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Clothing Global Value Chains and Sub-Saharan Africa: Global Exports, Regional Dynamics and Industrial Development Outcomes

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Abstract

This paper assesses the export-oriented clothing industry in the five main sub-Saharan African (SSA) clothing exporter countries (Mauritius, Madagascar, Kenya, Lesotho and Swaziland). The focus is on analysing the various characteristics driving firm and value-chain dynamics as well as upgrading and industrial development outcomes. This includes challenges related to global dynamics as well as unfavourable domestic conditions, such as limited skills and industrial capabilities and poor infrastructure.

It gives a short overview of the global clothing industry, discussing the clothing global value chain (GVCs) and its main actors, the regulatory environment of the global clothing trade, and global trade patterns. The development of export clothing sectors in SSA is explored, with different types of clothing firms and value-chain channels and their implications on upgrading, skill development and sustainability identified and the main challenges assessed. It concludes by proposing policies to secure sustainability and foster upgrading and broader industrial development in SSA export-oriented clothing industries. It focuses on four broad policy issues: upgrading and skill development; market diversification and regional value chains; local firm development and locally embedded clothing industries; and trade policy and preferential market access.

JEL Classification: R11, F16

Keywords: sub-Saharan Africa, global value chains, clothing industry, regulation, skill development, sustainability

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Abbreviations and acronyms

AGOA	Africa Growth and Opportunity Act
CAGR	compound annual growth rate
CFTA	Continental Free Trade Area
CMT	cut–make–trim
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EBA	Everything but Arms
EPA	Economic Partnership Agreement
EPZ	export-processing zone
FDI	foreign direct investment
GSP	Generalised System of Preferences
GVC	global value chain
HS	harmonised system
LDC	least developed country
LIC	low-income country
MFA	Multi-Fibre Arrangement
PTA	preferential trade agreement
ROO	rule of origin
RVC	regional value chain
SACU	Southern African Customs Union
SADC	Southern African Development Cooperation
SARS	South African Revenue Service
SSA	sub-Saharan Africa
TCF	Third Country Fabric
TPP	Trans-Pacific Partnership
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

1. Introduction

Export diversification into higher-value-added products and away from primary commodities remains a major development objective for low-income countries (LICs). The clothing sector has traditionally played a central role in this process. In most developed and newly industrialised economies, the clothing (and textile) sector was central in the industrialisation process (Dickerson 1999). Given its low entry barriers (low fixed costs and relatively simple technology) and its labour-intensive nature, the sector absorbed large numbers of unskilled, and mostly female, workers and provided upgrading opportunities into higher-value-added activities within and across sectors. Hence, clothing sector development can have important short-term effects by providing employment, incomes and foreign exchange, and long-term effects by furthering export diversification, industrial development and linkages to other sectors, most importantly textiles.

Many LICs have tried to become clothing exporters. In 2013, global clothing exports accounted for US\$378 billion, making clothing one of the most-traded manufactured products. It is also the first manufacturing sector in which exports became dominated by developing countries. In the mid-1960s, developing countries accounted for around 25 per cent of global clothing exports; this increased to 37 per cent in the late 1980s and to above 80 per cent in 2013. The share of least developed countries (LDCs) increased from 0.3 per cent in the late 1980s to 10 per cent in 2013. Global clothing exports are dominated by Asian developing countries. However, particularly since the late 1990s, LICs from other regions have developed export-oriented clothing sectors. For many LICs, clothing exports are the main manufacturing export and provide the largest share of formal manufacturing employment. However, the defining characteristics of the clothing industry also mean that it is very competitive. It is easy to enter and relatively footloose, as production and trade patterns can be adjusted quickly to changing market conditions.

In many countries in sub-Saharan Africa (SSA), the clothing industry is seen as a priority sector for export and employment generation

and industrial development. Clothing and textile exports accounted for 5.2 per cent of total SSA manufacturing exports in 2013. If South Africa is excluded, they account for 11.2 per cent. In some countries, the share of clothing exports in manufacturing exports is substantially higher: Madagascar (76.3%), Mauritius (54.4%), Lesotho (48.8%), Ethiopia (21.2%), Kenya (20.2%) and Swaziland (11.5%). The export-oriented clothing sector has developed and/or expanded in several SSA countries since the turn of the millennium. This was driven by the favourable trade policy context (i.e. through the Multi-Fibre Arrangement (MFA) and US and EU preferential trade agreements (PTAs)) and national industrial policies supporting exporting and foreign direct investment (FDI). However, after the MFA phase-out (end 2004), SSA clothing exports declined (Kaplinsky and Morris 2006), and this was accelerated by the 2008 global economic crisis (Staritz 2011).

The rise of clothing exports from SSA countries in the 2000s are generally perceived as successful cases of starting an industrial development process through PTAs and FDI. However, simply using an aggregated analysis of SSA clothing exports masks some crucial differentiating features: end-market shifts, the political-economy dynamics driving these processes, the variety of types of firm inserted in different clothing value-chain channels serving diverse end markets, and the different development trajectories of national industries. Firm ownership variations and differential value-chain insertion in SSA's export-oriented clothing industries influence end markets, governance structures and firm set-up. This explains significant disparities in levels of local and regional embeddedness, with important implications for the sustainability of clothing-export operations and for upgrading trajectories (Morris and Staritz 2014; Morris et al. 2011, 2015).

These differentiating features have important policy implications. Understanding the dynamics of different forms of clothing firm ownership in SSA, and the distinct clothing value chain channels they are integrated into, is critical for identifying the opportunities and challenges for upgrading and broader industrial

development. In particular, the emergence of a new regionalism centred around regional investment and end markets provides opportunities for more sustainable value chains and local industrialisation.

To illuminate these analytical and policy points, this paper assesses the export-oriented clothing industry in the five main SSA clothing-exporter countries (Mauritius, Madagascar, Kenya, Lesotho and Swaziland).¹ The focus is on analysing the various characteristics driving firm and value-chain dynamics as well as upgrading and industrial development outcomes. This includes challenges related to global dynamics as well as unfavourable domestic conditions, such as limited skills and industrial capabilities and poor infrastructure. These challenges have to be addressed at national and regional levels for the sector to fulfil its potential for industrial development.

The paper is structured as follows. The second section gives a short overview of the global clothing industry, discussing the clothing global value chains (GVCs) and its main actors, the regulatory environment of the global clothing trade, and global trade patterns. The third section discusses the development of export clothing sectors in SSA, identifies different types of clothing firms and value-chain channels and their implications on upgrading, skill development and sustainability, and assesses main challenges. The last section proposes policies to secure sustainability and foster upgrading and broader industrial development in SSA export-oriented clothing industries. It focuses on four broad policy issues: upgrading and skill development; market diversification and regional value chains; local firm development and locally embedded clothing industries; and trade policy and preferential market access.

2. The global clothing industry

2.1 The main actors in clothing GVCs

Clothing production and trade are organised in buyer-driven GVCs. Production of components and assembly into final products is carried out in interfirm networks on a global scale. A large part of clothing production remains labour-intensive, has low start-up and fixed costs, and requires simple technology. These characteristics have encouraged the move to low-cost locations, mainly in developing countries. In contrast, textile production – the main input for clothing – is more capital- and scale-intensive, demands higher worker skills and has to a larger extent remained in higher- and middle-income countries.

