The Asian drivers and SSA: MFA quota removal and the portents for African industrialisation

Book Section

2 The Asian Drivers and SSA: MFA Quota Removal and the Portents for African Industrialisation?

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Introduction

Most debates around the industrialisation possibilities for developing countries start off from the impact of globalisation. Increasing globalisation (in the sense of trade liberalisation and opening up of markets) is either deemed to be beneficial to developing country economies or to be detrimental to them. Usually, the impact of globalisation is discussed in terms of the integration of developing country markets into those of the industrialised centres of the global economy – that is, North America, European Union, and Japan. Consequently the discussion hinges on the question of who benefits from opening up developing country markets to these Triad economies (and vice versa).

However, there are two problems with the way these discussions are framed. Firstly, they tend to assume a dichotomous world of 'north' (meaning industrialised) versus 'south' (meaning developing). But this ignores the globalising impact of other rapidly industrialising economies in the South – principally China (including its supply chain hinterland in South East Asia) and India, both of which we term the Asian Drivers – on the rest of the developing world (Kaplinsky, 2005). Secondly, the discussion operates on the assumption that the impacts of globalisation are either positive or negative. In other words, there is an implicit assumption of a uni-dimensional world with uni-dimensional impacts.

Our analysis, however, proceeds from radically different assumptions. This paper attempts to take up both of these issues by viewing globalisation as consisting of multi-dimensional relationships between economies in both the developing and the developed worlds. The prism through which we view these relationships is the impact of the Asian Drivers on the most troubled area of the developing world, sub-Saharan Africa (SSA), in terms of their triangular relationship to the industrialised economies. Secondly, the paper takes an approach which assumes a multi-dimensionality of impacts and global relationships.

In assessing the impact of the Asian Drivers (or indeed any single economy) on SSA (or indeed any other region or economy), it is important to distinguish between two dimensions of effects. The first of these is the competitive-complementary dimension: There is a synergistic fit between the trading economies with win-win elements predominating, or is the relationship one of competition, a win-lose outcome? The second and more complex dimension is that between direct and indirect effects. Direct effects are easy to assess, arising from the bilateral

relationship between the two economies, for example, direct trade links between the Asian Drivers and other economies. Indirect impacts are more complex to assess, arising in third-country economies, for example, the impact which the Asian Drivers have on prices and market shares in third-country markets. A second classificatory taxonomy is that distinguishing different vectors of impacts, here we can identify the following major channels: trade links; flows of finance; links in production (including via FDI); institutions of governance; and migration.

Figure 1 provides a taxonomical overview of these different dimensions and vectors of impacts and helps to situate our analysis of the portents for African industrialisation arising from the global expansion of Asian Driver economies in general and China, in particular. In this paper, we restrict ourselves to a limited terrain-the trade and production vector – through a case study of SSA's clothing and textiles sector. In the conclusion, we assess which of these effects have the largest amplitude.

Figure 2.1: A Taxonomical Overview of Dimensions and Vectors of Asian Driver Impacts on other Regions and Economies

Trade		Direct	Indirect
	Complementary		
	Competitive		
Production and FDI		Direct	Indirect
	Complementary		
	Competitive		
Finance		Direct	Indirect
	Complementary		
	Competitive		
Governance		Direct	Indirect
	Complementary		
	Competitive		
Migration		Direct	Indirect
	Complementary		
	Competitive		

Source: These dimensions and vectors are drawn from IDS (2006).

The paper is organised as follows: Section 2 is focused on the clothing and textiles sector. The reasons for this choice are obvious. First, it is the largest sector of SSA manufacturing exports, a major beneficiary of the US AGOA programme, hence encompassing the north-south dimension. Second, the quotas, which were the significant determinants of global production patterns, were removed at the close of December 2004, with the ending of the Multi Fibre Arrangement. Quota removal was widely believed to favour China and other Asian producers at the cost of other low-wage economies in general and SSA in particular. Furthermore, the removal

caused the closure the triangular relationship by encompassing the south-south dimension. Section 3 considers the wider impact of this sectoral case-study and assesses the implications for future industrial growth in SSA.

MFA Quota Removal and SSA's Clothing and Textiles Sector

In 2004, a US International Trade Commission (ITC) enquiry into competitiveness in the global textiles and clothing industry provided a comprehensive overview of emerging trends, based in part, on a series of country case-studies conducted by industry experts. It concluded that China is 'expected to become the "supplier of choice" for most U.S. importers (the large apparel companies and retailers) because of its ability to make almost any type of textile and apparel product, at any quality level, at a competitive price'. The ITC concluded that, China's low unit labour costs were due to a combination of low wages and high productivity. In terms of quality, it is 'considered by industry [to be] among the best in making most garments and made-up textile articles at any quality or price level' (USITC, 2004: xi and xiii). Lead times were also relatively low.

If accurate, this represents a major challenge for SSA clothing and textile exporters. One indicator of the sector's regional importance is that, although clothing and textiles exports declined between 2003 (the peak year) and 2004, they still accounted for 4.7 percent of the total SSA merchandise exports, and 18.7 percent of total SSA manufactured exports in 2004 (WTO, 2005). (Most of these exports, 4.1 percent and 16.4 percent respectively, were clothing). SSA clothing and textile exports are heavily concentrated in a few economies, and their strategic significance in some of the economies is very important, with major implications for growth and poverty reduction. For example, in Lesotho, clothing and textiles accounted for ninety-nine percent of exports and fifty percent of GDP in 2002 while in Kenya in 2003, employment in the export processing zone export-oriented clothing enterprises, accounted for the equivalent of nearly twenty percent of all formal sector manufacturing employment outside of the EPZs (Kaplinsky, 2004).

The Global Clothing and Textiles Sector

China is substantially the world's largest clothing exporter, increasing the value of its clothing exports by 540 percent from $9.7 billion in 1990, to $62.0 billion in 2004 (Table 1). In 1990, China accounted for only nine percent of the world's total clothing exports, but by 2004, its share had increased to twenty-four percent. If

Table 2.1: World Trade in Clothing by Top Ten Countries (US$ million)

	Exports Clothing									**1990-2004**	**% world total**	
Country	1980	1985	1990	1995	2000	2001	2002	2003	2004	**% change**	1990	2004
China	1,625	2,450	9,669	24,049	36,071	36,650	41,302	52,061	61,856	540	9	24
Hong Kong	4,976	6,718	15,406	21,297	24,214	23,446	22,343	23,152	25,097	63	14	10
Italy	4,584	5,320	11,839	14,424	13,384	14,220	14,643	16,191	17,925	51	11	7
Germany	2,882		7,882	7,530	7,320	7,444	8,338	9,749	11,221	42	7	4
Turkey	131	1,208	3,331	6,119	6,533	6,661	8,057	9,937	11,193	236	3	4
France	2,294	1,935	4,671	5,659	5,414	5,469	5,882	6,935	7,865	68	4	3
Mexico	2		587	2,731	8,631	8,012	7,751	7,343	7,197	1126	1	3
India	673	930	2,530	4,110	6,179	5,484	6,037	6,459	6,620	162	2	3
Belgium					3,941	4,206	4,649	5,353	6,235		0	2
United States	1,263	785	2,565	6,651	8,629	7,012	6,032	5,537	5,059	97	2	2
World	40,590		108,129	158,353	197,498	194,490	202,310	225,940	258,097	139	100	100
	Imports Clothing											
United States	6,943	16,202	26,977	41,367	67,115	66,391	66,731	71,277	75,731	181	24	28
Germany	8,326		20,411	24,550	20,183	19,330	19,647	22,219	24,076	18	18	9
Japan	1,537	2,012	8,737	18,758	19,709	19,186	17,602	19,485	21,687	148	8	8
UK	2,858	2,694	6,961	8,002	12,995	13,169	14,657	16,551	19,245	176	6	7
Hong Kong	695	1,671	6,913	12,654	16,008	16,098	15,640	15,946	17,129	148	6	6
France	2,637	2,707	8,381	10,639	11,412	11,769	12,402	14,771	16,791	100	7	6
Italy	797	779	2,580	4,703	6,139	6,697	7,576	9,342	11,130	331	2	4
Spain	152	121	1,649	2,492	3,847	4,279	4,965	6,559	7,732	369	1	3
Belgium					4,828	5,013	5,272	6,249	7,156	0	0	3
Netherlands	2,875	2,045	4,768	5,132	5,371	5,220	5,250	5,943	6,644	39	4	2
World	42,271	50,822	112,236	162,871	207,093	203,820	211,765	236,035	269,473	140	100	100

Source: Morris: Morris, Barnes and Eselar (2007)

Hong Kong, with ten percent of the world total is included, China effectively accounted for one third of the world clothing exports. China is also the world's largest exporter of textiles products, with seventeen percent of global textile exports. Its textile exports increased from $7.2 billion in 1990, to $33.4 billion in 2004 (362 percent), while its share of the world total more than doubled. Hong Kong and Italy each accounted for approximately eight percent of total textile exports, exporting $14.2 billion and $15.3 billion respectively in 2004. China holds the greatest share of US imports (seventeen percent), with imports more than doubling since 1997, to reach $10,997 billion in 2003.

