



International
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Africa – New Frontiers for Textile

Investment Opportunities in East Africa's textile and apparel sector

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Supporting Indian Trade and Investment for Africa (SITA)

- **Implemented by:** International Trade Centre (ITC), a joint agency of United Nations (UN) and World Trade Organisation (WTO) offering trade & investment promotion services as public good, to support businesses in developing countries in accessing international markets
- **Donor:** UK's Department for International Development (DFID)
- **Objective:** Increased value of business transactions between India & select East African countries by promoting investment, trade and technology partnerships
- **Countries:** India, Ethiopia, Kenya, Rwanda, Tanzania and Uganda
- **Sectors:** Textile and apparel, leather, spices, pulses and sunflower oil
- **Beneficiaries:** Indian Companies investing in or importing from Africa, East African Businesses & Trade and Investment Support Institutions

East Africa



Why East Africa? 5 key reasons

1. New frontier for apparel sourcing
2. Duty free market access
3. Competitive production costs
4. Strong government support
5. Ease of Doing Business

1. New frontier for apparel sourcing

- With rising production costs in Asia, Africa offers new frontier for new sourcing markets.
- EA countries most dynamic in Africa for global apparel sourcing. Global buyers and retailers demanding more sourcing from Africa – demand far outweighs current supply.
- Attracting FDI into labor-intensive textile & apparel sector is key priority for EA governments; they offer attractive packages to investors, including plug & play infrastructure in some countries.
- Number of international textile & apparel companies have invested over past years in EA. Latest investments or commitments: KPR/India in Ethiopia; MAS Holdings/Sri Lanka in Kenya; Pink Mango C&D/China in Rwanda; Shree Modern Textiles in Uganda

1. Opportunities in East African countries

Ethiopia

- Emerging as a regional hub for sourcing and contract manufacturers.
- Available plug and play infrastructure in dedicated textile and garment parks.
- Low production costs.

Kenya

- Most mature manufacturing sector and highest productivity level in the region.
- Largest EA exporter of garment (USD 354 Mill in 2017).
- Attractive for niche, value-added production such as high-quality jeans or underwear. Attractive for local and regional retail.

Uganda and Tanzania

- Availability of cotton, including long staple cotton.
- Attractive for textile segment.

2. Duty free market access

- **Access to major apparel markets:**
 - Duty free access to US under African Growth and Opportunity Act (AGOA). Third country fabric provision.
 - Duty free access to EU under Everything but Arms (EBA) or Economic Partnerships Agreements (EPA).
- **Access to rising African middle class:**
 - Duty free access to East African Community (EAC) and Common Market to Eastern and Southern Africa (COMESA).
 - Upcoming Tripartite Free Trade Area (TFTA), duty-free access to 26 countries (incl. South Africa, Egypt) & population of + 632 Million
 - Upcoming Africa Continental Free Trade Area (CFTA)

2. Example market access to US

- US and EU largest markets for India's textile and apparel exports. Around 18% of India's textile and apparel exports are destined to the US.
- In June 2019, US government announced suspension of preferential trade status for India (GSP), creating trade tensions between US and India. Future unclear.
- Even under GSP, Indian garment exports to US face(d) highest tariffs of all top-100 product items exported from India to US (at HS code 6 digit level)*:
 - India's top apparel export item to US, a cotton t-shirt (HS code 610910) faces 16% tariff duties.
 - All apparel items among top-100 products exported by India to US face between 6-19% tariff.
 - In comparison, same items exported from East Africa face 0 tariffs.

3. Competitive production costs

Labor abundance and competitive labor costs:

- Africa has the youngest and fastest growing population in the world. 60% of Sub-Saharan Africa's population is below the age of 25, while Africa's workforce is growing at around 3% per annum. The growing workforce is a key asset for the labour-intensive textile and clothing industry.
- Labour costs in Asia esp. China are on the rise, while East Africa offers competitive labor costs.

Competitive utility costs:

- East African countries have competitive costs and quality of electricity.
 - Ethiopia: 2-5 US cents/kWh versus 7-12 US cents/kWh
 - Kenya: Special off-peak rates. VAT exemption if based in EPZ

4. Attractive investment packages & government support

- **Attractive investment incentive packages**, incl. strong investment guarantees and attractive tax packages with free liberalised capital flows;
 - e.g. Kenya: plant, machinery and equipment are exempt from duty. 100 percent investment allowances and 150 percent if the investment is located outside of a major city. After value addition products can be sold across the COMESA and EAC markets tax free.
- **Proactivity and commitment by East African governments to support investors; approachability by Governments**
 - Governments provide support to investors, and are available to resolve challenges faced

5. Ease of Doing Business

- **Governments committed to continuously improve ease of doing business**
 - e.g. Ease of Doing Business ranking Kenya vs. select Asian countries

Year	Kenya	India	Bangladesh	Sri Lanka	Myanmar
2015	136	142	173	99	177
2016	108	130	174	107	167
2017	92	130	176	110	170
2018	80	100	177	111	171
2019	61	77	176	100	171

Other advantages

- Strong growth potential in textile and apparel
- Port connectivity
- Newly commissioned railway systems in Kenya and Ethiopia
- Locational proximity to India and to key markets
- Regional cotton availability providing opportunity to establish fully integrated regional value chains

SITA's support to investors

- **Providing market and investment intelligence** through expert knowledge, institutional-level support, provision of trade data at tariff line level, market research and analysis support.
- **Identifying business & Investment opportunities in East Africa**, including sub-sectors, value-chain stages, location, potential business partners etc.
- **Planning and organising country exploratory visits.** Meetings with high level decision makers, national institutions and private associations.
- **Practical support in discussion and negotiations with public and private stakeholders** in East Africa as a neutral partner.
- **Supporting due diligence activities and inception stage of investment.** Providing post-investment support.
- ITC as a point of contact or all questions related to business.

Thank you!

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