Loss of textile market costs African jobs

Diversification, efficiency hold key for economic recovery

By **Gumisai Mutume**

All across Africa, textile producers and exporters are reeling from the impact of new trade rules that took effect in January 2005. The rules, negotiated at the World Trade Organization (WTO), opened up to market forces a sector that had been protected for more than 30 years. It did so by ending a quota system in industrial nations which as a side effect had provided a ready market for textiles and apparel from poor African and other developing countries.

The phasing out of the old system has already cost Africa more than 250,000 jobs over the last few years, reports the International Textile, Garment and Leather Workers' Federation (ITGLWF), leaving more than a million family members without stable incomes. Most jobs have been lost in Lesotho, South Africa, Swaziland, Nigeria, Ghana, Mauritius, Zambia, Madagascar, Tanzania, Malawi, Namibia and Kenya.

Operating a spinning machine at an Eritrean textile factory: In face of stiff competition, it is not easy for African ma ers to modernize their operations.

Panos / Stefa Boness

At a recent meeting of the Africa branch of the ITGLWF in Cape Town, South Africa, union members called on African governments to convene an urgent continental conference on the future of the clothing, textile and footwear industries. Its purpose would be to enable governments, trade unions and investors to develop plans to respond to the current crisis by increasing efficiency in the sector, attracting investment and improving workers' welfare.

The old quota system, known as the Multi-Fibre Arrangement (MFA), had limited textile and clothing exports by producing countries to the world's biggest markets, in the US, Canada and European Union (EU). Its primary aim had been to protect those countries' domestic textile industries from more efficient producers emerging in Asia. However, by doing so, the system also gave advantages to many smaller textile-exporting countries that were less constrained by quotas or enjoyed preferential market access into the EU and the US. As a result, their textile exports to the industrial world thrived.

But with the end of the old system, these same countries are now finding themselves squeezed out of the market by unfettered competition with giant, highly efficient producers in countries such as China and India.

Demise of a side effect

European countries, Canada and the US originally set up the MFA in 1974 to protect their indigenous clothing and textile industries by capping the amount any country could export to them. The World Bank says that those quotas served to protect jobs in industrial nations and resulted in the loss of 19 million jobs in developing countries, mostly in Asia. The MFA, however, had an unanticipated side effect. Because rich country markets were growing much faster than domestic producers could satisfy, a major opening in the clothing market was created — and smaller textile-producing countries found a ready market.

But as trade liberalization policies began to spread across the globe, the old Asian producers began arguing that quotas were an unfair restraint on trade. Large retailers in industrialized nations added to the pressure, saying the system forced them to buy from too many different sources — in some cases from up to 50 different countries. This mounting pressure coincided with international negotiations for a new trade regime, known as the Uruguay Round, which took place from 1986 to 1994.

The large Asian textile producers and the Northern retailers ultimately won the day. In 1994, the WTO set up the Agreement on Textiles and Clothing, providing for a phased removal of all quotas in the sector within 10 years.

At first, many developing countries celebrated the liberalization of the textile sector, seeing it as an opportunity to improve trade. It was estimated that opening up the sector would generate an additional $175 bn worth of textile and clothing exports. But as the deadline drew nearer, smaller textile-producing countries began to realize that most benefits would not come to them, but to countries with large and highly developed textile industries.

Lesotho: from gains to losses

Lesotho provides a telling example of the grave impact of the expiration of the MFA. The country's manufacturing sector is highly dependent on textiles and garments, which account for the most jobs after the public sector and earn more than 75 per cent of all export earnings.

Under the MFA, major Asian textile companies, limited in exporting directly to the EU and the US, set up subsidiaries in less developed countries, including Lesotho. In particular, they took advantage of Lesotho's easy access to the US market under the African Growth and Opportunity Act (AGOA) of 2000, which offered duty-free entry to some products from African countries that adopted market-based economic policies, introduced political pluralism and eliminated barriers to US trade and investment. As a result, textiles and clothing became Lesotho's economic mainstay, which at one point employed 56,000 workers — thus accounting for virtually every manufacturing job in the country.