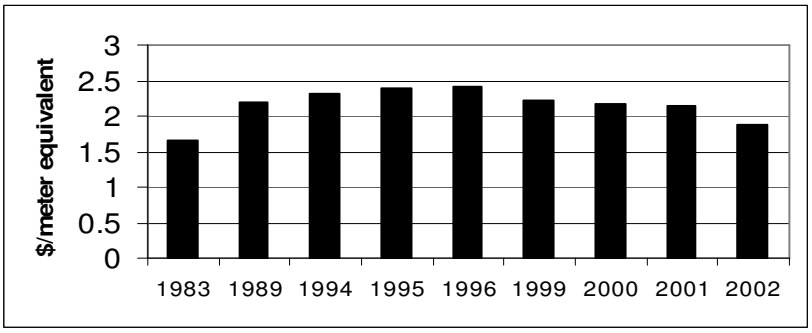
SSA is only a small participant on this global stage. Its share of the global textile exports was only 2.6 percent in 2004, and 3.7 percent for clothing (WTO, 2005). Most of these clothing and textile exports are destined for the USA, the largest SSA clothing and textile exporters are Lesotho, Madagascar, Kenya, Mauritius, Swaziland and South Africa.

Preferential Trading Regimes and AGOA

This structure of the global clothing and textiles sector reflects three major factors. The first is the concentration of global buying power in the industrialised countries (Gereffi and Memedovic 2003; Kaplinsky, 2005). The significance of this buyer concentration is their requirement for large volumes (and of course low prices). This has made it difficult for small scale suppliers to meet the requirements of large global buyers and this has advantaged countries, such as China, with large volume plants and trans-national companies (often based in Hong Kong and Taiwan), who have a competitive advantage in organising large-scale production runs.

The second major explanation for the structure of global production has been costs and efficiency. Although the clothing industry has become increasingly characterised by the requirement for shorter lead-times, greater inter- and intra seasonal variety and tighter logistics (ITC, 2004; Kaplinsky, 2005), cost has been king in this industry. The intensity of the competition in these areas has been reflected in cost pressures and as Figure 2 shows, indicates, since the mid-1990s, there has been a secular downtrend in the global price of clothing (as reflected in the unit price of clothing imports).

Figure 2.2: US Import Prices for Clothing and Textiles, 1983-2002 ($/sqm equivalent)



Source: Manchester Trade Team (2005), from *Textile Outlook International*

The third and the most important determinant of the global production structure has been the protective regime, which has determined the pool of countries who can reliably serve these large scale global buyers with low-cost and quality-assured product. Three protective regimes have been important, particularly in explaining SSA's role in this global industry. It is important to note here that the US protective regime is most important to the SSA clothing and textiles industry since the overwhelming share of exports (particularly for Kenya, Lesotho, and Swaziland) is destined for the US market. Table 2.2 provides the data for key SSA, Eastern and Southern African clothing exporters; it excludes Mauritius, which is a major exporter to the EU.

Historically, the most important preferential trade regime has been the multifibre Arrangement (MFA) (formally superseded by the Agreement on Textiles and Clothing in 1994, but still largely referred to as the MFA). For the last quarter of the twentieth century, the MFA regulated much of global trade and production in this sector, ratifying countries' rights to impose quotas on textiles and clothing imports. This quota-based preferential trade access meant that production spread to an ever-increasing number of countries. This was largely because firms in quota-full economies organised garment production in under-utilised quota producer countries. Thus, during the 1990s, a rapid process of third party organising and supply sourcing functions spread throughout the developing world to provide access to established markets. Hong Kong garment producers opened factories in Mauritius and elsewhere, and Korean and Taiwanese producers spread their operations to the Caribbean and SSA. In turn, as they matured in their operations and established their own footholds, Mauritian garment producers also spread their operations to Madagascar.

Table 2.2: Share of US in Exports of Key SSA Clothing Exporters

Supplier*	**Year**	**Exports ($ '000):**		
		World	**USA**	**US share%**
Kenya	2000	51,527	46,701	90.6
	2001	74,094	68,967	93.1
	2002	139,607	135,180	96.8
	2003	208,476	201,749	96.8
	2004	305,448	295,520	96.7
Lesotho	2000	154,192	146,364	94.9
	2001	236,968	223,549	94.3
	2002	347,957	342,432	98.4
	2003	427,504	418,995	98.0
	2004	494,155	481,787	97.5
Madagascar	2000	610,683	115,377	18.9
	2001	686,695	188,102	27.4
	2002	237,440	96,706	40.7
	2003	363,023	211,742	58.3
	2004	559,501	345,728	61.8
Swaziland	2000	37,712	33,356	88.4
	2001	56,518	50,340	89.1
	2002	102,219	95,352	93.3
	2003	153,054	149,683	97.8
	2004	190,537	188,467	98.9
South Africa	2000	453,153	150,313	33.2
	2001	456,433	183,713	40.2
	2002	347,239	193,376	55.7
	2003	415,233	248,532	59.9
	2004	252,453	149,402	59.2

* Mauritius is a major SSA exporter but is excluded from this table as it is not part of this study.

Source: UNSD COMTRADE database, accessed via World Integrated Trade Solution (WITS) on 15 December 2005; Country and sectoral data calculated on the basis of US imports.

In more recent years, large Asian producers, especially in Hong Kong and Taiwan, developed the capacity to mobilise and coordinate full-package manufacture (that is, all the manufacturing stages) in the global textile and clothing value chain, leading to what Gereffi (1999) termed 'triangular production networks'. In other words, production in one country (usually least developed) was organised and coordinated by firms in another (mostly middle-income) country, with products produced sold on to final buyers in yet a third (usually industrialised) economy.

Following a five-year phase-down, the MFA came to an end on 31 December 2004, and with it, all quotas on textiles and clothing trade between member states of the WTO ended. The final step of quota removal on the 1 January 2005 came as a "big bang" - 86.5 percent of US quotas and 73.3 percent of EU quotas were involved (Williams *et al*, 2002: 580). However, the removal of quotas did not mean a level playing field since global trade in clothing and textiles is still regulated by tariffs. In the case of the US, in 2001 the average weighted tariff for clothing and textiles was 15.5 percent, but they ranged from around

thirteen to seventeen percent for cotton products and from twenty-five to thirty-five percent for synthetic products.[1]

The African Growth and Opportunity Act (AGOA) was signed into USA law on 18 May 2000. The aim of the Act is to assist SSA, using trade as a means of generating revenue, investment and employment. The largest manufacturing sector beneficiary of AGOA has been the clothing and textiles sector; this is because AGOA extends the GSP preferences offered to low-income economies to clothing and textiles. AGOA incorporated different rules of origin compared to the GSP. It built on procedures which had been established early in the 1990s, in relation to the Caribbean Basin Initiative, allowing for the use of US-origin inputs or regional inputs in the calculation of minimum levels of value added (thirty-five percent).

Nevertheless, despite these concessions, few SSA economies were able to meet these rules of origin in the clothing and textiles sector. Thus, in a further key amendment, AGOA-qualifying countries which were also classified under the UN's "least developed category" (that is, per capita incomes of less than $1,500 in 1998) were also subject to a further amendment to GSP rules of origin. That is, until September 2004 (subsequently amended to September 2007 and then to 2012), they could source their material and accessory inputs from non-AGOA and non-US bases suppliers (up to a restricted share of US clothing imports), including from China and other Asian economies. In other words, they were freed from the minimum value added requirement.

In 2004, the six largest exporters of clothing and textiles to the US under the AGOA scheme were Lesotho, Madagascar, Kenya, Mauritius, Swaziland and South Africa (Table 2.3). The critical issue is the relationship between total exports of clothing and textiles and those which were AGOA-rules qualifying (compare Tables 2.2 and 2.3). In 2004, excluding Mauritius and South Africa, more than ninety percent of SSA clothing and textiles exports to the US has been via AGOA's preferential trade access. The share of AGOA exports in all exports grew rapidly between 2001, and 2004 (particularly for Swaziland and Kenya); this reflects two general tendencies. First, new investments (including plant expansion) were made, directly targeting AGOA exports to the US. And second, in some cases, pre-existing plants exporting to the US were brought under the AGOA umbrella. The impact that this clothing- and-textiles based industrialisation process has had on creating wage employment and reducing poverty in these poor SSA countries has been huge (see table 2.3).

