

REPUBLIC OF RWANDA



MINISTRY OF TRADE, INDUSTRY AND EAC AFFAIRS

**RESPONSE TO THE REQUEST FOR COMMENTS AND NOTICE OF PUBLIC HEARING
CONCERNING AN OUT- OF- CYCLE REVIEW OF RWANDA' S ELIGIBILITY FOR
BENEFITS UNDER AGOA**

July 2017

I. ACTION PLAN TO TRANSFORM TEXTILES/GARMENTS AND LEATHER INDUSTRIES IN RWANDA

The 2015 EAC Heads of State Summit agreed to gradually reduce the importation of 2nd-hand clothes & footwear to promote the textile, apparel and leather industries in the region. In that perspective the Government of Rwanda developed a 2017-2019 action plan for the transformation of textiles, apparel and leather industrial sectors in order to increase the quality and quantity of textile, apparel and leather products for both local and foreign markets. It is estimated that, if everything is implemented, this could create 25,655 jobs, increase the exports to US\$ 43 million and decrease the imports of these products to US\$ 33 million by 2019 (from \$124 million in 2015). The impact on the trade balance will result in saving of US\$ 76 million over the 3-year's period.

The implementation of the action plan since July 2016 has led to a sector growth of 18% over the first three quarters of 2016-2017, substantially above the 6% industrial sector average growth rate. This is also reflected in employment, with average textile's firm size growing from 36 to 47 employees from Q3 2015 to Q3 2016. The GoR is therefore making more efforts to keep the sector growing and make it more competitive on global market.

With the decision of the GoR to incentivise producers in Textile, Apparel & leather sectors by reducing import duties to 0% on raw materials, machines and accessories with effect from July 2016, and removing VAT on raw materials and inputs coupled with the import duty increase for second hand clothes and footwear, existing enterprises in apparel and leather sectors are now expanding their production. Different investors have been also attracted by these opportunities and are in process of establishing new production units in these sectors.

The reports provided by a sample of 11 existing domestic enterprises in apparel production show that their aggregated production will increase by 19% in 2017 (from 2,792,521 items in 2016 to 3,317,641 items in 2017), and by 55% in 2018 (from 2,792,521 items in 2016 to 4,318,280 items in 2018).

The aggregated report of a sample of 7 enterprises in leather footwear production shows that their accumulated production will increase by 381% in

2017 (from 33,120 pairs of shoes in 2016 to 159,300 pairs of shoes in 2017), and 846% in 2018 (from 33,120 pairs of shoes in 2016 to 313,300 pairs of shoes in 2018).

Different investors are in a process of establishing new large factories and they include Burera College of Technology (BCT Ltd), Albert Supply Textile Ltd, Trade Links Ventures in apparel sector, and Rwantan in footwear production. Others investors are working on investment projects. They include Baghat from Egypt, Enrique Clothing from India, Vlisco from the Netherlands and Mr. Abdullah who is a Turkish Investor. Many tailoring cooperatives in districts' Integrated Craft Production Centers (ICPCs) are now shifting from indigenous technologies to modern ones with mass production of garments. All these emerging enterprises will quickly provide a huge contribution to the domestic production of new apparels and footwear.

The decision to raise significantly the custom duty applied on second hand clothes and footwear was informed by a market analysis study of garment industry in Rwanda and the impact of second hand clothes and footwear on the infant garment industry. The study came out with sufficient evidence that without strong measures to increase prices of second hand clothes, the garment industry in Rwanda would never take off. The application of import duty of \$2.50/kg for worn clothing and \$5.00/kg for worn shoes since 1st July 2016 was one of the measures required to start domestic production of garments in Rwanda.

