new supplier, such as Uganda, to the U.S. market, it is a good idea to actually go and look at what is being bought, made, and imported. Organizing such a prospecting trip will require assistance from knowledgeable agents on the U.S. side, and should include visits with a diversity of stakeholders in the market, including retailers, brand label manufacturers, private label manufacturers, brokers/representative agents, and U.S. Customs officials and clearing agents. It may also be useful to schedule such a trip around one of the many trade fairs, not as participants, but

[17] While the Cotton Development Organization has ample experience managing the upstream end of the pipeline (through ginning stage), it is strongly recommended that the private sector set up its own association for visibility purposes.

merely as observers. During such a trip, it will be important to buy merchandise in order to bring back samples for test making up and costing.

While in the United States, it would be desirable to identify the services of an agent or middleman who can work on Ugandan firms' behalf to find contracts. The ideal broker should be someone with good connections in the industry and strong market knowledge. S/he should be trustworthy and "hungry" for your business.

DIFFICULTIES TO OVERCOME UPON RECEIPT OF ORDERS

Once a firm has landed a contract, it must be understood that there are no second chances in this business. One firm's bad experience can sour the reputation for all Ugandan garment manufacturers. Orders should not be accepted if they are not realistically achievable. Servicing them requires careful planning to be sure that raw material suppliers are known or pre-identified, logistics channels into Uganda for raw materials are understood, manufacturing capacity is ready, the order can be turned around in the requisite amount of time (allowing for six weeks to ship back to the United States).

Before accepting a contract, the firm needs to understand what standards are required and what defect rates will be tolerated. A supplier needs to ensure that it can meet the standards not only with sampling, but with the bulk order. The cost of failure is high. Claims departments in U.S. import companies survive by filing against non-performing or defective suppliers, and the financial risk of a sour deal is high. It is recommended that no order for high fashion clothing be accepted (it is likely that none will be offered). Given Uganda's distance from the consumer market, supplying fashion items to the United States would be extremely risky. This part of the sector is prone to last-minute design and color changes, which cannot be easily monitored from Uganda. Because these garments are extremely seasonal, whatever stock is not sold in the present market will have *no* market value next season.

Constant communication with the client, whether a broker or an end-user, is critical. Ugandan manufacturers should be prepared to monitor emails and faxes constantly, responding within two hours of their receipt. Foreign customers will need assurances that you are on top of their orders, and will want to know when it expects to ship. Because of the time zone difference, it is advisable to have someone in the firm who works "New York hours" – at the plant or from home, as necessary – in order to be by the phone during the customer's work day.

The Way Forward

SEEKING FOREIGN INVESTMENT

Where will those investment dollars come from? It is less likely that U.S. textile and clothing firms are going to invest directly in Uganda. U.S. textile companies are investing in large-scale projects directly overseas in Mexico/the Caribbean and Asia, in countries that offer excellent working conditions, proximity to the United States., and stable political and economic environments. They are aware of AGOA and Africa's potential, but they are extremely reluctant to risk assets in countries with insurgent movements and high health risks.

On the other hand, it is much more likely that U.S. firms will strike commercial partnerships of one form or another with existing enterprises that pass initial competitiveness criteria (McMillan, Pandolfi, and Salinger 1999). Here, the problem for Uganda is that the American clothing buyer can source garments from existing companies experienced in large-scale production and shipping, where full-package services – meaning local fabrics, trims and findings, finishing services, and skilled freight forwarding – are all available locally. The fact that Kenya, Lesotho, Madagascar, and South Africa are already exporting successfully to the United States, while it means increased competition for Uganda to gain access to the AGOA cap, is useful in that it creates a positive impression of Africa's capabilities in American buyers' minds.

Other potential foreign direct investment (FDI) sources include Asians, South Africans, and Mauritians. Kenyan firms relocated into Uganda when export quotas were imposed by the United States on Kenya, and are another possible source of investment. This will likely be tempered by the fact that export quotas from Kenya have been removed. However, Uganda must bear in mind that it competes with all countries of the world to attract FDI resources. Many other countries offer attractive incentives to induce firms to locate inside their borders. Uganda has not pursued these as aggressively as others.

