The Future of the Textile and Clothing Industry in Sub-Saharan Africa

Edited by:

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List of Abbreviation

ACP	African, Caribbean and Pacific countries
ADB	African Development Bank
AFL-CIO	American Federation of Labour and Congress of Industrial Organisation
AGOA	African Growth and Opportunities Act
ANSA	Alternative to Neo-liberalism in Southern Africa
ATC	Agreement on Textiles and Clothing
AU	African Union
CET	Common External Tariff
CLS	Core Labour Standards
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
EBA	Everything But Arms
EFTA	European Free Trade Association
EPZ	Export Processing Zones
ETUC	European Trade Union Confederation
FDI	Foreign Direct Investment
FES	Friedrich-Ebert-Stiftung
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
GUF	Global Union Federation
ICEM	International Federation of Chemical, Energy, Mine and General Workers' Union
ICFTU	International Confederation of Free Trade Unions
ICFTU-AFRO	International Confederation of Free Trade Unions – African Regional Organisation
ICT	Information and Communication Technology
IFBWW	International Federation of Building and Wood Workers
IFC	International Finance Facility
IFA	International Framework Agreement
IFI	International Financing Institution
ILO	International Labour Organisation
ILS	International Labour Standards
IMF	International Metalworkers' Federation
ISI	Import Substitution Industrialisation

ITF	International Transport Workers' Federation
ITGLWF	International Textile, Garment and Leather Workers' Federation
IUF	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations
LaRRI	Labour Resource and Research Institute
LDC	Least Developed Countries
MDG	Millennium Development Goal
MERCOSUR	Mercado Común del Sur
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nation
MNC	Multi-National Companies
NAFTA	North American Free Trade Agreement
NAMA	Non-Agricultural Market Access
NCP	National Contact Points
NTB	Non-Tariff Barriers
NTEs	Non-Traditional Exports
OATUU	Organisation of African Trade Union Unity
OECD	Organisation for Economic Cooperation and Development
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSI	Public Service International
ROO	Rules of Origin
SACTWU	Southern African Clothing and Textile Workers' Union
SACU	South African Customs Union
SADC	Southern African Development Community
SALRI	Southern African Labour Research Institute
SCM	Subsidies and Countervailing Measures
SDT	Special and Differential Treatment
SIA	Sustainability Impact Assessment
SMME	Small, Medium and Micro Enterprises
SSA	Sub-Saharan Africa
TILS	Trade, Investment and Labour Standards
TNC	Trans-National Corporation
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UN-ECA	United Nations Economic Commission for Africa
UNI	Union Network International
WB	World Bank
WCL	World Confederation of Labour
WITS	World Integrated Trade Solutions
WTO	World Trade Organisation

Preface

Over the past decade, the global textile and clothing industry has undergone a deep re-structuring process, expressed in particular by the shifting of production capacities from the EU and the US to developing countries, especially to Asia. This process was accelerated by the end of the Agreement on Textiles and Clothing (ATC) on 1 January 2005 and the restructuring of the multilateral trade system, being negotiated in the current World Trade Organization (WTO) Doha round.

Although given far less global attention, some of the textile and clothing production moved to Africa, and several African countries developed an export-driven textiles and clothing sector in recent years. In most cases, this took place within a policy-framework of "export-led growth" as host countries hoped that textile and clothing industries would kick-start a "second round of industrialisation", after hopes of import substitution industrialisation had been dashed by structural adjustment programmes in the 1980s and 1990s.

Today, the textile and clothing industries in Sub-Saharan Africa are in crisis again. They are under pressure on domestic and international markets where they face stiff competition from cheap Asian (in particular Chinese) products. The design of suitable domestic and international trade and industrial policies is thus of major relevance for the industrial development prospects of many African countries.

Africa's clothing and textile workers and their trade unions find themselves in a precarious situation. On the one hand, they have to fight a host of abusive labour practices that include poor wages, a lack of benefits and at times even violations of basic workers rights. On the other hand, they have to engage the broader policy issues that set the framework for an industry which is shaped by extreme competition, resulting in a downward pressure on labour and environmental standards. Attempts to address these issues through negotiations and collective bargaining are often undermined by the high levels of mobility among clothing and textile companies, which allows them to use the threat of relocation to blackmail trade unions and host governments. To make matters worse, Africa's "reserve army" of unemployed workers is driven by desperation to accept any job at almost any condition.

As part of its international trade union support programme, the Friedrich-Ebert-Stiftung (FES) joined hands with the International Textiles, Garment and

Leather Workers Federation (ITGLWF, regional office Durban), the Southern African Clothing and Textile Workers Union (SACTWU) and the Labour Resource and Research Institute (LaRRI, Namibia) to organise a trade union debate on the future of the African textiles and clothing industry.

The conference took place in Cape Town, South Africa on 10-11 October 2005 and examined the on-going restructuring of the global textiles and clothing market, trying to assess the prospects for the survival and growth of Africa's textile and clothing industry.

The collection of essays contained in this book examines the new challenges facing the African textile and clothing sector from different perspectives. It contains most of the papers presented during the international trade union conference and is divided into two parts: Part I covers papers presented by individual researchers and representatives from multilateral and international organisations dealing with specific aspects of the on-going restructuring process and its relevance for Africa. Part I also includes some post-conference additions such as the results of the 6th Ministerial meeting of the WTO in Hong Kong in December 2005.

The second part of the book consists of 10 country reports from Sub-Saharan Africa, which were written in a standardised format. They provide a historic overview with particular emphasis on recent developments and on the experiences of clothing and textile workers and their trade unions. Several of the reports were written by researchers with close links to the labour movement to ensure a labour perspective. Part II also contains the Conference Resolution adopted by the Cape Town conference.

We hope that this book will stimulate further debates on the future of Africa's textiles and clothing industries and on the need to create a global policy framework that is conducive to Africa's socio-economic development.

Herbert Jauch, LaRRI
Rudolf Traub-Merz, FES

The African[1] Textile and Clothing Industry: From Import Substitution fo Export Orientation

By Rudolf Traub-Merz
with assistance from Herbert Jauch

1. Introduction

The African textile and clothing (T&C) industry is in a major crisis. Domestically it is hit by imports (in particular from Asian countries) with which it finds it difficult to compete. Not much of the once impressive T&C sector built during the phase of import substitution is left. It is hit on foreign markets, where it has made some inroads in recent years, and where fierce competition among suppliers is now threatening exports from Africa.

The future and, to some extent, even the survival of the African textile and clothing industry is closely linked to two international processes: The changes taking place on the global T&C market after the expiry of the Agreement on Textiles and Clothing (ATC) on 1 January 2005; and the restructuring of the multilateral trade system, being negotiated in the current World Trade Organization (WTO) Doha round.

The expiry of the ATC marks the end of a period of some 40 years, during which much of the global T&C trade was subject to a special regime which centred on a politically motivated quota system. With the end of the quota system, the T&C trade is moving inside the world of WTO agreements, becoming an integral part of the WTO system, governed by the general rules and principles of this multilateral trading system.

The WTO Doha round is the second major reference. Current WTO agreements do allow the use of certain rules, which can provide protection for national T&C companies through customs duties or safeguard measures and promote exports through preferential market access. All these policy instruments are on the WTO table for negotiations again.

The survival of the T&C sector and the design of domestic and international trade and industrial policies is of major relevance for the development prospect

1 In the context of this paper, "Africa" refers to Sub-Saharan Africa

of many African countries. Looking in broad terms at the development pattern of successful countries from other regions, the following key issues become apparent:

(a) As part of a labour-intensive manufacturing sector, the textile and more so the clothing industry may be considered as the first step towards industrialisation. During the transformation from an agrarian to an industrial society, virtually all countries passed through an initial period of accelerated development of the T&C sector. Those who tried to concentrate their first development stages on heavy industries like Russia and China usually failed and had to re-consider their growth pattern in later years.

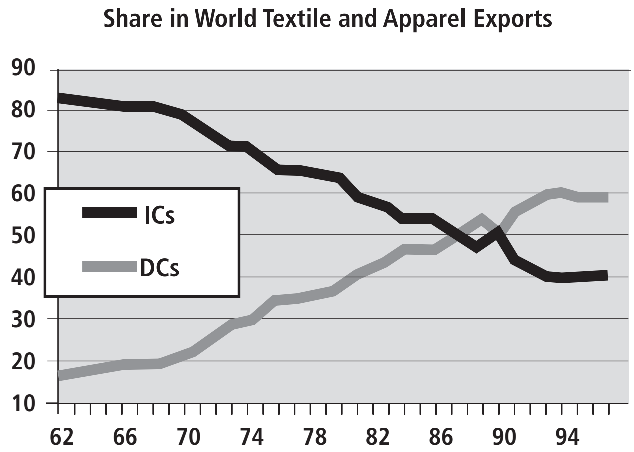
(b) At no point in time (in the pre-WTO world) did any country ever try to develop its T&C sector without applying some protection for its infant industries before opening up to competition. No industry was ever able to survive in open competition on domestic or foreign markets before it had a chance to mature within a protected environment. Customs duties and other protective measures were always intended to equalize between productivity differentials, and most countries applied a full import ban when it fitted their own industry.

(c) There is generally no reason to believe that T&C industries today could not play the same developmental role what it did in history for the UK, the US, Germany and Japan. T&C industries have played a key role in the several waves of industrialising economies of East Asia such as: Hong Kong, Singapore, Taiwan, South Korea, Malaysia and, more recently, China, Indonesia, Thailand and Viet Nam. Similar efforts to develop T&C industries were undertaken in South Asia, including India, Pakistan, Sri Lanka and Bangladesh.

(d) Historically, T&C industries constituted the first manufacturing sector, where export production became dominated by developing countries. "In the mid-1960s, developing countries accounted for nearly 15% of world textile exports and less than 25% of world clothing exports. In 2000, these shares are more than 50% and 70%, respectively" (Evolution of Trade: 6).

(e) T&C production in developing countries has been dominated by Asia. Korea and Taiwan were the leading world suppliers in the 1st half of the 1980s, with China replacing both as lead economy in the 2nd part of the 1980s (IFPRI: 7). In 2003, China alone accounted for 20 per cent of total world exports of textiles and 28 per cent of clothing (UNDP: 5).

(f) Trade in the T&C sector has grown faster than total trade in goods between 1962 and 2001 and it will remain an economic springboard for many developing countries.



Source: IFPRI, 2001.

(g) In view of the increasing disparities between developing countries, there is a need to further qualify and distinguish between advanced developing countries and least developing countries (LDCs). Between 1995 and 2003, the share of T&C from LDCs in world exports increased from 2% to 5%, driven by an annual average growth rate of 15.7% (UNDP: 3). Comparing these figures to the total share of LDCs in all world's merchandise exports (0.63%) puts the clothing sector into perspective: For LDCs, it is by far the main source of growth in manufacturing output which can be sold on world markets.

Looking at these trends it becomes obvious that ”using the T&C road” may still be a promising path for African countries which want to initiate industrial development. It allows relatively easy entry, is labour intensive and may provide African countries with a “competitive advantage” due to large pools of low-skilled labour and relatively low wage levels. Furthermore, the clothing sector can be diversified into more complex production processes for higher-skilled labour; and it allows building of linkages to textiles, which is a more capital intensive business and comparatively better suited for more advanced countries.

On the other hand, the “T&C road” can lead to highly exploitative production processes and the emergence of the “working poor”: workers in full-time employment but unable to meet even the most basic needs of their households. The T&C industries are notorious for creating poor working conditions in many developing countries.

What matters most from an economic perspective, is the extent to which an industrial development strategy based on T&C is primarily focusing on supplying domestic markets, where national policies may provide a protective environment or whether it is primarily targeting international markets, where market share must be captured from advanced competitors.

2. Three Phases of T&C Development in Sub-Saharan Africa

2.1. Pre-Colonial and Colonial Era

The history of the African textiles industry dates back to pre-colonial times. There appears to have been no degree of specialization to the extent, that manufacturing with wage labour on a large scale mushroomed everywhere, but certain regions were well advanced in not only supplying their own clothing needs but becoming large-scale exporters of textiles. Heinrich Barth, the famous German Africa traveller gave a vivid picture of the cotton fields in the Sahel region and the size of the Kano weaving industry in the middle of the 19th century. Most weaver households were still linked to agricultural activities and produced their basic needs of food. But during non-farming seasons they supplied textiles in such quantities and with such skilled labour that markets for them stretched from today's Senegal to the Chad and many entered the Trans-Sahara-Trade to North Africa and were even sold in Europe. Barth estimated cotton textiles to have made up some 30% of all Kano exports, which made it economically more significant than the slave trade.

Most of the local spinning and weaving industry in West Africa was destroyed between 1880 and 1930. The steamships appeared in Africa after 1852, reducing transport costs and bringing to the shores an influx of small traders who moved inland and tried to sell European textiles and other industrial goods in exchange for agricultural raw materials. England and France started their race in setting-up spheres of influence to connect West African markets to the needs of their national industries before they finally began, as from the 1990s onward, to conquer territories with military force and annex them as colonies. The Yoruba industry, an important producer of West African textiles in South-West Nigeria, which had supplied forest regions along the Atlantic coast as well as slave markets in Brazil, was first crowded out due to its proximity to the European trading posts along the coast and succumbed to cheaper imports and political interference between 1880 and 1900. The Kano industry further inland prospered behind high transport costs until 1912, when the railway reached the city. World War I brought some relief, but before World War II most of the once famous textile industry had vanished and, thereafter, some 90% of the Nigerian textile market was supplied from imports (Johnson; Prest/Stewart).

Between 1900 and 1960 the colonial regimes ensured that Africa supplied European markets with unprocessed raw materials whilst being a selling ground for fully processed consumer goods. As a result, Africa's economy suffered: its craft industry was destroyed and autocentric processes of economic development were turned back. Until close to the end of colonial rule, no projects of industrial development were started. It was only in Southern Africa, in particular in South Africa and former Rhodesia, where white settlers pushed for industrial development to protect their political environment. The rest of Africa reached independence with no significant industry in place.

After independence, Africa adopted two distinct approaches to develop its clothing and textile industries. The first phase, the period of import substitution, in most cases lasted from the end of colonialism till the 1980s. It virtually ended when national Governments lost the capability to service their foreign debts and were forced by World Bank and the International Monetary Fund (IMF) to open national economies to foreign trade. Whilst some countries were caught in an on-going process of de-industrialisation, others opted for export orientation with T&C products. It is in this context that Export Processing Zones (EPZs) became the new concept for industrial development.

2.2. Import Substitution

(a) Industrialisation with IS

Import Substitution (IS) is based on the principle that the state plays a key developmental role and an active state policy is the main tool to transform an agrarian economy into an industrial society. IS is a strategy to target the domestic market. Companies set up through national (private or public) or foreign investment were provided with a local market and protected from outside competition through customs duties, through quantity restrictions on imports or by out-rightly banning them. The first two of the so-called development decades (1960s and 1970s) were at a time when the WTO was not yet in existence, when no Most Favoured Nation (MFN) clause made discrimination policies difficult and when no binding of tariffs or prohibition on quantity restrictions narrowed the policy space of national Governments. This was the time, when UNCTAD was the central agency for UN endeavours towards development, when import substitution was even the favoured development approach by the World Bank, when foreign debt was not yet an issue and the IMF had no say in the macro-economic policies of African states.

In the absence of comprehensive statistics, it is difficult to empirically assess the relevance of the textile and clothing industry in Sub-Saharan Africa (SSA) between 1960 and 1980. With the exception of a few, mostly small countries which pushed for beneficiation of agricultural or mineral exports, and the special case of Mauritius, SSA made import substitution the centrepiece of its industrial strategy and T&C products one of their top focus. Growth rates in the manufacturing sector were usually higher than overall growth rates. Whilst only the settler regimes in Southern Africa showed a manufacturing sector capturing more than 20% of the national GDP, most other countries were able to double or treble the contribition of manufacturing since the end of colonial rule. Country reports suggest that between 20% and 30% of formal wage employment in manufacturing came from textiles and garment industries, making it the second most important manufacturing industry after food, beverage and tobacco processing.

(b) IS and In-built Tendencies

Import substitution (IS) is based on incentives for investment and domestic production through protection from competing imports. It usually commences by substituting imports of consumer products with local production, thereby creating demand for the importation of machinery, raw materials and intermediate products. It is the logic of IS that in later stages replacement of imports moves "upstream" (higher levels of processing) and "sidestream" (wider range of processing, covering additional sectors). Raw cotton was easily available and the T&C sector was without any doubt the best suited strategy to create vertical linkages and set up domestically integrated production lines, including cotton ginning, spinning, dyes and fabrics.

IS was first oriented towards satisfying demand on the local markets, but there was hope that at a later stage the domestic textile industries would move beyond the protected national environment and become internationally competitive, entering foreign markets. It was this sequence which worked well for several Asian countries, but fell short in SSA.

There are several lessons which can be learnt from the African experience. The growth of IS must be supported by export sectors which earn hard currency. Otherwise it has to be financed from foreign loans. The financial dependency on other sectors ends only, when the IS-industry is fully integrated vertically or turns towards exports and earns foreign currency itself. The financing problem is multiplied, when several production lines are put under IS strategies at the same time, pushing upwards imports and the need to earn more hard currency.

IS has an in-built tendency to create monopolies behind tariff barriers. Foreign investors are likely to demand protection from potential local or foreign rivals and to insist on grace periods before licenses are granted to others. This happens particularly when markets are small, as is the case in most African countries. State companies behave in a similar way and governments are usually keen to see inefficient state-owned companies picking an additional monopoly rent to keep subsidies low. Nigeria is a case in point: In 1980, when IS reached its climax, the whole of the manufacturing sector was characterised by the absence of competition. In 14 out of 63 industrial branches (ISI-classification), the largest company enjoyed a full monopoly over the whole range of its products, while in another 21 ISIC-branches the market share of the largest firm was between 50% and 90%. Nigeria's IS-manufacturing sector during the 1970s can indeed be said to have 'prospered' under monopolistic market controls (Traub: 251-4).

Integrating manufacturing capacity into national markets can not work in the absence of adequate physical infrastructure, most important of which are transport systems, communication and energy. African governments usually treated the construction of roads, railways, bridges and ports, the installing of telephone lines and electricity generation and the supply of fuels as matters of state sovereignty and reserved them for state companies. There are many examples of state infrastructure projects in SSA, which never developed despite heavy financial investment. Locations were decided based on political considerations instead of economic ones. Some infrastructure projects collapsed after they had just been implemented due to wrong technical specifications or because maintenance requirements were ignored. The manufacturing sector, therefore, had to cope with a deteriorating physical environment which forced ever-increasing additional costs on its products.