Clothing GVCs are characterised by decentralised, globally dispersed production networks, coordinated by lead firms who control activities that add ‘value’ to products (e.g. design, branding), but often outsource all or most of the manufacturing process to a global network of suppliers (Gereffi 1994, 1999; Gereffi and Memedovic

2003). Rents derive from activities that differentiate the product in the eyes of the consumer. These are protected by entry barriers and are the core competencies of lead firms. Although buyers are not directly involved in production, they significantly control manufacturers through detailed product and production specifications. The strategies of lead firms, in particular their global sourcing policies, shape production and trade patterns. Sourcing decisions are motivated by labour-cost differentials, given the labour-intensive nature of clothing production. However, in addition to the classic criteria of costs, quality and reliability, other criteria are increasingly shaping sourcing decisions (Gereffi and Frederick 2010; Staritz 2011). These include:

- *Lead times and flexibility:* The importance of time in sourcing decisions relates to shifts towards lean retailing and quick-response production, whereby buyers defray the inventory risks associated with

¹ This paper draws on various sources: trade and national industry data and multiple fieldwork interviews. For a more detailed overview, see Morris and Staritz (2014) and Morris et al. (2011, 2015).

supplying clothing to fast-changing, volatile and uncertain consumer markets by replenishing shelf items in very short cycles and minimising inventories (Abernathy et al., 2006). Lead times have reduced from several months to several weeks; this requires more efficient and flexible supply chains, production processes and work arrangements (Plank et al. 2012).

- *Non-manufacturing capabilities:* Buyers concentrate on their core competencies (i.e. branding and design) to reduce costs and increase flexibility. They desire supplier capabilities such as input sourcing, product development, inventory management and stock holding, logistics, and financing. This increases the functions demanded from suppliers, but fulfilling these new minimum requirements does not necessarily lead to better contracts or higher prices for supplier firms.
- *Consolidation of supply base:* Buyers have focused on the most competitive suppliers ('core suppliers'), which offer consistent quality, reliable delivery, large-scale and flexible production, competitive prices, and broader non-manufacturing capabilities. The objective is to ensure more cost-effective forms of supply chain management and reduce the complexity of their supply chains. These strategies have led to a consolidation of the supply base, reducing the numbers of supplier countries and of firms within countries. This has increased entry barriers, as more capabilities and higher standards are expected from suppliers, benefiting larger and more capable suppliers to the detriment of smaller and marginal suppliers.
- *Compliance:* Pressures from civil society have made compliance with labour and environmental standards prominent in buyers' sourcing decisions. Many buyers have developed codes of conduct that include labour and environmental standards. Compliance is a minimum criterion for entering and remaining in supply chains, but buyers often do not support firms in improving standards or reward them. These standards are essentially in the domain of private and civil society.

Intermediaries (importers, exporters, agents and trading houses) play a central role in clothing GVCs. They are generally responsible for

co-ordinating production, including input sourcing and logistics, but increasingly also for providing services in areas such as product development, design and marketing (Gereffi and Frederick 2010). In the 1990s, large manufacturers, in particular in East Asia (Hong Kong, Taiwan, South Korea), developed into intermediaries organising far-flung transnational production and sourcing networks (Gereffi 1999; Appelbaum 2008). Faced with high demands on price, quality and lead time, high and changing volume demands, and demands for broader non-manufacturing capabilities from global buyers, more capable suppliers tried to position themselves as transnational producers that coordinate networks with a global supply base. In the 1990s, they extended their networks to Latin America, the Caribbean and SSA. More recently, other large manufacturers in Singapore, Malaysia, China, India and Sri Lanka, as well as the Middle East, have also developed transnational and regional manufacturing networks.

Hence, transnational producers have become an important source of FDI in LICs' clothing-export sectors, and provide an opportunity for marginal and new suppliers to enter clothing GVCs in spite of buyers' supply-chain rationalisation strategies. In these triangular manufacturing networks, entry barriers are substantially lower but upgrading opportunities are also limited by the intermediaries' control over key decisions and functions.

Clothing manufacturing is highly competitive and becoming more consolidated. Developing countries are in constant competition for FDI and contracts with lead firms or intermediaries, leaving many suppliers with little leverage in the chain. Given this intense competition and the commodity nature of manufacturing activities, strategies for upgrading are extremely important for suppliers to sustain and improve their positions in clothing value chains. Upgrading in GVCs is defined as moving to higher-value activities to increase the benefits from participating in global production (Bair and Gereffi 2003). Supplier countries and firms can pursue several strategies to upgrade. Five are identified in the literature (Kaplinsky and Morris 2001; Gereffi et al. 2001, 2005; Humphrey and Schmitz 2002; Frederick and Staritz 2012):

- *process upgrading:* improving technology or production systems to gain efficiency and flexibility;

- *product upgrading*: shifting to more sophisticated and complex products;
- *functional upgrading*: increasing the range of functions or changing the mix of activities to higher-value tasks, e.g. moving beyond production-related activities to design, input sourcing or distribution and logistics;
- *supply-chain upgrading*: establishing backward manufacturing linkages within the supply chain, in particular to the textile sector;
- *end-market upgrading*: diversifying to new buyers, geographical markets or product markets.

Functional upgrading is of specific importance for clothing suppliers, and the other upgrading strategies can be viewed as ‘steps along the way’ to achieve functional upgrading (Frederick 2010). These are encompassed within the following types: an *assembly or cut–make–trim (CMT)* manufacturer is responsible for sewing clothing and may be responsible for cutting the fabric and providing simple trim (buttons, zippers). The buyer provides product specifications and the fabric. The clothing factory is paid a processing fee rather than a price for the product. A *full package manufacturer* purchases (or produces) the textile inputs and provides all production services, finishing and packaging for delivery to the retail outlet. The customer provides the design and often specifies textile suppliers. An *original design manufacturer* is involved in the design and product development process, including the approval of samples and the selection, purchase and production of required materials. *Original brand manufacturing* is where suppliers develop their own brands and are in charge of branding and marketing (Gereffi 1999).

Regional markets dominated by regional value chains (RVCs) are often less demanding and provide a terrain for firms to hone their productive capabilities and operational skills, and to learn from less challenging production requirements. This provides the basis for firms to upgrade in a stepwise fashion and move into GVCs and global exports at a later stage.

2.2 Regulatory context of clothing trade

This industry has been one of the manufacturing activities most subject to global trade regulations. Until 2005, textile and clothing trade had been governed by a system of quantitative restrictions

(i.e. import quotas) under the 1974 MFA. The objective of the MFA was to protect the major import markets (Europe, the USA, Canada) by imposing quotas on the volume of textile and clothing imports for most countries. Important textile- and clothing-exporter countries were thus restricted by these quotas, whereas other countries had quota surpluses or no quota restrictions. When clothing manufacturers reached quota limits in their home countries (e.g. Japan, South Korea, Hong Kong, Taiwan and later China), they searched for producer countries with underutilised quotas, or no quota, to set up plants or source from existing clothing firms.

The Uruguay Round of the General Agreement on Trade and Tariffs brought the clothing and textile trade under the purview of the newly founded World Trade Organization (WTO). The 1994 Agreement on Textiles and Clothing aimed to phase out the MFA by the end of 2004. In 2005, this allowed buyers to freely source clothing globally (with the exception of some temporary restrictions on imports from China until the end of 2008). This had adverse implications for LICs relying heavily on clothing exports or seeking to diversify into clothing production, as large exporters were no longer restricted by quotas, so global competition and consolidation trends increased.

Although quotas have been eliminated, tariffs still play a central role in the global clothing trade. Most favoured nation tariffs on clothing imports are on average around 11 per cent for the EU and the USA, with considerable variations for product categories: US tariffs vary up to 32 per cent (WTO 2015). Preferential market access has thus had a substantial impact on global clothing trade patterns. Major preferential market access schemes can be divided into two types of agreements: regional or bilateral trade agreements, and the Generalised System of Preferences (GSP) (Frederick and Staritz 2012).

