

# Cotton value chain analysis economics essay

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Textile manufacturing is a major industry. It is based in the conversion of three types of fiber into yarn, then fabric, then textiles. These are then fabricated into clothes or other artifacts. Cotton remains the most important natural fiber, so is treated in depth. There are many variable processes available at the spinning and fabric-forming stages coupled with the complexities of the finishing and coloration processes to the production of wide ranges of products. There remains a large industry that uses hand techniques to achieve the same results. Global Textile Trade has grown significantly over the years, and expected to grow further.

## **Cotton Manufacturing Process**

Cotton ☾ Textile and garments

### **Textile & Garments**

With respect to spinning and weaving the study team visited most of the leading participants in the sector- ATM Mbale, Southern Range Nyanza, Phenix Logistics, and Tri Star Apparels. Based on these visits it was found that several of the action steps necessary to support expanded production of fabric and garments and their marketing have been realized or are in the process of being realized. In addition to the labor and technical rehabilitation activities, other actions have also taken place - duty free access to imported raw material, regulatory and logistical support has helped make it possible to compete against other AGOA suppliers, financing has been facilitated to textile mills and garment fabricators, and investors have been accorded the opportunity to produce garments in Uganda.

## **Cotton value chain analysis**

Introduction The supply chain for cotton and textiles reveals concentration both upstream and downstream, with a large number of farmers and tailors. Players in these groups, though numerous, are small and operate informally as individual or family owned income generating activities. Farmers and tailors also tend to be heterogeneous in terms of skill, technology and location. Products are sold at virtually all stages of the value chain on both small and large scale. The manufacture of apparel and clothing is still very minimal. The amount of value added ranges from 25% for spinning and weaving, to 55% for knitted and crocheted fabrics. Uganda imports large quantities of fabrics and garments, including used clothing.

## **Cost of financing for textile sector**

High cost or lack of availability of finance pose severe challenges for textile mills and garment exporters. On the textile side, a critical working capital need for purchase and storage of Uganda high quality lint is required. It requires storage of this lint for up to eight months. If the Ugandan mills cannot access reasonable credit they will face having to use lower quality cotton in the production of the textiles they produce, causing product homogeneity problems. On the garment side, the cash-flow problems are even greater. Most firms find it onerous to buy imported raw materials for 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 international supply scene. Such tightness in the capital market obviously makes large investments in rehabilitation of factory equipment difficult to finance. Investments in new production capacity are presently

being contemplated by a number of groups, but the capital situation prevents rapid development and loan guarantee programs that include the textile and garment sector could help.

### **Textiles and clothing industries in Uganda face the following additional constraints**

\_ The fact that textile producers have to secure cotton contracts from local suppliers at the beginning of the season, thereby incurring increased costs in respect of finance and storage (by either party); \_ Unfair competition and price pressure from other cotton producing countries where cotton production is subsidized (e. g. USA, China, the EU, Central and South and East Asia); \_ Lack of competitiveness compared to all other major textiles exporting countries which provide substantial direct cash incentive payments for exporters (e. g. South Africa), who also enjoy lower production costs, economies of scale and greater installed capacity utilization

### **Diversity Of Uganda's Textile 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 neighbouring countries, but have never exported or had contact with the international market.

## **Uganda's assets and constraints**

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. 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 <https://assignbuster.com/cotton-value-chain-analysis-economics-essay/>

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.

## **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 <https://assignbuster.com/cotton-value-chain-analysis-economics-essay/>

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.

### **Duty free Access to Imported Raw Materials**

Ugandan 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.

### **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

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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.

### **Qualitative factor 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.



## **The Gender Dimension of Uganda's Cotton Sector**

During a field visit on February 8-10, 2007, the team interviewed 158 cotton growers in the South-Eastern cotton producing region of Uganda. The interviews took place in 6 groups (in 5 of the 6 groups the records allowed for male/female performance). Although no extensive questionnaire was prepared in advance, there are some important findings that may shed some light into the reasons behind the poor performance of the sector. The key messages of interviews were the following: The majority of cotton growers had planted cotton for only a few years while most experienced very low yields. Most cotton growers identified poor training as the key problem to low productivity (even after being asked to compare higher prices with more training). There is a large productivity gap between males and females cotton growers, with males often achieving yields 3-4 times higher than their female counterparts. Several farmers confirmed that cotton growing in Uganda was compulsory up to independence, (i. e., each farmer in cotton growing regions had to plant at least 0.25 acres of cotton). Non-compliant farmers faced one week in jail. The cost of chemicals (half of which is pre-financed by ginneries) comprised only a small share of the total cash expenses incurred by cotton growers. With a few exceptions, most farmers had small plots