"Most if not all our foreign investors come from Asia, mainly Taiwan and China," notes Mr. Daniel Maraisane, head of the main clothing workers' union. But with the end of the quota system, he adds, those investors "say it's now easier and cheaper to manufacture in China and India. So they are starting to go back home.... There's simply no way little Lesotho can compete with such giants."

By the end of 2004, six of the country's 50 clothing factories closed, leaving 6,600 workers without jobs or termination benefits. The surviving companies, faced with shortfalls in export orders, placed 10,000 workers on short-term work, using them only when needed. "If things go on like this," says Mr. Maraisane, "we are afraid that unemployment, which already stands at 40 per cent, will end up reaching 70 per cent."

The China effect

For decades, the flow of textiles from the world's largest producers, such as China, India, Hong Kong, the Taiwan province of China and the Republic of Korea, had been tightly restricted in the largest markets — the EU and US — because those industrialized countries were alarmed at the rapid growth of Asian garment manufacturing industries. These Asian countries were producing textiles so cheaply that they threatened to undercut American and European producers.

But when China, the world's biggest textile producer, joined the WTO in 2001, and the MFA restrictions later fell away, the world trade in textiles and garments faced unprecedented competition. The National Council of Textile Organizations (NCTO), grouping the main textile manufacturers in the US, reports that within the first three months of 2005 — immediately after the lifting of the quotas — imports of cotton trousers from China shot up by 1,500 per cent and of cotton shirts by 1,350 per cent. In Europe, "the increases in the import of certain categories of clothes exceeded 2,000 per cent during the first quarter of 2005," notes ITGLWF General Secretary Neil Kearney.

Behind this surge lies an ambitious plan by China to make its textile and apparel sector the dominant player in world trade. Over the last 15 years, the government poured tens of billions of dollars into the sector "in the form of free capital, direct and indirect subsidies and a host of other 'incentives' to drive competitors out of the markets and create an environment where no one, including the lowest-cost producing countries in the world, can compete with China in world markets," NCTO President Cass Johnson told a recent US Congressional hearing on US responses to China's dominance.

Analysts expect that with the expiry of the MFA, jobs lost in other developing countries will instead move to more competitive producers such as China and India.

According to the International Labour Organization (ILO), China exported $31 bn worth of textiles between January and April 2005, an 18 per cent increase over the same period the year before. Chinese textile exports to the US and EU, now freed of quotas, increased by 250 per cent and 84 per cent, respectively.

Alarmed by the influx, in May 2005 the US government imposed temporary restrictions on textiles and clothes imported from China, affecting about $2 bn worth of goods. Such restrictions are permitted under "safeguard" clauses that China signed when it joined the WTO. Any WTO member can use the clauses to provisionally limit rises in imports from China until 2008. At that point, the full impact of the end of quotas will be felt. When that happens, as many as 27 million people, mainly in the small producing countries, could lose their jobs, notes a submission to the WTO by a group of affected developing countries that includes Madagascar, Mauritius and Uganda.

Most analyses of the impact of the phasing out of quotas "conclude that China and India will come to dominate world trade in textiles and clothing," notes Norwegian researcher Hildegunn Kyvik Nordås in a paper prepared for the WTO. China alone could capture 50 per cent of the US market, now worth $90 bn. Overall, international textile and apparel trade currently amounts to about $400 bn annually.

Limited options for Africa

Like the US, African countries could invoke "anti-dumping" measures to temporarily restrict Chinese exports until 2008, notes Mr. Mills Soko, a researcher at the South African Institute of International Affairs in Johannesburg. This narrow window of opportunity could provide a little more time for African textile producers to improve efficiency and competitiveness and add more value to their exports by, for example, producing more high-end textile products.

A number of African countries began taking such steps before the end of the quotas. Kenya's government, for instance, removed taxes on all cotton ginning and textile manufacturing machinery in 2002,

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to encourage imports of more modern equipment. The government also dropped taxes on goods and services to cotton ginning factories and improved incentives to lure textile companies into its export processing zones (EPZs). These are specially created industrial areas that offer investors a host of incentives, such as tax exemptions and the ability to move funds freely into and out of Kenya.