The dilemma is obvious: IS-industries, initially, are not competitive in international markets – protected domestic market must be carved out and high tariff barriers are essential stages. Without them, IS may not take-off at all. But when tariff protection is applied, room for building monopolies in the domestic economy is provided and market pressure is missing to upgrade facilities and productivity. IS tends to get stuck with unsuitable production systems, supplies domestic markets where consumers can not shop elsewhere. It requires subsidies and foreign currency, forces taxation on exporting sectors or increases foreign debt. They way out is political intervention on two fronts: Upgrading of physical infrastructure to reduce transaction costs for the business sector; and restructuring of monopolistic markets under a strict competition policy or, where monopolies are unavoidable, coming up with trade surveillance, which places companies under scrutiny from the relevant ministries, with clear performance criteria which force them to modernise and to use productivity gains to reduce prices.

(c) Foreign Debt Crisis and the End of IS

Asian counties have shown that IS can work and that a domestic market-led strategy can be the platform of getting ready for an export-led deepening of industrial production. But Asian counties have also shown, that a sequence should be observed and, at the beginning, there must by heavy investment to build the physical environment for market integration. Trade policy surveillance on company performance and provision of public infrastructure are two prerequisites needed to raise productivity levels and to make IS-branches ready for exports and for competition on foreign markets.

It is in both areas that African governments failed to meet the challenge in the 1960s and 1970s. Despite all sorts of policy decrees to deepen IS, such as local content clauses, indigenisation quota, or even competition bills, their implementation was hardly monitored. Technocrats to oversee company behaviour lacked skills or got involved in shady deals with multinational companies. Licensing of imports became the main game of corrupt politicians and the group of influential ministry officials and politicians grew, whose main interest it was to increase import dependency of the IS-branches and to place themselves into the role of middlemen.

The end of the IS-phase was triggered by the two oil price shocks, when the price of a barrel of crude oil first jumped from US $ 2 (1972) to US $ 12 (1974) and later on from US $ 17 (1978) to US $ 40 (1980/81). Many African governments were forced to finance their fuel imports with foreign loans, for political reasons mostly not daring to increase the price of local fuel accordingly. The African oil producers, in particular Nigeria and Cameroon, followed suit after 1981, when world demand for crude oil crumbled, export volumes decreased and they still tried, with support from the World Bank, to maintain high levels of imports with foreign loans. The World Bank, worried about a major depression of the world economy, was keen to see the huge amount of freshly accumulated "petro dollars" in OPEC-counties flow back to trade finance, called African governments "underdebted" and advised them to obtain more foreign loans, without giving much consideration to their future capacity to service debts.

When the foreign debt crisis exploded in the 1980s, import substitution came to a virtual standstill and was rolled back by the infamous structural adjustment programmes. The developmental role of the state was curtailed or eliminated under the new World Bank/IMF dogma of "leaving development to the market forces". Government subsidies to the manufacturing sector were cut, restrictions on foreign trade removed and currencies depreciated. Domestic manufacturers suddenly had to openly compete with importers and, in most cases, lost large parts of domestic markets.

This policy shift resulted in the widespread destruction of Africa's manufacturing capacity that was built in the IS phase. Ghana reported a reduction of textile output by about 50% between 1975 and 2000, whilst T&C employment even declined by 80% (1975: 25,000 / 2000: 5,000). In 2004, T&C imports claimed a share of 70% of the local market leaving to domestic producers just the remaining 30% (see article on Ghana). Other countries point to a similar loss of T&C capacity. In Zambia, T&C employment dropped from 25,000 (1980s) to below 10,000 (2002). Kenya used to have 24 ginneries with an installed capacity of 140,000 bales, but today only 10 ginneries are in operation and their total lint output is down to 20,000 bales. The country‘s clothing sector shows the same picture. Before the crisis hit in the early 1990s, there were an estimated 110 large-scale garment manufacturers. Today, their number stands at 55, and some 55% of local consumption is supplied from imports. Nigeria's T&C sector once employed some 200,000 workers but is now threatened by extinction. The government in 2001 ordered an outright ban on all imports to save the national industry from collapse but smuggling appears to take place on such a scale that most T&C companies have gone out of production.

(d) South Africa: A Successful Case of IS till recent

South Africa differs from the rest of SSA. The T&C sector was highly developed and heavily protected, supported by the (apartheid) state, which built up a public infrastructure and successfully monitored its borders. When apartheid rule ended, South Africa joined the World Trade Organisation in 1994, reduced tariff protection and opened its market to international trade without being forced to do so by an IMF designed structural adjustment programme. T&C companies invested heavily in modern technology and were supported by the local currency, the Rand, which depreciated steadily. During the late 1990s and early 2000s, the industry rapidly increased exports whilst at the same time remaining competitive against imports, despite liberalisation.

Since 2002, the value of the local currency appreciated substantially and, with it, production costs were pushed upwards. Much of the export performance has evaporated and a very rapid surge in imports, particularly from China, is crowding out national industries on home markets. Business closures and liquidations have reached unprecedented levels and, according to trade unions statistics, the T&C sector recorded more than 55,000 job losses since 2003. A major public debate has sprung up as to the duty of the state to provide protection to local producers and to use exchange rate policies to support of manufacturing sector.

2.3. Export Promotion through EPZs

During the 1990s, several countries adopted a different approach to build a textile and garment industry in Sub-Saharan Africa, this time based on export processing zones (EPZ). Several countries tried to copy the "Mauritian model" which focused on export production. EPZs are special zones which are isolated from the domestic economy. Investors are either not allowed (or only to a very limited extent) to supply local consumers as production is geared towards foreign markets. Domestic investors may be granted access but EPZs are usually schemes to attract Foreign Direct Investment (FDI). In countries like Mexico, China and the Philippines, EPZ-production has become a dominant feature of those countries' economic growth strategy.

EPZs are the legal framework for a special sort of subsidised production for exports where Governments provide a package of incentives (such as tax holidays, duty free importation, low fees for public services like water and electricity supplies, lower environmental or social standards, sometimes exclusion of labour laws, provision of infrastructure etc.) to provide EPZ investors with better investment conditions than they receive elsewhere. In some cases, these incentives have led to a "race to the bottom" with regard to labour and environmental standards. Host governments, desperate to keep foreign investors within their national border, offered ever increasing concessions, using public resources to cross-subsidise foreign capital. The case of Ramatex in Namibia (see Namibia case study) exemplifies this point.

EPZs are expensive undertakings to host countries due to the direct costs in the form of infrastructure created with public funds and because of the indirect costs such as lost tax revenue. Despite the often negative experiences with EPZ policies elsewhere, a host of African states have adopted such policies since the 1990s. This includes Kenya, Zimbabwe, Namibia, Madagascar, Swaziland, Malawi and Zambia.

Overall, EPZs in Africa have not been very successful in attracting investment and generating production and employment. In economies which suffered from de-industrialisation, EPZs failed to turn the manufacturing sector around and they could not compensate for the loss of IS industries. Although EPZs were meant to attract a range of manufacturing industries, they are usually concentrated in electronics, clothing and textiles. Apart from Zimbabwe, were agro-processing is dominant, all other African EPZs show a clear bias towards T&C products which account for two-thirds or more of all EPZ employment and, possible, an even higher share of output.

Table 1 gives an indication of the EPZ growth pattern. Since inception of the various export schemes, some 400 T&C companies have invested in EPZs in Kenya, Madagascar, Mauritius and Swaziland, have created some 170,000 jobs and have generated more than US $ 1.5 billion in export sales (see also Mike Murphy in this volume). However, the T&C export boom cannot be accounted for solely by the EPZ initiatives. Table 1 lists Lesotho and Swaziland, which went into export production without creating EPZs, and became fast growing exporters of T&C products. Lesotho's 49 companies and Swaziland's 25 companies (2004) together employed some 83,000 workers and made sales of US $ 450 million and US $ 179 million, all of which were realised in the US.

Table 1: **Number of Companies and Employment in T&C Export Production: Selected Countries**

EPZ law	Country	Year	Number of Companies			Employment	
			Textiles	Clothing	T&C	Number	% of EPZ
1990	Kenya	2000 2003/4	n.a. n.a.	6 34	n.a. n.a.	6487 32095	n.a. 85.1%
1995	Madagascar	1995 2003/4	n.a. n.a.	n.a. n.a.	n.a. ~75	38700* 75600*	n.a. 94.1%
1971	Mauritius	1995/7 2004	34 41	236 224	270 265	73462* 67249*	66.5% 66.1%
1995	Zimbabwe	2001 2004	n.a. n.a.	n.a. n.a.	n.a. 3	4710 4163	30.2% n.a.
None	Lesotho	1999 2004 2005	0 1 1	n.a. 49 42	n.a. 49 42	9847 53087 40364	n.a. n.a. n.a.
None	Swaziland	2000 2004	0 1	4 24	4 25	5000 30000	n.a. n.a.

* including T&C workers outside EPZs. Mauritius share of T&C jobs in EPZs is around 80% and possibly similar in Madagascar.
Source: Country reports

Much of the export boom with T&C products has to be understood in the context of two other schemes which worked in favour of exports from Africa: The Multi-Fiber Arrangement and the Preferential Market Access.

3. Pulling Clothing Exports from Africa: The MFA/ATC and Preferential Market Access

3.1. Quota Hopping and Asian Investors

The textiles and clothing sector (T&C) was one of those industries, which was kept outside the general rules of the GATT and WTO for 40 years. Until the end of 2004, T&C was regulated through special quota-based agreements, known as the Multi-Fiber Arrangement (MFA). The MFA was intended to protect the industry of developed countries, primarily the United States and the European Union, from cheap supplies from Asia. It constituted a major departure from the rules of the GATT (General Agreement on Trade and Tariffs), as it violated the two fundamental principles: most favoured nation (MFN, Article I of GATT) and limits on imposition of quantitative restrictions (Article XI of GATT). It allowed buying countries through bilateral deals to apply a quota system, discriminating between suppliers and blocking imports from countries which had exhausted their quota. In the end, the MFA did not prevent the destruction of substantive production capacity in the clothing industry in industrialised countries (in particular in the US and the EU) and the emergence of this industry in various parts of Asia. However, it helped to slow down this migration process considerably.

The MFA regulations for T&C supplies gave rise to a special form of FDI: quota hopping. Companies from countries, which had exhausted their quota were searching for countries which had not, opting for investments there to benefit from the quotas. The way quotas were distributed raised opportunities for countries with no T&C sector to develop an export industry of their own. T&C firms from China, Taiwan, Malaysia and other Asian countries with exhausted export quantities at home moved into SSA to capture additional quota access in the protected markets of the US and the EU.

The contribution of Asian companies to Africa's T&C exports is varied. EPZs in Mauritius and Kenya, for example, experienced a significant contribution from local capital. In Madagascar, on the other hand, French and Mauritian investors played a significant role. In Swaziland and Lesotho, T&C firms are mostly owned by people of Chinese origin – both from People's Republic of China (including Hong Kong) and the Republic of China (i.e. Taiwan).

3.2. Preferential Market Access

T&C markets in industrialised countries are one of the most heavily protected sectors with the average tariff as high as 32% on clothing (UNDP:22). African producers are badly positioned to catch export markets when forced to compete on equal level with China and other big T&C suppliers by paying the same duties under MFN tariffs. Free trade agreements (FTA) are a means to restrict market opportunities for third party countries not enjoying similar FTA status. FTAs are bilateral agreements, but even the WTO rules under the generalised system of preferences (GSP) allow non-reciprocal preferential arrangements. Under these arrangements, several industrial countries including Australia, Canada, EU, Japan and United States provide preferential treatment to products originating in developing countries and LDCs. For African producers, three are particularly important: the EU's 'Everything but Arms' (EBA) initiative which gives duty-free and quota-free market access for all except a few products to all LDC since 2001; the EU-ACP Cotonou Agreement of 2000, with preferences to African, Caribbean and Pacific countries; and the 'African Growths and Opportunity Act' (AGOA) of 2000 with preferences to the African countries by the USA.

Preferential regimes are non-reciprocal free trade arrangements which provide advantages to a group of countries without the industrialised country claiming same. But while they provide privileges on one side they usually attach conditions which limit their use on the other side. The EU's EBA is of particular concern as it promises duty-free and quota-free market access but requires the observation of very restrictive Rules of Origin (RoO). Exports from LDCs are only eligible, if a T&C product has passed two stages of transformation. Where a country does not produce textiles and relies on imported inputs for its garment companies as is the case for most LDCs, the LDC does not qualify and forfeits its duty-free access (or has to buy directly from the EU at usually higher prices). Where LDCs have developed some downstream capacities in the textile sector, they may qualify, but they may not produce at competitive level and may have to use local inputs at higher prices or lower quality. As a consequence, buyers may opt out due to quality standards or accept delivery only at lower prices which again erodes much of preferences granted. The rigid RoO regime under the EBA initiative is similary applied under the Cotonou Agreement and may explain to a large extent, why the utilisation rate of preferential access for African producers is so low. With the exception of Mauritius and to some extent South Africa, African T&C exports have not captured a significant share of EU markets.

AGOA is comparatively better designed to assist African clothing exporters as its RoO is less restrictive than those of the EU. The LDC provision allows poor

African states to source the yarn and fabric used in apparel assembly from anywhere and demands only a single transformation inside the country. Furthermore, the USA does not give similar privileges to T&C products from Asian LDC (except Cambodia) which gives African LDCs an additional advantage. AGOA, however, has several shortcomings itself. Just as the EU's EBA, it is not a binding agreement under the WTO but a unilateral arrangement from an industrialised country, which can be withdrawn at any time. It does not cover textiles, and sets ceilings for aggregate clothing imports although beneficiary countries currently do not yet utilise their full quota. Only garments made from US fabric, yarn, and thread have duty-free and quota-free access without limitations. Congress has approved legislation that allows to extend the AGOA duty-free access provisions until 2015, but the LDC benefits are approved until September 2007, when more stringent RoO may be imposed. Furthermore, AGOA sets some conditions which are unilaterally imposed by the US. These include the adoption of market-friendly policies and "good governance" as defined by the US government. Currently, only 37 African countries are eligible for AGOA benefits, while Zimbabwe has been excluded for governance reasons.

Nevertheless, AGOA has provided some benefits for clothing exporters from Africa. Preferential access worked hand in hand with quota restrictions against highly competitive Asian countries.

Table 2 provides an overview of the structure of the US import market for T&C products.

About half of the US import market has been captured by the TOP 12 Asian suppliers, of which China alone accounts for close to a fifth. Within the Asian groups, some regrouping did take place between 1994 and 2004, with Korea and Taiwan giving in to newcomers like Vietnam and Cambodia, and Hong Kong, moving T&C production capacity to China. But what is important is that US trade policy under MFA/ATC quota politics holds back on Asian imports, making sure that their share fell slightly. Quantitative restrictions worked in particular against China, which was granted higher import volumes only, as they were reduced for Hong Kong, and which easily could have claimed a much higher share under a less restrictive import regime.

Changes in the market structure between 1994-2004 show that the US opened more of its T&C market to importers under preferential schemes, such as the North American Free Trade Agreement (NAFTA), which includes Canada and Mexico or the Caribbean Basin Initiative (CBI) with some 25 small T&C exporters. Looking at the market share of AGOA countries, Africa seems to be lagging far behind. However, in the early 1990s, African T&C export products were almost non-existent and developed only when AGOA was put in place with liberal RoO

Table 2: **US Imports of Textiles and Clothing: 1990-2004 (US $ million)**

	1994	2000	2004	Share 1994	Share 2004
Total Imports	39,980.9	71,691.5	83,311.7	100.0%	100.0%
Top 13 Asian suppliers				(56.3%)	(52.7%)
(excl. HK, Korea, Taiwan)				(32.1%)	(42.3%)
China	4,930.7	6,527.5	14,560.4	12.3%	17.5%
India	1,520.3	2,740.7	3,633.4	3.8%	4.4%
China – Hong Kong	4,405.5	4,707.0	3.,959.2	11.0%	4.8%
Vietnam	3.0	49,9	2,719,7	–	3.3%
Indonesia	1,170.2	2,380.2	2,620.2	2.9%	3.1%
Korea Rep.	2,448.8	3,071.8	2,579.7	6.1%	3.1%
Pakistan	767.9	1,834.7	2,546.0	1.9%	3.1%
Thailand	1,234.0	2,447.1	2,198.2	3.1%	2.6%
Taiwan	2,829.8	2,755.9	2,103.9	7.1%	2.5%
Bangladesh	927.4	2,204.7	2,065.7	2.3%	2.5%
Philippines	1,457.0	2,289.0	1,938.1	3.6%	2.3%
Sri Lanka	892,.4	1,677.4	1,585.2	2.2%	1.9%
Cambodia	–	815.8	1,441.7	–	1.7%
Preferential Groups				(21.9%)	(28.9%)
NAFTA	3,211.3	13,043.0	10,833.5	8.0%	13.0%
CBI	4,592.3	9,629.3	10,022.8	11.5%	12.0%
Andean	545.3	898.2	1,387.4	1.4%	1.7%
AGOA	387.3	776.4	1,791.6	1.0%	2.2%
Textiles	26,9	28,0	25,3	(0.3%)	(0.1%)
Clothing	360,4	748.4	1,766.4	(1.1%)	(2.7%)

Source: International Textiles and Clothing Bureau, at: www.itcb.org/Documents/ITCB-TDUS04.pdf.

in 2000. Whilst the value of imports from CBI and NAFTA stagnated or declined between 2000 and 2004, AGOA countries were able to increase their exports to the US from US $ 776 million to US $ 1,792.

The table further shows that African exports are made up of garments while textiles are insignificant. With the exception of South Africa and Mauritius, African textiles are insignificant on international markets. Where textile firms are still in existence from the time of IS, like in West Africa, they are not competitive and produce only for domestic markets. This poses one of the threats for the future of the African clothing industry: if AGOA is not renewed by the US legislature in 2007 with favourable RoO, most of its advantages may be gone. If the Congress changes the concept to a “two finishing steps” (as done by the EU), most clothing exports will not qualify for AGOA benefits. Lesotho already prepares for this possibility and managed to win a Taiwan investor to open an integrated textile manufacturing facility in 2004. It imports ginned cotton from African countries, spins it into yarn, dyes the yarn, and then weaves the yarn into fabric (see the Lesotho country report). But this covers just one product line while others are still in the one-step assembly process. Lesotho still requires a range of fabric manufacturers that can supply its garment industries. “Should AGOA third country fabric provisions expire in September 2007 and Lesotho not find alternative supplies of knitted fabrics (either via integrate knit fabric mills located in Lesotho or via competitively priced purchases of knit fabrics from AGOA eligible countries) then Lesotho will lose its knit garment industry” (Mark Bennett, Lesotho country report).