## **Overview of Indian textile industry**

- Second largest producer of textiles and garments after China
- Second largest producer of cotton in the world
- Second largest employer in India after agriculture — Direct Employment to 35 mn. people
- Constitutes about 12% of India's exports
- Contributes about 14% to Industrial

production•Contributes about 4% to GDP• Investment made in Textile sector since launch of TUFs scheme is Rs. 208000 crores till June 2010

## **India's strength and weakness in textiles**

### **Strength**

- Long textile tradition• Large pool of skilled and cheap work force• Entrepreneurial skills• Efficient multi-fiber raw material manufacturing capacity• Large domestic market• Enormous export potential• Very low import content• Flexible textile manufacturing systems

### **Weaknesses**

- Use of outdated manufacturing technology• Huge unorganized and decentralized sector• Poor supply chain management• Power and other infrastructure constraints• Lack of Effective Labour Policies

## **Expected Future trend in Uganda's textiles**

- Traditionally Uganda Textile Industry is mainly cotton textiles due to cotton surplus situation of Uganda and governments attempt to promote cotton textiles to protect farmers and accordingly the government levied heavy duty on polyester• The government also supported small and medium players in segments such as weaving, garments and knits for creating job opportunities. This led to growth of small and fragmented units• However, the textiles scenario has changed significantly in the last decade and more after removal of quota from December 2004. Government has liberalized the textiles sector and has taken several measure like TUFs, to promote large and integrated textile units• The future growth in textiles would be driven by organised players and their share is expected to increase from the present 5-

6% to about 15-20% by 2020. Similarly, the government has softened their stand on polyester and duties in polyester have been brought down to 12%. In the last two years, cotton prices have increased considerably from about Rs. 17, 000 per candy to about Rs. 35, 000 per candy. As a result typical cotton yarn of 40s count ( Rs. 215/ kg) is more than twice of typical polyester yarn of 80 denier texturized yarn( Rs. 100/kg)

## **Findings**

The textile industry of Uganda is way much developed and the products are varied since cotton is been the majorly produced yield there hence Uganda trade with India for textile industry is least possible in way that both the country has an ample amount of raw material and the countries does not rely n the countries for production. Due to cotton surplus situation of Uganda and governments attempt to promote cotton textiles to protect farmers and accordingly the government levied heavy duty on polyester The government also supported small and medium players in segments such as weaving garments and knits for creating job opportunities. Uganda has unique position in global textile industry due to strong manufacturing base and is now emerging as a strong consumption base as well. Domestic consumption would be major driving force for textiles backed by strong economic growth prospects and growing per capita income. Uganda's inherent strengths like a strong textile infrastructure along with high service capabilities makes it a preferred sourcing destination. The traditional players like China are getting stagnated and other major player Europe is on a decline. Other competing nations are at a far distance thus clearly giving Uganda a superior platform to grab additional market share. The organized sector is all poised to play

major role in making Uganda a leading textile hub. Uganda Textile Industry is all set to witness almost 3 times growth in the next decade from \$ 78 bn. to \$ 220 bn. Indeed this decade promises to be the best ever decade for Uganda Textile Industry and therefore may be regarded as the golden decade.

## **Conclusion**

- Uganda has unique position in global textile industry due to strong manufacturing base and is now emerging as a strong consumption base as well
- Domestic consumption would be major driving force for textiles backed by strong economic growth prospects and growing per capita income
- Uganda's inherent strengths like a strong textile infrastructure along with high service capabilities makes it a preferred sourcing destination
- The traditional players like China are getting stagnated and other major player Europe is on a decline. Other competing nations are at a far distance, thus clearly giving Uganda a superior platform to grab additional market share
- The organized sector is all poised to play major role in making Uganda a leading textile hub
- Uganda Textile Industry is all set to witness almost 3 times growth in the next decade from USD 78 bn. to USD 220 bn.
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