Table 2.3: AGOA Clothing Exports to US, 2001 - 2004 ($m, and % share of all clothing exports to US)

Country	**2001**		**2002**		**2003**		**2004**	
	$m	%	$m	%	$m	%	$m	%
Lesotho	129.2	60.1	317.7	98.9	372.6	94.9	447.6	98.2
Madagascar	92.1	51.8	75.4	84.4	186.3	94.9	314.5	97.3
Kenya	51.7	80.0	121.3	96.6	176.2	93.9	271.5	97.9
Mauritius	38.9	16.3	106.5	41.8	135.0	50.2	147.8	65.3
Swaziland	8.2	17.1	73.7	82.7	126.9	90.2	175.6	98.3
South Africa	30.4	17.4	85	46.9	126.6	54.5	114.7	81.2

Source: For 2001 and 2002, Gibbon, 2003; For 2003 and 2004, http://dataweb.usitc.gov/ and www.tralac.org (Accessed March-October 2005)

SSA in the Post-Quota Era - Five Key Exporting Economies

[1] Ad valorem tarrifs only (UNCTAD, 2003:15). There are two explanations for the higher tariffs on synthetic products despite the fact that this is the area of speciality for the US clothing and textile industry. First, the US industry saw cheap synthetics as a competitor to its cotton products. Second, synthetics were incorporated into the MFA at a later stage than cotton products, and the US industry, which had been scared by competition in cotton products, saw this as an opportunity to dampen potential future competition in synthetics (We are grateful to Peter Minor for these observations).

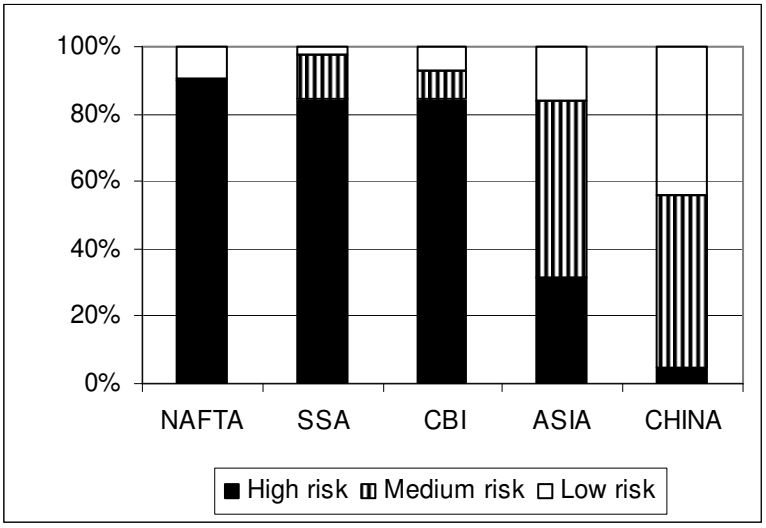
Predictions

The "big bang" of January 2005 was a very significant event. It allowed countries, such as China, which had formerly been limited in accessing major markets by quotas to compete on price. Those countries such as the AGOA-qualifying economies and other groupings incorporated in preferential trading arrangements (for example, the Caribbean Basin Initiative economies and Mexico through NAFTA) continue to benefit from a remission of duties. China prepared for quota removal with investments to improve efficiency. In 2002, it accounted for seventy-five percent of global shuttle-less loom purchases and in the process of automation, displaced one million workers (USITC, 2004). This was reflected at the firm-level. For example, between 1998 and 2004, the Shanghai Shenda Group fired 50,000 workers, out of a total labour force of 60,000, and closed down twenty factories. In the same period, sales rose from $170m to $415m (Hilligas, 2004: 13).

It was not just China which geared itself for this change but, more importantly, the global TNCs, which had developed to serve the needs of the large scale buyers in the major clothing importing countries. Many of these clothing and textiles TNCs have their bases in Asia. In 2003, there were 20,000 FDI investments in China in clothing and textiles and FDI inflows into this sector comprised ten percent of overall incoming FDI into China. More than one third of China's clothing and textile exports in 2004 were directly exported by TNCs (Appelbaum, 2005) but, perhaps more importantly, externally-based global intermediary buyers (Gereffi's (1999) "triangular manufacturers") coordinated much of the clothing and textiles exported directly by Chinese-owned companies.

In anticipation of quota removal, there were a large number of attempts to predict the outcome (Kaplinsky and Morris, 2006: Annex 1). With regard to SSA, most studies predicted a severe, if not catastrophic outcome, not only with regard to the indirect competitive impacts in third country markets, but also in regard to the poverty impact (Business for Social Responsibility, 2005). Figure 2.3, based on the widely-cited 2004 ITC Report, suggested that Asia, in general and China, in particular, would be the major beneficiaries of quota removal, and that NAFTA and SSA would be the major casualties.

Figure 2.3: USITC Prediction of Vulnerability of Clothing Exports Following Quota Removal (% of clothing exports)



Source: Data derived from USITC (2004).

Outcomes

In assessing the outcome of the first year of quota removal, we focus on aggregate AGOA exports, as well as the major exporters (with the exception of Mauritius), namely: Lesotho, Swaziland, Kenya, Madagascar, and South Africa. We concentrate on the clothing sector since, with the exception of South Africa, there are negligible direct exports of textiles to the US. In each case, we compare export volumes, unit prices and market shares with China. (See Kaplinsky and Morris, 2006 for more detailed analysis and for a comparison with India and other East-Asian economies).

As can be seen from Table 2.4 and Figures 2.4 and 2.5, the major trends were that:

Table 2.4: Change in Value of Exports and Unit Prices in Clothing Exports to the US, 2004-2005 (%), Weighted Average of Top Ten Products for Individual Countries*

	Value (% change)		**Unit prices (% change)**	
	SSA	**China**	**SSA**	**China**
AGOA	-17	58	-0.9	-45.9
Lesotho	-17	112	-3.2	-46.2
Madagascar	-14	76	-9.5	-44.0
S. Africa	-45	65	3.0	-33.0
Swaziland	-10	91	-2.7	-51.9
Kenya	-3	97	-1.9	-44.8

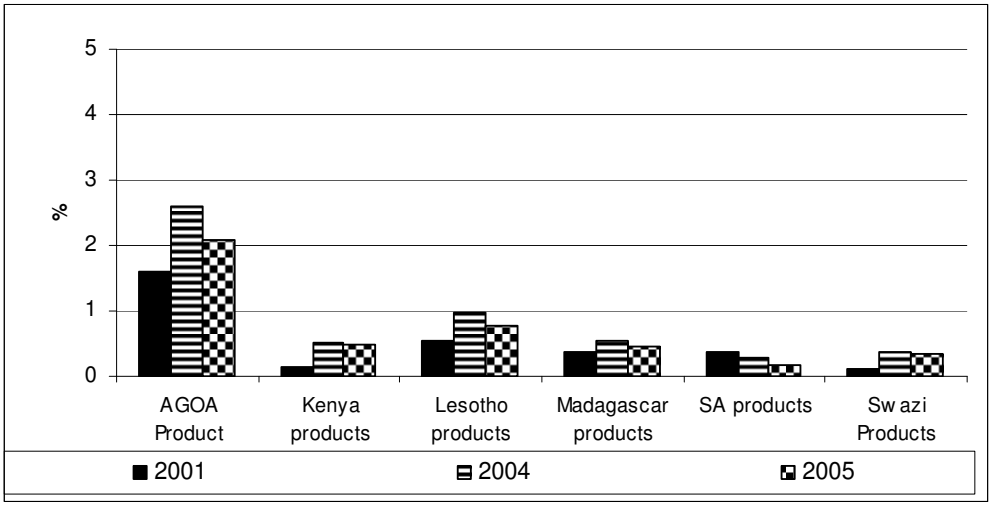
*In each case, China's exports are in the same ten-digit product groupings as are those of the individual countries.

Source: Calculated from http://dataweb.usitc.gov data, accessed on 10 January 2006

- The value of African clothing exports to the US dropped by seventeen percent in the first year after quota removal. Lesotho experienced a similar fall in export value, followed by Madagascar (fourteen percent fall) and Swaziland (ten percent decline). The two outliers were Kenya, where exports declined by only three percent, and South Africa, whose exports collapsed by forty-five percent.
- By contrast, the value of China's exports to the US of the same products grew very rapidly, by fifty-eight percent by comparison with all AGOA exports and to a larger extent by comparison with the ten major traded products of individual countries.[2]
- Unit prices, on average, remained reasonably stable in key product groupings for individual countries, with Madagascar experiencing the sharpest decline (ten percent). By comparison, in the same product groupings, the unit value of Chinese exports almost halved. (However, it is not clear to what extent this was due to a reduction in the unit prices of individual products, or China's entry into producing lower-end products within each of these ten-digit product classifications).
- In general, AGOA economies performed less badly in their major exported items than they did in the aggregate, suggesting a process of specialisation. However, it is a cause for alarm that China's export growth in these sectors and the rate of price decline was faster than for its overall exports, suggesting potentially heightened competition for SSA products in the future.