STRATEGIC EMPHASES FOR UGANDA

Ugandan authorities have already established an AGOA coordination committee, comprised of government and private sector representatives. It consists of the Ministries of Trade, Foreign Affairs, Agriculture, Justice, and Finance; the Uganda Investment Authority; the Export Promotion Board; the Uganda Revenue Authority; the Uganda Textile Manufacturers' Association; the Uganda Women's Entrepreneurs Association; the National Bureau of Standards; the Chamber of Commerce and Industry; the Private Sector Foundation. It is chaired by the Minister of State for Trade.

The next step would be for the Government of Uganda to declare AGOA a priority area of interest, acknowledging the need to integrate agriculture and industry in this effort. While some investment and operational advantages are accorded to agricultural sectors deemed of key strategic

interest, that has not yet been the case for textiles. The new budget which will be submitted to Parliament in June is supposedly going to address some of these gaps, but the details are unknown.

Uganda can not and should not try to do everything at once. Focusing on garments make-up first will allow Ugandan clothing firms to take advantage of the short-term access (through 2004) to internationally sourced fabric for cut, make, trim, and export to the United States. The two variables critical for success in the garments sector specifically will be access to first-class international fabrics at world prices and emphasis on the quality of manufacture.

Over the longer run, Uganda's textile companies should be able to produce export-quality fabrics. This will allow the U.S. market to take advantage of Uganda's medium-to-long staple fiber in the production of high quality cotton fabrics. Consistent with an export-oriented textiles policy is allowing others to supply lower quality fabric for the domestic market at prices which reflect low levels of protection. Implementation of an export-quality textile milling strategy, however, will require significant investment, ranging from several hundred thousand to several million dollars.

PRIORITIZATION OF ASSISTANCE NEEDS IN UGANDA

Strategic priorities for Uganda's AGOA future were identified by the 72 attendees of the AGOA workshop which was led by the authors in Kampala on June 6. After listening to the authors' presentations, the workshop attendees were invited to split into three break-out groups (public policy makers, large enterprises, small enterprises) to discuss their reactions to what they had heard and offer their suggestions regarding prioritization of needs. The following summarizes those discussions and represents the group's consensus.

Public policy makers

Some of the identified needs include areas of public policy and infrastructure, which cut across the needs of the textiles pipeline, affecting businesses whether they are involved in spinning and weaving, fabric finishing, or garment make-up. These include the need for duty-free access to imported materials (fabrics, trims, dyes, machinery) at world prices, the need for reliable power and telecommunications, the need for an efficient export shipping line out of Kampala (by road/rail, sea, or air), and the need for access to working and investment capital to manage bridging financing, modernization, and capacity expansion requirements.

With respect to investment, the public policy break-out group suggested that a range of investment incentives need to be made available to local and foreign investors considering putting capital into Uganda's textile industry, including tax holidays, reduced tax rates, access to duty-free imports, infrastructure incentives, and land purchase incentives. The paper by Radelet (1999) would be a useful reference regarding other countries' investment platforms.

Public sector representatives also recognized the need for better public communication of information regarding textile and clothing industry commercial opportunities. It was suggested that the Ministry of Foreign Affairs, Ministry of Trade, chambers of commerce, Export Promotion Board, Uganda Investment Authority, and other public offices could coordinate to bring market information to Uganda's private sector.

Large-scale enterprises

Investment needs based on technical constraints being somewhat proprietary and thus not appropriate for a multi-firm, group discussion, therefore, this group was requested to recommend ways for Ugandan manufacturers to develop closer contact with the U.S. market. Larger firms with established marketing outreach beyond Uganda will not need the same form of assistance as small firms which have never exported before. Specialized assistance will therefore be necessary for each end of the pipeline. Most Ugandan industries are isolated from U.S. markets, and making contact with the U.S. industry will not be easy. Linkages will need to be built, using some combination of study tours into the United States by Ugandan entrepreneurs and/or into Uganda by U.S. market agents and market information dissemination via a centralized clearinghouse.

Workshop participants brainstormed four pathways to improving marketing outreach:

- Bring a selection of U.S. customers to Uganda.
- Bring a selection of U.S. middlemen or agents who understand the U.S. market to Uganda.
- Take a selection of Ugandan textile manufacturers to visit the United States
- Target a selection of brokers in Hong Kong who already understand the U.S. market and are now restricted on export quotas.

After discussion, the third recommendation was agreed as the most effective route. The following parameters were then suggested.

