

Nipping African Clothing in a Post-MFA Bud?

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***AFRICA AND CHINA:
ECONOMIC AND BUSINESS PERSPECTIVES***

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The 'Asian Drivers & Africa' Project at the OECD Development Centre

- Supported by the Agence Française de Développement and the Swiss Agency for Cooperation and Development (SDC)
- March 2006: OECD Experts' Meeting in Paris
- June 2006: Policy Study, 'The Rise of China & India: What's in it For Africa?'
- Forthcoming: Sectoral (clothing / footwear) & Country Case-Studies (Senegal, Angola, Ethiopia, Kenya)

👉 More at: www.oecd.org/dev/publications/chindaf

Relevance of Clothing to SS. African Countries

- **Intensive in low-cost unskilled labour**
 - ☞ **Job opportunities (formal & informal sectors)**
Poverty alleviation
- **Traditionally spearheading industrialisation**
 - ☞ **Economic diversification**

SS. Africa's Positioning in the Global Clothing Industry

- Strengths...
 - Low wage costs

	Average hourly wage (\$ cents)
Madagascar	0.33
Kenya	0.38
Indonesia	0.27
India	0.38
Bangladesh	0.39
Pakistan	0.41
Sri Lanka	0.49
Egypt	0.77
China	0.88
Philippines	0.91
Nicaragua	0.91
Colombia	0.98

Source: ITC (2004)

SS. Africa's Positioning in the Global Clothing Industry

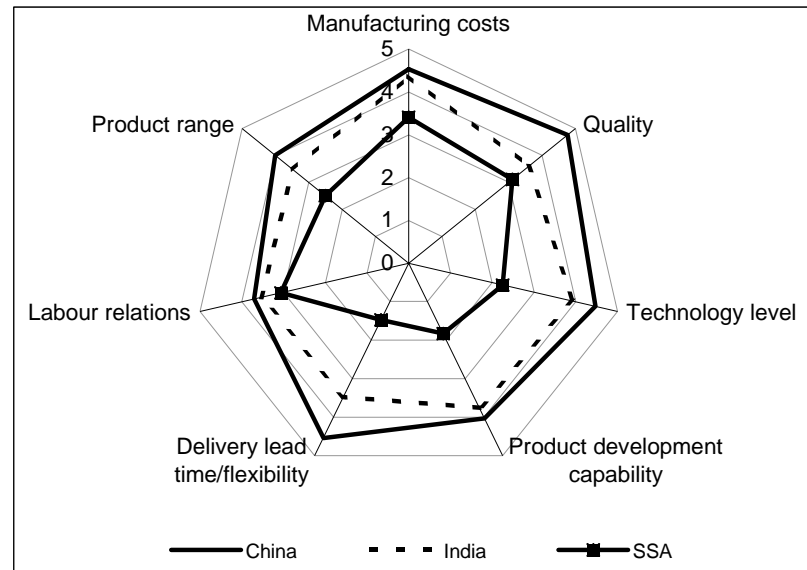
- **Strengths...**
 - Low wage costs
 - Raw material: world class cotton producers (Mali, Burkina Faso, Benin)

SS. Africa's Positioning in the Global Clothing Industry

- **Strengths...**
 - Low wage costs
 - Raw material: World class cotton producers
- **... & Weaknesses**
 - Dominated by small and very small producers: low productivity, obsolete & limited machinery equipment
 - High factor costs & weak logistical infrastructures
 - Poor capacity re: product development, packaging, quality controls & financing
 - No access to domestic sources of high-quality / competitive yarns & fabrics

SS. Africa's Positioning in the Global Clothing Industry

**The performance of SSA, China and India clothing firms on operational factors
(1=very poor performance; 5=excellent performance)**



Source: Company interviews, in Kaplinsky & Morris (2006) for OECD Asian Drivers Project

SS. Africa's Positioning in the Global Clothing Industry

- **Lower-end of the product range**
 - Little value-added
 - Long production runs and limited styling changes
 - Price competitiveness is key, high competitive pressure from Asian producers, low margins

SS. Africa's Positioning in the Global Clothing Industry

- Lower-end of the product range
- Limited ability to meet global buyers' demands:
 - Full package services
 - Large volumes
 - Just-in-time delivery & store-ready products