[2] In each case in Tabel 2.4, we compare Chinese export values and unit values in the twenty largest ten-digit product groupings for AGOA and each SSA country's exports to the US.

Figure 2.4: AGOA country share of US market in 10-digit product categories in which country exports were concentrated in 2005

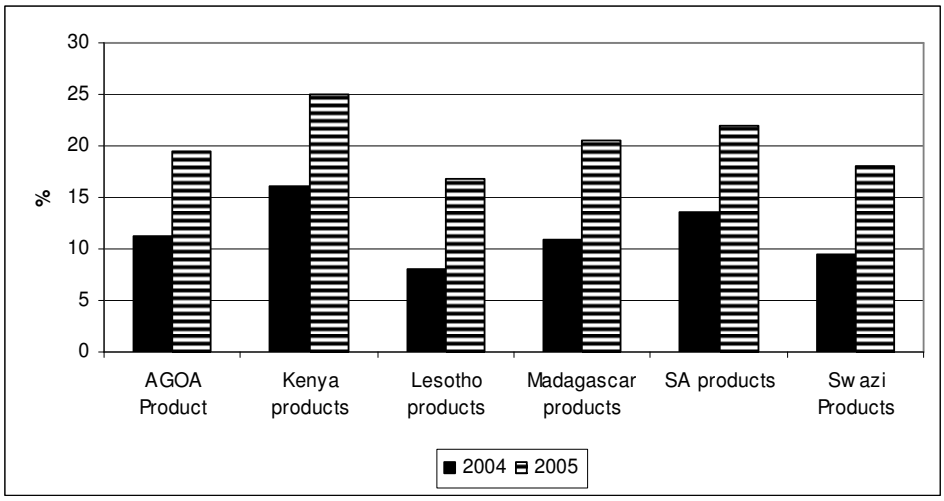


Source: Calculated from http://dataweb.usitc.gov data, accessed on 10 January 2006.

Source: Industry and Government interviews.

- The share of SSA exporters in the US clothing and textiles imports grew between 2001 and 2004, reflecting the combination of quota-access and preferential AGOA trading arrangements. However, the removal of MFA quotas set back this advance, and African exporters experienced a significant fall in their share of the US market after quota removal. By contrast, China's share in each of these major product markets grew significantly.
- South Africa reflects a possible and negative face of SSA's future. Unable to access imported materials through the derogation on market-entry for least-developed countries, South Africa uniquely experienced a very large fall (a halving in fact) of its exports to the US.

Figure 2.5: China's Share of US Market in 10-digit Product Categories in Which AGOA Country Exports Were Concentrated in 2005



Source: Calculated from *http://dataweb.usitc.gov* data, accessed on 10 January 2006

Source: Industry and Government interviews

A major consequence of this decline in exports from the AGOA region was the impact on employment and overall economic activity. At its peak, in 2002, Lesotho's clothing exports to the US accounted for virtually all manufactured exports, and contributed fifty percent of GDP. In Kenya, in 2003, clothing enterprises accounted for the equivalent of nearly twenty percent of all formal sectors manufacturing employment. Table 2.5 demonstrates the impact of quota removal on employment in 2005. In Swaziland, the most severly affected courny, overall employment more than halved; Lesotho employment fell by twenty-nine percent. Even in Kenya, where clothing exports had fallen by only three percent in 2005, employment declined by nearly ten percent. The South African case is much worse than appears from Table 2.5. There had been a severe employment loss in the industry in the years preceding the removal of quotas. Moreover, as we have seen, unlike the other AGOA economies in this Table, South Africa had not been able to build its AGOA clothing exports on the back of imported fabrics.

Table 2.5: Employment Decline in the Clothing Sector, 2004-2005

Clothing sector Employment

	2004	**2005**	**% decline**
Kenya	34,614	31,745	9.3
Lesotho	50,217	35,678	28.9
S Africa	97,958	83,081	15.2
Swaziland	32,000	14,000	56.2

Source: Industry and Government Interviews

Buyer Intentions

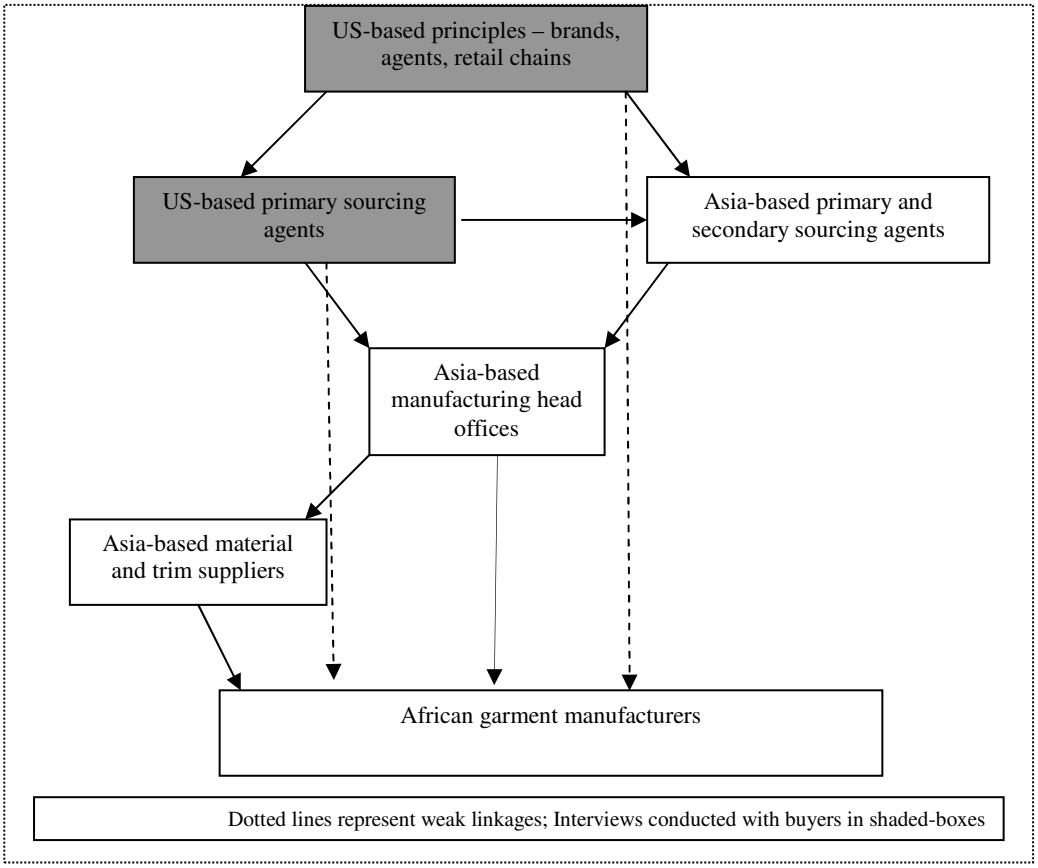
The broad conclusion from this trade analysis is that, although there has been considerable pricing pressure and employment loss, and although some sectors (knitwear) and some economies (South Africa and Lesotho) were hit worse than others, SSA AGOA exports were surprisingly resilient. This outcome, at least in the first year after quota removal, contradicts some of the bolder predictions of the post-quota future of SSA's clothing and textile sector.

In searching for an explanation for this, we polled the major US buyers. The purchasing process is triggered by the final retailers in the US who, often using in-house design offices, define the product lines and price points which they require for the coming season. In a very limited number of cases, retailers (such as Walmart) and brand-sellers (such as The Gap) make direct contact with manufacturers. But in most cases they pass over their requirements to US-based primary sourcing agents. These primary sourcing agents, in turn, either contact secondary sourcing agents in producing countries, or more commonly, and especially when there are very large orders, make contact with Asian-based manufacturing companies (the "triangular manufacturers"). It is these manufacturing houses who ultimately decide where different products are to be sourced from and most often provide clothing manufacturers not only with the designs, but also the fabrics which they use. However, in most cases, the US principals and sourcing agents are aware of the source of these garments and influence the decision made by their Asian intermediary buyers and manufacturing houses.

Our interviews were exclusively with the US-based retail and sourcing agents, shaded grey in Figures 2.4 and 2.5. Our decision was based on the premise that SSA clothing exports were overwhelmingly destined for the US final market (Tables 2.2 and 2.3 above), and we assumed that it was here that the key sourcing decisions were to be made.