4. Mixing Export Business Afresh: The MFA/ATC-Phase-Out and China-WTO Textile Safeguard

4.1. Competition in a Quota-Free World: The MFA/ATC-Phase-Out

During the Marrakech round which created the WTO in 1994, developing countries pushed for the phasing-out of the MFA. The Agreement on Textiles and Clothing (ATC), signed on 1 January 1995 put in place a ten-year transitional regime. Since 1 January 2005, the quota-based trade in the sector has finally ended and the T&C has become part of the regular WTO discipline, allowing derogations only under very specific conditions.

Since the expiry of the MFA/ATC, a deep re-structuring process is underway. Table 3 shows T&C import values to the US for the period Jan.-Sept. 2005, comparing them with the same period of the previous year. These figures are a manifestation of what happened, when the quota expired. The T&C suppliers were allowed full market access, and a distinction was only made between those countries who paid full import duties and those, who enjoyed preferential access, which put them on equal footing with domestic producers.

The figures of Table 2 and 3 differ slightly, as they are taken from different sources and do not show the same sample of countries. However, they still provide a clear picture. Total imports grew within the span of one year by around 10%, much higher than the US economy. When the quota expired, US retailers increased their orders abroad and purchased less from domestic producers.

The big winner was China, which increased its exports to the US by nearly 60%, followed in some distance by India. The rest of Asia, as listed in the table, was able to keep its share constant in a rising market, benefiting as well from the expiry of the quota. Korea, Taiwan and Hong Kong, which are not listed in the table, may be losers but not to such an extent, as to make the growth of China and India a zero-sum-game within Asia.

On the losing side are groups, which enjoy preferential market access. Just as US producers could not withstand the influx of cheap T&C imports from Asia, duty-free access was not sufficient for AGOA countries to hold their market share against China and India. A decline from 2.2% to 1.6% is a loss of a quarter of the market. In value terms, exports from AGOA countries have declined by more than 10%. If this is a sign of things to come, Africa's T&C share in the US market is under serious threat. All AGOA countries have experienced a production and employment crisis since late 2004. Swaziland reported a loss of 10,000 jobs, Lesotho of 13,000, and South Africa of 18,000. In all three cases, however, the appreciating Rand currency was an additional factor to contribute to the deterioration of T&C exports.

Table 3: **US Imports of Textiles and Clothing Jan.-Sept. 2005 (US $ million)**

	Jan.-Sept. 2004	Jan.-Sept. 2005	Share Jan.-Sept. 2004	Share Jan.-Sept. 2005
Total Imports	64,918.1	70,362.8	100.0%	100.0%
Top 10 Asian suppliers			(41.4%)	(50.2%)
(excl. China + India)			(19.3%)	(19.6%)
China	11,179.2	17,729.9	17.2%	25.2%
India	2,987.3	3,741.6	4.6%	5.3%
(China – Hong Kong)	n.a.	n.a.	n.a.	n.a.
Vietnam	2,057.5	2,028.0	3.2%	2.9%
Indonesia	1,994.8	2,327.1	3.1%	3.3%
(Korea Rep.)	n.a.	n.a.	n.a.	n.a.
Pakistan	1,911.9	2,120.5	2.9%	3.0%
Thailand	1,605.0	1,631.1	2.5%	2.3%
(Taiwan)	n.a.	n.a.	n.a.	n.a.
Bangladesh	1,484.5	1,779.1	2.3%	2.5%
Philippines	1,413.4	1,397.3	2.2%	2.0%
Sri Lanka	1,162.2	1,286.9	1.8%	1.8%
Cambodia	1,068.4	1,254.4	1.6%	1.8%
Preferential Groups				
CBI + Mexico	13,945.6	13,511.0	21.5	19.2
AGOA	1,290.6	1,145.7	2.2	1.6

Source: UNDP (2005 – Table A-1a)

4.2. Trade Remedy Measures and China-WTO Textile Safeguard

The multilateral trading system is not a laissez-faire free trade arrangement but allows trade remedy measures such as anti-dumping, countervailing and safeguards to protect domestic industries from 'unfair' foreign competition. Anti-dumping can be applied, when a product is sold cheaper abroad than on the domestic market. It is a company-specific measure and works against targeted firms in targeted countries. Safeguards can be used, should imports arrive in such volumes and at such prices that they cause serious market disruptions. Their application falls under the Most Favoured Nation (MFN) rule and import restrictions must be applied indiscriminately against all companies and countries.

Under the accession rules for WTO-membership, it has become standard procedure to force applicants to adhere to temporary rules which aim to prevent major market disruptions in member countries. China, which joined the WTO in 2001, had to accept in its Protocol of Accession special provisions, which allow WTO members to protect their industries. They could impose quantitative restrictions until the end of 2008, limiting Chinese T&C imports to an annual growth of 7.5%. In a second provision, WTO members hold the right to impose selective safeguard measures against Chinese imports until 2013. China also had to agree to be classified as a non-market economy until 2016, which makes it easier to impose anti-dumping duties on their imports (UNDP: 19; see Hayashi in this volume).

China has been seen as the country benefiting most from the expiry of the MFA/ATC-quota system. When quantity restrictions were removed, Chinese T&C exports to the US and the EU multiplied and within a few weeks, both Governments re-imposed quotas on a number of items. The EU struck a deal with China on 10 June 2005 to limit 10 Chinese T&C products to an annual growth between 8 and 12,5% until 2008. The USA started with seven items in May 2005 and finally reached with China an agreement on textile trade on 8 November 2005, which becomes effective 1 January 2006 and expires end of 2008. It covers 34 products and contains quotas which impose tighter restriction on 'core apparel' than on non-core products (UNDP:19-20).

While both agreements limit T&C exports from China and are intended as protective barrier for national industries, it is more likely that they will be advantageous for other T&C exporters and allow them to gain higher market shares in the USA and the EU. Two groups may be distinguished: T&C exporters from developing countries and T&C exporters from LDC.

For African producers they may provide a temporary relief. They are now left with 2-3 years during which quota and preferential access will be maintained before they may be thrown into a full-blown competition with other T&C suppliers.

5. The Doha Development Round: How much Development?

5.1. The Doha Round

What is at stake with any WTO round is the extent, to which national policy space of individual countries to protect and promote domestic industries is preserved and to what extent countries agree to narrow the scope of national policy intervention under multilateral rules and regulations. The use of policy tools is always discriminative by its very nature and where such rights to discriminate are restricted or even closed, governments have less possibilities to assist domestic economic sectors in need.

Superficially, trade negotiations appear to be simple give-and-take rounds. In a rational choice, no government would want to participate in trade talks if there is no hope for gains. Trade negotiators of the two leading economies, the US and the EU, have time and again declared during preparatory talks that concession on opening their highly protected agricultural markets must be compensated with more market access for their products in developing countries, in particular industry.

Since the failure of the WTO Seattle round (1999) and the formation of the G20 country group, the 'quid pro quo' view has been challenged politically, with developing countries now demanding unilateral trade concessions from industrial countries which benefit the poor. The WTO Doha round, which took off in 2001, had been named a development round when countries led by the G20 challenged the whole WTO system and insisted that further negotiations should stop treating countries at different stages of development alike and demanded special rights to be granted to developing countries and least developed countries. The Doha Ministerial Declaration acknowledged the new focus by stating in Paragraph 16 that the coming negotiations "shall take fully into account the special needs and interests of developing and least developed country participants, including through less than full reciprocity in reduction commitments", while Paragraph 50 declares that the negotiations shall take fully into account the principle of Special and Differential Treatment (SDT) for developing and least-developed countries (TWN, Briefing Paper 28).

The Doha declaration outlined among others two principles: 1. that WTO member countries fall into three groups with developing countries being qualified into advanced and least developed; and 2. that 'less than full reciprocity' in commitments to cut tariffs and subsidies and SDT for LDCs have been agreed as major agenda items in the NAMA (Non-Agricultural Market Access) mandate.

Earlier rounds of WTO negotiations had already constrained the use of certain policy tools, for instance on TRIMS and subsidies. The local content clause, important to create backward and forward linkages, has been outlawed. Putting a ban on Government procurement to discriminate in favour of local business was originally on the Doha agenda but had to be taken off due to objections from developing countries. Such a ban may provide transnational corporations (TNCs) the space to destroy local producers of goods and services for government.

The T&C sector falls under the NAMA mandate the major focus of which is on cuts in industrial tariffs. Lowering the industrial tariffs has always been the key goal of the GATT-WTO and pressure has existed since long to reduce or abolish the use of non-tariff barriers, to bind tariff lines (to a maximum duty) and to reduce tariff peaks over time. But up to now, the developing countries used to have significant flexibilities and policy space in determining the scope of their tariff bindings, the level at which the bindings were to take place and the rate of tariff reduction in each tariff line. In the Uruguay round, developing countries were given an overall target of 27% average reduction. Countries could choose the rate of reduction in each tariff line and were allowed to increase them later again as long as the average reduction target was met (TWN Briefing Paper 28).

During the preparatory talks to the 6th Ministerial meeting in Hong Kong, trade negotiators had remained too divided on most issues on the table and the WTO secretariat was forced to reduce expectations. Even then, the Hong Kong Ministerial in December 2005 only narrowly avoided a full failure with a last minute agreement on agricultural export subsidies to end in 2013. But the Hong Kong Ministerial Declaration does not show consensus on specific numbers and formula structures for cutting subsidies and tariffs. "Instead, ministers agreed on some general parameters to guide the development of these 'full modalities' on agriculture and non-agricultural market access (NAMA), and set themselves an April 2006 deadline for finalising them" (Bridges, Update 7).

5.2. Conclusions from Hong Kong for the T&C sector

NAMA: Tariff cuts and Swiss formula

The meeting adopted a so-called "Swiss formula" on industrial tariff reduction. Critics have blamed a "Swiss formula" to be just the opposite of "less than full reciprocity" as it demands more cuts for higher tariffs than for lower rates. On average, tariffs in developing countries are higher than those in industrialised countries. But the "Swiss formula" received some corrective measures with a yet unspecified number of coefficients which leaves the door open to either ways.

The Hong Kong agreement reaffirms the importance of two issues but fails to operationalise them in a meaningful sense. It confirms the need for flexibilities for developing countries such as exempting a small number of tariff lines from reductions, or making cuts less onerous than those demanded by the formula. On the other hand, the text stipulates the need for "reduction or elimination of tariff peaks, high tariffs and tariff escalation, in particular on products of export interest to developing countries" (Ministerial Declaration: §14).

Preferential Market Access

In the absence of consents on most SDT proposals forwarded by developing countries, preferential market access became the main issue for LDCs. The Ministerial Declaration's Paragraph 47 on least-developed countries (LDCs) refers to Annex F, which provides details. Duty-free and quota-free access for LDC exports have been accepted as a principle of the multilateral trade system and member countries are asked to introduce the scheme till 2008. Preferential market access has moved beyond a unilateral commitment of donor countries. There are, however, three important caveats:

(a) product coverage is set at 97% of tariff lines. Given LDC's non-diversified export basket, the remaining 3% may be sufficient to restrict market access for most if not all LDC merchandise exports. This is certainly the case for T&C. The text carries an addition that member countries should take steps to progressively achieve full product coverage but no deadline is provided. Some African governments may be supportive of the reservation in the hope that the US may use it on T&C imports to restrict market access for more competitive ASIAN suppliers while keeping up on AGOA.

(b) there is no clarification as to the use of Rules of Origin (RoO). As long as RoO are not defined in a manner suitable for LDCs, countries can still use them restrictively and change their scope as it fits their needs.

(c) there is no explicit mentioning of advanced developing countries falling under the same obligation and granting LDCs duty-free and quota-free access alike. They themselves may claim the SDT clause and insist on not being put in one basket with industrialised countries.

Erosion of Preferences

Cuts on industrial tariffs automatically reduce the advantage of countries enjoying preferential access. While claims on compensation for erosion of preferences were widely articulated, no concept exists as how to go about it. In §20 of the declaration, the ministers stated: "We recognize the challenges that may be faced by non-reciprocal preference beneficiary Members as a consequence of the MFN liberalisation that will result from these negotiations. We instruct the Negotiating Group to intensify work on the assessment of the scope of the problem with a view to finding possible solutions".

Instead, industrial countries offered an increase in aid for trade spending, to build trade-related capacity, particularly by improving infrastructure. The EU indicated its commitment to step up annual spending on aid for trade to € 2 billion by 2010; Japan announced that it would spend US $ 10 billion over three years on 'aid for trade' for LDCs, in particular on building roads and ports, as well as to revamp their customs systems, while the US promised additional spending on trade-related assistance, much of it to physical infrastructure and trade facilitation (Bridget, Update 2). The offers however, come with uncertainties, which challenge their usefulness. The money may be taken from other development aid instead of being fresh money, it may be spent bilaterally instead of channeled through multilateral institutions, and it may not be linked to preference erosion at all but to other policies.

Sectoral Negotiations

The text also opens up for sectoral negotiations which aim at harmonising or eliminating all tariffs in certain sectors. Industries, which have been identified for special sectoral treatment include textiles and apparel. Any conclusion towards reducing tariff differentials and reducing tariff levels would spell maximum disaster for the African textiles and clothing industries on exports and domestic markets. The Hong Kong Ministerial did not really make any progress on this issue and concluded that participation in such sectoral negotiations should be "on a non-mandatory basis". There is some hope that negotiations on textiles and apparels, contrary to other sectorals, may not aim for large tariff reductions or even zero tariffs, but that textiles and apparel may be treated separately and that tariffs in textiles and apparel may be reduced at lower rates than proposed by the "Swiss formula" or may even be fully exempt from tariff cuts. Much depends on how developing countries will make the textiles and clothing issue a matter of industrial development concern (see the contribution by Esther Busser).

Summary on Hong Kong

The Hong Kong agreement is a disappointment in the extent to which it has provided meaningful benefits for developed and least developed countries. Oxfam called it a "betrayal of development promises" .

African Governments had wanted the WTO's Ministerial meeting in Hong Kong to cut rich-country subsidies on cotton and to further open their markets to processed goods from Africa. Ending export subsidies for cotton by the US comes now in 2006, but as export subsidies just make 5% of all cotton subsidies to the 25,000 US cotton farmers, the end thereof will not be very significant in pushing up depressed prices on export markets.

The right for poor countries to protect emerging industries has not been strengthened in any meaningful manner. Nothing has been done on SDT to give African countries additional rights to impose selective trade barriers behind which to develop industries. Depending on the final details of the Swiss formula (NAMA negotiations), African countries may be forced to undertake drastic cuts in their industrial tariffs. This may lead to a further collapse of local industries, de-industrialisation and massive job losses. It may be seen as a consideration of special development needs that LDCs may not be asked to reduce tariffs but just to bind tariffs. Any success in their development strategy will lead countries sooner than later to move out of the LDC group and they will then face the same pressure for tariffs cuts as all other developing countries. No matter how we look at the Doha process: it reduces the policy options for national development strategies and increases the areas, where local under-developed markets are put under increased pressure from imports. The weak is asked to stand in competition with the strong and this will further undermine prospects for Africa's industrial development.

6. Summary and Conclusions

Africa's T&C sector (with the exception of South Africa) is characterised by two distinct historical processes: The IS approach of the 1960s and 1970s had targeted a domestic value chain linking raw material, textiles production and clothing into a nationally integrated production network. The IS approach was hampered by monopolistic markets, bad policies and deteriorating public infrastructure but it were ill-designed structural adjustment programmes which brought death instead of recovery to many industries. Only remnants of the once substantive IS industry still exist today.

The export-driven development of the T&C sector also failed to ignite significant and sustainable industrialisation. The MFA/ATC quota regime coupled with preferential market access allowed African countries to attract investment for assembly type of clothing production. Over the years, Mauritius managed to link clothing into textile production and cotton textiles into regionally-sourced raw cotton supplies with much of the local production chain controlled by national capital. But other African export sectors are linked at the assembly stage into the global production networks of TNCs, notably from East Asia, which use temporary advantages like the existence of quota or preferential market access to decide on the location of investment. The export approach often created a few industries for a few years without meaningful linkages to the host economy (Endresen and Jauch, 2000).

The African T&C sector is not (yet) able to successfully compete on foreign markets on equal terms with the big Asian suppliers, in particular China. Quotas have de facto returned after the expiry of the MFA/ATC regime through the use of the special WTO China safeguard measures in the US and the EU, but they remain less significant as they do not work towards the exclusion of additional imports from other Asian suppliers. Beyond quantitative restrictions forced on competitors, preferential market access is the single most important factor to allow African T&C products to enter exports markets. Existing non-reciprocal preferential schemes fall short and they need to be improved, particularly regarding product coverage, predictability and the rules of origin. Textiles should be covered like clothing products and benefits should be granted on a multilateral base to make them a legal right. Furthermore, compliance rules have to be relaxed, so that the benefits derived can be increased.

Widening product coverage and simplifying RoO may be the two single most important steps to compensate LDCs for any preference erosion, which will come from cuts in MFN tariffs.

Widening RoO to allow for regional accumulation is likely to increase regional trade integration and may promote a regional division of labour, where more advanced economies like South Africa concentrate on textile exports and African LDCs on clothing products.

The recent past has shown that in the T&C markets competition between industrialised and developing countries has given way to rivalry between developing countries. There are indeed dangers that changes in the WTO system may further work in favour of emerging markets, in particular the “big three” (China, India and Brasil) without substantial benefits for African LDCs.

The Doha round has finally acknowledged diverse interests within developing countries and the subject of the T&C sector is highly divisive, precisely because the interests of advanced developing countries and LDCs are in direct conflict. This is the case, where both groups compete in markets of industrialised countries and where preferences are granted to one group work to the detriment of the other. Conflicting interests also exist regarding domestic markets of emerging economies. Developing countries import less than 4% of total LDC clothing exports (UNDP: 10). This is partly due to the fact that many emerging economies apply relatively high tariffs on T&C. The Hong Kong Ministerial declaration (§47) requested developed-country members, “and developing-country members declaring themselves in a position to do so” to implement duty-free and quota-free market access for LDC products. The G20, led by Brazil, used the Hong Kong meeting to dilute any firmer commitment on this point. It will thus be left to the LDCs and other country groupings like the ACP, to demand progress in later negotiations.

Against this background, it becomes apparent why African clothing and textile workers and their trade unions find themselves in an extremely difficult situation. When confronting T&C companies in an attempt to improve wages and working conditions, they are usually told that the company cannot afford higher wages and benefits as it is faced with stiff competition on international markets. Subsidiaries of TNCs frequently threaten with relocation when confronted by workers' demands and are often supported by host governments who believe that trade unions are unreasonable and thus pose a threat to foreign investments and job creation.

