

Uganda and the EAC should stand firm on the decision to phase out second hand clothes

EAC Heads of State on the 20th February 2015 directed the Council of Ministers to study modalities for the promotion of the textile and leather industries in the region, and stopping the importation of used clothes, used shoes and other used leather products from outside the region. This decision arose out of the need for the EAC to advance a market-driven integration by boosting manufacturing and industrialization; promoting forward and backward linkages and achieve Structural Transformation through high value addition and Product Diversification as stipulated in the EAC 2012-2032 Industrialization strategy. In Uganda, this decision is informed by the Vision 2040 which seeks to promote agro-processing and manufacturing of consumer products; and the Buy Uganda Build Uganda (BUBU) policy which seeks to support the production, purchase, supply, and consumption of local goods and services.

The above decision has been challenged by Secondary Materials and Recycled Textiles (SMART), a leading exporter of second hand clothing in the USA in a petition to the US Administration filed on 21st March 2017. SMART is seeking initiation of an out-of-cycle review to determine whether Kenya, Tanzania, Rwanda and Uganda are meeting the African Growth Opportunity Act (AGOA) eligibility criteria, with a view of suspending these countries from benefitting from AGOA. This is most unfortunate.

SMART asserts that the EAC's decision is imposing significant economic hardships on the U.S. used clothing industry, and is in violation of the AGOA eligibility criteria which requires AGOA beneficiaries to make continual progress toward establishing a market based economy and eliminating barriers to U.S. trade and investment. SMART claims that the implementation of the interim duty increases by EAC countries has led to a loss of 5,000 jobs in the private sector of the U.S. used clothing industry and the loss of another 19,000 jobs in the not-for-profit sector. As a result, the AGOA sub-committee of the Trade Policy Staff Committee (TPSC) has organized a public hearing on Thursday 13th July 2017 to receive testimony related to the AGOA eligibility of Rwanda, Uganda and Tanzania, the outcome of which will be to advise the President of the U.S to remove or constrain these countries as beneficiaries of AGOA.

In considering this matter, it is worth recalling the intent that animated the enacting of AGOA in 2000 and its subsequent renewal by the US Administration. The purpose was to assist and encourage economic growth and development in Africa, promote regional integration, and facilitate the beneficial integration of the region into the global economy by offering it better terms of trade. It is in this context that a number of cooperation arrangements have been put in place between Africa and the USA, aimed at improving the production capacity, upgradation of industries with a view of adding value and diversifying our exports so as to take advantage of the duty-free market access offer under AGOA. It was also envisaged that there would be increased investment from the USA to help us to modernize, improve our production and productivity, create employment and boost exports. However, there is a long

way to go before this objective is attained. In 2016, Kenya exports to US under AGOA were worth USD 394 million while rest of EAC exported USD 43 million¹. As manifested in the petition by SMART, there seems to be an exponential growth of the region's second hand clothes imports from the USA with its attendant negative implications for our textile industry. The surge of second hand clothes imports from USA to the EAC could not have been in the contemplation of the AGOA framers and could only be regarded as an unintended consequence. We appreciate and encourage USA investments in the EAC as well as exports which are inputs for our industrial production and upgradation. But for the purposes of promoting our clothing and textile industry, and maintaining the dignity of the present and future generations, we need to wean ourselves from the humiliation of being dependent on second hand clothes; and AGOA should help us to do this.

We also acknowledge, the role which in the interim, the second hand clothes plays in the economy in creating employment and raising revenue which according to Uganda Revenue Authority totals to US\$ 3.7 billion annually². However, this is not an ideal or desirable situation. While the progressive phasing out of second hand clothes will bring about challenges related to employment and revenue in the short run, the long run benefits outweigh the short term gains. According to the Uganda National Textile Policy, value chain analysis indicates that with added capacity at spinning, weaving and finishing stages, more revenue can be generated and more jobs could be created internally in Uganda beyond the present 2.5 Million across the value chain. It is therefore important that the decision by the Heads of State to phase out second hand clothes be supported in order to enable the EAC in general and Uganda in particular grow and enhance her local production capacity.

It is critical that EAC policy space for development is not constrained. This policy space is provided for under Article XVIII: C & D of General Agreement on Tariffs and Trade (GATT)³ where Members are permitted to impose quantitative restrictions necessary to the development of a particular industry by a World Trade Organization (WTO) Member in the early stages of economic development or in certain other situations. As such, the EAC can implement measures to phase out second hand clothes so as to boost her domestic industries. The measures that have been put in place are in consonance of the WTO Most Favored Nation (MFN) principle and are not discriminatory to the USA. In any case, Section 104 of AGOA Act permits beneficiary countries to undertake economic policies to reduce poverty.

¹ <http://www.theeastafrican.co.ke/news/Kenya-Agoa-status-EAC-partners-face-ejection/2558-3980374-fio4l7z/index.html>

² <https://agoa.info/news/article/5088-uganda-ban-second-hand-clothing-imports-to-grow-local-industry.html>

³ The GATT was the first multilateral Free Trade Agreement effected from 30th June 1948 till 1st January 1995. It ended after being replaced by the World Trade Organisation (WTO). The primary purpose of GATT was to increase international trade through by eliminating or reducing various tariffs, quotas and subsidies while maintaining meaningful regulations.

It is against this background that as the Trade working group comprising of members from Civil Society and Manufacturers, fully support the decision taken by the Heads of State to progressively phase out second hand clothes, and make the following recommendations:

A. That the governments of Uganda and other EAC countries should:

- Stand firm and phase out the importation of second hand clothes so as to support her nascent industries, grow an integrated economy that creates decent jobs and improved welfare. In any case, at present, second-hand clothes are part of the EAC Sensitive List and they attract a CET rate of 35 percent or \$0.20 per kg; and the EAC had since 2004 prohibited the importation of used underwear for health reasons.⁴
- Seriously support, both financially and policy wise the growth of the Cotton Textile and Apparel (CTA) sector.
- Defend our peoples' dignity and not mortgage the future of the country into consumption of second hand clothes, but rather develop her textile and leather industry.
- Learn from several other countries like Ghana, Egypt, Ethiopia, India and Vietnam which have used the same strategy in order to spawn vibrant local industries and save foreign exchange from reduced imports.

B. That the USA Government should:

- Not use AGOA as a means to constrain Uganda's and EAC's policy space for development provided for in WTO rules of MFN, but instead should help us to achieve our development objectives.
- To respect the dignity of East Africans in general and Ugandans in particular in their quest to live decent lives.

The undersigned Organisations:

African Centre for Trade and Development (ACTADE)

Community Resource Development Initiative Limited (CRDI)

Uganda Women's Network (UWONET)

Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI)

World Voices Uganda (WVU)

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⁴ EAC Customs Management Act of 2004