The views and perspectives of twenty US buyers were obtained through a telephone survey carried out in the summer of 2005. These companies are large, multi-store operations with substantive global sourcing activities in clothing and other consumer goods. The participants came from four key market segments: branded specialty retail (nine responses); manufacturers (branded and private label, eight responses); department stores (two responses); and mass merchants (one response). The share of their total sourcing portfolio coming from SSA, ranges from one to five percent with the exception of one small company (turnover of $30m in 2004), which obtained thirty percent of its product from SSA.

Figure 2.6: Triangular Manufacturing and SSA Clothing Exports to the USA



Source: Own construct

Amongst the issues we explored with buyers (see Kaplinsky and Morris (2006) for a discussion of wider issues) was whether quota-removal was likely to lead them to retreat from SSA, and whether this differed between the short-term (the coming one-to-two years) and the medium-term (the coming three-to-five years).

A key response (Table 2.6) from sixteen of the nineteen respondents was that they were largely sourcing from SSA in order to compete on price. Their inability to access products from quota-constrained economies such as China was not the major reason they were importing from SSA.[3] Second and as a consequence of SSA's current price competitiveness, approximately half of the buyers thought that there would be no change over the coming two years, and four of them said that, if anything, they were likely to increase purchases from SSA. However, there is clearly an expectation that SSA will suffer from diminishing competitiveness, since when asked about intentions over the medium-term, almost half of the buyers (nine of the nineteen) thought that they were likely to decrease imports from SSA over the three-to-five year time horizon.

Table 2.6: How Important have MFA Quotas been in your Decision to Source from SSA? (Number of buyers)

Questions	Decrease	Unchanged	Increase	Total
'How are you likely to change	3	16	0	19

[3] However, to some extent SSA's price competitiveness had its origins in the quota-system. Given an absolute limit in the number of items which could be exported, Chinese producers generally tended to concentrate on high-price, high margin products, leaving SSA concentrated at the bottomend of the price range.

SSA sourcing as a result of quota elimination?'				
'What are your plans to source from SSA in the next 1-2 years?'	4	11	4	19
'What are your plans to source from SSA in the next 3-5 years?'	9	8	2	19

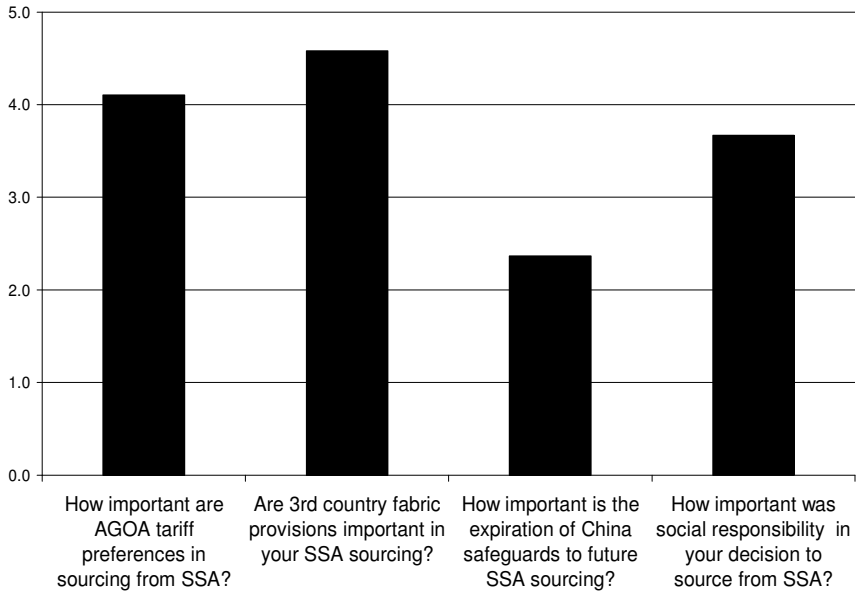
Source: Own survey

If quotas were not a major reason why buyers currently source from SSA, then how important are AGOA preferences to SSA's competitiveness? The response (Figure 2.7) was that this was clearly critical, with more than half of the buyers (ten out of nineteen) reporting that it was 'very important'. However, even more important was the view that it was the derogation on the rules of origin allowing AGOA economies to source fabrics from Asia which made it possible for these economies to compete (fifteen of the nineteen buyers characterised this as being 'very important').

Again, reflecting the fact that quotas have not been the basis for sourcing from SSA in recent years, few of the buyers thought that existing or likely future "China safeguards" would make much difference.[4] A majority of buyers also thought that consumer pressures on Corporate Social Responsibility (CSR) were a significant factor in sourcing from SSA, reflecting the growing commercial need of buyers to show awareness of the poverty-impact of their sourcing decisions.

[4] The Chinese accession agreement to the WTO, allow for safeguard tariffs and quaotas to be applied solely against Chinese textiles and clothing, even when imports exert only a slight a dverse impact on the domestic industry. In June 2005, the EU and China reached an agreement that limited ten categories of Chinese textiles exports to the EU to between 8 and 12.5 percent growth above a specified base period for the next three years. In December 2005, the US and Chinese trade representatives agreed to a three-year agreement reducing US imports of Chinese textile and apparel products in all or parts of thirty-four sensitive categories.

Figure 2.7: 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)

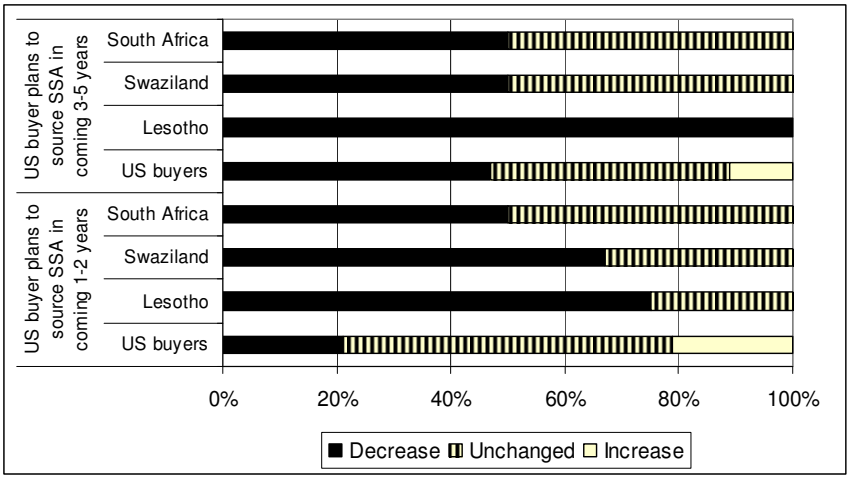


Source: Own survey

To close the triangle, we also interviewed enterprises in the five SSA countries. One of the more surprising outcomes of these plant-level visits was the pessimism of the firms, at least insofar as this is reflected in responses from enterprises in Kenya, Lesotho, Swaziland and South Africa.

As Figure 2.8 indicates, the US buyers have much more positive intentions of staying in the region than the firms perceive. Eighty percent of them expect either to have unchanged purchasing requirements or increased requirements from SSA over the coming one-to-two years, and almost half believe that this will be the case even over the three-to-five year time horizon. By contrast, producers in all countries (and especially Lesotho) think it much more likely that sourcing requirements will deteriorate.

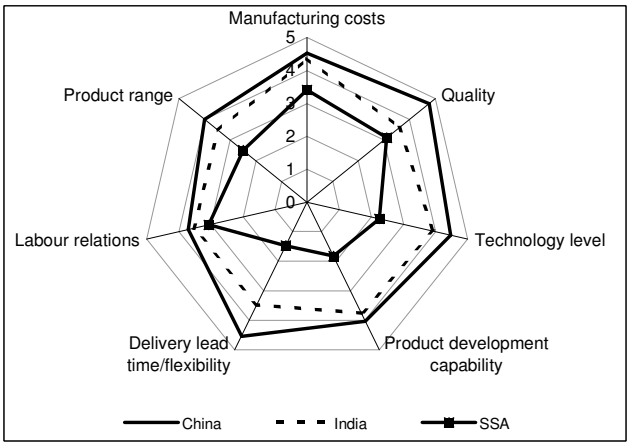
Figure 2.8: Producer Perceptions of Future Sourcing from SSA



Source: Own survey

Finally, we asked the US buyers to rank the performance of firms in SSA compared to their Chinese and Indian counterparts (Figure 2.9). Chinese firm capabilities were clearly observed to be more developed in every respect, followed by Indian suppliers and then, some way behind, SSA suppliers. The performance gap was smallest for labour relations and greatest for delivery time and flexibility, product development capabilities, technology levels and quality. With the exception of delivery time, these are all areas where SSA firms can improve and this is an issue which we address in the policy conclusions.

Figure 2.9: The Performance of SSA China and India Clothing Firms on Operational Factors (1=very poor performance; 5=excellent performance)



Source: Company interviews

Can an Export-Oriented SSA Clothing and Textile Industry Survive in the Post-Quota Era?