By December 2004, clothing enterprises in Kenya's EPZ employed 34,614 workers "in 30 world-class factories," says Ms. Margaret Waithaka of the EPZ Authority. Thanks to the improvements in the sector and to growing demand in the US, apparel exports from Kenya to the US increased from $44 mn in 2000 to $226 mn in 2004, she reports, making Kenya the second-largest exporter of clothing to the US from sub-Saharan Africa. But for many countries, including Kenya, such improvements will not be sufficient to enable them to withstand the heavy competition of the post-MFA era.

Diversification

Another option, says Mr. Soko, would be for African countries to move away from overdependence on textiles and clothing, into other goods that are in demand. For example, he notes, African countries should not see China entirely as a threat, but also as an opportunity for developing new export markets by taking advantage of its "insatiable demand for commodities."

African producers can aim for high-end niche markets abroad, such as those that emphasize African designs.

South Africa has been doing just that over the last few years, benefitting from sales of mineral products and metals to China. With one of the world's fastest growing economies, China is the world's largest consumer of oil and a major importer of cotton — accounting for 33 per cent of world consumption. Some African countries have begun negotiating duty-free entry of their products into the Chinese market in exchange for reduced obstacles to Chinese investment in Africa. The continent's trade with China grew from $10.6 bn in 2000 to $13.5 bn in just the first nine months of 2003.

"The potential for expanding this bilateral trade and for strengthening Africa's economic engagement with other fast-growing developing economies (such as India and Brazil) . . . is enormous," says Mr. Soko. But to realize that potential, African countries first need to move away from relying on one or two products for most of their export revenue.

The UN Economic Commission for Africa, based in Addis Ababa, Ethiopia, recommends that African states provide cheap credit and other incentives to enterprises that manufacture a wide range of goods for export. As a strategic starting point, they should begin processing local raw materials into finished products for export, the commission reports. Instead of exporting raw cotton or cloth, for example, countries could develop industries that produce high-end clothing products. This could include trying to supply niche markets for garments with African designs.

To diversify their exports, African countries will need significantly improved access into international markets, says Mr. Gobind Nankani, the World Bank's regional vice-president for Africa. That would require reducing "protectionist practices, such as subsidies, in foreign markets," under negotiation in the current round of WTO global trade talks.

The continent would also benefit from a reduction of barriers in non-agricultural sectors, especially in other developing-country markets, Mr. Nankani says. For example, "some countries in Latin America heavily protect their own garment manufacturers and other labour-intensive manufactures, reducing the opportunity for African produce and other exports to penetrate those markets." In many East Asian countries, he adds, tariffs are far more protectionist than in the EU or US.

Adjust or perish

"African governments have an obligation to help their private sectors adjust to new conditions to retain their competitiveness," argues Mr. Soko. They could learn from countries such as Bangladesh, where the government joined forces with domestic companies, trade unions and non-governmental organizations to develop and implement policies to upgrade skills and retrain displaced textile workers.

Small, vulnerable African producers are faced with two choices, he says: "They must either improve their efficiency or switch to higher-tier products." For example, India increased its cotton-based exports to the US by an estimated 46 per cent by shifting production from basic cloth to higher-value textile products and fully manufactured clothes.

Producers who want to be competitive

Benefits of AGOA eroding

Under the Africa Growth and Opportunity Act (AGOA) signed into law in the US in 2000, the textile exports of 38 eligible African countries enjoy tariff and quota exemptions if they meet certain rules. Those include a requirement that the product's raw materials originate either in the exporting country or in the US. But African nations categorized as least developed (with per capita incomes of $1,500 or less in 1998) are exempt from even that restriction. Their products are allowed duty-free access into the US market under only one condition: that the final assembly of the textile products takes place in the exporting country, no matter where the yarn spinning, fabric weaving or knitting occurs.

