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


– 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

<table>
<thead>
<tr>
<th>Country</th>
<th>Average hourly wage ($ cents)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madagascar</td>
<td>0.33</td>
</tr>
<tr>
<td>Kenya</td>
<td>0.38</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.27</td>
</tr>
<tr>
<td>India</td>
<td>0.38</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.39</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.41</td>
</tr>
<tr>
<td>Sri Lanka</td>
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<tr>
<td>Egypt</td>
<td>0.77</td>
</tr>
<tr>
<td>China</td>
<td>0.88</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.91</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>0.91</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.98</td>
</tr>
</tbody>
</table>

*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)

- China*, 23.3
- European Union, 32.2
- Turkey
- Mexico
- India
- USA
- Rep. of Korea
- Bangladesh
- Indonesia
- Tunisia
- Viet Nam
- Morocco
- Sub-Saharan Africa
- Others, 18.6

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

<table>
<thead>
<tr>
<th></th>
<th>Manufactures</th>
<th>Textiles</th>
<th>Clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD countries</td>
<td>6.2</td>
<td>9.4</td>
<td>16.1</td>
</tr>
<tr>
<td>Australia</td>
<td>5.4</td>
<td>9.9</td>
<td>20.7</td>
</tr>
<tr>
<td>Canada</td>
<td>4.9</td>
<td>10.7</td>
<td>18.4</td>
</tr>
<tr>
<td>European Union</td>
<td>4.4</td>
<td>7.9</td>
<td>11.4</td>
</tr>
<tr>
<td>Japan</td>
<td>2.9</td>
<td>6.5</td>
<td>11.0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3.1</td>
<td>2.4</td>
<td>13.7</td>
</tr>
<tr>
<td>United States</td>
<td>4</td>
<td>9.1</td>
<td>11.4</td>
</tr>
</tbody>
</table>

*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

Source: OECD (2006)
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

Source: OECD estimates based on UN Comtrade
From AGOA to MFA Dismantlement: African Clothing, a Still Born Industry?

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

**Value of clothing imports from China, % change (2000-2004)**

**Value of clothing imports - Total, % change (2000-2004)**

*Source: OECD estimates based on UN Comtrade*
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!