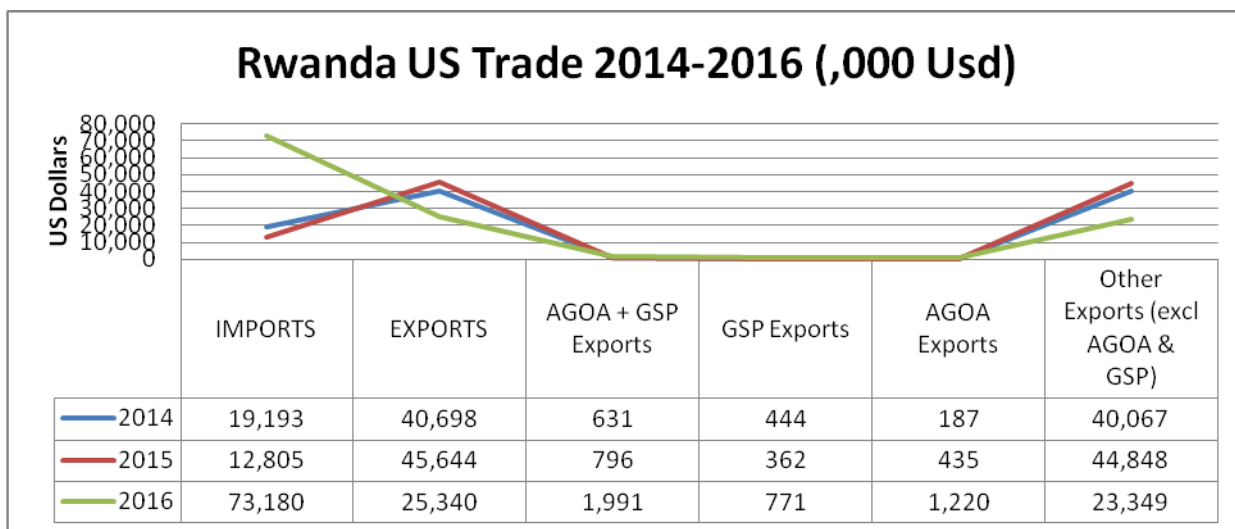
While we agree that the increase in duty applied to the second hand clothes and footwear many result in reduction of imports of these products to Rwanda, the impact on the US second hand clothes industry is negligible. In fact, the imports of second hand clothes from USA reached only \$2.0 million in 2015, the year before the increase in duty. This amount represents only 0.2% of the \$ 1.0 billion second hand clothes industry in USA.

II. Rwanda- US bilateral trade and investment relationship

Rwanda and the USA enjoy long-standing commercial ties. The USA and Rwanda have a trade and investment framework agreement and a Bilateral Trade and Investment treaty signed in 2012. The USA was a substantial investor in Rwanda in 2012-2016, with a number of high value investment projects in

education, energy and manufacturing following the implementation of the above bilateral framework starting in 2012.

Overall exports to the US have been growing steadily over the past 10 years, with an annual average growth rate of 21%. However, exports under AGOA are only a very small fraction of total exports. In 2015, they accounted for only 0, 95% of total exports to US.



Source: US Department of Commerce

From the above table, the average exports **under AGOA in the last three years are 2%**. This is minimal value compared to other Rwanda's exports under MFN tariff which accounts 96% in the same period. Rwanda's largest export to the USA is coffee, with just over \$23 million in exports. Other export products are minerals (\$17.8 million), pyrethrum (\$2.1 million) and a range of smaller value exports, mainly in tea and the handicrafts and apparel sectors. The top two export products made up 87% of Rwanda's exports to the USA, demonstrating the challenge of limited diversification in Rwanda's exports. However, an increase in exports of certain items such as handbags, jewelry and textiles show promise for the future.

On the other hand, Rwanda imports a wide range of products from US, including vaccines, machinery, 2nd hand clothes, vehicles, aircraft parts and medical equipment.

Looking at the figures above, Rwanda has not yet reaped much from AGOA arrangement. In response to such a situation, Rwanda with the support of USAID

East Africa Trade and Investment Hub finalized her AGOA strategy in April 2016 and the strategy focuses on three key sectors: textiles and apparel, specialty foods and home décor and fashion by which its implementation would require the support of the USA government and other stakeholders.

Any decision to challenge the eligibility of Rwanda to AGOA market access preferences will compromise the current momentum and discourage the ongoing dialogue to enhance trade and investment partnership between the USA and Rwanda.