- ***Length of stay:*** A time period of ten days was the preferred duration.
- ***Who should qualify to go:*** It was suggested by the group that clothing manufacturers with more than twenty sewing machines should be considered, along with representatives of the larger companies.[18]
- ***When would be the best time to visit the United States?*** It was agreed that the best time to visit would be as soon as the AGOA visa is approved.
- ***What program would be required?*** Visits should be organized to retail market outlets in order to assess what apparel is currently offered for sale, to a selection of wholesale and retail customers, and to U.S. manufacturers of both clothing and textiles to assess productivity and capability.
- ***What areas of the United States to visit?*** It was recognized that the largest market and center for purchasing U.S. textiles is around New York City, but as there is very little textile manufacturing in this area, it would be best to also visit North/South Carolina where the majority of textile manufacturing is done.

[18] The authors note that even this is considered an extremely small class-size firm, i.e., one that would have a hard time mobilizing the capacity necessary to respond to U.S. commercial requirements.

- ***What funding would be required?*** The group suggested that 100% funding may encourage people to go who are not fully committed and participants felt that there should be no free ride. Funding therefore, if available, should be to a maximum of 75% of costs.

In anticipation of such a marketing/learning tour, a number of serious concerns were expressed by the group. For instance, travel visas for Ugandan individuals are extremely difficult to come by. It was stated that unmarried persons would not be able to get a visa (possibly considered by the U.S. Embassy at risk for not returning to Uganda) and it was suggested that the Uganda Investment Authority should communicate in advance with the U.S. Embassy about this.

The group also expressed frustration at the slow rate of progress on AGOA registration and believes that opportunities have already been lost. One group member is in possession of export orders, pending visa approval, and is understandably anxious to begin shipping.

Lack of adequate financial support for the textile industry as a whole was also identified as a pressing problem, in particular, the inability to borrow at reasonable interest rates.

Small-scale enterprises

For smaller companies, exporting to the United States is a nearly overwhelming challenge. This group rarely, if ever, borrows money from organized financial institutions, so the concept of financing large input purchases to service large customer orders is completely foreign to most of them. Most of these smaller companies have no idea how to organize production for mass assembly, or how to measure productivity, or against what standards they should compare their workforce's references. There are enormous information gaps on the part of most small-scale Ugandan owners and managers, with respect to what U.S. consumers wear, how U.S. consumers' clothing is sourced from abroad, what the relevant pipeline stages are, how to identify an agent or market representative in the United States, how to source raw materials from outside of Uganda, etc.

Thus, for this group, basic vocational training, marketing training, and management training are all essential. However, even assuming that the appropriate skills are communicated, there will have to emerge in the local market a greater density of market agents who are able to organize production across firms, if smaller companies are ever to hope to penetrate the U.S. market.

Appendix A

PERSONS CONTACTED

TEXTILE/GARMENT SECTOR, UGANDA

African Textile Mill Ltd. (Mbale)
J. V. Patel, Chairman

Alpha Woolens (Jinja)

Butterfly Fashions (Kampala)
Robina Bulwanyi, Managing Director

Cotton Products (U) Ltd. (Kampala)
William V.J.K. Okecho, Chairman

Eladam Enterprises Ltd (Jinja)
Eyasu Sirak, Managing Director

Ex-Ken (U) Ltd. (Kampala)
Nizar Hamirani, Director

Industrial Promotion Services (Uganda) Ltd (runs Uganda Fishnets) (Kampala)
Gopal Bandyopadhyay, Project Manager

Kwera Ltd. (Kampala)
Augustine I. Bwankosya, Director

Kyakuwa Toiling (Kampala)

Lango Co-operative Union Ltd. (Lira)
Patrick Oryang, Secretary Manager & Director, Organic Project

Maersk/SeaLand
Jacob Zikusooka, Agent

Marie-Sar Agencies (Kampala)
Sara Katebalirwe, Managing Director

Megha Industries (U) Ltd. (Kampala)
Shiraz Meghani, Managing Director

Nile Cargo Ltd. (Kampala)
Gideon Karyoko, Managing Director

Phenix Logistics Uganda Ltd. (Kampala)

Yuichi Kashiwada, Managing Director
Gordon Wavamunno, Ugandan partner

Private Sector Foundation (Kampala)