Unions may argue that the implementation of core labour standards is consistent with enterprise promotion as it reduces antagonistic social relations between capital and labour. Participatory industrial relations have often proven their superiority even in reducing production costs as they may induce gains in labour productivity. The productivity strategy, which moves from assembly type of production based on unskilled labour to a more complex production model with more skilled labour has several advantages. Increased costs of investment are compensated for by higher labour productivity from skilled labour; interest of investors in flexibility issues such as easy relocation of production is reduced as additional incentives to remain stationary are created. This is particularly so when local designs become relevant. Africa does have fashion elements, which, if fully exploited, could provide new marketing opportunities.

Workers and their trade unions are thus faced with a double challenge: On the one hand they have to confront (often hostile) employers in the T&C sector, trying to achieve better conditions of employment through shopfloor struggles and collective bargaining. On the other hand, they have to engage with complex global trade arrangements, which threaten the decision-making space of developing countries regarding their own industrialisation and development strategies. There is no doubt that most African T&C industries will not survive the onslaught of ruthless global competition without specifically designed measures of protection and support. Proposing such measures, convincing their governments to support them and fighting for the necessary space within global trade arrangements are the daunting tasks facing Africa's T&C workers and their trade unions today.

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Globalisation, China, and Clothing Industrialisation Strategies in Sub-Saharan Africa

By Mike Morris

1. Introduction

This era of globalisation has witnessed profound changes in the global production, trade, and employment in the clothing and textile sectors. Whereas in the past clothing and textile production was an area where low wage stable employment in developed countries could be sought by streams of immigrants, this is no longer the case. The industrialised countries of North America, Europe and Japan have witnessed the wholesale closing of clothing firms and the increased shedding of employment in the latter decades of the last century. Instead of immigrants from poor countries coming into industrialised countries and occupying clothing jobs, these sectors have themselves emigrated outwards towards the developing world.

Undoubtedly, globalisation is impacting in a fundamental way on conditions in developing countries. However the key questions are whether globalisation is concentrating on the gains derived amongst a few countries and groupings or whether it is spreading these gains? Are developing countries gaining or losing from this process? How can developing countries enter into this process so as maximise their activities? This paper argues that the issue is not whether to participate in globalisation, but rather how … and with what resources.

The clothing and textile sector, in line with many other areas of manufacturing, has been characterised by five major trends:

- The global dispersion of industrial activity
- Global participation of lower income countries in clothing and textiles traded goods
- The tendency for unit prices of products to fall
- The dominance of global value chains organising this global dispersion of production and trade
- China's growing presence impacting on both industrialised and developing countries.

This article attempts to flesh out these trends and show how they operate as dynamic factors shaping the clothing industry in Sub-Saharan Africa.

2. Global Value Chains and the Dispersion of Clothing Manufacturing

The global dispersion of clothing and textile manufacturing – i.e. the move towards offshore production – began with Japan in the 1950s and 1960s, followed by the East Asian Tigers (Taiwan, South Korea and Hong Kong) in the 1970s and 1980s, and then South East Asia in the 1990s, with China as the biggest player. Other emerging second level of important suppliers include India, Malaysia, Philippines, Indonesia and Sri Lanka (Gereffi and Memedovic 2003).

In order to deal with increasing clothing exports from these countries to the US and European countries, and to protect their domestic industries, the industrialised countries established a global regulatory system based on quotas allocated to different developing countries. In 1974 the Multi-Fibre Agreement (MFA) was signed ratifying countries' rights to impose quotas on textiles and clothing imports. The MFA allocated export quotas to low cost developing countries, limiting imports in industrialised countries whose domestic industries were facing serious challenge from rapidly increasing imports.

The objective of the MFA was to allow rich countries time to restructure their textiles and clothing industries before opening up to competition from poorer countries. Although 73 countries were subject to quotas by the EU, US or Canada, most countries with quota restraints did not use the full quotas to which they were entitled. In addition, the regional blocs negotiated separate bilateral regulatory agreements with different developing countries having some form of favoured nation status. The MFA regime lasted for 25 years, from 1974 until 1994, when the Uruguay Round of Multilateral Trade Negotiations produced the Agreement on Textiles and Clothing (ATC). This phased out quota restrictions spread over a period of 10 years. As a result, the MFA/ATC global quota trade regime came to an end on 1 January 2005.

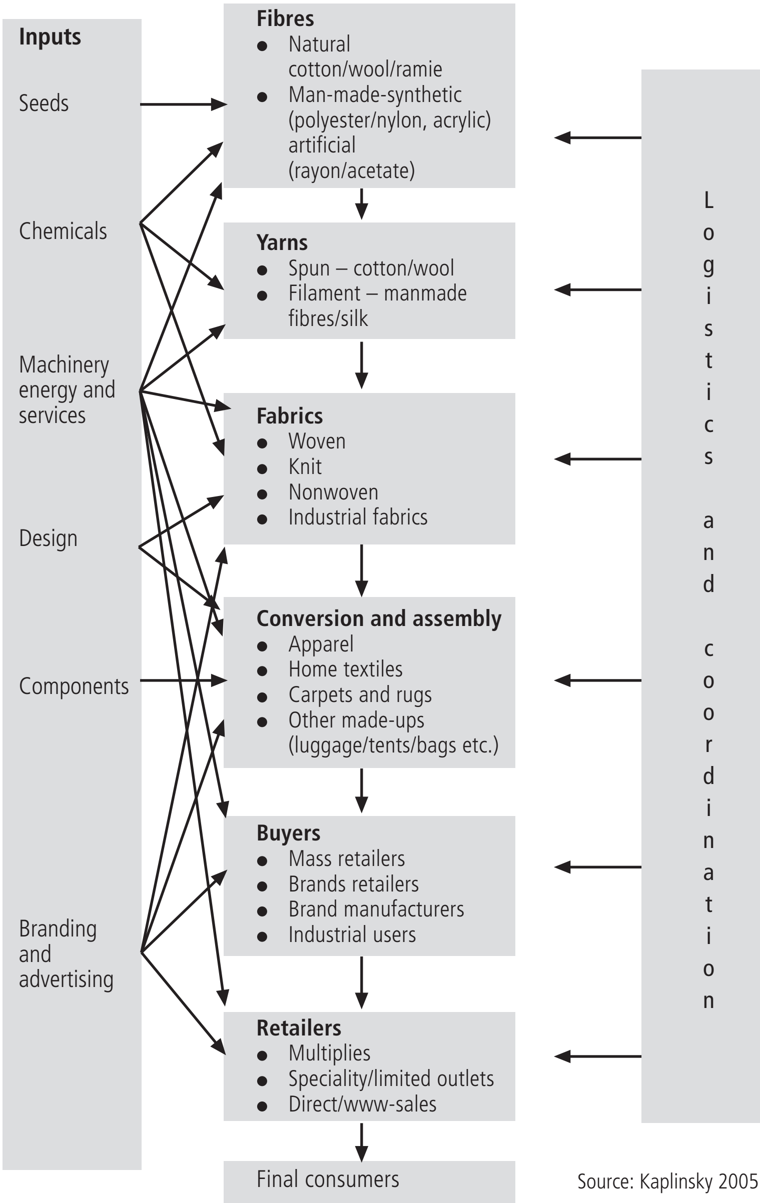
The fundamental consequences of these quota based trade policy restrictions were twofold: Firstly, preferential trade access through quotas to Europe and the USA meant that production spread to an ever-increasing number of countries. Secondly, when key manufacturers reached the limits of their production quotas they actively searched for under-utilised quota producer countries, in order to organise garment production in these economies. The result was a major global spread of clothing and textile production to various manufacturing sites throughout the developing world.

The driving force driving these processes were large retail chains, such as Wal-Mart, and "branded marketers", such as Nike and Reebok, who began outsourcing production to the low-wage, low-cost East Asian Tigers. These 'manufacturers without factories carried out no production of their own. However, they maintained control over the key processes of design and marketing of products, outsourcing the manufacturing operations to low cost regions. By keeping control over these design and marketing functions, they also maintained close control over the global clothing and textile value chain through setting standards, often sourcing raw materials themselves, distributing them globally and then importing the made-up garments.

As a result of this system, a new phenomenon emerged during the 1990s: third parties organising supply sourcing functions to key garment producers with established 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 to Sub-Saharan Africa. In turn, as they matured in their operations and established their own footholds, Mauritian garment producers also began to spread their operations to Madagascar. Finally, following on from this globalisation of production, the Asian producers, especially in Hong Kong and Taiwan, developed the capacity to mobilise and coordinate what is known as full-package manufacture (i.e. all the manufacturing stages) in the global textile and clothing value chain leading to what Gereffi (1999) terms "triangular production networks". In other words, production in one country (usually less developed) 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.

The emergence of these large discount and speciality clothing chains has provided retailers with the ability to increasingly manage global supply networks and determine a number of critical success factors which have to be met if manufacturers are to remain in their supply chains. The retail buyers wield significant power over these manufacturers specifying a number of such requirements such as price, quality, lead times, delivery reliability and raw material inputs that have to be met. Retailers and "branded marketers" have been co-ordinating supply chain networks since the 1980s. Essentially, they have been making decisions about where products are made around the world, at what price and how quickly things need to be moved, while at the same time controlling many aspects of the production process itself, for example, design, fabric sourcing, lead times, quality and price. In short, this process of "governance" of global value chains has meant that they have been able to drive the way that production takes place in developing economies (see Figure 1.)

Figure 1: **The Global Clothing and Textile Value Chain**



Source: Kaplinsky 2005

Large retailers, branded manufacturers, marketers, and sourcing agents, therefore, controlled these dispersed global production networks and stipulated supply specifications. The source of their power derived from an ongoing process of economic concentration of retailers – of mergers, acquisitions and the emergence of large discount chains. In 2001, the top 5 US retailers accounted for 76% of sales amongst the top 20 retailers. In 2000, the top 5 UK retailers accounted for 32% of total sales, while the top 10 accounted for 42%. It is predicted that by 2010 the top 10 retailers will account for 25-30% of world textile and apparel trade.

The other source of their power lay in the fact that the largest consumers of garments on a global scale are the USA, the European Union and Japan. Yet within these countries, with the exception of the Mediterranean countries of southern Europe, domestic manufacturing of clothing has virtually disappeared. The Japanese Textile Importers Association estimates that 87% of clothes sold in Japan are imported, whilst the American Apparel & Footwear Association estimates that 89% of US clothes are imported. This dominance of global consumption of clothing is immediately apparent from Table 1.

Table 1: **World Imports of Clothing by Top 10 Countries (US $ million)**

Country	1980	1985	1990	1995	2000	2001	2002	2003	1990-2003 % change	1990	2003
United States	6,943	16,202	26,977	41,367	67,115	66,391	66,731	71,277	164%	24%	30%
Germany	8,326		20,411	24,550	20,183	19,330	19,647	22,219	9%	18%	9%
Japan	1,537	2,012	8,737	18,758	19,709	19,186	17,602	19,485	123%	8%	8%
UK	2,858	2,694	6,961	8,002	12,995	13,169	14,657	16,551	138%	6%	7%
Hong Kong	695	1,671	6,913	12,654	16,008	16,098	15,640	15,946	131%	6%	7%
France	2,637	2,707	8,381	10,639	11,412	11,769	12,402	14,771	76%	7%	6%
Italy	797	779	2,580	4,703	6,139	6,697	7,576	9,342	262%	2%	4%
Spain	152	121	1,649	2,492	3,847	4,279	4,965	6,559	298%	1%	3%
Belgium					4,828	5,013	5,272	6,249		0%	3%
Netherlands	2,875	2,045	4,768	5,132	5,371	5,220	5,250	5,943	25%	4%	3%
World	**42,271**	**50,822**	**112,236**	**162,871**	**207,093**	**203,820**	**211,765**	**236,035**	110%	100%	100%

Source: Barnes and Esselaar 2004

Developed countries dominated the importation of clothing. The US consistently imported the greatest value of clothing products. Between 1990 and 2003, imports of clothing goods into the US grew by 164%, increasing its share of world imports from 24% to 30%. The second largest importer of clothing goods is Germany, followed by Japan, and the UK. In 2003, the US imported $ 71.3 billion worth of clothing; three times the amount imported by Germany ($ 22.2 billion); nearly quadruple the value of Japan's clothing imports ($ 19.5 billion); and more than four times the value imported by the UK ($ 16.6 billion). In 2003, the $ 145.5 billion imported by the top five clothing importers represented more than 60% of the world's total clothing imports, whilst the top 10 clothing importers accounted for approximately 80% of the value of world imports. Also included amongst the top 10 clothing importers are France ($ 14.8 billion), Italy ($ 9.3 billion), Spain ($ 6.6 billion), Belgium ($ 6.2 billion) and the Netherlands ($ 5.9 billion).

The other side of this huge shift towards importing clothing from outside the industrialised economies of the world is the elimination of jobs in the clothing sector and the shift of employment offshore. Most of the job losses have been concentrated in small to medium sized firms, while larger firms have engaged in their own form of outsourcing to neighbouring countries to survive (Heron, 2002). This rapid decline in clothing employment in the major industrialised economies is revealed in Table 2:

Table 2: **Employment in Clothing, ATC Countries (thousands)**

	1995	1996	1997	1998	1999	2000	2001	2002	1995-2002 % change
Canada	92	80	92	98	97	85	94	80	-13%
United States	814	743	700	639	556	497	427	358	-56%
France	137	128	121	115	106	95	87	81	-41%
Germany	122	133	128	120	114	117	118	105	-14%
Greece	66	65	60	52	50	50	51	45	-32%
Italy	274	243	235	229	209	206	206	198	-27%
Portugal	143	131	124	176	164	156	151	143	0%
Spain	117	114	120	111	126	123	125	116	-1%
United Kingdom	173	165	163	159	133	109	88	78	-55%

Source: Nordas 2004

All countries (except Portugal whose employment remained largely unchanged) experienced employment losses in the clothing industry. The US was the hardest hit with 456,000 clothing jobs lost between 1995 and 2002 – nearly five times more than the UK which lost a total of 95,000 jobs over the same period. US clothing employment totalled 1.4 million in 1970 (Heron, 2002: 755), but by 1995 employment had already declined to 0.8 million, falling by a further 56% to only 358,000 in 2002. In the UK, employment decreased by 55%, from 173,000 in 1995 to 78,000 in 2002. Other countries that experienced substantial job losses in clothing between 1995 and 2002 include Italy (76,000 jobs lost) and France (56,000 jobs lost), while Canada, Germany, Greece and Spain each lost less than 25,000 jobs.

What is left in these economies are very specific forms of clothing production. Off-shore contract manufacturing has marginalised domestic clothing production apparel, with many small & medium firms closing down. The larger firms have responded through a variety of upgrading strategies. Whilst marketing operations have broadened their scope, the major changes have been related to an upgrading of their production capabilities and a re-alignment of their focus. Production of 'basic' styles with few changes have clearly moved offshore. But they have found a niche market for quick response manufacturing, fashion items and speciality garments. It is estimated that the US off-shore production totals between 70-80% of their product range, with 20-30% produced domestically. With respect to domestic production retained in these industrialised economies, the key shift has been a focus on operational changes (just-in-time and quick response), quality improvements, investment in technology, and raising staff expertise to improve their efficiencies. In order to compensate for higher labour costs they have shifted into ensuring a retention of the higher value-added parts of production such as design, marketing, R&D and specialised manufacturing.

3. The Shift towards Clothing Manufacturing in Developing Countries

If clothing production has by and large deserted the industrialised economies (with the exception of the Mediterranean countries of southern Europe), then where has it moved to? In other words, how have developing countries fitted into globalisation?

The labour intensive nature of clothing (and to a far lesser extent textiles) production provides low-wage countries with a comparative advantage. Furthermore, it is generally perceived that the clothing industry is more suited to developing countries because it offers entry-level jobs for semi-skilled labour and relatively modern technology can be adopted at a comparatively low investment cost. Therefore, clothing is suited as a first rung on the industrialisation ladder in poor countries, and many developing countries have used clothing (and textiles) exports as a way of accelerating growth (Roberts and Thoburn, 2002).

Textiles and clothing manufacture has been a means for economic development for many Asian economies. South Korea and Japan, for example, became developed in a 30-year period largely due to the initial establishment of textiles and clothing industries. East Asian apparel manufacture initially depended solely on the assembling imported inputs in export processing zones with low labour costs. However, they then moved from mere assembly to higher value-added exporting through export incentives, and then to original equipment manufacture and finally own brandname manufacturing. Gereffi (2002) has cogently argued that developing countries that have been most successful are those who have made this transition.

As the East Asian countries of Hong Kong, Taiwan and South Korea began to develop, wages and various other factor costs increased. As a result firms relocated labour-intensive activities to South East and South Asian countries, as well as Latin America and to some extent Africa. But, like a similar process in the industrialised countries, they retained the more profitable design and marketing segments of production in order to sustain a competitive edge. The advantages these countries gained from having a clothing industry were, therefore, not entirely lost, although the benefits shifted in both form and content. This process of the growing global participation of developing countries in clothing production is evident in Table 3.

In 1990, China had only 9 per cent of the world market but by 2003, its share had increased to 23 per cent. Of the top ten clothing exporters in 2003 China was by far the largest exporter, increasing its exports from US $ 9.7 billion in 1990 to US $ 52.0 billion in 2003 (i.e. an increase of 438 per cent). Furthermore, when one includes Hong Kong, China effectively accounted for one third of world clothing exports in 2003. Other developing countries that have increased their share of world exports are Turkey, Mexico, and India – Turkey from 3% in 1990 (US 3.3 billion) to 4% in 2003 (US $ 9.9 billion), Mexico from 1% in 1990 (US $ 0.6 billion) to 3% in 2003 (US $ 7.3 billion), India's from 2% in 1990 (US $ 2.5 billion) to 3% in 2003 (US $ 6.5 billion).