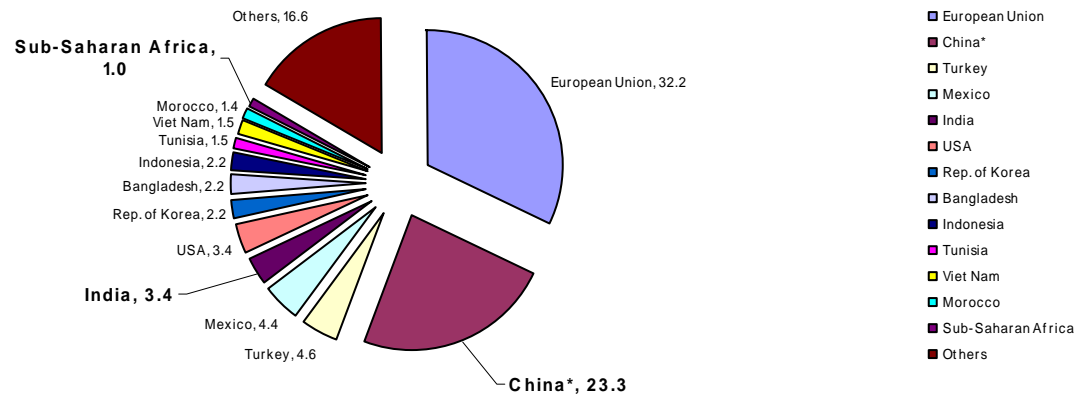
SS. Africa's Positioning in the Global Clothing Industry

- Lower-end of the product range
- Limited ability to meet global buyers' demands
- Domestic and regional markets mostly

Africa's Positioning in the Global Clothing Industry

👉 Sub-Saharan Africa: A Minor Player in World Clothing Trade

% Share in World Exports of Clothing (2002)



Source: OECD (2006) based on UN Comtrade

From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

The African Growth and Opportunity Act...

- US Trade Act of 2000
- Duty- & quota-free access for African clothing to the US market
- Accommodative rules of origin: 'third-country' fabrics & yarns

From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

The African Growth and Opportunity Act...

**... combined with the Multi-Fibre Agreement
(1974)**

**Quotas on exports of clothing from Asian producers
to the US & EU markets**

From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

... & high tariffs on clothing products

**Textile and Clothing, Simple
average Tariffs**

	Manufactures	Textiles	Clothing
OECD countries	6.2	9.4	16.1
Australia	5.4	9.9	20.7
Canada	4.9	10.7	18.4
European Union	4.4	7.9	11.4
Japan	2.9	6.5	11
New Zealand	3.1	2.4	13.7
United States	4	9.1	11.4

Source: OECD (2004)

From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

i) To give an impetus to market-seeking FDI in the clothing sectors of African countries:

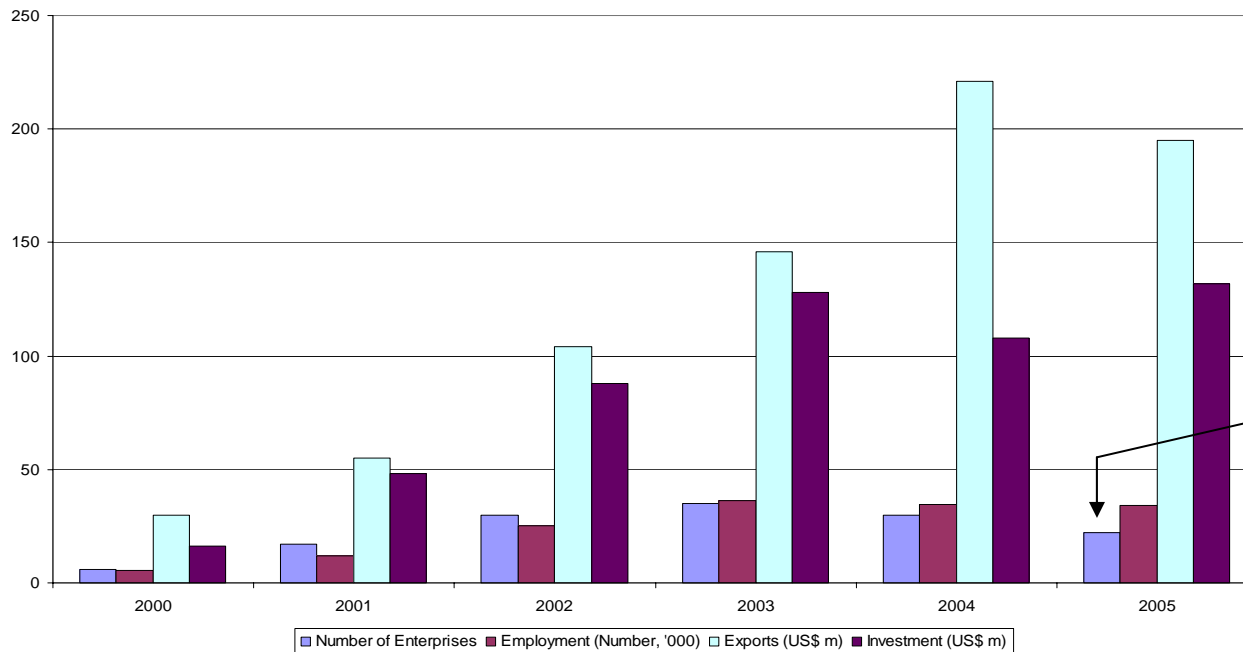
- Circumventing quotas
- Preferential access