Angela Katama, Executive Director

Simba Blankets Limited (Kampala)

Mahendra Shah, Production Manager

Southern Range Nyanza Ltd. (ex-NYTIL) (Jinja)

Viren Thakker, Managing Director
J.K. Pandey, Production Manager (Mobile: 077 424 485)

Ssovitex Design-Arts

Leonard John Ssozi, Director

Textile Development Agency (supported by UNIDO, Kampala)

Joyce Kwakasisi, Co- ordinator
Ida Wanendeya, Co-ordinator

Textile Vision (Kampala)

Grace Kinobe, Production Manager

The Textile Workshop (Kampala)

Sally W'afrika, Designer

Uganda Brassieres Manufacturers Limited (Kampala)

Muhammed Kyeyune, Managing Director

Uganda Clearing & Forwarding Agents Association (Kampala)

Luganda Paul, General Secretary

Uganda Small Scale Industries Association (Kampala)

Agnes Kiganda, Coordinator Women's Desk
Ms. Kiganda also Chairperson, *Sewa Art & Crafts Centre*
and Director, *Exposure Africa Marketing & Information Centre*

Uganda Women Entrepreneurs Association Ltd. (Kampala)

Lilian Kahenano, Chairperson
Sarah Kitakule, Ag. Executive Director

TEXTILE/GARMENT SECTOR, UNITED STATES

American Apparel & Footwear Manufacturers Association

Larry Martin, International Trade office

American Textile Manufacturers Institute

Charles Bremer, Trade subcommittee

Ehrlich, Gress & Co., Inc.

Frank Gress
Jesse Remez

GOVERNMENT OF UGANDA

Bank of Uganda

Dr. Polycarp Musinguzi, Executive Director, Research

Cotton Development Organization

Hans W. Muzoora, Cotton Classifier/Marketing Officer

Ministry of Foreign Affairs

Cissy H. Taliwaku, Head of Americas and Caribbean Department

Ministry of Tourism, Trade & Industry

Hon. Prof. Edward B. Rugumayo, Senior Minister
Mr. T. Sabakalzi, Commissioner of Trade
Mr. Semyano, Assistant Commissioner of Trade
Mr. Muhwezi, Principal Commercial Officer
Uganda Export Promotion Board
Florence Kata, Associate Executive Director

Uganda Investment Authority

Elizabeth N. Ssemwanga, Director
Dr. James Mutende, Investment Executive
Valentine Ogwang, Investment Executive

DONORS AND TECHNICAL ASSISTANCE PROJECTS

COMPETE (Competitive Private Enterprise & Trade Expansion)

Dr. C. Anton Balasuriya, Chief of Party
Robert Lee, Cotton consultant to Carana

SPEED (Support for Private Enterprise Expansion & Development)

Phil Broughton, Chief of Party
Jack Thompson, SME Financial Advisor
Joanna Ledgerwood, Microfinance Advisor

Private Sector Trade Policy Capacity Building Project

Nimrod Waniala, Director

USAID

Jerre Manarolla, Economist
Ruth Nansanje Kirinda, Public Relations officer
Ronald Stryker, Economic Growth & Agricultural Development leader