In line with the global trend towards outsourcing of production towards the developing world, the employment figures for the global dispersion of manufacturing employment in clothing demonstrate a similar shift. The data (Table 4) is, however, much more unreliable and the dramatic shift towards employment in

Table 3: **World Exports of Clothing by Top 10 Countries (US$ million)**

	Exports								1990-2003	% World total	
Country	**1980**	**1985**	**1990**	**1995**	**2000**	**2001**	**2002**	**2003**	**% change**	**1990**	**2003**
China	1,625	2,450	9,669	24,049	36,071	36,650	41,302	52,061	438%	9%	23%
Hong Kong	4,976	6,718	15,406	21,297	24,214	23,446	22,343	23,152	50%	14%	10%
Italy	4,584	5,320	11,839	14,424	13,384	14,220	14,643	16,191	37%	11%	7%
Turkey	131	1,208	3,331	6,119	6,533	6,661	8,057	9,937	198%	3%	4%
Germany	2,882		7,882	7,530	7,320	7,444	8,338	9,749	24%	7%	4%
Mexico	2		587	2,731	8,631	8,012	7,751	7,343	1151%	1%	3%
France	2,294	1,935	4,671	5,659	5,414	5,469	5,882	6,935	48%	4%	3%
India	673	930	2,530	4,110	6,179	5,484	6,037	6,459	155%	2%	3%
United States	1,263	785	2,565	6,651	8,629	7,012	6,032	5,537	116%	2%	2%
Belgium					3,941	4,206	4,649	5,353		0%	2%
World	40,590		108,129	158,353	197,498	194,490	202,310	225,940	109%	100%	100%

Barnes and Esselaar 2004

these developing countries in line with export trade figures is much more disguised. For example, the employment figures for China are simply not believable, especially if one considers that the loss of employment in Taiwan is more than likely a simple shift of assembly and other low wage production to mainland China over the period. Unfortunately, these employment figures as well as the rate of their increase (especially for China and India) are clearly understated. The most useful thing to derive from the table is to take account of the overall picture rather than focus in on the detail of the data and any particular set of numbers for a country.

1 **Assembly** – garment sewing plants are provided with imported inputs to assemble. OEM – buyers provide designs to suppliers making garments to specifications which are marketed under the buyer's brand name. **OBM** – garment manufacturers use their production expertise to design and then market their own brand products.

Table 4: **Employment in Textiles and Clothing, Selected Developing Countries** (thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	1995-2002 % change
Czech Republic	50	52	49	50	47	41	37	36	-28%
Poland	240	260	254	259	225	211	194	–	-19%
Romania	189	203	181	246	240	261	290	302	60%
Turkey	–	–	–	–	–	487	468	501	3%
Morocco	102	106	117	122	127	135	–	–	32%
Tunisia	94	103	103	103	103	110	–	–	17%
Mexico	476	486	525	740	723	760	681	–	43%
China	1750	1680	2439	2117	2027	2156	2027	–	16%
Hong Kong	80	64	53	44	40	36	30	23	-17%
India	264	267	283	279	296	331	–	–	25%
Indonesia	–	–	–	349	436	485	462	–	32%
Philippines	143	154	154	–	–	–	–	–	0%
Taiwan	114	107	103	101	96	93	8	80	-30%

Source: Nordas 2004

4. The End of the MFA and the Impact of China

There is no doubt that China is the greatest beneficiary of the end of the MFA quota regime. Few countries are able to compete against it on price as is evident from the fact that its exports of clothing have already increased to approximately a quarter of the world total since it joined the WTO in 2001 (de Janquieres 2004). In the first half of 2004 China sold $ 42 billion worth of clothing and textiles. China has the ability to produce a growing range of items, and has improved its capacity to overcome barriers of international quality standards. The availability of cheap, high-quality fabric, both domestically and in neighbouring Asian countries, is also a strong advantage. The facts of the matter are that Asian prices are declining, while exports are growing (Kaplinsky 2005).

The US International Trade Commission 2004 overview of emerging global competitiveness trends in the global clothing industry concluded that China has a major competitive advantage derived from a combination of low wages and high productivity, and the production of high-quality and low-cost inputs. According to the Commission, China is regarded “among the best in making most garments and made-up textile articles at any quality or price level” (pg XIII). Hence, it 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” (pg XI).

Although no systematic data is available on the immediate impact of the quota-free world of 2005, the following does provide an indication of the trends that are emerging. At the end of January 2005, the Chinese government released trade figures indicating that Chinese imports into the United States had jumped about 75 percent. The value of textiles and clothing imports from China rose from $ 702 million in January 2004 to more than $ 1.2 billion. In terms of product volume, imports of major clothing products from China jumped 546 percent. As an example, in January 2004 China exported 941,000 cotton knit shirts under quota, whereas in January 2005, it shipped 18.2 million, a 1,836 percent increase. Similarly, imports of cotton knit trousers were up 1,332 percent year on year. Given that China ships a large part of its goods through Hong Kong, which would not be reflected in these figures, the real impact may well be understated. (New York Times, March 10, 2005). Cotton knit shirts and trousers exports to the US were up 2,120 per cent and 1,398 per cent, with nearly 47 million cotton trousers shipped, up from 9 million in January-February 2004. Chinese customs data shows similar massive jumps of exports to the European Union in the first two months of 2005 with clothing product exports up 82 per cent to more than $ 1.8 billion, whilst textile exports jumped over 56 percent to nearly $ 843 million. (just-style.com 01 April 2005). China’s April 2005 export data shows that the volume of clothing exports to the EU and US in April had grown faster (148 per cent) than in the first three months of the year (120 per cent) – and were accelerating to the EU marginally faster than to the US (Flanagan 2005a).

The impact of Chinese clothing exports on the EU of a quota-free 2005 is clear from Table 5. Two very important trends are that volumes have jumped and prices have dropped.

Kaplinsky (2005) points out that the current process of globalisation has a divisive impact on the developing world, with potentially severe implications for late clothing industrialisers such as Sub-Saharan Africa. The previous period of export-growth by the Newly Industrialising Countries (NICs) was primarily at the cost of domestic producers in the industrialised economies being squeezed out of their domestic markets. The NICs could all simultaneously increase their exports to the US and Europe and, hence, it was a positive-sum game for them. However, the growth of clothing exports from one or a few developing countries will likely

Table 5: **EU Clothing Imports from China**

	1st Quarter 2005/ 1st Quarter 2004		China Market Share in EU-25 Imports	
	Volumes %	**Price %**	**1 Q 2004 %**	**1 Q 2005 %**
T-Shirts	164	-26	7	17
Pullovers	534	-47	6	38
Men's Trousers	413	-16	6	35
Blouses	186	-24	6	22
Women's Coats	184	-18	6	10
Bras	139	-15	30	49
Socks & pantyhose	63	-22	30	54
Linen & ramie yarns	51	1	27	45
Linen Fabrics	257	1	10	45

Source: Nathan and Associates 2005

be at the cost of other clothing producers in the developing world. In short, we are witnessing a zero-sum game.

This zero-sum game is evident from an analysis (Flanagan 2005b) showing which developing country clothing exporters have gained and which have lost in a post MFA regulated world. Available data on clothing imports to the US, EU and Japan during the first six months of 2005 relative to the same period in 2004, show a wide disparity in gains and losses amongst developing country producers. Korea's clothing exports dropped by -30 per cent, Taiwan by -29 per cent, Macao by -40 per cent, Nepal by -46 per cent, Russia by -69 per cent, Ukraine by -33 per cent, Israel by -21 per cent, and Jamaica by -42 per cent. On the other hand, other developing countries have benefited from this new post MFA regime. Apart from China, clothing exports to the Triad economies have grown for Indonesia, Cambodia, and others. Sri Lanka clothing grew by +12.3 per cent, Peru by +16 per cent, India by +34 per cent, Jordan by +27 per cent, Serbia by +32 per cent, Haiti by +46 per cent. In addition, a few countries managed to maintain stability through very small increases or minor losses in market share.

5. AGOA and Sub-Saharan Africa

The most fundamental and far-reaching impact on clothing production in Sub-Saharan Africa has been the extension of preferential trade access to the region by the US through the African Growth and Opportunity Act (AGOA). AGOA grants duty-free benefits to selected product lines covering October 2000 to September 2008. There are currently 37 Sub-Saharan African (SSA) countries that are eligible for duty-free exports to the US under AGOA. AGOA's clothing rules of origin stipulate that garments have to be made from US fabric, yarn and thread, or from fabric, yarn and thread that is produced in AGOA-beneficiary SSA countries. However, a special rule applies to LDCs (defined as countries that had a GNP per capital of less than $ 1,500 in 1998) allowing them duty-free access for apparel made from fabric originating anywhere in the world. On 13 July 2004, the AGOA Acceleration Act of 2004 (AGOA III) extended AGOA benefits until 2015, and extends the third country fabric provision (originally set to expire in September 2004) until September 2007. This extension has introduced an added measure of predictability and credibility to AGOA, providing business with greater confidence to invest in Africa. These changes may also somewhat mitigate the effects of the end of the MFA providing producers in Africa with a better chance of competing with low-cost Asian producers.

It is important to note the distinction between exporting synthetic and cotton textiles and garment products to the US market through AGOA. This is captured in Table 6, which shows the US customs duty rates and China-US quota costs. Currently, exports to the US have been protected by two factors – the percentage duty rate (tariff) and the US dollar cost of buying import quota. With the end of the MFA the latter will disappear and will no longer be an add-on cost to exports from countries such as China. Then the only defence countries with preferential agreements have is the tariff added on to the price by the US government. As is clear from Table 6, in the case of synthetics (e.g. sweaters at 32% or men's suits at 27.3%) this still maintains a substantial rate of protection against cheap exporting competitors.

What has been the effect of AGOA on SSA clothing production? Globally, countries in Sub-Saharan Africa in 2001 accounted for less than 1% of global exports of clothing and textiles. SSA increased its clothing output share from 0.6% to 0.8% during the 1990s (Economist Intelligence Unit 2004). Exports from the region are mainly low-price basic items such as trousers, T-shirts and sweaters that typically have long production runs, low labour content and few styling changes (US International Trade Commission 2004; Economic Intelligence Unit 2004). A disadvantage for SSA is that it is not a particularly low-cost location.

Table 6: **US Customs Duty Rates**

Item		Tariff rate
	Cotton garments	
Knit men’s shirts		19.7%
Knit T-shirts		16.5%
Woven men’s trousers		10.3%
Woven women’s dresses		8.4%
	Synthetic knit/woven garments	
Knit women’s skirts		16.0%
Knit sweaters		32.0%
Woven men’s suits		27.3%
Woven women’s dresses		16.0%

Sources: General US duty rates: Harmonized tariff schedule[2]

Labour costs are relatively high, productivity is low, lead times are long and non-labour input costs are higher than in Asia. Further disadvantages include logistics (notably transport costs and longer lead times), unreliable telecommunication systems and inadequate physical and technical infrastructure.

However, while in comparative terms the five largest SSA suppliers’ exports were miniscule compared to the US’s imports from China, the impact of AGOA in rapidly fostering on clothing production in a number of individual African countries has been massive. As is apparent from Table 7, between 1999 and 2004 the clothing industry in SSA has expanded significantly, rapidly kick starting an industrialisation process that is unprecedented in the continent.

The production and export of clothing is concentrated in Kenya, Lesotho, Mauritius, Madagascar, Swaziland and South Africa, which account for about 90% of African clothing exports. Lesotho is the largest SSA exporter to the US, US $ 455.9 million in 2004, followed by Madagascar. As a direct result of AGOA Madagascar’s clothing exports to the US exploded in 2004, jumping from US $ 195.9 million to US $ 323.3 million. Due to the impact of AGOA, both Kenya and Swaziland have doubled their clothing exports to the US in the past couple of years, with these now becoming substantial exporters of clothing from SSA. These countries (plus

2 My thanks to Peter Gibbon for providing this information.

Table 7: **Clothing Exports from Africa to the US and EU (US $ m)**

	Kenya		Lesotho		Madagascar		Mauritius		South Africa		Swaziland	
	US	EU	US	EU	US	EU	US	EU	US	EU	US	EU
1990	2.5	2.5	24.5	5.6	0.4	10.8	121.2	522.7	0.0	32.3	3.4	
1991	4.5	6.3	27.0	18.2	0.1	15.1	97.7	536.5	0.7	72.7	5.2	
1992	7.8	17.4	50.8	18.3	0.2	18.5	113.1	533.9	2.4	73.2	7.1	
1993	22.1	10.3	55.1	14.7	1.5	46.3	161.2	501	12.7	75.5	9.7	
1994	35.2	7.1	62.4	13.5	2.8	92.6	186.2	518.8	34.7	73.4	15.5	
1995	34.0	6.3	61.7	12.6	6.7	122.0	190.3	573.3	55.7	66.9	11.7	
1996	27.1	3.3	64.9	12.7	11.0	147.7	164.7	616	60.4	67.1	11.4	0.0
1997	31.3	2.6	86.5	4.5	15.3	177.1	184.4	658	70.9	62.3	15.1	0.3
1998	33.5	2.3	100.2	0.8	22.0	218.0	233.3	693.2	78.7	69.4	16.3	0.5
1999	39.3	2.5	110.7	0.2	45.7	213.9	231.6	625.2	96.9	68.3	23.2	0.6
2000	43.9	1.7	140.1	1.6	109.5	234.6	244.7	638.5	140.9	78.6	31.9	1.1
2001	64.4	1.7	216.7	3.2	178.2	233.3	238.3	591.2	173.4	69.0	48.1	0.8
2002	125.9	1.1	321.0	2.1	89.4	145.6	254.4	642.3	180.6	68.7	89.1	0.2
2003	187.8	1.4	392.4	1.2	195.9	127.9	269.0	616.2	231.8	78.0	140.5	0.2
2004	277.2	na	455.9	na	323.3	Na	226.4	na	141.3	na	178.6	na

Source: US ITC, US Department of Commerce, Otexa Eurostat

Note: US $ exchange rates based on rates for 31 December in the relevant year

South Africa which now trails substantially behind) collectively make up the vast bulk of exports from SSA to the US. In respect of SSA exports to the European Union, in 2003 Mauritius was by far the largest African exporter of clothing to the EU (US $ 642 million), followed by Madagascar (US $ 146 million).

The extent to which this rapid expansion of clothing production is related to AGOA can be seen from Table 8. This expresses the relationship between total exports and of clothing and those under AGOA qualifying rules from these countries.

The vast bulk of SSA clothing exports to the US have been via AGOA's preferences, which has been the principal mechanism stimulating and maintaining the increase in clothing production in these countries. The eligible SSA countries locking into the US clothing value chain have exported well over 90% of their clothing to the US under AGOA. The impact that this clothing-based industrialisation process has had on creating wage employment and reducing poverty in these poor SSA countries is thus significant.

Table 8: **AGOA Qualifying as Share of Total Clothing Exports to US, 2001-2004 (US $ m)**

Country	2001	%	2002	%	2003	%	2004	%
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	8.5	46.9	126.6	54.5	114.7	81.2

Source: US Department of Commerce, Otexa

The importance of AGOA to SSA in the post MFA world is clearly demonstrated by Mauritius and South Africa, which up until 2003 only exported a maximum of only 50% and 55% respectively through AGOA. However in 2004 in the post MFA transition period, the proportion of AGOA clothing qualifying exports from South Africa as a percentage of total clothing exports jumped dramatically to 81%, while Mauritius jumped to 65%. In both cases, but more significantly in the South African case, this proportional increase was a direct result of the decline of total clothing exports to the US. Principally, this was because of the near total collapse of its non-AGOA clothing exports. Mauritius still managed to maintain a small upward trend in its AGOA related exports, but in the South African case, AGOA related clothing exports declined as well. Quite clearly both countries were severely hit by the end of the MFA and the rise of China. In South Africa's case this was exacerbated by the rapid strengthening of the Rand, which made it difficult to compete even under the tariff protection of AGOA. Hence, the conclusion that South African clothing exporters are only currently viable as a result of their preferential access to the US clothing value chain through AGOA qualification.

6. Conclusion

Globally, the MFA quota regime had a major impact on the sourcing decisions of buyers in developed countries. With the elimination of quotas, and the ability of developing country regions (China, South East Asia, India and Turkey) to provide low cost production, other factors will grow in importance in global value chain sourcing.

Clearly, as we have seen in the case of AGO and SSA, the existence of various preferential trade access agreements to protect poorer countries against Chinese and other Asian competitors is critical. Providing special and differential treatment is essential for 'competitively disadvantaged' poor SSA countries to enter global value chains, to industrialise, to expand employment and to reduce poverty. These are, however, only necessary conditions for the survival of SSA's clothing producers.

In a world characterised by rapid technical change and changing patterns of production and trade, it is also necessary for SSA countries to upgrade production capabilities and competitiveness on an ongoing basis. They will also have to meet the growing demands for ever increasingly stringent critical success factors around price, quality, reliability, flexibility, speed of response etc. The ability to meet these critical success factors will be the key to the future success of such clothing firms (US International Trade Commission, 2004). If their enterprises are unable to internalise manufacturing excellence to meet the required critical success factors, they will eventually drop out of the global clothing value chains.

With more than half of all imports of clothing, and more than 20% of world textiles imports accounted for by the US and EU these markets are clearly the largest for clothing and textiles exports; yet US and EU agents have very different expectations of their suppliers. Although EU customers require much larger orders and more rigorous quality controls than developing country firms are exposed to in their domestic markets, US customers require even larger quantities and demand even more stringent quality controls than their EU counterparts. Furthermore, EU customers' expectations regarding non-production functions undertaken by suppliers are broader than US customers. US modes of doing business are much more exacting and extensive (Gibbon, 2003; Weathers, 2004).

A further key issue will be the ability of SSA countries to develop and integrate the cotton products value chain in order to reap systemic competitive benefits. For after 2007 the triple transformation will also apply to the other SSA producers when the special dispensation for low-income countries ends. At present, the bulk of the cotton produced in Sub-Saharan Africa is exported out of the region in an unbeneficiated form. Zambia and Malawi are cases in point, with their sizable cotton production almost completely exported. These exports are then converted into fabrics and imported back into Sub-Saharan Africa as raw materials for clothing manufacturers that are supplying into the United States under AGOA. With an already well established textile industry, South Africa is, therefore, in an ideal position to establish itself as the textiles supply base for Africa, and in the process using regional cotton inputs. But this will require the establishment of a strategic partnership between the South African government, other African governments, the South African cotton-textiles industry and major clothing producing industries in Africa, including Mauritius, Madagascar, Kenya, Lesotho, Malawi, and Swaziland.

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The Stakes for the African Textile and Clothing Industries in the WTO

By Michiko Hayashi[1]

1. Introduction

While studies which examine the impact of the ATC termination estimate large welfare gains for both developed and developing countries, they also warn of the likely adverse impact of the ATC (Agreement on Textiles and Clothing) expiry for countries whose exports of textile products heavily relied on the quota protection. This includes African countries. In fact, the statistics for exports of garments to their major market, i.e. the United States, indicate that in terms of value exports from Africa have been declining. In the post-ATC environment where competitiveness is a major factor for success, it is clear that policies and strategies are necessary to strengthen the capacity and the competitiveness of the domestic textiles and clothing sectors in the African countries. At the same time, it is a prerequisite for effective implementation of the development policies and measures to know what rights and obligations do exist under the WTO rules to protect and promote the sectors.