👉 Mostly FDI by Asian quota-constrained investors

From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

Market-seeking FDI in the clothing sectors of African countries:

Performance of Clothing Export Processing Zones in Kenya



24 apparel manufacturing EPZ firms: **origin**

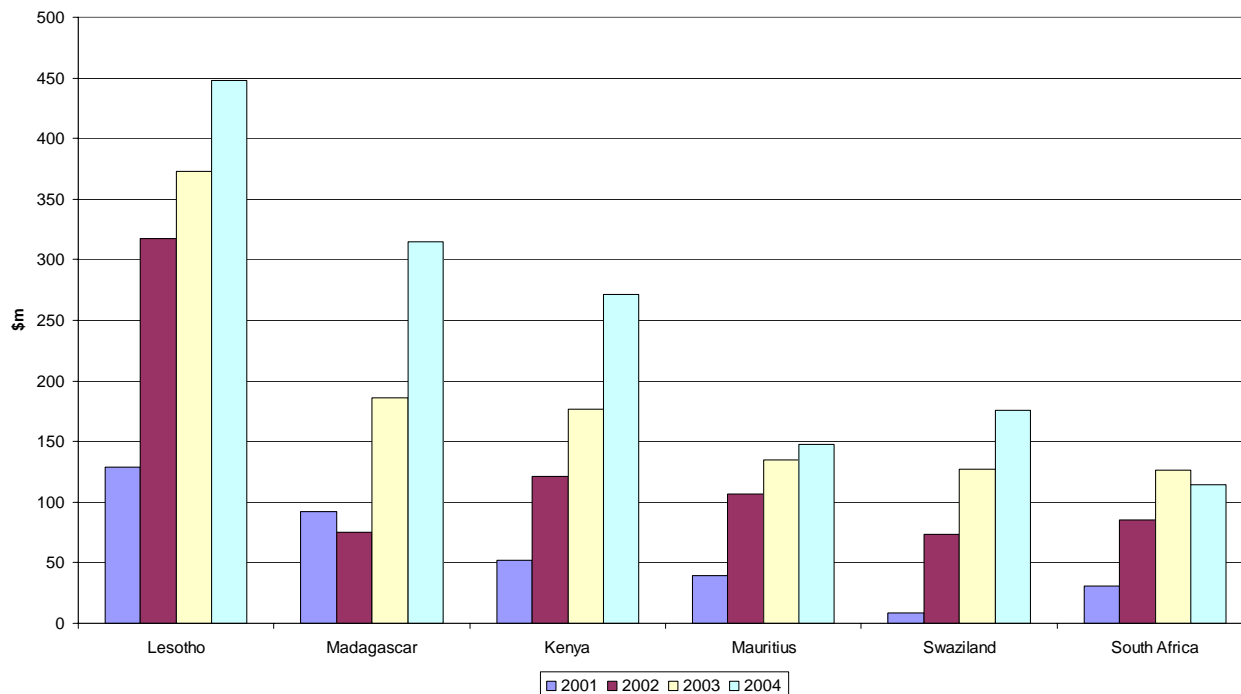
- India: 8
- China: 6
- Sri Lanka: 3
- Bangladesh: 2