- Developed countries, particularly the EU, the USA and Japan, have negotiated regional trade agreements to advance regional production networks. Developing countries have also increasingly negotiated a variety of regional trade agreements. However, clothing and textile products are often excluded. In addition, countries have increasingly negotiated bilateral trade agreements. Recently, transregional trade agreements have been negotiated: the EU/US Transatlantic

Trade and Investment Partnership (TTIP), and the Trans-Pacific Partnership (TPP) between the USA and 11 other Pacific Rim countries.

- Twenty-seven developed countries have provided tariff preferences to over 100 beneficiary countries through the GSP. However, tariffs for clothing products are only marginally reduced in the standard EU and US GSP. Within the GSP, some countries have negotiated preferential access for LDCs, e.g. the EU's Everything but Arms (EBA) and the Lomé Convention and its successors, the Cotonou Agreement and the Economic Partnership Agreements (EPAs), as well as the USA's 2000 Africa Growth and Opportunity Act (AGOA).

Preferential market access in these agreements is governed by more or less restrictive rules of origin (ROOs), which ensure that the actual products of trading partners receive preferential market access and that exporters from third countries do not use trans-shipment and 'light' processing to circumvent external tariffs (Brenton and Oezden 2009).² A motivation behind restrictive ROOs is to support backward integration and also regional integration, as cumulation provisions often allow the use of regionally produced inputs. Restrictive ROOs may, however, hinder market access, in particular for LICs, given the capital- and scale-intensive nature of textile production, which makes it a challenge to establish competitive textile sectors.

For SSA countries, preferential market access to the EU and USA has been critical. Generally, preferential market access under the EU GSP used to require fulfilling a double-transformation ROO. However, in 2011, EBA ROOs changed to single transformation for LDCs. The interim EPAs also stipulate single-transformation rules. AGOA extends preferential treatment to more commodities than the US GSP, and was recently extended until 2025. Clothing and textile exports are not automatically eligible under AGOA, as countries need to fulfil additional requirements. AGOA ROO requirements state that clothing has to be made 85 per cent from

yarns, fabrics and threads from the USA or produced in AGOA beneficiary countries. However, a special rule – the Third Country Fabric (TCF) derogation – applies to less developed countries, allowing them duty-free access for clothing made from fabrics originating anywhere in the world. Only South Africa requires triple transformation to qualify under AGOA.

Although trade preferences are crucial in the clothing sector, they are eroding as tariffs generally decrease through trade negotiations at different levels and more countries gain increasing access to tariff preferences. The USA and the EU are negotiating bilateral preferential trade agreements with an increasing number of countries. Vietnam is party to the TPP and is set to gain from the trade deal, as its developed industry will gain duty-free access in the US market (Birnbbaum 2015). Hence, one of the key advantages of SSA countries under AGOA will be eroded, as Vietnam will also gain duty-free access. However, this process is also of concern for Asian exporters such as Bangladesh, which do not benefit from similar preferences in the US market. Therefore, Bangladesh has made efforts to gain similar access via the WTO, where it is lobbying for the full implementation of the LDC package announced at the Hong Kong Ministerial in 2005 (Fibre2Fashion 2015). These regional and multilateral negotiations are likely to undermine the privileged access of SSA exporters to core US/EU markets.

Within SSA, regional economic integration has developed into an important project and accelerated. The following agreements are the most important for current SSA clothing exporters: the Southern African Customs Union (SACU), the Southern African Development Cooperation (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC). The progress of integration related to these agreements is varied, with the EAC being most advanced. To streamline the efforts of different integration projects, the so-called Tripartite Initiative involving COMESA, EAC and SADC was launched in 2008 and was complemented by the

2 They are stipulated as either a certain percentage of the total value of products or certain production steps that have to take place in the beneficiary country. For clothing, it is common to differentiate single transformation (involving only the sewing stage), double transformation (involving an additional production step: knitting or weaving) and triple transformation (adding spinning).

more comprehensive decision of African Union leaders in 2012 to establish a Continental Free Trade Area (CFTA) including 54 African states by 2017 (UNECA 2013).

2.3 Global trade patterns

The phasing out of the MFA, together with the related shifts in competitive dynamics and sourcing policies of global buyers, has had crucial implications on clothing export patterns. China is the largest exporter of clothing, increasing its world export share after the MFA phase-out (from 28% in 2004 to 40% in 2013) (Table 1).

Excluding the EU15 (which includes intra-EU trade), the other top exporter countries – Bangladesh, Vietnam, Turkey, India and Indonesia – collectively accounted for just over half (23 per cent of world export share) of China's total exports in 2013. Generally, the top 15 export countries increased their market share from 81 per cent in 2005 to 87 per cent in 2013. Within the top 15 global clothing-exporter countries, low-cost Asian exporter countries such as China, Bangladesh, India and Vietnam, and to a lesser extent Indonesia and Cambodia, have increased their export shares since 2004. Most other clothing-producing countries have lost global market share since 2004, including higher-cost Asian clothing-exporter countries (Hong Kong, Taiwan and South Korea), US and EU regional suppliers (Mexico, Central America and the Caribbean, North Africa and Eastern Europe) and SSA

countries. The most dynamic growth since 2005 occurred in Vietnam, Bangladesh and Cambodia, which had compound annual growth rates (CAGRs, year-over-year growth rates over a specified period of time) between 13 and 19 per cent (Figure 1). China's growth rates have been slower but they occurred from a much higher base level.

The EU-15 and the USA have been by far the largest clothing markets, accounting for 62 per cent of global clothing imports in 2013. However, since 2008, imports have declined or stagnated in these two end markets as a result of cyclical and structural conditions, including the global economic crisis and for the EU-15 also the eurozone crisis. Imports into emerging-country markets such as Russia, China, South Korea, Turkey, Saudi Arabia and Mexico have experienced the fastest growth. Export statistics, however, obscure the full scale of end-market shifts because they fail to take into account the increasing production for the domestic market. Using data on global clothing retail sales, the Asia Pacific region accounted for 32 per cent of the retail market in 2012 (followed by Western Europe and North America, which accounted for 25 per cent and 23 per cent respectively) but only 22 per cent of the import market. The fastest-growing retail markets since 2005 have been the Asia Pacific and Latin American regions (both had a CAGR of 10%), followed by Eastern Europe (7%), the Middle East and Africa (6%) and Australasia (5%) (Frederick 2015).

3. The export-oriented clothing industry in SSA

3.1 Development of the export-oriented clothing industry

With AGOA as a stimulus, SSA clothing exports increased to US\$3.2 billion in 2004 and dramatically changed their composition (Tables 2 and 3). Exports to the EU stagnated while those to the USA more than doubled, peaking at US\$1.9 billion in 2004. The growth of clothing exports from some countries was spectacular. Lesotho, Swaziland, Madagascar, Kenya and

Mauritius became the largest SSA exporters of clothing, accounting together for around 80 per cent of SSA's total clothing exports in 2004. By 2004, Kenya, Lesotho and Swaziland exported more than 90 per cent to the USA, and Madagascar's major exports shifted from the EU to the USA. Although exports to USA increased, the EU remained the major end market for Mauritius.