Also, the results of the on-going negotiations on Non-Agricultural Market Access (NAMA) under the WTO-Doha round will impact directly on the textile and clothing sectors in the African countries. Understanding the implications of the developments in the NAMA-negotiations and transmitting the concerns of the African textile and clothing industries to the negotiation teams are also necessary for the sustainable development of the industries.

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1 The author works for United Nations Conference on Trade and Development (UNCTAD) as Economic Affairs Officer. The views expressed in this paper do not necessarily reflect those of UNCTAD. This paper was prepared for the Trade Union Conference on the Future of the African Textile Industries held in Cape Town, South Africa, on 10-11 October 2005, addressing to the participating African countries. These countries include Ethiopia, Ghana, Kenya, Malawi, Mauritius, Madagascar, Namibia, Nigeria, Lesotho, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The author wishes to thank Ralf Peters, Kofi Addo and Thomas Mathew in UNCTAD for substantively assisting her in preparing the paper, particularly for the sections on Safeguard Measures and the Negotiating Group on Non-Agricultural Market Access. Also, she wishes to thank Dinora Diaz in the International Textile and Clothing Bureau and Hiromi Yano in the WTO for providing the information on safeguard and anti-dumping measures.

In light of the above, the paper addresses two issues: (I) WTO instruments that can be used to protect and promote African textiles and clothing industries in the post-ATC environment; and (II) the developments in the Negotiating Group on Non-Agricultural Market Access (NAMA) and their implications to the textile and clothing industries in the African countries.

2. WTO Instruments for Protection and Development of the African Textiles and Clothing Industries

2.1. Protection Provided by the Overall WTO Rules

The fundamental and most important benefit of the WTO rules is the protection that member countries derive from the rules-based and predictable international trading environment. A country that is not a member of the WTO does not have this protection and, hence, is exposed to the possibility of being targeted by unilateral trade restriction measures. For example, a country could suddenly prohibit imports or put quantitative restrictions to its imports from non-WTO member, be it agricultural products, manufacturing goods, or services. If a restricting country were a major economic power, it would be very difficult to challenge that country unless the affected country has a similar economic and political power and can threaten to retaliate.

When a WTO member imposes a trade restriction measure to another member, it has to observe strict WTO rules and to ensure that the measure imposed is in accordance with WTO rules. If the affected WTO member feels that its WTO rights are violated, it can challenge the restricting country by invoking appropriate mechanism under the WTO rules and seek compensation. If a country involved in a dispute settlement is a developing country and faces financial and technical constraints, it can request legal assistance from the Advisory Centre on WTO Law.[2] Being a WTO member, a country has to meet WTO obligations, but at the same time its rights are guaranteed by the WTO rules. This is one of the major reasons why many countries have joined the WTO since its establishment, and many more are in the process of WTO accession.

2 The Centre provides legal advise on WTO law, support in WTO dispute settlement proceedings, and training in WTO laws to developing countries, countries with economies in transition and LDCs. For the detailed information, see http://www.acwl.ch

2.2. WTO Instruments for Protection from Import Surge

Safeguard measures, and anti-dumping and countervailing duties are the WTO instruments (Agreement of Safeguards and Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994) that are used for protecting domestic industries from import surge. They are instruments specifically made for protection from sudden import surge, and these measures are temporary. They have to be treated separately from industrial subsidies for domestically produced and consumed products (the Agreement on Subsidies and Countervailing Measures) which are for protection of domestic industry from import competition and are longer-term.

(1) Safeguard Measures

Under the ATC it was possible to invoke selective safeguard measures for textiles and clothing, but with the expiry of the ATC at the end of 2005, this option is no longer available.[3] Now, MFN (Most Favoured Nation) safeguard measure must be used in accordance with the Agreement on Safeguards.

The Agreement on Safeguards provides for rules for the application of safeguard measures. A member may apply a safeguard measure to a product only if that member has determined, according to the rules set out in the Agreement on Safeguards, that such product is being imported into its territory in such increased quantities, absolute or relative to domestic production, and under such conditions as to cause or threaten to cause serious injury to the domestic industry that produces like or directly competitive products. The principle of non-discrimination must be observed when taking safeguard measures, i.e. safeguard measures must be applied to all exporting countries, except as stipulated in Article 9:1 of the Safeguard Agreement,[4] and, therefore, it is not allowed to target particular countries.

In order to invoke WTO safeguard measure, a member must have adequate domestic laws and legislation in place that provide for procedures for safeguard investigation. Also, the domestic laws and legislation must be known to all WTO

3 The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts, pp 315-324, WTO, June 1994.

4 The exception being for developing country members, wherein safeguard measures shall not be applied against a product originating in a developing country as long as its share of import of the product concerned in the importing member does not exceed 3 per cent, provided that developing country members with less than 3 per cent import share collectively account for not more than 9 percent of total imports of the product concerned.

members according to GATT Article X (Publication and Administration of Trade Regulations). These domestic laws and legislations must be in accordance with the WTO Agreement on Safeguards and be approved by WTO members. A member can apply a safeguard measure only after an investigation by the competent national authority which followed the procedures notified under GATT Article X, and which has found "serious injury" or "threat of serious injury" to the domestic industry.

To determine whether increased imports have caused or are threatening to cause serious injury to a domestic industry under the terms of the Agreement on Safeguards, the competent authorities must evaluate all relevant factors of an objective and quantifiable nature, the rate and amount of the increase in imports of the products concerned in absolute and relative terms, the share of the domestic market taken by increased imports, changes in the level of sales, production productivity, capacity utilisation, profits and losses, and employment. The period allowed for a safeguard measure is four years with the possibility of extension as specified in the Agreement on Safeguards.

Members that apply safeguard measures have to consult with affected members and to endeavour to provide concessions for compensation. If such compensation cannot be agreed, affected members may impose retaliation measures, after a period of 3 years that a safeguard measure is in effect, for example, raising the tariffs of products coming from the member applying safeguard measures. It must be noted, however, that to date, no WTO member which has invoked the provisions of the Safeguards Agreement has had to pay such a compensation to another WTO member. Article 9 of the Agreement on Safeguards provides for special and differential treatment for developing countries with respect to the rules on extension of the period and re-imposition of a safeguard measure to the same product.

Safeguard measures under the ATC were frequently used, but under the Agreement on Safeguard they are hardly invoked for textiles and clothing. One of the reasons for this might be the MFN obligation under the Agreement. As noted above, while ATC safeguard measures could be imposed on a particular country or group of countries, safeguard measures under the Safeguard Agreement, except in the event noted in footnote 2, must be applied to all exporting countries even if import surge is due to a particular country. Therefore, the impact of the domestic industry and consumers in the safeguard imposing country may not be negligible and might hurt its economy.

Special Case: Safeguard Measures for Textiles and Clothing from China

A surge of textiles and clothing imports from China can be dealt with under the provisions of China's WTO Accession Protocol.[5] First, WTO members are permitted to invoke safeguard measures for textiles and clothing from China invoking the provision for special safeguard measures for the products in China's WTO accession protocol. Chinese textiles and clothing will be subject to this particular safeguard provision until 31 December 2008. Under the provision, an affected country can limit the imports of textile products concerned by the growth rate of 7.5 per cent (6 per cent for wool product categories) from the amount entered during the first 12 months of the most recent 14 months preceding the month in which the request for the safeguard measure was made. The time limit for safeguard measures taken under this provision is one year.

Second, from 2009 to 2013, WTO members can apply a standard WTO safeguard mechanism targeting only China, while, as noted above, under normal circumstances application of a safeguard measure has to be non-discriminatory. There are three major differences between the 2008 and the 2009-2013 provisions. Procedures which an importing country has to go through to invoke safeguard measures are more complex (e.g. stricter requirements for investigation) for the latter. If China decides to contest, it can do so using WTO dispute settlement mechanism under the latter while it is not possible under the former. The time limit for safeguard measures under the former is one year, while for the latter it is four years with the possibility of extending up to eight years.

Third, application of the market economy principle to China in determining anti-dumping and countervailing measures is deferred for 15 years after the date of accession, i.e., until December 2016. Until then, in determining these measures China is treated as a non-market economy country.[6] It implies that investigation procedures can be unfavourable and discriminatory for China until December 2016, as the ways set to determine dumping margins for non-market economy countries have considerable scope for manipulation of data on prices and costs in ways that would increase dumping margins.

5 China acceded to the WTO on 11 December 2001.

6 Non-market economy country is defined as a country that has a complete or substantially complete government monopoly over international trade and where all domestic prices are fixed by the states.

(2) Anti-dumping and Countervailing Duties

The Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 provides for rules for the application of anti-dumping and countervailing duties. The Agreement sets out technical details of the rules that members must observe in initiating anti-dumping and countervailing duty investigations. Also, for determination of countervailing duties, Part V of the Agreement on Subsidies and Countervailing Measures provides detailed rules for initiation of investigation and application of countervailing duties.

Determination of anti-dumping and countervailing duties is technically complex, but in a nutshell, a member may impose countervailing or anti-dumping duties on subsidised or dumped imports, respectively, up to the level of the subsidy or margin of dumping, provided that these imports cause injury. No countervailing or anti-dumping duty may be imposed unless it is determined that the effect of the subsidisation or dumping is such, as to cause or threaten material injury to an established industry, or is such, as to retard materially the establishment of a domestic industry. The definition of anti-dumping is somehow vague. The WTO website on anti-dumping actions (http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm) notes as follow – "If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be 'dumping' the product."

Unlike safeguard measures, anti-dumping measures and countervailing duties can be used selectively, targeting particular enterprises, and in case of textiles and clothing, an anti-dumping measure is frequently used. Among African countries, only South Africa has initiated a number of anti-dumping cases in 2004 for textile products from China, Taiwan, Hong Kong, India, Korea, Malawi, Turkey, and Pakistan.

2.3 WTO Instrument for Protection of the Domestic Industry

(1) Agreement on Subsidies and Countervailing Measures

The Agreement on Subsidies and Countervailing Measures (SCM)[7] provides for rules on subsidies for the industrial sector. Article 1 of the Agreement on Subsidies and Countervailing Measures defines a subsidy as follow:

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7 *The Results of the Uruguay Round of Multilateral Trade Negotiations:* The Legal Texts, pp 315-324, op.cit.

(I) there is a financial contribution by a government or any public body within the territory of a member where:
   a. a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);
   b. government revenue that is otherwise due is foregone or not collected (e.g., fiscal incentives such as tax credits);
   c. a government provides goods or services other than general infrastructure, or purchases goods;
   d. a government makes payments to a funding mechanism;

(II) there is any form of income or price support in the sense of Article XVI of GATT 1994.

The most important aspect in determining whether a subsidy falls under the scope of the Agreement is the existence of specificity. Article 2 of the Agreement determines when specificity exists. There are four types of “specificity” within the meaning of the SCM Agreement.[8]

- Enterprise-specificity: A government targets a particular company or companies for subsidisation;
- Industry-specificity: A government targets a particular sector or sectors for subsidisation;
- Regional specificity: A government targets producers in specified parts of its territory for subsidisation; and
- Prohibited subsidies: A government targets export goods or goods using domestic inputs for subsidisation.

Therefore, subsidies provided specifically to the textiles and clothing sector or enterprise fall in the scope of the SCM Agreement.

The Agreement on Subsidies and Countervailing Measures prohibits two kinds of subsidies: (I) subsidies to help export performance, for example, grants and loans that are given to promote exports; (II) subsidies to promote the use of domestic over imported goods, for example, grants and loans that favour manufacturers using domestic material. Annex 1 of the Agreement on Subsidies and Countervailing Measures provides an illustrative list of export subsidies.

Article 27 of the Agreement on Subsidies and Countervailing Measures specifies the rights that developing countries have in the context of special and differential treatment. This Article recognizes that subsidies may play an important role in economic development programmes of developing country members.

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8 WTO website http://www.wto.org/english/tratop_e/scm_e/subs_e.htm

The prohibition of subsidies contingent upon export performance noted above does not apply to developing-country members referred to in Annex VII of the Agreement on Subsidies and Countervailing Measures. These countries include LDCs and those developing countries whose GNP per capita has not reached $1,000 per annum. Among the African countries that participated in the Conference (see footnote 1), Malawi, Madagascar, Lesotho, Tanzania, and Zambia are exempt from the prohibition of export contingent subsidies as they are LDCs, while Ghana, Côte d'Ivoire, Kenya, Nigeria, and Zimbabwe are exempt due to the GNP per capita threshold.[9] Other developing countries had a transition period of eight years from the date of entry into force of the WTO Agreement, but now the rule on the prohibition of subsidies contingent upon export performance applies to them.

A different rule is in place for the elimination of subsidies contingent upon the use of domestic over imported goods. All developing countries including LDCs had been granted five years and eight years of transition period, respectively, from the date of entry into force of the WTO Agreement, and thereafter the rule applies to all of them as well.

Actionable Subsidies

Actionable subsidies are not prohibited, but they are subject to challenge, either through multilateral dispute settlement or through countervailing action, in the event that they cause adverse effects to the interests of another member. The Agreement on Subsidies and Countervailing Measures does not indicate directly what actionable subsides are, but rather it defines in Article 5 what adverse effects are. As noted above, export subsides are prohibited subsidies rather than actionable. Most subsidies, however, such as production subsidies, fall in the "actionable" category. Developing countries and LDCs including those exempt from prohibition of export subsides are subject to the rules set for actionable subsidies, however, as noted later in this sub-section, there are some provisions for special and differential treatment for developing countries and LDCs. Furthermore, a proposal was made to treat subsides used in developing countries and LDCs for regional growth, technology research and development funding, production diversification and development and implementation of environmentally sound methods of production as non-actionable subsidies.[10] This proposal is one of the Implementation-Related Issues and Concerns being negotiated in the Doha Negotiations.

9 Ethiopia is a LDC, but it is not WTO member.
10 Doha Declarations, p.38, WTO, 2002.

The adverse effects of actionable subsidies include:
(I) injury to the domestic industry of another member;
(II) nullification or impairment of benefits accruing directly or indirectly to other members under GATT 1994; and
III) serious prejudice to the interests of another member.

Article 6 defines that serious prejudice exists in the case of:
(I) the total ad valorem subsidisation of a product exceeding 5 percent;
(II) subsidies to cover operating losses sustained by an industry or an enterprise;
(III) direct forgiveness of debt, i.e. forgiveness of government-held debt, and grants to cover debt payments.

Also, Article 6 stipulates that serious prejudice may arise in any case where one or several of the following apply:
(I) the effect of the subsidy is to displace or impede the imports of a like product of another member into the market of the subsidising member;
(II) the effect of the subsidy is to displace or impede the exports of a like product of another member from a third country market;
(III) the effect of the subsidy is a significant price undercutting by the subsidized product as compared with the price of a like product of another member in the same market or significant price suppression, price depression or lost sales in the same market;
(IV) the effect of the subsidy is an increase in the world market share of the subsidising member in a particular subsidised primary product or commodity as compared to the average share it had during the previous period of three years and this increase follows a consistent trend over a period when subsidies have been granted.

However, for actionable subsidies granted or maintained by developing countries and LDCs other than those with serious prejudice defined in Article 6, countervailing action cannot be taken.[11]

Also, countervailing actions cannot be taken on a product originating in developing countries and LDCs in the following cases:
(I) the overall level of subsidies granted upon the product in question does not exceed 2% of its value calculated on a per unit basis; or
(II) the volume of the subsidised imports represents less than 4% of the total imports of the like product in the importing country, unless imports from developing countries, whose individual shares of total imports represent less

11 Article 27.9 of the Agreement on Subsidies and Countervailing Measures.

than 4%, collectively account for more than 9% of the total imports of the like product in the importing member.

(2) WTO Instruments for Special and Differential Treatment: Part IV of the GATT 1994 and Decision on Measures in Favour of Least-Developed Countries

Part IV of the GATT 1994 is entitled Trade and Development, and it recognises the need for special treatment for developing countries in making international trade contribute to their development. It starts with Article XXXVI with a statement of principles and objectives relevant to the position of developing countries. Specific recognition is given to the following needs: greater export earnings, positive efforts to increase trade, better access to world markets for primary products, diversification and collaboration with international lending agencies and other agencies concerned with economic development.

One of the major aspects of Part IV is the non-reciprocity principle contained in paragraph 8 of Article XXXVI: the developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries. Developing countries do not have to make contributions, which are inconsistent with their individual development, financial and trade needs.

Paragraph 1 of Article XXXVII stipulates certain commitments on behalf of contracting parties: The developed-country members are obliged to: (I) accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to developing countries; (II) refrain from introducing, or increasing the incidence of customs duties or non-tariff import barriers on products currently or potentially of particular export interest to developing countries.

The Decision on Measures in Favour of Least-Developed Countries recognises the plight of the LDCs and the need to ensure their effective participation in the world trading system, and to take further measures to improve their trading opportunities. It makes pledges as follow: (I) expeditious implementation of all special and differential measures taken in favour of LDCs including those taken within the context of the Uruguay Round; (II) to the extent possible, MFN concessions on tariff and non-tariff measures agreed in the Uruguay Round on products of export interest to the LDCs may be implemented autonomously, in advance and without staging; (III) consideration shall be given to further improve the Generalized System of Preferences (GSP) and other schemes for products of particular export interest to least-developed countries; (IV) the rules set out in the various agreements and instruments and the transitional provisions in the Uruguay Round should be applied in a flexible and supportive manner for the LDCs; and (V) LDCs shall be accorded substantially increased technical assistance.

The Committee on Trade and Development in the WTO reviews the progress and discusses the problems related to the issues of trade and development. The Sub-Committee on LDCs created under the Committee on Trade and Development deals with issues and problems specific to LDCs.

The Generalized System of Preferences (GSP) which was agreed in UNCTAD in 1964 became operational by the Part IV of the GATT 1994.[12] Schemes like the Everything But Arms (EBA) and the African Growth Opportunity Act (AGOA) were developed under the GSP schemes of the respective countries. At present, developing countries and LDCs are seeking improvements in the GSP schemes i.e. expansion of product coverage, making rules of origin flexible, and elimination of conditionalities. Moreover, in the Doha Round, LDCs have proposed to bind the duty-and-quota free market access given to products from LDCs, which is highly relevant to textiles and clothing from the LDC African countries. At present, such concessions are unilaterally given, and preference-giving countries could withdraw them at their will.