U.S. Embassy to Uganda

Donald Brown, Economic/Commercial Officer

Appendix B

AGOA TEXTILE/CLOTHING WORKSHOP PARTICIPANTS, KAMPALA INTERNATIONAL CONFERENCE CENTER, JUNE 6, 2001

No.	Name	Organization	Box No./Email	Telephone
Private Companies				
1	Steven Seryanzi	African Aviation		041 – 258991
2	Aling Anne	Alina handcraft exporters Ltd.	AlingAnn@hotmail.com	532233
3	Jackson Kiggundu	Butlery farming		077 – 476138
4	Robina Bulwanyi	Butterfly Fashions Ltd.		041 – 530755
5	Gwokyalya Sarah Buyungo	Creative Images Africa		077 – 447449
6	George Sekisambu	Crules		071 – 845041
7	Manafa Yaqub	Eastern & Northeastern Uganda Bee Keepers Association		075 – 626426
8	Marjorie A. Bamundaga Manafa	Eastern/North Bee Keeping		077 – 469926
9	Muhammed Manafa	ENEUBKA Mbale		077 – 469926/ 075 – 626426
10	Hussein B. Mudir	Forde Uganda	P.O. Box 22816 Kampala	077 - 472389
11	Abdul –Lateef M.	Forde Uganda		077 – 491878
12	Mirembe Christine	Future World		077 – 459127
13	Mukasa Samalie Kafeero	Future World		071 - 842523
14	Robert Lyagoba	Future World		077 – 845763
15	Mary Matovu	Gravity Fashions		077 – 476266
16	Mulagwe Charles	GTN-UGANDA		077 – 401769
17	Hope Mugagga	Hope Mugaga Designers	hopemugagga@hotmail.com	
18	Tuhaise Jacqueline	Images of Africa		
19	Chris Katongole	Impact Marketing/JINDA (LIRA SPINNING MILLS)	(Contact JING HONG, GUO-DONG)	077 - 406336
20	Mujabi J.S.	JS&M Investment		071 – 424411; 077- 424411
21	Robinah Mujabi	JS&M Investment		071 – 424411; 077- 424411
22	Male Juliet	Kawefube Mushroom Farmers Association		077 – 425591
23	Augustine I. Bwankosya	Kwera Ltd. P.O. Box 359 Kampala		075 – 649054
24	Komakech Richard Ogaba	Lacan Nino Company Ltd. Gulu		077 – 495513
25	Patrick Oryang	Lango Co-operative Union		077 – 590860
26	Sarah Kagoro	Little Sisters Co. Ltd.		077 - 493904
27	Kayongo Desire	Nabaziza Industries Ltd.	P.O. Box 31195 Kampala	
28	Y. Kashiwada	Phenix		077 – 525966
29	Angela Katama	Private Sector Foundation (Kampala)		
30	Jane Nakyanzi	Rakai Bark Cloth		
31	Bosco Okum	RCDA		077 – 594841
32	F. Zalwango	Saad Trading Co. 1991 Ltd.		077-523773
33	Gorret Nkagujje	Saad Trading Co. 1999 Ltd.		077 – 523773
34	Sebaduka Musa Nkanji	Sebaduka Group of Industries		540855 / 077 – 443918
35	Viren Thkla	Southern Range Ltd.		077-200430

No.	Name	Organization	Box No./Email	Telephone
36	Richard Mubiru	Southern Range Nyanza Ltd.		077 – 409524
37	Rose Ssali	Sovite		077 – 404237
38	Sarah Nkangi	Sovite Art & Designs		077 – 411781
39	Ssozi Leonard	Ssovitex Design Arts		077-404237, 077-704237 Fax 077-280235
40	Ssemakula Henry	SUCO Ltd.		077 – 498240
41	Kinobe Grace	Textile Vision		077 – 462209
42	A.B. Matovu	Uganda Brassieres Manufacturers Ltd.		
43	Muhammed Kyeyune	Uganda Brassieres Manufacturers Ltd.		077 – 412228
44	Susan Kavuma	Uganda Manufacturers Association Consultancy & Information Services		236147/ 234879
45	Vincent K. Musubire	Uganda National Chamber of Commerce		075 – 646653
46	Sseguya Tusubira-Paul	Uganda Pharmaceutical Ltd.	P.O. Box 484	077 – 664855
47	Nakyanzi Stella	Uganda Small Scale Industries Association		075 – 628407 041 – 221788
48	Bronda Rwakisata	VIRGO's Ltd		250780 Ext. 838
Government				
49	Muzwa Hans	Cotton Development Organisation		077 – 464710
50	Ambassador Cissy Taliwako	Ministry of Foreign Affairs		077 – 427545
51	Rwanyange Jack	Ministry of Foreign Affairs		041 – 257525
52	Agaba Raymond	Ministry of Tourism, Trade & Industry		250217 / 343947
53	H.N. Semyano	Ministry of Tourism, Trade & Industry		041 – 230916
54	Hon. Prof. Edward B. Rugumayo	Ministry of Tourism, Trade & Industry		
55	J.O. Amai	Ministry of Tourism, Trade & Industry		077 – 453591
56	Mayiga Vincent F.S.	Ministry of Tourism, Trade & Industry		075 – 747678
57	Muhwezi John	Ministry of Tourism, Trade & Industry	P.O. Box 7103 Kampala	077 – 407075
58	Silver Ojakol	Ministry of Tourism, Trade & Industry	Sojakol@hotmail.com.	250217 / 343947
59	Elizabeth Tamale	Uganda Export Promotion Board	uepc@starcom.co.ug	230250/259779
60	Kata Florence	Uganda Export Promotion Board		077 – 459134
61	Valentine Ogwang	Uganda Investment Authority		041 – 251562/6
Donor				
62	A. Balasuriya	COMPETE Project		077 – 637879
63	Atwine Moses Kanuniira	COMPETE Project		077 – 472788
64	Jack Thompson	SPEED Project		077 - 752620
65	Joyce Rwakasisi	Textile Development Agency (UNIDO)		077-520888 ; Office: 221033
66	Diana Atungire	USAID	datungire@usaid.gov	
67	Ron Stryker	USAID		