After the MFA was phased out, the clothing industry declined quite drastically in terms of

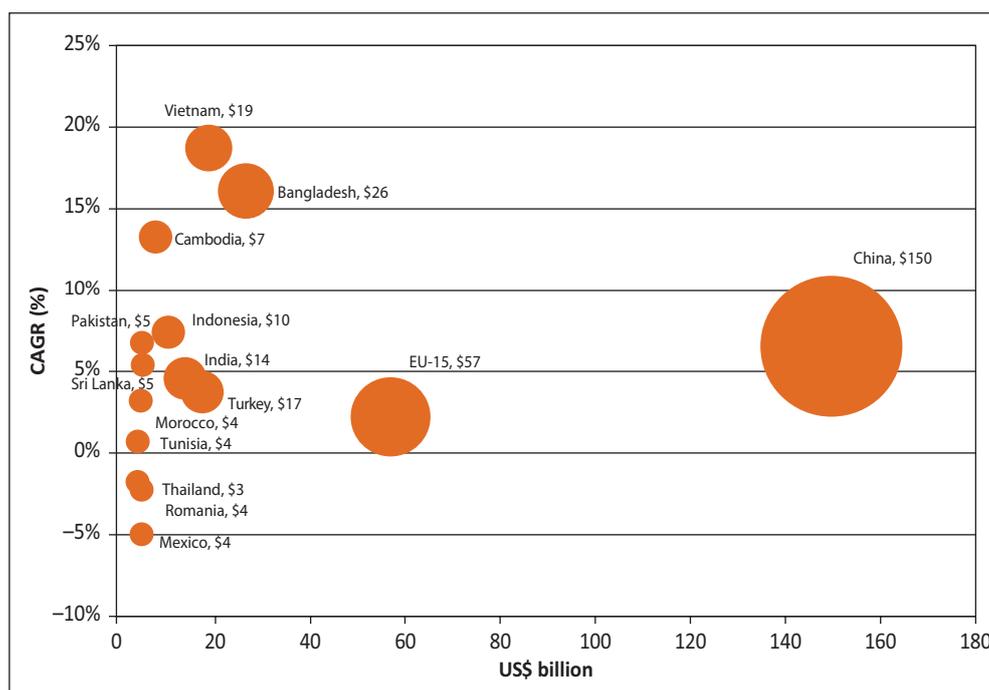
Table 1. Top 15 clothing-exporting countries

Country/ region	Value (US\$ million)					World share (%)						
	2000	2005	2007	2009	2011	2013	2000	2005	2007	2009	2011	2013
World	193,669	268,431	318,533	299,415	375,113	377,619						
China	48,019	89,890	118,362	123,988	155,478	149,585	24.8	33.5	37.2	41.4	41.4	39.6
EU-15	33,980	47,598	56,470	51,405	61,069	56,792	17.5	17.7	17.7	17.2	16.3	15.0
Bangladesh	4,862	8,038	11,208	14,241	21,938	26,450	2.5	3.0	3.5	4.8	5.8	7.0
Vietnam	–	4,739	7,708	9,410	14,077	18,667	–	1.8	2.4	3.1	3.8	4.9
Turkey	6,711	12,942	15,568	13,160	16,289	17,341	3.5	4.8	4.9	4.4	4.3	4.6
India	5,131	9,476	11,458	11,931	14,346	13,563	2.6	3.5	3.6	4.0	3.8	3.6
Indonesia	4,675	5,679	7,386	7,169	9,574	10,073	2.4	2.1	2.3	2.4	2.6	2.7
Cambodia	–	–	3,770	3,482	5,601	7,404	–	–	1.2	1.2	1.5	2.0
Sri Lanka	–	3,083	3,602	3,537	4,274	4,682	–	1.1	1.1	1.2	1.1	1.2
Pakistan	–	–	–	3,222	4,477	4,550	–	–	–	1.1	1.2	1.2
Mexico	8,924	6,683	5,131	3,927	4,541	4,447	4.6	2.5	1.6	1.3	1.2	1.2
Romania	2,737	5,177	4,394	3,219	4,177	4,333	1.4	1.9	1.4	1.1	1.1	1.1
Morocco	–	3,331	4,239	3,598	4,095	4,290	–	1.2	1.3	1.2	1.1	1.1
Tunisia	2,645	3,478	4,121	3,788	4,110	3,665	1.4	1.3	1.3	1.3	1.1	1.0
Thailand	3,672	3,862	4,098	3,509	3,788	3,355	1.9	1.4	1.3	1.2	1.0	0.9
Top 15	147,007	216,185	265,407	259,586	327,834	329,199	75.9	80.5	83.3	86.7	87.4	87.2

Notes: Clothing represented by harmonised system (HS) codes 61 and 62; – indicates country not in top 15 in given year; EU-15 values include intra-EU trade.

Source: UN COMTRADE 2015.

Figure 1. Top 15 clothing exporters (2013) and growth rates (2005/2013)



Notes: Clothing represented by HS codes 61 and 62; EU-15 values include intra-EU trade.

Source: UN COMTRADE 2015.

production, exports, employment and number of firms in all major SSA clothing-exporting countries (Kaplinsky and Morris 2006). The global economic crisis accelerated these developments through a downturn in global demand (Staritz 2011). SSA clothing exports declined by 22 per cent from 2004 to 2009 but started to increase again in 2011 (Table 2). For Lesotho and Swaziland, this increase is largely attributed to a shift in exporting to South Africa. Kenyan exports continued to be exclusively concentrated on the USA. Madagascar's clothing exports remained relatively constant after the MFA as exports shifted from the USA to the EU. The loss of AGOA status following the 2009 coup led to a further reduction of exports to the USA (Table 3). Total clothing exports from Mauritius declined by 15 per cent from 2004 to 2013, as exports to the USA and the EU declined (with the latter related to the eurozone crisis). The new regional market in South Africa increasingly made up for a part of these losses (Table 4).

The most important end-market shift has been the increased importance of the South

African market, which has become a major regional alternative for SSA clothing exporters. The share of exports to South Africa in total SSA clothing exports increased from less than 1 per cent in 2004 to 15 per cent in 2013. In the South African market, regional clothing imports from SSA jumped 15-fold from 5 per cent to 25 per cent in the same period (Table 4). Clothing exports from Mauritius and Madagascar to South Africa accounted for 17 per cent and 15 per cent respectively of their total clothing exports in 2013. Between 2006 and 2013, clothing exports to South Africa from Lesotho increased 36-fold in rand values, accounting for 18 per cent of Lesotho's total clothing exports, while exports from Swaziland increased 89-fold, accounting for 68 per cent of Swaziland's total clothing exports (Table 4).

Kenya does not export to South Africa, as it is not able to access any duty-free advantage. However, from a regional integration and RVC perspective, there is evidence of relatively small, but rising, regional exports to the EAC common market.³

3 The importance of regional clothing exports has increased in Kenya. The share of regional end markets is likely to be under-represented in official data. Interviewees indicated that they export around 38 per cent of production within Africa, and 76 per cent of that to the EAC market (Staritz and Frederick 2012).

Table 2. Top 10 SSA clothing exporters

Exporter	Value (US\$ million)										Share of total (%)									
	2000	2004	2005	2007	2009	2010	2013	2000	2004	2005	2007	2009	2010	2013						
Total	2,092	3,238	2,800	3,011	2,525	2,309	2,862													
Mauritius	962	959	807	965	817	770	847	46.0	29.6	28.8	32.0	32.4	33.4	29.6						
Madagascar	369	562	539	697	578	378	574	17.6	17.3	19.3	23.2	22.9	16.4	20.0						
Lesotho*	153	494	423	415	331	364	409	7.3	15.3	15.1	13.8	13.1	15.8	14.3						
South Africa**	396	478	337	313	371	334	385	18.9	14.8	12.0	10.4	14.7	14.5	13.5						
Kenya	50	307	297	270	213	222	324	2.4	9.5	10.6	9.0	8.4	9.6	11.3						
Swaziland*	37	191	172	149	116	158	161	1.8	5.9	6.1	5.0	4.6	6.8	5.6						
Ethiopia	1	5	5	6	9	13	66	0.0	0.1	0.2	0.2	0.4	0.5	2.3						
Tanzania	3	8	7	8	6	9	18	0.1	0.3	0.3	0.3	0.2	0.4	0.6						
Botswana	26	35	38	43	20	13	14	1.2	1.1	1.3	1.4	0.8	0.6	0.5						
Malawi	27	48	48	37	24	14	10	1.3	1.5	1.7	1.2	1.0	0.6	0.5						

Notes: clothing represents HS92 61+62; exports represent partners' imports. * From 2005 onwards; UN COMTRADE data were replaced with South African Revenue Service (SARS) data for South Africa; conversion to US\$ based on United Nations Conference on Trade and Development (UNCTAD) annual exchange rate. ** From 2007, these are trans-shipment of imports largely from China.