Special and differential treatment provisions are also found in various Agreements in the Results of the Uruguay Round of Multilateral Trade Negotiations. The issue of technical assistance is being dealt with in the Committee on Trade and Development and the Sub-Committee on LDCs. For textiles and clothing, the discussions are taking place in the Sub-Committee on LDCs in relation to the post-ATC adjustment and the adequacy of technical assistance in the sector provided by the international community and bilateral donors. Furthermore, in the WTO Council for Trade in Goods, Turkey submitted a proposal to establish a work programme in the WTO that is specifically designed for developing countries to address adverse effect caused by the ATC expiry.[13] However, some countries oppose to this proposal arguing that the issue of post-ATC adjustment should be dealt with the overall trade adjustment programme and that textiles and clothing should not be treated separately as they are fully integrated into the WTO rules.

(3) Tariffs

Tariffs are often used as protection of industries, and the textiles and clothing sectors are not an exception both in developed and developing countries. Particularly in developed countries, the textile and clothing sectors are protected by high

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12 At that time Part IV was contained in the GATT 1947, which became the GATT 1994 after the Uruguay Round of the Multilateral Negotiations.

13 Also, the issue of post-ATC adjustment is being discussed in the Council for Trade in Goods addressing concerns of developing countries in general that are affected by the ATC expiry.

tariffs resulting in tariff peaks for the sectors. In the WTO-Doha round, market access for non-agricultural goods is being negotiated in the NAMA negotiations, and formulae for tariff reduction are being considered. The developments in the NAMA negotiation and their implications are discussed in the following section.

3. NAMA Negotiations

The NAMA (Non-Agricultural Market Access) negotiation addresses tariffs and non-tariff barriers for non-agricultural products.

3.1. The July 2004 Framework

(1) Tariff Negotiations

Prior to the 6th WTO Ministerial Conference in Hong Kong, 13-18 December 2005, the NAMA negotiation discussed the tariff reduction formula based on the July 2004 – Framework, which had endorsed a non-linear approach. Paragraph 4 of Annex B of the July Framework stipulates that "the Negotiating Group should continue its work on a non-linear formula applied on a line-by-line basis which shall take fully into account the special needs and interests of developing country participants, including through less than full reciprocity in reduction commitments." A linear approach reduces fixed rates of tariffs across the board, while a non-linear approach results in larger tariff reduction for higher tariffs.

Various formulae for tariff cuts have been proposed, some of them aiming at ambitious tariff reductions which would result in higher tariff cuts for developing countries than those for developed countries as the average tariff rates of the former are higher. Although there are figures in brackets in the July Framework which indicate that these figures are not yet agreed, the July Framework, nevertheless, provides the basis for a preliminary analysis on the consequences of the NAMA negotiations for African countries.

(I) The July Framework agreed in paragraph 5 of Annex B lists seven points: product coverage shall be comprehensive without a priori exclusions;
(II) tariff reductions or elimination shall commence from the bound rates after full implementation of current concessions; however, for unbound tariff lines, the basis for commencing the tariff reductions shall be [two] times the MFN applied rate in the base year;
(III) the base year for MFN applied tariff rates shall be 2001 (for applicable rates on 14 November);

(IV) credit shall be given for autonomous liberalisation by developing countries provided that the tariff lines were bound on an MFN basis in the WTO since the conclusion of the Uruguay Round;
(V) all non-ad valorem duties shall be converted to ad valorem equivalents on the basis of a methodology to be determined and bound in ad valorem terms;
(VI) negotiations shall commence on the basis of the HS 96 or HS 2002 nomenclature; and
(VII) the reference period for import data shall be 1999-2001.

Flexibilities provided for developing countries which are non-LDCs, are:
(I) applying tariff cuts of less than what the formula specifies for up to [10] percent of the tariff lines, if it does not cover more than [10] percent of input; or
(II) keeping, as an exception, tariff lines unbound, or not applying formula cuts for up to [5] percent of tariff lines, if this does not represent more than [5] percent of import.

However, this flexibility could not be used to exclude entire Chapters of Harmonized System of Customs Tariff Classification. Flexibilities provided to LDCs are:
(I) LDCs shall not be required to apply the formula nor participate in the sectorial approach;
(II) LDCs are expected to substantially increase their level of binding commitments.

For LDCs, the July Framework calls on them to substantially increase their level of binding commitments, however, it does not specify the binding coverage rate for them, nor the level at which tariffs should be bound. As shown in Table 1 Lesotho has already bound all the tariff lines, and, therefore, the country would not have to take any measures. However, for other LDCs among the African countries, Table 1 indicates very low level of binding coverage of their tariff lines, i.e. Madagascar (19%), Malawi (20%), Tanzania (none), and Zambia (4%). For these countries a substantial increase in their level of binding commitments is expected.

Another important consideration in the July Framework is the exemption from tariff reductions (i.e. from participating in the formula reduction approach) for non-LDC developing countries with a very low binding coverage of less than [35] percent. These countries would be exempt from tariff reductions of currently bound rates but they would instead have to bind [100] per cent tariff lines at the average tariffs for all developing countries. However, clarity is required as regards which average tariffs would be used, namely, whether this would be the simple or trade-weighted average to establish the tariff level at which the binding is set.

The choice will make a substantial difference, since the simple average is about 28 percent and the weighted average is 12 percent.

Table 1 indicates that among the African countries, Côte d'Ivoire (23%), Ghana (1%), Kenya (2%), Mauritius (5%), Nigeria (7%), and Zimbabwe (10%) have very low binding coverage, and thus the 35% rule applies. These countries would have to bind all tariff lines at either about 28 percent or at 12 percent depending on the decision on the application of simple average or weighted average.

Tables 2 and 3 indicate simple and weighted averages of bound rates and MFN applied rates for textiles and clothing. For the countries noted above, Côte d'Ivoire, Ghana, and Zimbabwe have relatively low MFN applied rates (17% to 20%) in simple average and (15% to 18%) in weighted average, while Mauritius and Nigeria have relatively high MFN applied rates (51% to 77%) in simple average and (38% to 61%) in weighted average for their textiles. For the latter countries, their textile industries might feel the impact of the NAMA results as they are currently protected by the high MFN applied tariff rates. The same can be said for clothing. Côte d'Ivoire, Ghana, Kenya, and Zimbabwe have relatively low MFN applied rates (5% to 35%) in simple average and (8% to 35%) in weighted average, while Mauritius and Nigeria have relatively high MFN applied rates (55% to 77%) in simple average and (55% to 61%) in weighted average.

Namibia, South Africa and Swaziland have bound 96% of their tariff lines, and for these countries, the tariff reduction formula, which will be agreed for developing countries, will apply.

(2) Sectoral Initiatives

The July Framework in paragraph 7 provides for a sectoral tariff-reduction component „aiming at elimination or harmonisation of tariffs". It is another key aspect of the NAMA negotiation. The possible sectors for the sectoral initiatives are: electronics and electricals; fish and fish products; stones, gems and precious metals, clothing, footwear, leather goods and motor vehicle parts. LDCs are not required to participate in the sectoral initiatives.[14]

(3) Non-Tariff Barriers

Non-Tariff Barriers (NTBs) are trade distorting measures and policies other than tariffs that impede the flow of trade. They can include administrative procedures and government regulation such as technical standards. The July Framework calls for an intensification of work on NTBs, i.e. completing the identification and

14 Paragraph 9 of Annex B of the July Framework.

inventory of the NTBs, and establishing modalities to remove these NTBs. The July Framework suggests that the modalities for addressing NTBs could include request/offer, horizontal or vertical approaches.

(4) Treating Erosion of Preferential Market Access

The July Framework commits WTO members to examine the challenges faced by preference-receiving countries in relation to the problem of preference erosion. For countering this problem, the preference-giving countries would have to undertake measures that could involve a mixture of:

(I) enhancing the utilisation of the existing trade preferences;
(II) putting in place compensatory and adjustment mechanisms to help preference-receiving countries to improve supply capacity and competitiveness;
(III) binding duty-free market access given to LDCs.

Paragraph 10 of Annex B calls upon developed-country members and other members who so decide to grant, on an autonomous basis, duty-free and quota-free access to non-agricultural products originating in LDCs. A timeline was to have been set for the accomplishment of this goal but no agreement was reached on it, and, thus, remains an issue to be clarified in the negotiations.

3.2. Lines of Disagreement Between Groups of Countries

Preparing for the 6th WTO Ministerial Conference to be held in Hong Kong, 13-18 December 2005, the NAMA negotiation intensified, however, little convergence emerged on the coefficients to be associated with the tariff reduction formula and the flexibilities to be accorded to developing countries when making tariff cuts. The US and the EU, among others, have argued that developing countries should generally have to give up the flexibilities provided to them in return for a more lenient formula. Countering this position, South Africa tabled a statement on behalf of countries including Argentina, Brazil, China, Egypt, Pakistan, India, and Indonesia denouncing the attempt to link the flexibilities accorded to developing countries to the structure of the tariff reduction formula.

Also, the Trade Ministers of some African countries submitted their proposal addressing the Hong Kong Ministerial Conference.[16] For the NAMA negotiation, they made the following proposals:

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15 WTO document, TN/MA/W/65 and a report by the ICTSD BRIDGES Weekly Trade News Digest – Vol. 9, Number 38, 9 November 2005.

16 Egypt, Kenya, Mauritius, Rwanda, Senegal, South Africa, Tunisia, Zambia, and Zimbabwe. WTO document WT/L/626, „ Consultative African Meeting on WTO Negotiations, Cairo, 27 October 2005, Communication from Egypt“, 8 November 2005.

(1.) Applying the formula with differentiated coefficients in a manner that reflects proportionality in reduction commitments and fully incorporates the principle of Less than Full Reciprocity to address African countries' needs;
(2.) Taking as priority Special and Differential Treatment, to address African countries' developmental needs;
(3.) Stressing that less than full reciprocity and the flexibilities provided under paragraph 8 are two-stand-alone provisions, complementary in nature rather than substitute;
(4.) The issue of preference erosion should be addressed through an appropriate methodology to be negotiated;
(5.) Stressing that any sectoral initiatives should be implemented on a voluntary rather on a mandatory basis;
(6.) Re-affirming the exemption of LDCs from tariff reduction commitments;
(7.) Effectively addressing non-tariff barriers negotiations in tandem with those on tariff reductions.

While reaffirming all the elements of the July Framework, in the 6th WTO Ministerial Conference it was decided that a so-called Swiss tariff reduction formula be adopted and that for unresolved issues like coefficients, and the question of linkage or non-linkage between coefficients and flexibilities for developing countries, be negotiated and agreed no later than 30 April 2006. Furthermore, comprehensive draft schedules based on these modalities should be submitted no later than 31 July 2006. For Sectoral Initiatives, the question was whether the participation in the Initiatives would be compulsory or voluntary, and it was decided that participation should be on a non-mandatory basis.

4. Issues for Consideration and Conclusions

First and foremost, the benefit that the African textiles and clothing industries receive from the WTO is the protection provided by the predictable and rule based multilateral trading system. Without this system, the industries would not be protected from sudden and arbitrary trade restriction measures in importing countries, and, therefore, be exposed to uncertainty, which would have negative impact on businesses and efforts to attract foreign investors.

As discussed above, application of the WTO instruments to protect the domestic textiles and clothing industries from import surge requires technically complex procedures that necessitate adequate knowledge and skills, up-dated trade, production and other economic data, as well as adequate legal infrastructure. While South Africa has been a user of anti-dumping measures for its imports of textile products, the question that needs to be addressed for the other African countries is whether the institutional capacity exists to appropriately use the WTO contingency protection measures. Taking actions to build this capacity would be a priority for those countries that lack the necessary capacity to effectively use such measures.

Subsidy is an important policy tool for developing countries and LDCs, but the challenge for them is to use this policy tool effectively. For example, providing a subsidy to the area where little potential exist, or making the industry dependent on subsides, are typical cases of misuse of subsidies. The challenge to effectively use subsidies for development in developing countries and LDCs is indeed an important subject, and requires further study.

The provisions under Part IV of the GATT 1994 and the Decision on Measures in Favour of LDCs provide legal frameworks for developed countries, and developing countries that are in the position to do so, to provide preferential treatment and technical assistance to developing countries to increase their participation in the international trading system. In this context, the African countries should press for improvement of the GSP schemes for their textiles and clothing, in particular for simplification of administrative procedures and improvement of rules of origin. Also, technical assistance can be sought under these provisions to enhance the institutional capacity to appropriately use the WTO rules.

It is important to note that the provisions for special and differential treatment in the WTO rules are largely non-contractual but best endeavour nature. In the Doha Round negotiations, developing countries and LDCs are pressing for making such treatment contractual and operational, but it is no way an easy task. The textiles and clothing industries in the African countries should actively support the effort of the negotiators to gain commitments for meaningful special and differential treatment.

In addition to the preference erosion due to the outcome of the NAMA negotiations, the non-LDC African countries could face substantial loss of tariff protection for their textiles and clothing industries. In this regard, adjustment assistance referred to in the July Framework need to be ensured. Such assistance includes technical and financial support to enhance supply capacity and competitiveness, and it will be demand-driven. Hence, the textiles and clothing industries in the African countries should have clear ideas as to what they need to achieve in the context of post-ATC adjustments and make active demands for assistance to the international organisations and other donors.

Application of WTO rules and effective participation in the WTO negotiations require the institutional capacity that is backed by knowledge and skills, as well as the system of compiling up-dated economic and business data. Concerted efforts by governments, the private sector, research institutes, as well as assistance from the international community are necessary to build such capacity in the African countries.

Appendix

Table 1: **Industrial Goods: Tariff and Binding Coverage of the WTO-Member African Countries**
(The tariff and trade years cover the period from 2001-2005)

Country	Duty Type	Simple Average	Weighted Average	Binding Coverage in %
Côte d'Ivoire	Bound Rate	9	10	23
Côte d'Ivoire	MFN Appl. Rate	12	10	
Ghana	Bound Rate	35	33	1
Ghana	MFN Appl. Rate	13	10	
Kenya	Bound Rate	56	56	2
Kenya	MFN Appl. Rate	12	6	
Lesotho	Bound Rate	60	60	100
Lesotho	MFN Appl. Rate	8	18	
Madagascar	Bound Rate	25	14	19
Madagascar	MFN Appl. Rate	4	3	
Malawi	Bound Rate	43	49	20
Malawi	MFN Appl. Rate	13	11	
Mauritius	Bound Rate	22	17	5
Mauritius	MFN Appl. Rate	18	13	
Namibia	Bound Rate	16	21	96
Namibia	MFN Appl. Rate	8	10	
Nigeria	Bound Rate	48	53	7
Nigeria	MFN Appl. Rate	27	15	
South Africa	Bound Rate	16	16	96
South Africa	MFN Appl. Rate	8	5	
Swaziland	Bound Rate	16	22	96
Swaziland	MFN Appl. Rate	9	12	
Tanzania	Bound Rate	120	120	0
Tanzania	MFN Appl. Rate	12	7	
Zambia	Bound Rate	43	42	4
Zambia	MFN Appl. Rate	13	9	
Zimbabwe	Bound Rate	11	9	10
Zimbabwe	MFN Appl. Rate	15	16	

Source: UNCTAD TRAINS database

Table 2: **Textiles: Tariff and Binding Coverage of the WTO-Member African Countries**
(The tariff and trade years cover the period from 2001-2005)

Country	Duty Type	Simple Average	Weighted Average	Binding Coverage in %
Côte d'Ivoire	Bound Rate	20	19	17
Côte d'Ivoire	MFN Appl. Rate	16	18	
Ghana	Bound Rate	45		0.35
Ghana	MFN Appl. Rate	17	17	
Kenya	Bound Rate	–	–	0
Kenya	MFN Appl. Rate	20	23	
Lesotho	Bound Rate	60	60	100
Lesotho	MFN Appl. Rate	18	21	
Madagascar	Bound Rate	18	14	1
Madagascar	MFN Appl. Rate	5	6	
Malawi	Bound Rate	–	–	0
Malawi	MFN Appl. Rate	19	21	
Mauritius	Bound Rate	–	–	0
Mauritius	MFN Appl. Rate	14	3	
Namibia	Bound Rate	23	2624	99
Namibia	MFN Appl. Rate	18	2119	
Nigeria	Bound Rate	60	60	0.69
Nigeria	MFN Appl. Rate	51	38	
South Africa	Bound Rate	23	2223	99
South Africa	MFN Appl. Rate	18	17	
Swaziland	Bound Rate	23	25	99
Swaziland	MFN Appl. Rate	18	20	
Tanzania	Bound Rate	120	120	0.35
Tanzania	MFN Appl. Rate	20	1729	
Zambia	Bound Rate	–	–	0
Zambia	MFN Appl. Rate	16	1917	
Zimbabwe	Bound Rate	28	2526	5
Zimbabwe	MFN Appl. Rate	20	1817	

Source: UNCTAD TRAINS database

Table 3: **Clothing: Tariff and Binding Coverage of the WTO-Member African Countries**
(The tariff and trade years cover the period from 2001-2005)

Country	Duty Type	Simple Average	Weighted Average	Binding Coverage in %
Cote d'Ivoire	Bound Rate	15	15	42
Cote d'Ivoire	MFN Appl. Rate	20	20	
Ghana	Bound Rate	–	–	0
Ghana	MFN Appl. Rate	20	20	
Kenya	Bound Rate	–	–	0
Kenya	MFN Appl. Rate	25	25	
Lesotho	Bound Rate	60	60	100
Lesotho	MFN Appl. Rate	38	34	
Madagascar	Bound Rate	–	–	0
Madagascar	MFN Appl. Rate	19	19	
Malawi	Bound Rate	–	–	0
Malawi	MFN Appl. Rate	25	25	
Mauritius	Bound Rate	–	–	0
Mauritius	MFN Appl. Rate	77	61	
Namibia	Bound Rate	47	46	100
Namibia	MFN Appl. Rate	38	39	
Nigeria	Bound Rate	–	–	0
Nigeria	MFN Appl. Rate	55	55	
South Africa	Bound Rate	47	47	100
South Africa	MFN Appl. Rate	38	39	
Swaziland	Bound Rate	47	46	100
Swaziland	MFN Appl. Rate	38	34	
Tanzania	Bound Rate	–	–	0
Tanzania	MFN Appl. Rate	25	25	
Zambia	Bound Rate	–	–	0
Zambia	MFN Appl. Rate	25	25	
Zimbabwe	Bound Rate	–	–	0
Zimbabwe	MFN Appl. Rate	5	10	

Source: UNCTAD TRAINS database

Post Scriptum
Tariff Cut Scenarios Under the NAMA Negotiations and How They Would Impact on African Textiles and Clothing Industries

To have some ideas as to how the results of the NAMA negotiations would impact the African textiles and clothing industries, simulation exercises can be conducted using the UNCTAD/World Bank World Integrated Trade Solution (WITS). The simulation exercises attempt to examine two aspects: (I) What would be the new (post-Doha) tariff structures for textiles and clothing imports in non-LDC African countries?; (II) How would the NAMA results reduce the current preference margins that African countries are enjoying under the AGOA?