No.	Name	Organization	Box No./Email	Telephone
Media				
68	Gerald Harison	Media Plus CTV		041 – 340834
69	Mukunguza Emmy	Media Plus/CTV		
70	J.F. Spire Ssepuya	Network Express (NETEX)		077 – 405619
71	Mikaili Ssepuya	New Vision		071 - 805375
72	Sandra I.	Press		077-411640
73	Turyatemba David	Radio Equator		048/120810
74	John Ricks Kayizzi	The Monitor Newspaper		077 – 618445

Appendix C

COMPETE PROJECT WORK PLAN IN COTTON SECTOR/VALUE ADDING LEVEL

COMPETE Project Work Plan in Cotton Sector/Value Adding Level

Carana consultant Robert Lee reviewed the Ugandan cotton sector in May 2001, just before the arrival of Salinger and Greenwood. Lee and Salinger spoke before she came to Uganda, to gain a clearer understanding of COMPETE objectives in this sector. As part of the COMPETE workplan, three objectives have been identified in the value-added sector.

Objective 8: Improve Yarn & Textile Mill Utilization and Effectiveness

Activities to achieve objective: In the work plan, four action areas are listed; these are combined into two topic areas.

1. Gain yarn and textile sector assistance aimed at increasing cotton production/supply:

Activity:	As mentioned a major effort is being put forth to promote productivity and production to increase cotton supply. The success of this effort is critical to improved efficiency of gins and value-added operations. Therefore, it is necessary to gain the support of value-adding firms, as gins are the primary supporters at the moment.
Time:	Try to enlist the assistance before the 2002 cotton-growing season.
Cost:	WG/CDO/COMPETE: Not a major expense.
Responsible parties:	CDO/UCGEA/NARO: CDO as the coordinating body for the industry will work to gain the support of the yarn and textile companies.
Overall Output:	Increase supply of good quality cotton.
COMPETE Output:	Act as catalytic agent.

Salinger/Greenwood Comments: Textile mills and garment companies are eager to expand production for the export market to the U.S., which perforce would increase their demand for lint from the ginning sector. However, this requires significant investment in machinery to improve processing capacity and quality before export production can be contemplated.

2. Survey spinners and textile plants to determine competitive actions necessary other than increasing cotton supply; prepare action plans based on the survey; when complete, suggest a plan that should be implemented.

Activity:	In addition to ensuring an adequate supply of consistent quality cotton, there are other technical and management related areas where spinners and textile mills may need assistance. The purpose of this task is to identify these areas so programs can be put in place that will help improve utilization and effectiveness of spinning and textile mills.
Time:	2-week assessment sometime between July and October.
Cost:	CDO/UCGEA/COMPETE with STTA
Responsible parties:	CDO/UCGEA/COMPETE. The CDO with the spinners and textile mill owners can agree to the technical audit necessary; and, COMPETE with STTA can help implement the work of the task.
Overall Output:	A report that spells out technical or management areas where mills need to be strengthened if they are to be competitive in the worldwide industry. It would cover spinning, weaving, and garment facilities.
COMPETE Output:	COMPETE would arrange the textile industry specialist, carry out the audit; and, prepare a report that spells out the action areas with timing.

Salinger/Greenwood Comments: The Nathan/AIRD team has essentially completed this for the textile mills (3). The only distinct spinning operation we heard of is a Chinese-owned plant in Lira, which is not yet operational, and which was not visited by the consultants.

Objective 9: Determine Actions Necessary to Export under AGOA

Activities to achieve objective: In the work plan, four action steps are listed; these are combined into a single project statement.