Source: UN COMTRADE (2015).

Table 3. SSA top clothing exporters to USA and EU-15 (US\$ million)

Exporter	USA						EU-15					
	2000	2004	2007	2010	2012	2013	2000	2004	2007	2010	2012	2013
SSA total	748	1,757	1,293	790	866	938	1,130	1,068	1,215	824	815	888
Lesotho	140	456	384	281	301	321	247	203	358	279	340	415
Kenya	44	277	248	202	254	309	729	726	779	506	409	392
Mauritius	245	226	115	120	163	191	0	1	1	5	35	48
Swaziland	32	179	135	93	60	50	90	82	31	14	13	13
Madagascar	110	323	290	55	43	21	2	5	8	6	3	4
Ethiopia	0	3	5	7	10	10	16	13	8	1	2	3
							SSA total					
							Madagascar					
							Mauritius					
							Ethiopia					
							South Africa					
							Cape Verde					
							Zimbabwe					

Notes: clothing represents HS92 61 +62; exports represent partners' imports.

Source: UN COMTRADE (2015).

Table 4. Top clothing exporters to South Africa

Exporter	Value (US\$ million)						Share of total (%)					
	2000	2004	2005	2007	2009	2013	2000	2004	2005	2007	2009	2013
World*	192	564	755	903	1,011	1,761						
China	95	419	558	554	670	1,004	49.6	74.4	73.9	61.4	66.3	57.0
Mauritius	1	4	9	36	50	146	0.6	0.7	1.1	4.0	4.9	8.3
Swaziland*	–	–	2	6	16	110	0.0	0.0	0.3	0.7	1.6	6.3
Madagascar	0	0	0	3	13	84	0.0	0.0	0.0	0.4	1.3	4.8
India	20	30	52	51	51	75	10.5	5.3	6.9	5.6	5.1	4.3
Lesotho*	–	–	1	1	28	73	0.0	0.0	0.1	0.1	2.8	4.2
Bangladesh	0	2	4	20	41	59	0.1	0.4	0.5	2.2	4.0	3.3
SSA total*	24	27	42	76	129	437	12.6	4.9	5.6	8.4	12.8	24.8

Notes: clothing represented by HS92 61+62; exports represented South Africa's imports from partner countries.

* SACU exports are not accurately shown in UN COMTRADE data. Hence, we used data on South African apparel imports from the SACU region from the SARS. Hence, from 2005, onwards we replaced UN COMTRADE data with SARS data for Lesotho and Swaziland. Conversion from rands to US dollars based on UNCTAD annual exchange rate.

Source: UN COMTRADE (2015), SARS (2015).

3.2 Different types of firms and upgrading implications

Related to the end markets, there are different types of clothing firms present in SSA export-oriented clothing industries. Based on supplier-firm ownership, four types of export-oriented firms can be identified: transnational investors, regional investors, diaspora investors and indigenous investors. The main SSA clothing-exporting countries, Lesotho, Swaziland, Madagascar, Mauritius and Kenya, demonstrate differences in the mix of these firm-ownership types. It can, however, generally be said that foreign-owned firms play a dominant role in all five countries. The different characteristics of these firms are manifested in various levels of local or regional embeddedness, which have differential effects on value-chain dynamics, and substantial impacts on upgrading trajectories, skill development and long-term sector sustainability. The co-evolution of differentiated ownership and value-chain dynamics creates a variety of upgrading and industrialisation trajectories in the SSA clothing-export industry.

Transnational investors: These are primarily based in East Asia (Hong Kong, Taiwan, South Korea), but more recently in China, India and the Middle East. Transnational producers, faced with quota restrictions, rising labour costs and high demands from global buyers, have developed triangular manufacturing networks with buyers in industrialised countries, headquarters and

intermediaries in East Asia or other middle-income countries, and supplier firms in LICs. Their primary drivers to invest in SSA were (labour) costs, regulatory regimes – MFA quota hopping, coupled with AGOA duty-free access, together with flexible ROOs – and special FDI incentives. In Lesotho and Swaziland, the transnational firms are mostly Taiwanese owned – 11 in Lesotho and four in Swaziland. In Kenya, the 12 transnational investors in the export-processing zones (EPZs) are mostly from Taiwan, Hong Kong, China and India (see also Phelps et al. 2009). In Madagascar, Asian firms came largely from Hong Kong, China and Taiwan, but most left in 2009/10 when the USA suspended Madagascar's AGOA membership. Nearly all transnational investors have exited Mauritius since the MFA expired (Abdoolla 2013).

Transnational investors follow a global strategy involving long-run production for export to the USA of a narrow range of basic products made in large plants, with generally highly inflexible operating environments and specialising in a narrow range of functional activities (Appelbaum 2008; Gibbon 2008a,b). They generally own production plants in several countries, and operate through access to global sourcing and merchandising networks. The governance structure is based on critical decision-making power and higher-value functions located in head offices, including input sourcing (from their own textile mills or sourcing

networks in Asia), product development, design, logistics, merchandising, marketing and direct relationships with buyers. Hence, production-plants of transnational producers in Lesotho, Swaziland, Kenya and Madagascar (and previously Mauritius) have generally been restricted to CMT activities, and they have limited interest in transferring more functions. Training is generally limited to basic production, coupled with a reliance on expatriates for technical and management skills.

AGOA's importance for transnational investors is very clear. Around 97 per cent of total sales output of Taiwanese firms in Lesotho and Swaziland goes to the USA. In Madagascar, on average, the Asian firms export 88 per cent of production to the USA (even after the AGOA loss). In Kenya, this share is nearly 100 per cent. Their product ranges tend to be narrow and largely undifferentiated. Although some firms try to meet buyer demands for more fashionable products, these changes are marginal and not fundamental. Exports to the USA are very concentrated and relatively similar. Their competitive drivers are high volumes of relatively simple products, cost and line efficiency, combined with AGOA duty advantage. The EU and South African orders are generally below their cost threshold. They are not interested in investigating new end markets, given their global US-focused strategy, and locating sales and merchandising decision-making functions in Asia makes establishing relationships with EU or South African buyers difficult.

Regional investors: These have head offices in their home country that are in charge of higher-value functions and organise production networks focused on a specific geographical region. Notwithstanding important differences among regional investors, they generally do not have global investment and sourcing strategies, and their investments are based on geographic and cultural proximity, allowing greater interaction and a more flexible division of labour. The primary drivers for regional investors in SSA were lower labour costs than in their domestic economy, FDI incentives, preferential market access and geographical proximity to end markets. In Madagascar, regional investors from Mauritius had 14 plants in 2012. This was driven by large clothing groups relocating production of basic products in search of cheap labour as the clothing industry in Mauritius moved into higher-value

products. In Lesotho and Swaziland, South African investors after 2006 sought to escape high domestic wages and inflexible labour market conditions. In 2012 there were 14 South African firms in Lesotho and three in Swaziland. There are no significant regional investors in Kenya.