Source: Kamau (forthcoming) for OECD Asian Drivers Project

From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

ii) And to boost African exports of clothing to the US

**AGOA clothing exports to US,
2001 – 2004 (\$m)**



Source: Kaplinsky & Morris (2006) for OECD Asian Drivers Project

From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

- The MFA dismantlement (January 2005) & a general erosion of trade preferences

👉 **Increased competitive pressure in**

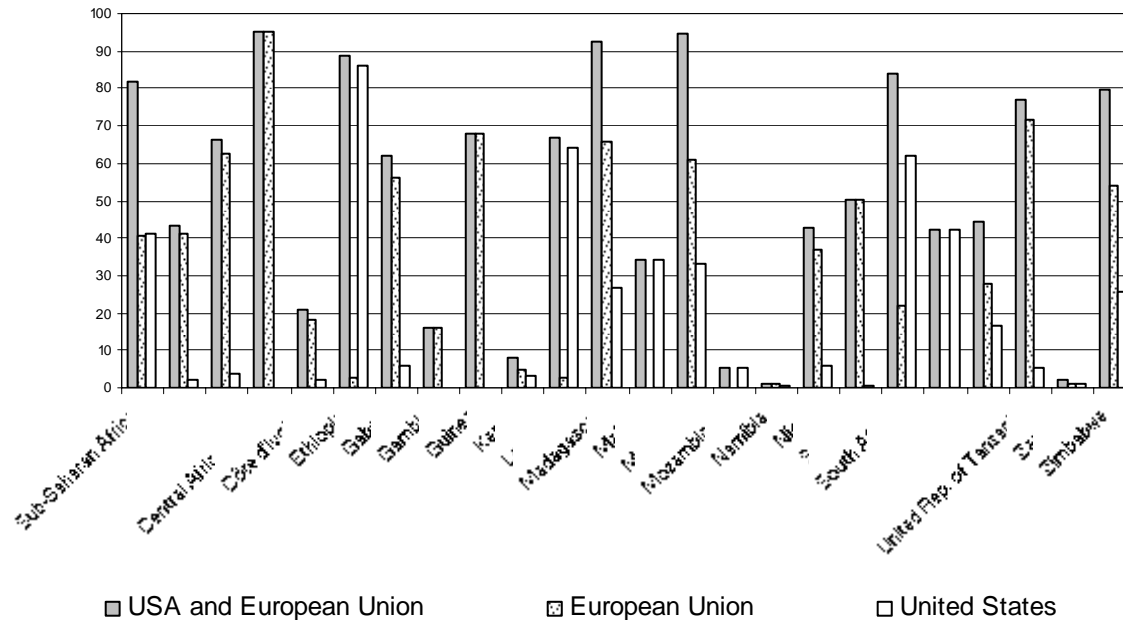
- Lower-end products
- Markets protected by MFA (US & the EU)