Because of AGOA, US imports from Kenya, Lesotho, Madagascar, Mauritius and South Africa increased by 66 per cent between 1999 and 2001. In 2003, Africa exported $1.2 bn worth of clothes and textiles to the US, a 50 per cent increase from the previous year. So far, the ability to make duty-free exports to the US has been a significant advantage for AGOA countries. Average US tariffs in the sector amount to 17 per cent of the landed value of products, with cottons averaging 13 per cent and synthetics 25 per cent.

Theoretically, AGOA countries still hold an advantage in certain areas freed from quota restrictions. For example, products made from synthetic fabrics are charged average tariffs of 25 per cent if they are imported from non-AGOA countries. Experts argue that countries seeking to sustain their textile industries need to diversify into such niche markets. However, in sub-Saharan Africa the only country so far producing synthetic yarn is South Africa, since developing such an industry requires massive injections of capital.

The majority of the AGOA countries' textile products will be undercut by the phasing out of MFA quotas, since duty-free access alone does not give sufficient competitive advantage against goods made more cheaply by the dominant textile-producing countries.

According to a study by the US Trade Commission, Africa's overall share of US apparel imports will fall, "notwithstanding AGOA preferences." Already, during the first three months of 2005, textile and apparel exports from Africa to the US fell to $270 mn, from $370 mn during the same period the year before, when the MFA quotas were still in effect.

can only do so if they lower their production costs, Mr. Soko adds. A Chinese firm with a subsidiary in Mauritius notes that the costs of buildings, electricity, fabrics and labour are much higher in Mauritius than in China. Another reports that while wages are lower in Madagascar, other costs, such as transport and electricity, are higher.

The World Bank estimates that the cost of doing business in Africa is 20–40 per cent above that for other developing regions, due to high regulatory costs, unsecured land property rights, ineffective judiciary systems, policy uncertainty and unfair competition from politically connected companies, which results in a few large firms holding very dominant market shares.

Inadequate and high cost infrastructure services are also a hindrance. The World Bank reports that if the Zambian and Kenyan power systems were of the same quality as their Chinese counterparts, for example, the cost savings for Zambian and Kenyan firms would be equivalent to nearly their entire wage bills.

For many African textile and apparel producers, time to upgrade their industries before competition heightens is running out. The US and EU have proposed completely phasing out tariffs on textile and apparel imports by 2015. At that point, the tariff advantages that countries currently enjoy under AGOA will no longer apply, a move that could destroy the remaining textile and apparel industries in Africa, says Mauritius's ambassador to the US, Mr. Usha Jeetah.

Both the US and EU "have had hundreds of years to develop their apparel and textile industries, protected by very high tariff barriers and quotas," notes Mr. Jeetah. "What is being asked of the small and infant industries in Africa is that they will have 10 years in which to develop [their industries] . . . to be competitive with long-established countries." ■

Trade talks

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In an essay entitled "Fair Trade for None," he noted, "Unsurprisingly the rich countries' negotiators throw around big numbers when describing the gains from even an imperfect agreement. But they did the same thing last time, too. Developing countries soon discovered that their gains were far less than advertised, and the poorest countries found to their dismay that they were actually worse off."

With negotiations to complete the Doha round looming, the economist cautioned, "Will the benefits — increased access to international markets — be greater than the costs of meeting rich countries' demands? Many developing countries are likely to come to the conclusion that no agreement is better than a bad agreement, particularly one as unfair as the last." ■

Preventing genocide

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The time for strengthening the peacekeeping presence in Darfur "is now," said Mr. Mendez, "when the security situation in Darfur is getting worse and attacks on civilian populations are spilling over into Chad." This could take the form of a stronger AMIS or a future UN peacekeeping mission, to which the African Union has agreed in principle. As of early March, AMIS had 6,900 personnel in Darfur – too small to cover such a vast area.

Mr. Annan has urged donors to respond to the African Union's appeals for more financial and logistical support, while the UN has initiated contingency planning for a possible transition to a UN mission. However, reported Mr. Annan, Sudanese government authorities have organized demonstrations against the UN in various parts of Darfur to protest such a mission.

Mr. Mendez has noted that government consent for international involvement in protecting populations under threat "will always be preferable." But international action may also include, in limited cases, "non-consensual means when governments are unwilling or unable to protect their own citizens." ■