These investors are regionally embedded. They have company headquarters located in South Africa or Mauritius, where most decision-making, input sourcing, design, product development, merchandising, marketing and direct contact with buyers occurs. Their plants supply largely on a CMT basis. However, regional proximity has led to more interaction and a more fluid division of labour and functions between head offices and their foreign plants, particularly in production and design-related activities. Regional investors also employ expatriates from their home countries and Asia for supervisory, technical and management positions. However, there are generally more locals in supervisory and middle-management positions and, concomitant with more complex products, there is more in-depth training than with transnational producers.

Regional investors export primarily to European and South African markets, which are more similar to each other in order size and demand specifications than to the US market. Their firm structure is generally geared to producing shorter runs with quicker response and more complex products. In Lesotho and Swaziland, the South African-owned firms are tightly linked to their domestic retailers, with 90 per cent of output exported to South Africa. Despite some differences, most focus on shorter runs and slightly more complicated products with some higher-fashion content. Some also utilise their Lesotho and Swaziland operations for basic, higher-volume apparel, but this is the exception. Mauritian-owned firms in Madagascar export to the EU and increasingly South Africa – on average 75 per cent and 25 per cent respectively. Historically, their Madagascar plants focused on longer-run, basic production for the US market but, when Madagascar lost AGOA, they increased production for Europe and South Africa. This shifts in end markets led to shorter-run and more complex products, with positive impacts on upgrading of processes, quality and skills.

Diaspora investors: These investors derive from settler immigrant families with

significant histories in the host country. Hence, they are locally embedded. They are typically owner-managed single-operation firms and are not part of tightly organised production networks, nor do they operate with regional or global reach. In contrast to indigenous investors, they can draw on their diaspora status to link to global networks for input sourcing and access to buyers and end markets. The most successful example is Madagascar, with 21 firms established by largely French immigrants. The combination of Malagasy residence and French market connections provides them with a unique defining characteristic: embeddedness through local decision-making, but also using close cultural relationships to access European networks, buyers and markets. This type is also found in Kenya, where five Indian diaspora investors in particular use their international networks to source inputs. Lesotho and Swaziland have respectively five and six Asian (including a Mauritian) investors operating sole-owner firms that are locally embedded, but without the same cultural linkages as in Madagascar. These firms are therefore dependent on their foreign networks for linkages with input suppliers, buying offices or agents.

Key decisions on merchandising, marketing and contact with buyers or agents are generally made locally. That provides flexibility to react to constraints and opportunities. There are, however, critical differences between the critical mass of European diaspora-owned firms in Madagascar and the few diaspora-owned firms in Kenya, Lesotho and Swaziland. The former's close cultural linkages to European end markets and buyers enable them to upgrade through supplying on a full-package basis, with some design and product development capabilities. These firms export nearly exclusively to the European market and recently to South Africa. Their strategy is to go upmarket, focus on higher-quality, more complex middle- to high-fashion products that generally involve smaller batches, requiring a flexible firm setup, and build on their long-term relationships with European buyers. In Lesotho, Swaziland and Kenya, the functional upgrading potential of these diaspora firms is, however, generally limited to supplying largely basic products on a CMT basis, as they do not have the same close cultural relationships with their buyers.

Indigenous investors: These are investors that have local citizenship. They are typically owner-managed single-operation firms with local decision-making. They are driven by similar investor motivations – social, historical and economic – to those of the diaspora firms. The difference is that, with the major exception of Mauritius, they generally do not have the same cultural heritage as buyers, input suppliers or agents and are, consequently, unable to use this to facilitate their value-chain linkages. Indigenous investors are most prevalent in Mauritius, where currently there are around 120 exporting clothing firms (99 per cent indigenous-owned), varying in size, corporate composition and regional reach, exporting to the EU, US and South African markets (Abdoolla 2013; Ancharaz and Kaseeah 2012). Madagascar has 12 indigenous-owned firms, but these are largely small firms doing subcontracting work for large export firms. The one Kenyan indigenous export firm is basically a subcontractor picking up ad hoc export orders. Lesotho and Swaziland have no significant indigenous-owned clothing exporters.

Indigenous clothing firms differ significantly across countries. Large Mauritian firms have established their own regional production networks in Madagascar, and even started to tentatively invest globally. The local embeddedness of the Mauritian clothing industry, coupled with significant government support, has facilitated functional upgrading to full package and to a lesser extent design involvement, and to higher-value-added products. Partly responding to EU/South African ROO requirements, large firms have integrated backwards into fabric and yarn production, facilitating upgrading to full-package production. The majority of the indigenous larger and medium-scale firms in Mauritius have followed a strategy of moving away from basic clothing products, upgrading to higher-quality and semi-fashion goods with short runs and lead times and increasing the range and styles of products. Some also developed their own brands largely for the domestic market (Abdoolla 2013; Ancharaz and Kaseeah 2012). In Madagascar, this type of firm is struggling and declining, mostly because government support is lacking and they are unable to consolidate buyer linkages. Hence, they are driven into contract production and subcontracting work. The one export-oriented indigenous firm in Kenya also primarily works as a

subcontractor for foreign-owned firms in EPZs, struggling to establish direct relationships with buyers.

Hence, in the SSA clothing industry, the most successful firms are locally and regionally embedded exporters rather than transnational investors embedded in global triangular manufacturing networks. Mauritius and Madagascar have locally and regionally embedded firms driving upgrading paths through a variety of end-market options. Lesotho and Swaziland have recently altered the mix of firms in favour of South African regional investors, who demonstrate a greater propensity to upgrade than historically entrenched transnational Asian firms. Kenya, on the other hand, is almost wholly dependent on transnational investors locked into a single market, and hence most persistently challenged.

3.3 Main development challenges

Different types of firms have the different motivations, drivers, end markets, governance structures and set-ups, related to the value-chain channels they are part of. The challenges they face differ accordingly. Many of the specific development challenges faced by these different types of clothing firms have already been set out in the previous discussion. Our intention here is simply first to summarise them for each firm type and then to detail the general challenges faced by the industry.

The transnational producers have played a crucial role in establishing the industry but they face severe limitations in terms of future growth and sustainability. As long as these firms can export through AGOA and gain duty-free access to the US market, they will contribute to GDP and tax revenues, and provide significant employment, which is not to be disparaged, as the impact is substantial. However, the skill content of the jobs will remain at a low and semiskilled machinist level, localisation of management will be very limited, and competitiveness will not be based on upgrading. The focus of these firms will be based on being a CMT sector for head offices based abroad in Asia, their major concern will remain reducing factor costs, and their innovative dynamic will be frozen. The major policy task facing them is ensuring that AGOA/TCF derogation is maintained.

The regional and diaspora firms are more sustainable. The EU and (proximity to) South

African end markets favour firms that are flexible and able to take advantage of short lead times. Upgrading opportunities are more favourable. These firms are keen to develop and employ local staff in lower/higher management. In the case of regional firms, their head offices are interested in shifting higher-value-added (technical and managerial) functions to local firms in Madagascar, Lesotho and Swaziland. However, they are constrained by the lack of available local human-resource capacity. The Lesotho and Swaziland firms have a proximity market advantage but they also face a serious long-term challenge in upgrading, since the Mauritian and Madagascan clothing industry is more competitive in respect of key operational drivers.

Indigenous investors in Madagascar and Kenya face major challenges in maintaining sustainable and competitive production. Apart from skill and capacity problems, their primary challenge is gaining and maintaining sustained value-chain access to export markets and lead firms' buyers. General challenges include preference erosion, end-market concentration, foreign ownership, lack of backward linkages, skill shortages and infrastructure deficiencies.