As demonstrated, and contrary to the expectations of many, the removal of quotas has not led to a collapse of AGOA clothing and textile exports. Indeed, in some cases, they have even increased. We should however put one important caveat on this conclusion. One key informant asserted that the reason why export values seem to have declined less than employment has been the illegal transhipments from China, with clothing either being brought directly into AGOA countries and then re-exported, or the

paperwork suggesting that this was the case. (This is akin to transfer-pricing, which has long bedevilled international trade statistics and undermined government tax revenues). It is notable that the ten percent fall in Swazi exports to the US is much lower than the loss in total employment (fifty-six percent in the same period). We are unable to judge whether these assertions – apparently currently the subject of investigation – are accurate and the analysis below does not take them into account.

It is widely believed that by limiting China's export surge, the introduction of China safeguards in the US (and in the EU) midway through 2005, may lead to a further strengthening of SSA clothing and textile exports. However, the impact of the imposition of China's safeguards is generally misinterpreted. Although designed to 'protect domestic industry' from Chinese competition, it is not only China whose exports were kept out of major importing markets by quotas. Other low-cost and high-quality Asian producers are similarly able to compete effectively in the major markets, and they, rather than SSA or domestic industries in the US and the EU, are likely to be the primary medium term beneficiaries of China safeguards. Firms interviewed reported some resurgence of orders to SSA in the immediate aftermath of China safeguards, while in the immediate context of safeguards being imposed, the existing relationships between US buyers and SSA producers have clearly had a role to play when alternative sourcing was necessary. The key however lies in the medium term, when buyers have more time to make and set in place new sourcing decisions.

Although, historically, quotas were important in the establishment of the export-oriented clothing and textiles sector in SSA, the key to understanding the relatively robust performance of SSA AGOA exporters lies in the realm of costs. This, as we have seen from earlier analysis, is the single most important driver for the buyers. Within this, the degree of competitive advantage held by AGOA exporters arises from their duty preferences. And, here, US nominal tariffs significantly underestimate the degree of preference which AGOA producers are actually accorded. This can be seen by taking the example of two different products exported by Swaziland producers (Table 2.7). The first product is cotton denim jeans, where nominal duty preference is 16.6 percent, and the second is synthetic women's underwear, where the nominal duty preference is higher, at 28.2 percent.

In effect, these tariffs are a form of cost-subsidy to exporting firms. However, the rates of effective subsidy on these products are in fact much higher than these nominal rates, due to the derogation which Swaziland (and all other AGOA producers bar Mauritius and South Africa) producers have in using imported fabrics. That is, the nominal duty applies to the whole value of the product, but for AGOA producers using the fabrics derogation, much of the value of their output is made up of imported material. Moreover, not only do the synthetic products' manufacturers gain from higher duties, but because in general cotton products are more complex to manufacture, the proportion of (generally imported) cotton fabric is in fact lower than in the case of imported synthetic material products. Hence, in the case of cotton products (such as denim), the effective rate of subsidy provided by this protective regime is 27.7 percent (rather than 16.6 percent), and in the case of synthetic products (such as underwear) it is 83.9 percent (rather than 28.2 percent).

Table 2.7: Value Added and Effective Rates of Subsidy in Cotton Denim Jeans and Synthetic Women's Undergarments in Two Swaziland Clothing Factories

	Denim jeans (%)	**Synthetic women's undergarments (%)**
Labour costs	45	30
Fabric and other imported inputs	40	66
Utilities	3	1
Distribution	2	2
Other (agent fee, transport, etc)	10	1
Total	100	100
Duty preference	16.6	28.2

Effective rate of subsidy	27.7	83.9

Source: Company interviews

An indication of the influence of the higher rate of effective subsidy on AGOA clothing and textile exports can be seen in relation to the value of exports of different products. There is a significant positive correlation between tariff rates and the value of exports with regard to the export of 120 products (the top twenty products exported by each of the five countries plus the top five AGOA exported products, Table 2.8). In other words, the higher the tariff preferences, the more likely export values will rise. However, this may only confer a temporary advantage. These same sectors are being targeted by Chinese and other Asian producers. This is evidenced by a significant negative correlation between tariff preference levels and unit prices. In other words, it is precisely those highly protected sectors which are under the most severe forms of price pressure, and where falling market shares are most likely to be experienced by AGOA exporters.

Table 2.8: Correlation Between Degree of Tarrif Preference, the Values of Exports and the Unit Price of Exports to the US: 120 Sectors[a]

	Correlation coefficient	**Degree of significance[b]**
Value of exports	0.189	0.05
Unit price	-0.146	0.10

Source: Own survey

(a) Top 20 products for each of AGOA, Lesotho, South Africa, Swaziland and Madagascar.

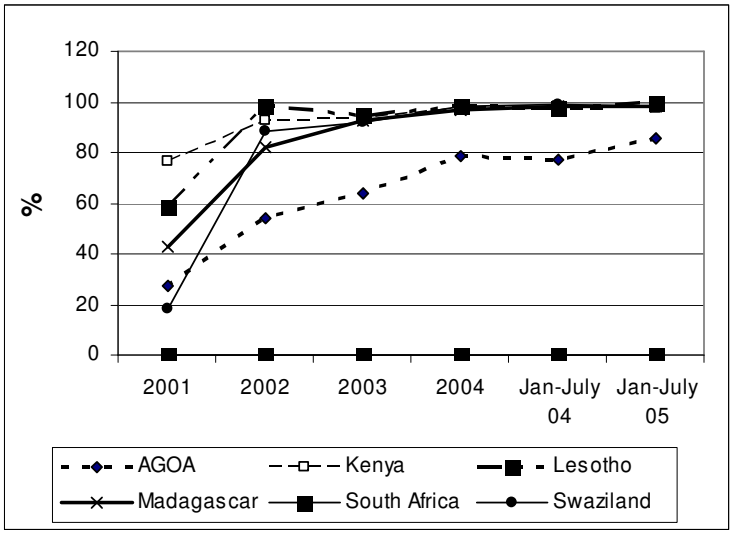
(b) Pearson product moment correlation coefficient two tailed test.

The fabric derogation is critical

It follows from this discussion on the impact of tariffs that, without the derogation from the AGOA rules of origin, which allow the least developed qualifying SSA economies to import their fabrics from outside of the region (or the US), little of the clothing and textile industries in the region would survive. As can be seen from Figure 2.10, with the exception of South Africa (which also affects the AGOA total), almost all fabric in AGOA clothing exports has been imported (although the new denim mill opened in Lesotho in 2004, will reduce this somewhat in the future).[5] South Africa's experience represents the dark side of AGOA clothing producers' future when and if the fabric derogation is repealed. Its inability to import fabrics, on top of an appreciated exchange rate, lies at the source of the virtual halving of its AGOA exports in 2005 compared to 2004. In fact, the trajectory of the South African industry – severe difficulties in exporting clothing made from natural fibres, a focus on the domestic market and moving into high technology textile niches (see below) – may represent one option facing other SSA producers. But unlike South Africa, with its long tradition of industrial production and a developed textile sector, these options may not be possible for other SSA producers.

[5] Most of the firms operating in the region source their material inputs from East Asia in general, and predominantly from China. This is an ironic side effect of the derogation on the rules of entry, in that, given the importance of fabrics in production (especially in the case of synthetics), the primary beneficiary of the AGOA scheme are the Asian fabric suppliers!

Figure 2.10: Share of Non-AGOA and Non-US Cloth in AGOA Exports to US, 2004-2005



Source: Calculated from US Department of Commerce, Office of Textiles and Apparel (OTEXA).

Although of primary significance, the combination of tariff protection and the derogation on the rules of origin is not the only factor influencing the competitive costs of SSA producers. In other respects, some SSA countries are also penalised. Although Kenya has wage costs which are comparable to Asia, this is not the case for South Africa (Table 2.9). Wages are only one component of unit labour costs. The other components are the degree of automation involved, the skills possessed by the labour force and the effectiveness of management. A detailed investigation of productivity in Lesotho observed low levels of skill and efficiency (Salm *et al*, 2002). Middle management was particularly weak, as it was largely made up of Chinese workers with shop-floor experience but little management know-how and largely unable to communicate with the Sesotho speaking labour force. They concluded that 'operator productivity within the industry was generally low. This is principally due to deficient recruitment policies, inadequately trained operators, poor labour relations, poor supervisory management, communication difficulties and cross-cultural misunderstanding' (Salm *et al*, 2002: 51). In a separate conclusion, there is the perception that the industrial engineering function is not carried out in a focused manner that might achieve significant improvements in productivity. Poor labour relations are part of this. A detailed survey of worker attitudes found that 51.3 percent of workers felt "very negative" towards their employers while a further 14.3 percent felt "quite negative". Only one percent felt "very positive".