👉 **Vulnerability of SS. African clothing exports**

From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

👉 Vulnerability of SS. African clothing exports

Exports to EU & US as % of total African clothing exports

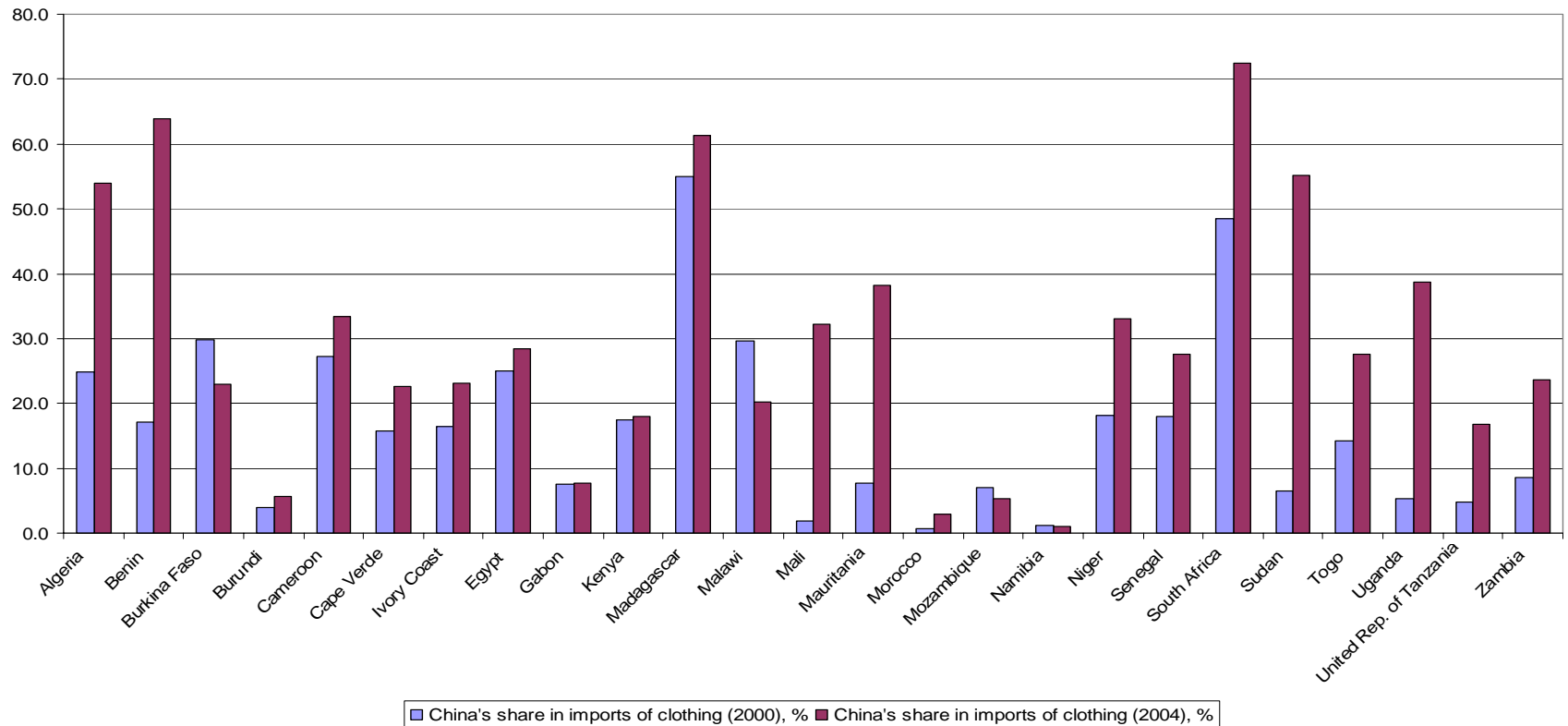


From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

- **The MFA dismantlement (January 2005) & a general erosion of trade preferences**
 - ☞ A ‘re-integration’ of the global textile /clothing value-chain (OECD, 2004)
 - . Impact on clothing-related FDI worldwide
 - . Expected winners (China, India) & losers (Second-tier producers, incl. Africa)

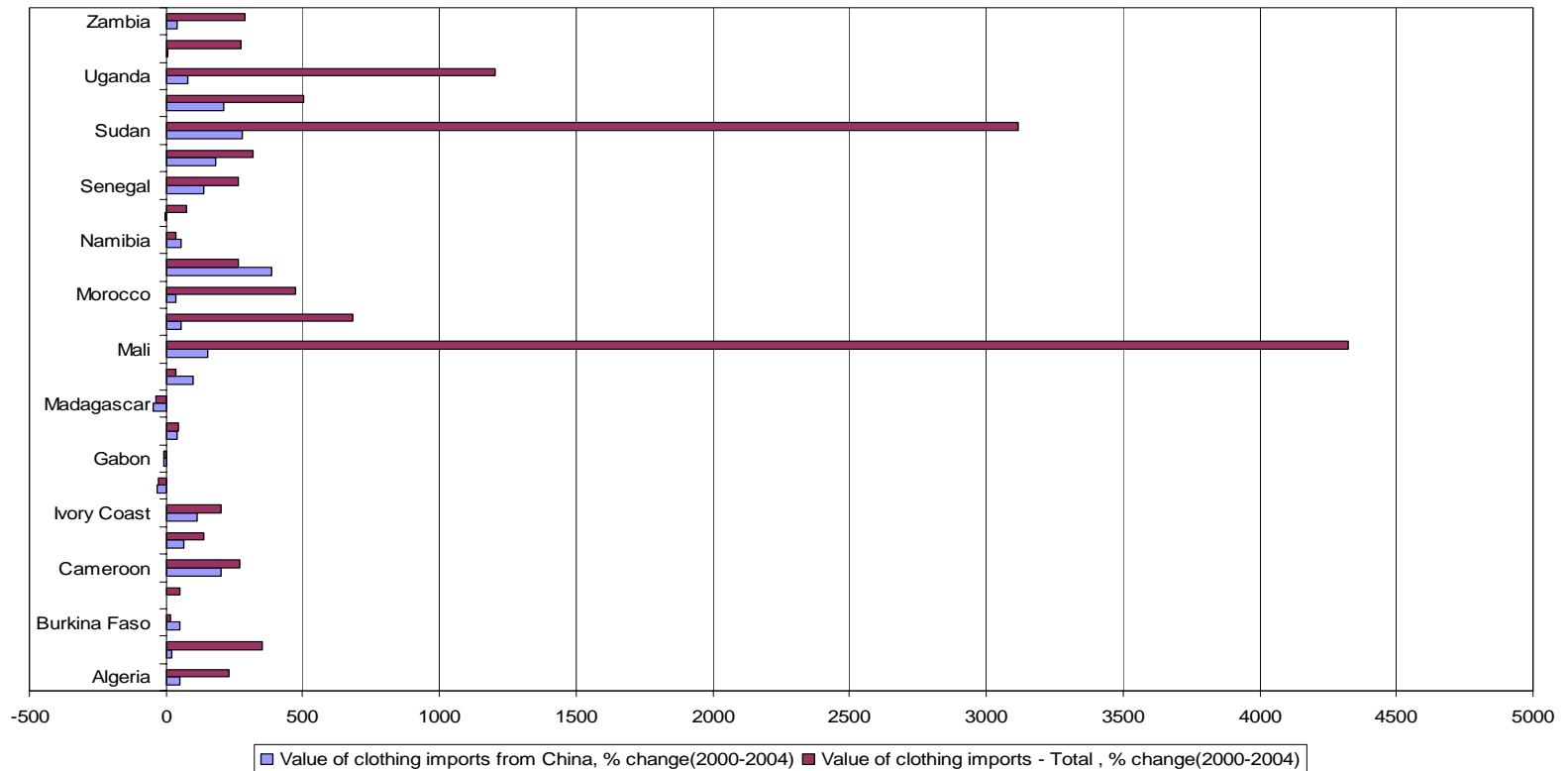
From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