Preference erosion: Preferential market access is central for SSA clothing exporters. With AGOA and EBA, and more recently the EPAs, SSA countries enjoy very favourable access to the two major import markets for clothing. Because of single-transformation ROOs and the large share of (often imported) inputs in total costs, the degree of effective subsidy offered to SSA exporters is substantially higher than the nominal tariff rate (Kaplinsky and Morris 2008). The EU offers duty-free access to all African, Caribbean and Pacific Group of States (ACP) countries under the EPAs and to all LDCs under the EBA initiative. This is an important difference between US and EU trade preferences. Together with the generally lower clothing tariffs in the EU, particularly compared with synthetic-based products in the USA, this reduces the relative value of EU preferences. In this context, a central challenge for SSA's clothing sector is preference erosion. AGOA was extended by a further 10 years in 2015, which is a significant step forward from previous extensions. However, more importantly, these preferences may erode through the negotiation of other trade agreements, particularly TTP and WTO negotiations on an LDC package demanding duty-free access for clothing from all

LDCs. Regional market access through SACU and SADC, and potentially also the CFTA in the future, is more sustainable.

End-market concentration: A major challenge to SSA clothing-export growth is the lack of diversification in markets and products. In the first half of the 2000s, concentration was very high: US and EU-15 markets accounted for almost 90 per cent of clothing exports from SSA. By 2013, clothing export markets were more spread, with 33 per cent going to the USA, 31 per cent to the EU-15 and 15 per cent to South Africa. Other, substantially smaller, regional markets include Botswana (3.4%) and Zambia (1.7%). Other high-potential export markets are Norway, Australia, New Zealand, Mexico, Brazil, Argentina, Turkey, Russia and the Middle East, in particular the United Arab Emirates. However, firms and industry associations are not particularly active in diversifying end markets. Local markets could also play a more important role but are often dominated by Asian imports and/or secondhand clothing from Europe.

Foreign ownership: With the exception of Mauritius (and South Africa), the majority of exporting clothing firms in the main SSA clothing-exporter countries are foreign-owned. However, there are important differences between these foreign-owned firms in terms of embeddedness, decision-making, upgrading and sustainability of operations, which lead to different industrial development outcomes and trajectories. Hence, a simple distinction between foreign and local ownership in terms of official nationality is not useful. One has to look at the degree of embeddedness and the upgrading and learning opportunities that are related to differences in firm ownership. A lack of indigenous firms limits learning, linkages and spillovers in the local economy and the broader development potential. Thus, a central challenge for SSA clothing exporters is to increase local involvement in the industry at the management and/or owner level to embed and upgrade the sector, foster local skill development, linkages and spillovers, and make the sector more sustainable. Political factors are central in this regard, in particular the existence of a local entrepreneurial class and government support. Another issue is policy, as governments and industry associations have not supported local involvement in the clothing sector but focused on attracting FDI.

Lack of backward linkages: Access to raw materials, in particular yarn and fabric, is crucial for clothing exporters. SSA is a net exporter of clothing but a net importer of textiles. The SSA clothing industry depends almost completely on imported yarn, fabrics and accessories. Local and regional textile input suppliers for export are very limited. Becoming a competitive fabric and yarn producer is challenging, as textile production is more capital-, electricity-, scale- and skill-intensive than clothing.

Other challenges have arisen, however, related to the uncertain long-term sustainability of the industry, the unavailability of consistent electricity and water supplies, the treatment that is required for textile production, laundry and dyeing, and the high capital costs. Backward integration will be central to increase competitiveness with regard to lead times in particular, production flexibility and costs (i.e. transport, port and customs clearance) as well as to increase domestic value added and local linkages. So addressing the missing textile link is crucial to sustaining and increasing interest in sourcing clothing from SSA. However, since not all clothing-producing countries can become competitive in textile production, ensuring access to regional production networks for some inputs will play a crucial role in addressing the missing textile link in SSA.

Skills shortage: Despite firm-level differences, production efficiency and productivity in SSA clothing plants are low compared with competitor countries. Factory productivity depends on a host of factors, including labour costs, production organisation, workers' and managers' skills, and the equipment and technology used. Deficiencies in skills at both management and shopfloor levels in most SSA clothing industries plays a crucial role. The skill shortage is related to the limited policy initiatives to increase firm-level training and industry-specific training facilities. Except in Mauritius (and South Africa), very little formal training of skilled personnel, technicians, supervisors and managers occurs. There is currently an emphasis on on-the-job training carried out by supervisors and the use of expatriates to address skill gaps, rather than formal training. This is related to the limited number of training institutions dedicated to the clothing industry and the mismatch between the skills provided by these institutions and those needed by the private sector (Fernandez-Stark et al. 2011).

Infrastructure deficiencies: An important factor in the competitiveness of clothing sectors is the efficiency of infrastructure. This includes not just physical infrastructure, such as roads, rails and ports, water, electricity and communication, but also bureaucratic infrastructure, such as port and customs clearance, logistics, firm registration and set-up and the delivery of certification, including work visa applications. Good and reliable physical and bureaucratic infrastructure has increased in importance in the context of shrinking lead times and higher demands from buyers.

Access to and the cost of finance in the clothing sector are also challenging. In SSA it is

generally very difficult to get credit for investment or working capital from banks without collateral. This is a particular problem for indigenous firms and foreign firms that are not part of triangular manufacturing networks and cannot access transnational financing networks. The challenge of financing inputs and production is exacerbated by the purchasing practices of global buyers, which generally demand payment periods of 60–90 days, thus increasing the amount of working capital that full-package production (in contrast to CMT) requires.

4. Policy recommendations: upgrading, local firm development, regional value chains and trade policy

This paper has shown that the limited upgrading in SSA's export-oriented clothing industries relates to GVC dynamics, the nature of FDI and the strategic interest of foreign investors. But upgrading also depends on local conditions. Poor physical and bureaucratic infrastructure, low productivity and skills, and the near non-existence of locally owned clothing firms and suppliers constrain the potential for upgrading. Actually taking advantage of the potential thrown up by the prevalence of more locally and regionally embedded firms, and the value chains they are integrated in, is a major challenge facing the SSA clothing industry and governments.

To date, SSA governments have actively supported the clothing sector. However, most policies have focused on investment and particularly attracting FDI and incentives, and not on furthering upgrading, deepening local involvement, developing value added, skills, and linkages to the local and regional economies. To ensure the potential of clothing exports for industrial development, governments need to improve their productive and institutional capacities. This is necessary in order to 'capture the gains' of integration into and upgrading in clothing value chains in terms of increasing and sustaining incomes, developing local and regional linkages, and promoting

broader industrial development. Unless this is done, the benefits of the clothing industry will be limited to direct creation of employment, rather than its ability to generate skills, upgrading and local and regional linkages that support the industrial development of SSA's economies on a broader front.

The focus in this concluding section is on discussing generic policy issues, taking into account the fact that they have different importance for the four types of exporting firms identified above. We emphasise four broad generic policy areas that require further specific articulation in any particular industry and country context: upgrading and skill development; local firm development and locally embedded clothing industries; market diversification and RVCs; and trade policy and preferential market access.

4.1 Upgrading and skill development

Policies have to focus on improving competitiveness and initiating upgrading in SSA clothing sectors. There remains an urgent need to increase productivity. Without a major productivity improvement programme that assists clothing firms to remain (or become) internationally competitive and fosters a culture to raise the operational competitive levels of

manufacturing operations, the industry will not be able to compete globally. However, production efficiency is not a sufficient and sustainable factor for competitiveness, especially in the context of higher requirements demanded by global buyers.