Fifty-four percent felt that their lives had not improved at all since joining their factories, and a further thirty-seven percent that it had improved "only a little". There was remarkable consensus across the different focus groups; regardless of age, employment status or gender the participants expressed fundamentally the same views. The overwhelming majority see Asian investors (their factory managers) in an extremely negative light (Salm *et al*, 2002: Annex 3, 21).

Table 2.9: Labour Costs in Selected Countries 2002: US$/hour

	Textiles Industry	**Clothing Industry**
Bangladesh	0.25	0.39
Sri Lanka	0.4	0.48
China	0.4-0.69	0.68-0.88
India	0.57	0.38

Kenya	0.62	0.38
Egypt	1.01	0.77
Mauritius	1.33	1.25
South Africa	2.17	1.38
Mexico	2.3	2.45
Taiwan	7.15	Na
Madagascar	na	0.33

Source: Economist Intelligence Unit (2004)

The Manchester Trade Team (2005) compared costs along a range of factors for COMESA and China and India for an equivalent product to show the barriers faced by SSA clothing exporters. They found that:

- Export finance costs in Kenya (thirteen percent per annum) and Madagascar (eighteen percent) were much higher than in China (5.5 percent) and India (10.5 percent)
- Material costs were much higher in Kenya ($3/sq ft) and Madagascar ($4/sq. ft) than in China ($1.50/sq ft) and in India ($2.50/sq.ft)
- Transport costs to the US East Coast were lower for Kenya and Madagascar than for China ($0.29 versus $0.33 per jean) but were lowest for India ($0.23 per jean).
- The costs of machinery and power were rather similar, but labour productivity with equivalent machines was significantly higher in China (twenty-five pieces per day) than in India (twenty-one per day), Kenya (eighteen per day) and Madagascar (sixteen per day).

Clothing manufacturers depend heavily on access to reliable infrastructure. Here SSA producers are disadvantaged compared to their Asian counterparts. In some countries, water supplies, critical to successful production, are intermittent. One of the clothing firms in Lesotho had to close thirteen out of twenty-three lines in 2004 due to high water cost, inadequate supply and low quality available, while another Lesotho firm observed poor water supplies along with power outages, as a handicap to production. Swazi firms also reported water shortages and power outages. In Kenya, production is often confined to EPZs precisely because of the failure of infrastructure supplies in the wider economy, electricity costs are more than three times those in South Africa (Ikiara and Ndirangu, 2003b). The comparison with China is stark, with Kenyan firms facing frequent outages, and losing significant production due to power shortages, despite having to invest in generators, new businesses have also to wait very long periods for connection to the grid (Table 2.10).

Table 2.10: Electricity Supplies in Kenya and China

	Kenya	**China**
Frequency of power outages (No of times last year)	33.1	n.a.
Per cent of production lost due to power outages	9.3	1.8
Have own generator (%)	70.0	17
No. of days to obtain an electricity connection	65.6	18.2

Source: World Bank, 2003

The weakness of the transport system, associated with bureaucratic hold-ups also leads to considerable delays and makes it almost impossible for SSA producers to produce items for higher-margins rapid-response markets. Unlike their Asian competitors, SSA producers have to wait around thirty days to obtain their imported inputs and a further twenty-eight to forty days to deliver product to final markets (Table 2.11). However effective production might be, perhaps halving throughput time to around fifteen days, it will not be possible to make up for these structural weaknesses in the economy.

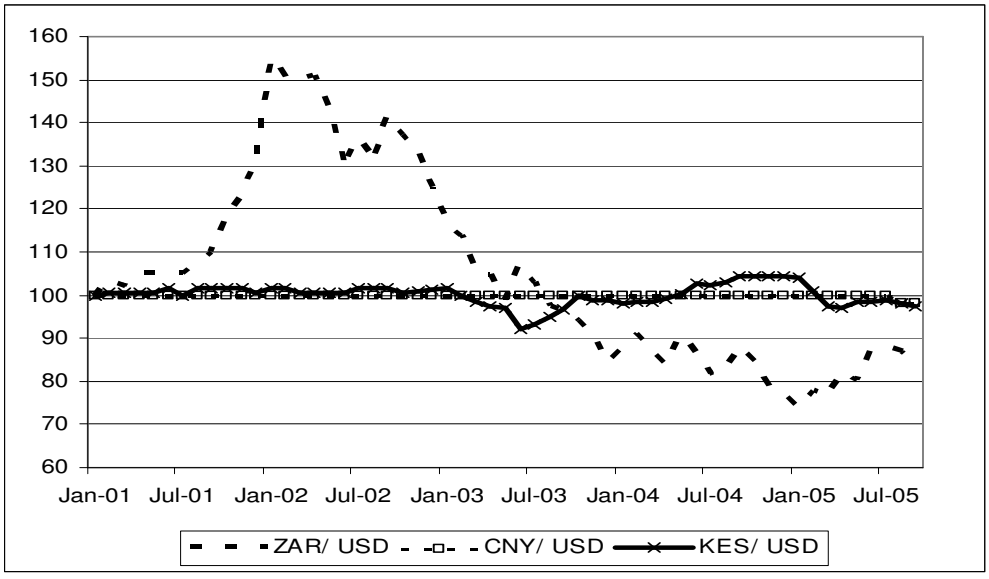
Table 2.11: Determinants of Lead Time - Kenya, Lesotho and Swaziland

Delivery type	Kenya	Lesotho	Swaziland
Delivery of fabric from Asia (Taiwan or China)	30 days	30 days	30 days
From port to factory	7 days (Nairobi)	3 days	3-10 days
Production lead-time	30 days	25 - 30 days	25-30 days
Factory gate to port	3 days	3 day	2 days
Port to U.S.A. Port (New York)	40 days Mombasa to New York	28 days Durban to New York	28 days Durban to New York
Total delivery time	110 days	90 – 100 days	90-100 days

Source: Company interviews

Finally, those economies linked to the South African rand faced a further disadvantage. The Chinese remnimbi has been pegged to the US dollar for some years, although in mid-2005 there was a mild revaluation of 3.5 percent. Similarly, the Kenyan shilling was pegged to the US dollar and neither of these economies faced adverse exchange rate movements in their sales to the US (or indeed to the EU, since the euro appreciated in relation to the dollar). The major casualties amongst SSA AGOA economies were the three Southern African economies and Madagascar. As Figure 2.11 shows, between early 2002 and mid 2005, the rand appreciated by more than fifty percent against the dollar, with an adverse impact on South Africa, Lesotho and Swaziland.

Figure 2.11: Exchange Rate against the US$ - China, Kenya and South Africa



Source: UN (*https://pengva1.unjspf.org*) last accessed 3 January 2005

With the exception of South Africa, the impact of currency depreciation was less severe than it seems at first sight. This is because around forty percent of value added in the case of natural fibre products, and two-thirds of value added in the case of synthetic products, comprised imported material and, whilst currency appreciation has a downside on the exports; it has an upside in reducing the costs of imports. This is another factor which may act to promote the shift from natural to synthetic fibre products. South

Africa is the exception to this, since together with Mauritius, it has no access to imported fabrics for AGOA exports and the appreciation of the Rand has made South African fabric more expensive.

Despite these handicaps, the evidence seems to suggest that SSA clothing and textile exporters who are able to draw on trade preferences are still largely able to compete with the best in the world. They also do this with the evidence of significant productivity improvement over the past year, in that export values and volumes have held up much better than employment in Kenya, Lesotho and Swaziland. Moreover, as various industry analysts have pointed out, there is considerable scope for further improvements in efficiency (Manchester Trade Team, 2005; Salm *et al*, 2002). But to achieve this requires tailored and effective government support and, more importantly, comprehensive firm-level restructuring in the industry.

Enhanced capacities of innovation management – the ability to scan the environment, to develop appropriate strategies, and then to implement these strategies – this is key to a successful response.

Here, the response of South African producers may provide some pointers to other SSA clothing manufacturers. Confronted by an appreciating currency and an inability to source low-cost Asian fabric, South African manufacturers have chosen from six options: exit from the market; concentration on the local market; upgrading production capabilities seeking to attain world class manufacturing operational performance; using local fabrics; focusing on higher value added fashion garments as well as using man-made synthetic fabric; and upgrading into specialised niches. The second of these options-the local market – is not without its difficulties. In one example, a producer of underwear faced a fifty percent increase in imports in the first six months of 2005, predominantly from China, with a halving of its exports. Hence, the industry is focusing on a rapid-response capability to help its retailers to slim overall inventories and to respond flexibly to changing market tastes. This strategy currently goes hand in hand with attempts (driven by the domestic retailers) to synergise the local value chain and achieve systemic efficiency. Closely allied to it is the third option of developing localised clusters to upgrade operational capabilities through learning networks. These are however still in their infancy and there is no consensus as to whether they will achieve the same success levels as similar initiatives in the South African automotive sector.