- A risk compounded by large imports of Asian clothing into domestic African markets



From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

- A risk compounded by large imports of Asian clothing into domestic African markets



African Clothing Industry in a Post-MFA Context: Coping Strategies

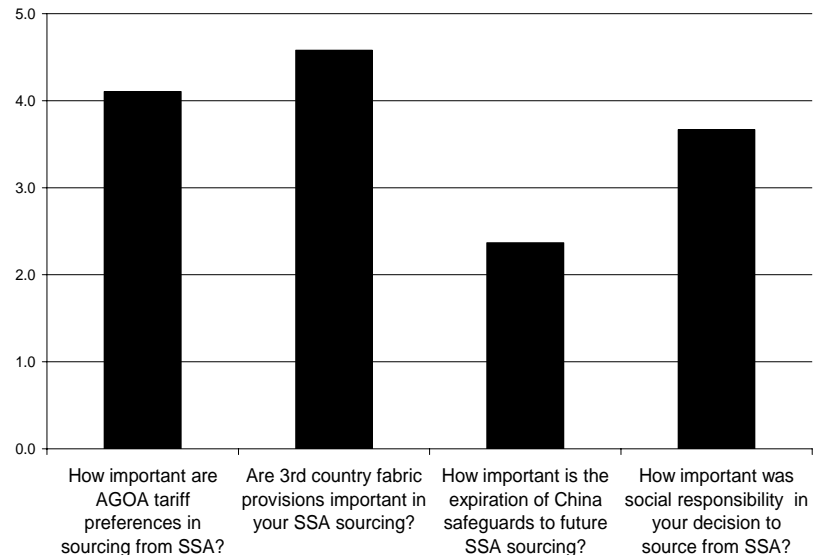
- **‘Low road’ adjustment strategies:**
 - Safeguard measures in SSA domestic markets (e.g. South Africa)
 - Cost-cutting & price competitiveness
- **‘High road’ adjustment strategies:**
 - Developing a competitive SS. African textile industry (yarns & fabrics)
 - Invest to improve quality & design (e.g. footwear industry in Ethiopia, forthcoming, OECD Asian Drivers project)
- Upholding trade preferences (e.g. making rules of origin more flexible)

African Clothing Industry in a Post-MFA Context: Prospects

- **SS. African clothing exports more resilient than expected**
- **Buyers perceptions of SSA sourcing, a cause for optimism?**

**Buyer perceptions of the relative importance of AGOA preferences, China safeguards and corporate social responsibility in the decision to source from SSA
(1=not important; 5= very important)**

Source: Kaplinsky & Morris (2006) for OECD Asian Drivers Project



African Clothing Industry in a Post-MFA Context: Prospects

- **SS. African clothing exports more resilient than expected**
- **Buyers perceptions of SSA sourcing, a cause for optimism?**
- **Preferential access to OECD markets & Fabric derogation critical**

谢谢

Thank you!