Competitiveness increasingly involves fulfilling high performance requirements with regard to quality, lead times and flexibility, complexity of products and different types of product, adherence to social and environmental standards, and broader non-manufacturing functions such as input sourcing on suppliers' own account, understanding product development and design, inventory management and logistics. In this context, suppliers have to move away from CMT and develop full-package capabilities. Indigenous, diaspora-owned and regional investors face these upgrading challenges, as their business models and governance structures allow functional and product upgrading and high-value-added activities in SSA plants but they are hindered by local constraints.

Skills development is central to productivity and upgrading. This requires industrial policies focusing on expanding the skilled labour and management pool and improving the institutional fabric related to training. Education and training, in particular at the supervisory, management and technical levels, will be central to overcome skill deficits that hinder improvements to productivity and upgrading. Reducing communication barriers between management and workers is also crucial. Firms will have a major role in this effort to increase productivity but a government-supported 'technology upgrading fund' organised at the industry level could support productivity improvements by offering incentives and low-cost funds for investments in new machinery, technology and skills. Industry-specific vocational training schools and technical or management schools or universities could play a critical role in improving the skills of workers, managers and technicians. It may be useful also to target some training and networking activities at more embedded firms, as they have more upgrading potential.

Such policies require the involvement of a multiplicity of actors in the process. In particular, experience in other countries shows that cooperation between industry associations and public actors has played a critical role in upgrading clothing industries in Turkey, Sri

Lanka, Bangladesh and Mauritius (Staritz 2011; Staritz and Frederick 2012a,b).

4.2 Local firm development and locally embedded clothing industries

Focusing on locally embedded firms and increasing local involvement at the management and entrepreneur levels are crucial to extend the impact of the clothing industry beyond its direct employment-creation effect by fostering industrial development. The paucity of locally owned firms is related to limited traditions of local entrepreneurship in many SSA countries; but it is also related to governments and industry associations not supporting the establishment and development of exporting local firms, as well as their needs for supplies and linkages.

Local firm development is a prerequisite to build a domestic industry and increase interactions and linkages with foreign firms, horizontally (between clothing firms) and vertically (supplier relationships). Opportunities exist to foster input suppliers of less complex trims (i.e. labels, thread or even buttons), hangers, packaging material (i.e. paper boxes, plastic bags), machine parts (i.e. needles, motors, fan belts) and finishing functions such as embroidery, printing, laundry and dyeing. These input-supplier or service-provider firms would require locations close to the exporting firms, support to scale up and upgrade their equipment and production processes, and assistance in developing relationships with foreign-owned firms. Opportunities may also exist for subcontracting. Access to low-cost finance is also central, in particular to develop from CMT to full-package suppliers, as they have to be able to finance inputs and the production process. This is particularly daunting for firms that have no access to head offices abroad or transnational networks for finance.

There are no straightforward policy recommendations for developing local entrepreneurship. However, certain internal conditions and policies are at least necessary (but not necessarily sufficient) for local export-oriented entrepreneurial activities: (i) access to low-cost and long-term finance for productive investment; (ii) access to industry-specific skill training in areas such as management and technical functions; (iii) support in establishing relationships with foreign

investors, buyers and input suppliers; (iv) access to at least the same incentives as foreign investors (or preferably higher); and (v) use of public procurement to further the development of local clothing firms and input suppliers (Staritz and Frederick 2012b).

4.3 Market diversification and RVCs

There are increasing export opportunities in emerging and large developing-country markets as well as in regional and domestic markets. End-market diversification reduces the dependency on specific markets and buyers and may assist upgrading opportunities and increase bargaining power in value chains. Other end markets, in particular regional and domestic markets, might also exhibit better growth and upgrading potentials and allow more beneficial outcomes (Pickles and Smith 2010). Understanding these new markets and the sourcing policies of buyers selling in these markets will be the key to being able to enter these markets.

There is also a large potential in establishing RVCs at the input side. Given the size, capacities and capabilities of SSA clothing sectors, a local strategy for the textile and clothing industries quickly reaches its limits. This can be overcome only through a regional perspective, with regard to both end markets and production networks. Regional integration could play a central role in reducing lead times and costs, capturing more value added and linkages in the region, and diversifying end markets. Buyers increasingly prefer one-stop shopping locations where they can source a variety of textile and clothing products, and consequently shorter lead times and increased flexibility have become key sourcing criteria. In this context, different complementary advantages in the region could be leveraged and economies of scale, vertical integration and horizontal specialisation could be promoted by policies aimed at regional co-ordination and integration.

This is particularly important for developing a textile industry. There are strong opportunities in cotton-based yarn and fabric production in SSA, as cotton is produced competitively in SSA and could be directly processed through spinning and weaving or knitting. SSA countries are traditional suppliers of cotton but the large majority of the cotton lint produced in SSA countries is exported. Becoming a competitive textile producer is challenging, as it is capital-intensive and requires access to reliable

electricity and water sources as well as water-treatment and solid-waste-processing facilities. The textile sector is scale-intensive and needs a critical mass, long runs and predictability. Given the comparatively small size of the clothing sector in individual SSA countries and the different competitive advantages of SSA countries, a regional perspective is required.

A favourable environment for textile investment should be ensured, including the provision of long-term loans for textile investments, the attraction of FDI or joint ventures in the textile sector, greater emphasis on skill development in areas relevant to textile production, and infrastructure development, in particular in the area of electricity and water, which are crucial for textile production.

The most important challenge to intraregional trade and investment is intraregional trade barriers. Tariff and non-tariff barriers remain high in SSA. Despite regional integration efforts, tariff and non-tariff barriers on textile and clothing products are still comparatively high and these products are often found on sensitive lists. Improvements in intraregional transport, logistics and customs facilities are central to reducing the costs and lead times of regional trade. Improvements in physical and bureaucratic infrastructure have to complement productivity and upgrading efforts at the firm level. These improvements are focused in the areas of transport, logistics and customs facilities as well as energy, water and waste treatment.

Intraregional trade must also be actively promoted. Co-ordination and strategic partnerships between different countries in the region, as well as between cotton, textile and clothing-sector associations, is central to establish competitive regional production and sourcing networks. A regional programme that supports intraregional trade by facilitating partnerships between existing cotton ginners, textile mills, clothing factories and regional buyers, with a view to increasing regional sourcing and developing production networks, would be very useful. This is in addition to promoting investments particularly in the 'missing link' of textile mills in countries that have a competitive advantage in textiles production.

4.4 Trade policy and preferential market access

For SSA clothing exporters, preferential market access remains essential in sustaining a position

in clothing GVCs. However, as tariff rates are generally declining, the value of these preferences is eroding. In the short run, however, preferential market access will remain crucial for SSA to sustain apparel exports. Hence, the effects of preference erosion on SSA clothing exporters have to be taken into account in trade negotiations at the international, regional and bilateral levels.

SSA governments need to negotiate duty-free market access to more markets to support export diversification, in particular to middle-income and emerging markets such as Turkey, Russia, the Middle East, Mexico, Argentina, China and India. In market-access negotiations, emphasis should be put on non-restrictive ROOs as well as regional cumulation provisions

in ROOs to enable and encourage the integration of regional textile and clothing industries and the leveraging of regional strengths and to support emerging production networks. However, it also has to be clear that favourable market access is not enough for diversification to new end markets. More targeted policies at the industry level will be necessary, including providing information on different markets, buyers and their sourcing policies; undertaking marketing, promotional and networking initiatives; holding local, regional and international exhibitions to attract foreign buyers; and marketing and image building, including the establishment of a brand 'Made in Africa', similar to 'Cotton Africa', which could support breaking into new markets.

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