1. Review legislation, inform government and industry on the program, determine actions necessary to implement to have Uganda registered to take advantage of AGOA, and implement the program.

Activity:	The cotton industry can take advantage of legislative action passed by the U.S. Congress that gives African countries preferential access to the U.S. market. This legislative package is called African Growth and Opportunity Act (AGOA). To take advantage of the Act, Uganda must complete certain requirements for each product to be exported. The objective is to carry out work that ensures the country is ready to export under the legislation.
Time:	Start in May & complete by October 2001.
Cost:	WG/CDO/NATHAN with STTA.
Responsible parties:	WG/CDO/NATHAN: The WG & CDO should push the Nathan project to implement this program. In fact, in recent conversations with the Nathan representative in Uganda the COMPETE team was

told that Nathan planned to carry out an assignment very similar to this suggested program.

Overall Output: A document that provides the status of Uganda's readiness to take advantage of the AGOA legislation.

COMPETE Output: Act as Catalytic Agent. Perhaps provide STTA if necessary, and have a document prepared.

Salinger/Greenwood Comments: As noted above, the Nathan/AIRD team undertook this activity during its May/June mission. The present report largely satisfies the output requirement for this activity.

Objective 10: Promote Value Adding Activities

Activities to achieve objective: In the work plan, 5 action steps are listed; these are combined into 2 steps below.

1. Obtain or prepare a baseline document for the value-adding sector; and develop a list of value adding opportunities offering highest potential.

Activity: It is very possible that the baseline study for the sector has been prepared. Therefore, before an independent study is launched a review will be made to find an already prepared document. If such a document can not be located a review will be undertaken by a local person who has the knowledge of the industry to develop a baseline information document for the sector. Also, the results from the working group brain storming session will be used to prepare a long list of ideas that permit adding value to raw cotton.

Time: Start soon and finish by October 2002.

Cost: WG/CDO/COMPETE with STTA.

Responsible parties: WG/CDO/COMPETE: CDO as the coordinating body for the industry will be asked to work closely with COMPETE to develop this baseline information.

Overall Output: A document that provides the status of the industry's ability to respond to the AGOA opportunity. Also, the document will indicate whether there are local groups that can implement production of some of the identified new product ideas.

COMPETE Output: Provide the STTA and have the document prepared.

Salinger/Greenwood Comments: It might come as a surprise to the private textile milling and garment make-up that the CDO, a government organization, is the coordinating body for the industry. We suggest that a broadened private sector association, built from the Uganda Textile Millers' Association, be encouraged to take on the coordinating function for the processing sector. As for a baseline study, the present document certainly goes a long way in that direction, although it is by no means a comprehensive inventory of all make-up operations of any size in Uganda. We did not, however, brainstorm ideas regarding new value-added, cotton-based products. Under AGOA, the only products which can enter the U.S. market duty-free in the textiles sector are *garments,* not home furnishings nor other cotton-derived non-apparel items.

2. Prepare pre-feasibility report for target value-adding opportunities; develop a target list of investors; and promote the opportunities to targeted investor groups.

Activity:	Based on the information of the baseline review select a few target opportunities that seem worthy of promotion. For these opportunities have pre-feasibility reports prepared and promote the opportunities to investors.
Time:	The pre-feasibility studies would be started in July, and be carried out on a priority basis until the list of opportunities has been prepared. The promotion of the opportunities will be an on-going activity for the life of the project.
Cost:	WG/UIA/COMPETE & perhaps SPEED with STTA
Responsible parties:	WG/UIA/COMPETE/SPEED. The UIA is the organization responsible for attracting FDI to the country. Therefore, the WG/COMPETE/ SPEED should work together with UIA to realize the objective of this objective.
Overall Output:	New FDI in the cotton industry sector. Also, it will result in a number of pre-feasibility reports and a long list of contacts that should be pursued.
COMPETE Output:	COMPETE/SPEED would be forefront in attracting the new FDI to the country. They would coordinate and ensure that the support materials are prepared that are necessary to carry out the investor promotion program.

Salinger/Greenwood Comments: We understand that the Uganda Investment Authority is already undertaking technical audits. Whether these satisfy the requirement of pre-feasibility studies has not yet been determined. However, SPEED and COMPETE clearly have an important role to play in facilitating investments in this sector.

Appendix D

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