The fourth option – deeper investments in fabric production – confronts the need for nervous investors to commit large sums of money to what are perceived to be risky ventures. Our interviews with textile producers in South Africa did not identify major dynamism in this sector. This affects not just the viability of the South African industry, but the future of other SSA economies which might cope with the phased removal of the fabric derogation in 2007 by sourcing material from South Africa. Its current textile capabilities are not adequate to meet these needs and numerous firms in the region who have tried to source from South Africa, have found the mills to be unresponsive and high cost, with long lead times and poor quality. The attempts to synergise the domestic value chain may well turn the textile sector around and overcome these inefficiencies.

The fifth option takes advantage of AGOA's higher tariff rates for producing clothing using synthetic fabric. Firms in both Swaziland and South Africa have adopted this route and tried to diversify from natural fibre products. However, despite the higher protection levels this strategy accords, its usage has been limited primarily to Swaziland. Finally the sixth option-upgrading into specialised niches - has been more successfully pursued by some South African firms. One large firm began manufacturing suit linings in the 1960s, moving into industrial fabrics in the early 1970s. The industrial fabric division was developed to also cover the parachute sector, and specialised and high-tech industrial products now comprise seventy percent of output, and are targeted to reach ninety percent of sales by 2007. Significantly, this high-tech textile producer is capital intensive in nature, with labour costs representing only fourteen percent of costs (compared to forty-five percent in the natural fibres clothing sector). Although this transition is beyond the reach of producers in other least developed SSA markets, the

strategy of focusing on long-term upgrading and diversification provides an important lesson for SSA textile and clothing producers.

Even if technologically sophisticated upgrading is difficult, there may nevertheless be scope for diversification to take advantage of emerging opportunities. For example, like South Africa, the Mauritian clothing industry was unable to take advantage of the derogation on rules of entry. It therefore targeted an AGOA exemption for yarns which are in short supply in the US, and used this to import Chinese and Italian yarn to manufacture high quality shirts for the US market. Thus, comparing 2004 with 2003, the exports dutiable exports declined by forty-three percent and duty-free exports to the US increased by seventeen percent (Appelbaum, 2005).

From Clothing and Textiles to Industry: What Impact Will the Asian Drivers Have on SSA's Industrialisation?

We began by stressing the importance of a multi-dimensional approach when analysing the impact of the Asian Drivers. This meant viewing the globalisation effects through the prism of the triangular relationships of South-South and South-North, which we posed as direct/indirect and complementary/competitive impacts. Producing a methodological taxonomy to grasp this complexity does not, however, mean that it has an analytic validity. This can only be verified by testing empirically and we have done so by an empirical analysis of the clothing and textile industry in Sub Saharan Africa. It would seem that the soundness of this complex analytical tool has been vindicated.

What is the empirical conclusion from the analysis? We begin by relating the performance of SSA's clothing and textile sector in the post-quota era to the taxonomic overview presented in Figure 1 at the head of this paper. Here we distinguished between two dimensions of effects: the competitive/complementary dimension, and the direct/indirect one. Of the five possible vectors of transmission, it is in the trade and production realms that we can observe Asian Driver impacts on SSA's clothing and textiles industry.

Figure 2.12 summarises what we have found. Essentially, the complementary impacts are to be found in fabric-sourcing from Asia by SSA-based firms and by FDI from Asia. Most of AGOA's clothing exports originate from Asian-owned firms, which were initially attracted to SSA by quotas and now remain due to the high rates of effective subsidy provided by AGOA. Both of these complementary impacts are a consequence of direct bilateral impacts between SSA economies, and China and other Asian economies. The competitive impacts to SSA arising from the expansion of the Asian Driver economies are predominantly indirect in nature. They are primarily experienced in the very intense pressures on prices and market shares in the US (and the EU), and a diversion of FDI from SSA to Asia. However, there are also indirect effects in the displacement of production by indigenous firms. South Africa represents the one case where the competitive impacts are of a direct nature. This is due to the rapid penetration of the substantial domestic market by Chinese clothing and textile products.

Although no accurate weighting can be given to these different impacts, it is clear that by far the most important one is the indirect impact on prices and market shares in global markets (shaded grey in Figure 2.12).

Figure 2.12: Asian Driver Impact on the SSA Clothing and Textile Sectors (Shading denotes the important impact)

		Direct	**Indirect**
Trade	Complementary	SSA imports of fabrics SSA imports of cheaper clothing	
	Competitive	Displacement of indigenous textile sector by imports from Asian Drivers	Severe pressure on prices and market shares in US (and EU)

Production and FDI		Direct	Indirect
	Complementary	Historic and sustained FDI by Taiwanese, Sri Lankan and Indian firms, initially to obtain quota access and now to take advantage of high rates of effective subsidy	
	Competitive	Asian Driver firms compete for scare resources and reduce opportunities for local firms	Disinvestment and relocation of investments in Asia and potentially new FDI locating in Asian Driver economies

Source: Own Construct

What is the wider significance of these findings? Here we can point to six important issues. The first concerns the negative impact of globalisation on SSA. Where buyers have multiple sources of supply, SSA is unable to compete effectively in global markets. In a world where there is a level playing field, it will have little global presence as an exporter. In the case of clothing, SSA has been unable to fully hold on to its already tenuous position, with effective rates of subsidy provided by a preferential trade regime of between twenty-eight and eighty-four percent, and has seen an aggregate decline in clothing exports of seventeen percent, despite a sharp rise in US imports of clothing in 2005. Our complementary study of SSA's furniture industry, where protective subsidies are less than thirteen percent reveals that, without these subsidies, SSA producers are being squeezed out by Chinese, Indonesian and Vietnamese competition (Kaplinsky and Morris, 2006). South Africa remains the only significant exporter of wooden furniture, and its exports have fallen in value. Total SSA furniture exports are around one percent of global trade, having fallen from 1.5 percent in 2000. So, our first conclusion is that SSA requires a non-level playing field in global trade, significantly tilted in its favour and primarily tilted against its major competitors who are now based in Asia, rather than in the EU or North America.

Second, domestic manufacturers in a range of industries are suffering badly from import competition, particularly in consumer goods markets, from China. In addition to the clothing and furniture sectors (discussed above), similar trends can be found in industries such as footwear in Ethiopia (Egziabher *et al*, 2006).

The third is the terms of trade effect and the emergence of classic "Dutch Disease" effects, but with a regional sting in the tail. One of the primary causes of South Africa's resurgent economic growth has been a boom in (hard) commodity exports. This has been a major factor in driving the appreciation of the exchange rate (see Figure 2.11 above). This exchange rate appreciation has not only made it difficult for South African manufactured exports (not just clothing and textiles, but also wooden furniture and other low-tech and labour–intensive products), but also for the export of manufactured goods from regional economies such as Lesotho and Swaziland, whose currencies are linked to the Rand, but who are not large exporters of commodities themselves.

Fourth, the clothing and furniture industries are widely recognised as being the stepping stones for industrial development. Our findings suggest that these first steps are being blocked by competition from the Asian Drivers in general, and China in particular. This being the case, the implication of our study is not so much about the present trajectory of SSA industrial development, but more so about its future trajectory. Unless it is believed that the Asian Driver economies will soon run into capacity constraints (perhaps labour) and be forced to raise their costs, or that their overall success will surface in significant upward realignments of their currencies, it is difficult to see a future for SSA industrialisation in a global economy. It may be that the changing terms of trade will mean that industrial development will be a

relatively less attractive development option in the short- to medium-run (Kaplinsky, 2006), but this is a separate issue. The reality is that commodity-based sectors (particularly mineral-based commodities) have few linkages and provide little scope for positive external economies.

Fifth, the welfare effect of importing cheaper clothing on the poor and working class of SSA cannot be discounted. If the South African case is to be taken seriously, the greatest impact, it would seem from preliminary research, is on significantly reducing the unit prices of children's and infants clothing. Although in the process this has had a deleterious impact on the clothing industry in these product items, the general welfare impact, by allowing greater disposable income for household expenditure, would seem to have been large. Although unemployment in these sectors may have been increased by the impact of the Asian Drivers, essentially the social wage for the rest of the society is also significantly reduced.

Finally, in this chapter we have considered in depth a single industry in a single continent. But our conclusions are not only relevant for other industries in SSA, but also for other regions in the world. There are compelling reasons to believe that the prospects facing large parts of Latin American and Caribbean industry are not dissimilar to those confronting SSA (Jenkins and Peters, 2006; Kaplinsky, 2005). This being the case, we may yet again find ourselves in familiar territory, raising questions about the attractiveness of deepening globalisation for many countries.

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