(I) Post-Doha Tariff Scenario

It is to be noted that African LDCs (like all other LDCs) will only be required to bind their tariffs, but they are not subject to any tariff reductions. Only African non-LDCs, i.e., Ghana, Kenya, Mauritius, Namibia, Nigeria, South Africa, Swaziland and Zimbabwe will be required to cut tariffs.

No matter what coefficient will be used, non-LDCs will have to bind all tariff lines, while at present, their tariff lines for textiles and clothing may not be bound at all or only by a small percentage (of Zimbabwe‘s current textile tariff lines only 5 percent are bound). Consequently, all textiles and clothing tariff lines for non-LDCs will be bound.

The formula to be applied for calculating tariff reductions is the Simple Swiss Formula. Tariff cuts are calculated as follows: final bound tariff = ([initial bound tariff] x [coefficient]) / ([initial bound tariff] + [coefficient]).

Tariff cuts are calculated for bound tariffs (ceiling, above which no tariff can be increased), and not directly to applied tariffs. For the treatment of currently unbound tariffs, it is assumed that the tariff will be bound at the double of the applied tariff rate, and the formula for cutting tariffs will be applied thereupon. If, however, the assumed rate for bound tariffs would be higher than 40 percent it would be replaced with 40 percent.

Applied rates used in the tariff cut simulation are from 2001 as agreed in the NAMA, but for Ghana and Mauritius, the years are 2000 and 2002, respectively, due to data availability. Applied rates in column (7) of Table A below, however, are from the latest year available in the WITS database as the purpose of the column is to compare the degree of future protection as opposed to the present one that is given to the textiles and clothing sectors.

Table A shows the post-Doha tariff scenarios with coefficients 40, 25, and 15 for the countries concerned.[17] The results of the simulation exercise can be summarised as follows:

- The lower the coefficient the higher the tariff cut will be;
- Coefficient 40: though the degree of impact differs, the clothing industries in Mauritius, Namibia, Nigeria, South Africa, and Swaziland, and Nigeria‘s textile industry would be notably affected. For example, Mauritius‘ and Nigeria‘s clothing industries would lose 57 percentage points and 35 percentage points of tariff protection, respectively, from the present applied rates. Also, the clothing industries of Namibia, South Africa and Swaziland would be heavily impacted by the tariff cut losing 16 percentage points of tariff protection;
- Coefficient 25: bound rates for textiles and clothing for the countries concerned would be about 5 percent lower than what would be with a coefficient of 40. However, for the textile industries in Mauritius, Namibia, South Africa and Swaziland, the bound rates would be similar to those with a coefficient of 40;
- Coefficient 15: both the textile and clothing industries in the countries concerned would be affected to a great extent ranging from a 66 percentage points loss for Mauritius‘ clothing industry, around 40 percentage points loss for Nigeria‘s textile and clothing industries, a 27 percentage points loss for the clothing industries in Namibia, South Africa and Swaziland, from the current applied rates.

It is uncertain what coefficient would be agreed for developing countries, and moreover, it has not been decided whether one coefficient would be used, or different coefficients would be applied depending on the levels of the country‘s average bound tariff. In any case, the simulations show that

- the tariff protections that the textile and clothing industries in non-LDC African countries are receiving at present would be substantially reduced in the post-Doha period, and
- import competition would intensify.

17 The Press reported that some simulation exercises have been undertaken by some developed and developing countries in NAMA negotiations and that the coefficients used for developing countries were 15, 20, 25, 30, 35 and 40. “FEW SEE AG, NAMA SIMULATIONS AS MOVING WTO TALKS FORWARD”, Inside US Trade, 17 February 2006.

Table A: **Post-Doha Tariff Scenarios for Textiles and Clothing in Non-LDC African Countries** (Percentage)

Country	Products	(1) Pre Binding Coverage	(2) Post Binding Coverage	(3) Pre Average Bound Rate	(4) Post Average Bound Rate (40)	(5) Post Average Bound Rate (25)	(6) Post Average Bound Rate (15)	(7) Average Current Applied Rate
Ghana	Textile	0	100	n.a.	18	14	10	17
	Clothing	0	100	n.a.	20	15	11	20
Kenya	Textile	0	100	n.a.	19	15	10	20
	Clothing	0	100	n.a.	20	15	11	25
Mauritius	Textile	0	100	n.a.	5	4	3	14
	Clothing	0	100	n.a.	20	15	11	77
Namibia	Textile	99	100	23	14	12	9	18
	Clothing	100	100	47	22	16	11	38
Nigeria	Textile	0	100	n.a.	20	15	11	51
	Clothing	0	100	n.a.	20	15	11	55
South Africa	Textile	99	100	23	14	12	9	18
	Clothing	100	100	47	22	16	11	38
Swaziland	Textile	99	100	23	15	12	9	18
	Clothing	100	100	47	22	16	11	38
Zimbabwe	Textile	5	100	28	18	14	10	20
	Clothing	0	100	n.a.	20	15	11	5

Source: UNCTAD/World Bank World Integrated Trade Solution Database
Average rates in Table A are all simple average.

Notes:

1. *Column (1) shows the percentages of bound tariff lines before the NAMA tariff cut. For example, the figure 99 for textile in Namibia means that 99% of textile tariff lines are bound at present in the country.*
2. *Column (2) shows the percentages of bound tariff lines after the NAMA tariff cut. The NAMA negotiation has agreed that non-LDC countries would bind all the tariff lines.*

3. *Column (3) shows the average of the bound tariff rates before the NAMA tariff cut. For example, as indicated in Column (1) Zimbabwe binds 5% of textile tariff lines at present, and the average rate of the bound tariffs is 28%. For clothing, however, since no tariff is bound at present (Column 1), a pre average bound rate is not applicable (n.a.).*
4. *Columns (4) to (6) show the average of the bound tariff rates after the NAMA tariff cut. The numbers in the parentheses are coefficients.*
5. *Column (7) indicates the average of current applied rates.*

(II) Erosion of AGOA Preferential Margins

Post-Doha tariff scenarios for textiles and clothing for the US were examined to assess the impact of the tariff reductions on the AGOA tariff preference. Products that have heavy protection in the US fall in the categories of woven fabrics of wool or animal hair (HS Chapter 51), cotton yarn and fabrics (HS Chapter 52), man-made filaments (HS Chapter 54), yarn and fabrics of man-made fibre (HS Chapter 55), terry towelling (HS Chapter 58), knitted or crocheted fabric (HS Chapter 60) and apparel (HS Chapters 61, 62 and 63).

Table B shows the post-Doha tariff scenarios for the products noted above. For each category, the range of tariffs is indicated in the Table. At present, countries that have duty-free access for their textiles and clothing in the US market enjoy about 10 to 28 percent of tariff margins for the products concerned, as compared to those countries whose products enter in the US with the MFN duty rates. The preferential margins are particularly high for apparel. For simulation the same Swiss formula as above was used, and coefficients of 15, 5 and 2 were applied.[18] With a coefficient of 15, the preferential margins become 5 to 10 percent, while with a coefficient of 5, the margins would be between 2 to 4 percent. With a coefficient of 2, the preferential margins would almost disappear.

The simulation shows that NAMA tariff reduction would lead to substantial erosion of preference margins even when the most lenient coefficient is applied. Duty-free access for textiles and clothing under the AGOA may not be sufficient for African suppliers to compete successfully with textiles and clothing exports from other countries in the US market.

18 The press report referred to in footnote 1 noted that for developed countries, 2,5,10, and 15 were used for coefficients.

Table B: **US Post-Doha Tariff Scenarios for Highly Protected Textiles and Clothing Products** (Percentage)

Product	(1) Bound Rate	(2) Post-Doha Bound Rate (15)	(3) Post-Doha Bound Rate (5)	(4) Post-Doha Bound Rate (2)
Woven fabrics of wool or animal hair	11 - 16	7 - 8	4	2
Cotton yarn and fabrics	10 - 13	5 - 7	3	2
Man-made filaments	10 - 17	5 - 8	4	2
Yarn and fabrics of man-made fibre	10 - 19	5 - 8	3 - 4	2
Terry towelling	10 - 20	6 - 9	3 - 4	2
Knitted or crocheted fabric	10 - 19	6	3	2
Apparel of knitted or crocheted fabric	10 - 28	6 - 10	2 - 4	2
Apparel of *not* knitted or crocheted fabric	10 - 25	6 - 8	3 - 4	2
Other made-up textile articles	10 - 13	6	2 - 3	2

Source: UNCTAD TRAINS Database

Notes:

1. *Column (1) shows bound rates agreed during the Uruguay Round of Multilateral Trade Negotiations.*
2. *Columns (2)-(4) show post-Doha bound rates with a coefficient of 15, 5 and 2.*

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Labour Standards and the Question of Industrialisation Strategy. An African Example

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1. Introduction

This paper discusses whether International Labour Standards (ILS) would provide a solution to the problems that African textile and garment producers are currently facing. To what extent would the enforcement of strict regulation make African textile and garment producers more competitive and assist them to survive the Chinese competition? Our answer is that the issue must be discussed broadly; staying competitive is not only a question of strict or lenient international regulation limiting labour exploitation. If the competitive edge of African textile and garment producers is precisely the possibility of pushing competitive pressure downwards onto workers ("squeezing labour" to stay in business), theoretically, strict ILS would remove this possibility and *threaten* weaker African producers.

To shed light on these matters, there is a need to dive into theories of industrialisation and development. The core of the matter is the *type of competition* that characterises textile and garment production. Most producers opt for cost-saving strategies (labour intensive technologies and cheap labour), whereas few go for up-market, technologically advanced production. If a textile factory relocates, the reason is seldom a quest for an innovative environment and highly skilled workers. Due to its nature as a *low quality economic activity,* industrial growth may result from investment in such production, but not necessarily industrial *development*. The latter signifies not only growth but also the formation of linkages and a broad knowledge base that promotes innovation and national spread effects. Development in the textile and garment sector should thus not be viewed in isolation, but as part of the overall industrialisation strategy of governments. When viewed from this angle, labour standards and the possibility (or impossibility) of infant industry protection and preferential trade access under the present neoliberal regime become a central, but not the only important issue. Participants in the debate on the best strategy for trade unions are rightly concerned with the limitations imposed by the current international trade regime. Although the ideology of an "open economy" and "free trade" are now proclaimed by most politicians as the only way to prosperity, history teaches us another lesson. Most industrialised countries erected high tariff walls to protect their infant industries for prolonged periods of time; the advantages of “free trade” only followed at a much later stage of industrial development.

There may be a close connection between a country’s choice of industrialisation strategy and the labour standards implemented. As a point of departure, we sketch the case that is elaborated upon in the Namibia country report, namely Ramatex, a textile factory owned by a Malaysian multinational. We argue that to understand the case, we need to investigate the international conditions of textile production under neo-liberalism and the breakdown of protectionist measures. Of equal importance are the special characteristics of African textile production; its *foot-looseness* (meaning that companies can easily shift production between different locations) as well as its characteristics as a low quality economic activity that are responsible for the extreme competitive pressure experienced by the industry. Last but not least, to understand such cases, the pursuit of Export Processing Zone (EPZ) policies by governments must be investigated. The reliance upon foreign direct investments increases the vulnerability of the economies, and may have a profound impact upon the strictness of the labour regimes. Pursuing industrialisation through attracting textile multinationals may turn countries towards the *race to the bottom,* where labour pays the price of international competitiveness. Should the answer of textile and garment trade unions to such local manifestations of *accumulation by dispossession* (when profits are secured by attacking workers’ wages and benefits) be a call for strict international labour standards? We conclude that simply adding more strict international standards to the present regulation regime cannot solve the problems encountered in the Namibian Ramatex case. The problems are of a more fundamental character: the outward-orientation of the economies in combination with a lack of protective measures, and the specialisation in a type of production that has a limited development potential.

2. A Namibian Case

The case of Ramatex in Namibia serves to substantiate the claim that the choice of industrialisation strategy – type of production and market chosen – has a profound influence upon the type of national labour regime that can be enforced. The case shows how a multinational company pursues a strategy of global competitiveness; playing with different actors – governments, local urban authorities, and labour - to obtain optimal conditions for profit accumulation. However, the downward pressure upon labour standards that were at the outset, did not prevent the relocation of parts of the production to China, and an ever-present threat to relocate the rest of the production in the years to come.

The event was, arguably, brought about by the end of the Agreement on Textiles and Clothing (ATC). This deregulation of the textile and garment industries resulted in new factors entering the competitive advantage equation. Countries that prior to the 1st of January 2005 had seen investments in the textile and garment industries due to excess quotas, faced the prospects of rapid industrial flight. Ramatex Berhad, a Malaysian multinational producing textiles and garments, invested in Namibia in 2002, and enjoyed access to the U.S. market through the African Growth and Opportunity Act (AGOA) and to the EU through quotas until the ATC ended. The government of Namibia, in liaison with the City of Windhoek, made great efforts into attracting Ramatex. For instance, the City of Windhoek offered several incentives and subsidies, among which were substantial infrastructure investments, and subsidised water and electricity supply. These came in addition to the subsidies offered by the Ministry of Trade and Industry, such as tax exemptions for EPZ companies. The background for the incentives was a rather fierce competition between several countries in Southern Africa such as South Africa and Madagascar in attracting this particular company. Since the incentives offered clearly smoothed Ramatex' path in the quest for the highest possible profits, it is a case of weak competition referred to above. The multinational company had little to lose by setting up some factories in Namibia for the three remaining years of the ATC. However, in May 2005, Rhino Garments (a part of Ramatex) closed down production in Windhoek, and about 1600 workers lost their jobs. Some of the Chinese migrant workers were sent home, and sewing machines were transported to a new production unit in China. In Namibia, 'winning' the competition for Ramatex' investments had been a costly affair and required a huge effort on the part of several local actors. When Ramatex announced the closure of Rhino Garments, the company as well as the Namibian government began to identify the scapegoats. Since Ramatex blamed the unions for falsely informing the buyers of their products of breaches of labour standards thereby reducing orders, the government of Namibia soon pointed fingers to the trade unions as treacherous partners. Hence, in the public debate, long-time workers' unrest and serious complaints regarding working conditions and wages were given as reasons for the closedown (Bergene & Endresen forthcoming). However, as argued by Jauch (2005), the expansion in China had been on Ramatex' agenda for a long time prior to the closedown in Namibia. During Rhino Garments' short stay in Namibia, Ramatex' attempts at reshaping local conditions partly succeeded and partly failed. The strategy ultimately chosen (relocation of production) was further actualised by changing international conditions of production.

As a consequence of relocation, workplaces are normally lost. The militancy of organised labour may figure in the debates as a contributing factor – whether justified or not. Workers may well be turned into scapegoats, blamed for economic losses, especially if voicing their grievances internationally. In this case, the weapon of contacting buyers, previously quite effective, did not achieve the desired results. In the "old trade regime", targeted companies had at least some incentive to clean up their act in order to keep orders while still being located in a country with excess quotas. With deregulated textile and garment industries, companies are to a lesser extent tied to particular places. In a competitive environment where governments subsidise the cost of (re)locating, companies have little to lose – an industrial dispute might even prove a welcome excuse to move without facing any charges of treason.

3. A Level Playing Field?

All countries represented at the international Textile Conference in Cape Town reported on factory closures and high levels of unemployment among African textile and garment workers. One of the speakers advised workers to "run faster just to stay in business", to go for increased productivity and technological improvement, an optimism clearly inspired by Porter's (1990) competitiveness frenzy. Few, if any, African countries other than South Africa have the capabilities to make use of such an advice. Another speaker claimed – contrary to all historical evidence – that "There's no going back" and that the world was moving towards the reduction of trade barriers. In this line of thought, the adverse effects of trade liberalisation are considered an inevitable fate; the only comfort being that the problems would be "transitional" only. Factory close-downs are seen as part of "adjustments", and unemployment as a "side-effect" of a liberalisation programme that will be beneficial to us all in the long run (For an interesting discussion on *inevitability;* that contemporary neo-liberal politicians see themselves as victims of global forces beyond their control, see: Saul 2005).

If the move towards a free trade regime is seen as the result of the workings of a natural law, then opponents are turned into people who are opposed to "progress". However, historically, the world has seen shifts between periods of protectionism and periods of freer trade. According to Senghaas (1985), and, strangely, disputed by neo-liberal ideologists, the contemporary rich industrial countries grew rich precisely because of a wise dosage of protectionism at the right point in time. Reinert (2004:109, our translation) also argues that "[e]xcept from 'the naturally rich' states – Venice, Holland, small city states which did not have any agriculture – it is almost impossible to find examples of countries developing an industrial sector without a prolonged period with protective duties". Even Adam Smith (ref. Reinert 2004) realised that 'the invisible hand' would only work to the advantage of a country after an industry had become 'cemented' and competitive internationally through protectionism.

Mercantilism dominated more than a century of European industrialisation, a period when the state controlled trade, and European powers fiercely protected their domains. Only after gaining strength could a country handle competitive pressure and make productive use of the impulses created by free trade. Presently, there is all the more reason to return to policies of protection, as has been done by both the US and Europe, when they argued that cheap Chinese imports destroyed their weaker textile and garment industries. While these stronger trading partners readjust, Africa is fed the ideology of free trade, and former textile factory workers experience technological retrogression when turning to *outwork* for survival in informal backyards or home industries.

The theoretical foundation of the current free trade regime is Samuelson's economic model, where free trade is seen as beneficial to *all* trading partners (Reinert 2004). A free trade regime is believed to spur the levelling out of prices of both capital and labour, forming a *level playing field.* The purpose of international cooperation (such as the WTO) in the shaping of a trade regime is thus to strengthen the formation of this imaginary level field. Eliminating preferential trade access is thought to level the playing fields, and, furthermore, the exposure to competition is thought to strengthen industrialisation in the longer run. What this approach does not take into consideration is the basic asymmetries characterising the world economy. These asymmetries are reflected in, among others, the specialisation of production in developing countries and the diversified production in developed countries (Prebisch 1976). *Initial disadvantages* are thus ignored; differences that explain why most countries struggle to meet the Chinese challenge. Such differences accentuate as a result of the neo-liberal regime, shaping a more and more unequal world. The effects of the moves toward free trade are not what Samuelson predicted, but instead reality fits Myrdal's (1957) model: Free trade is beneficial to the strongest trading partners. Others may experience backwash effects; growth regions attract factors of production, creating de-industrialisation elsewhere. Such backwash effects explain the accentuating unevenness. What free trade theory does not take into account is precisely this: some places have initial advantages – such as a head-start in industrialisation – and others have initial disadvantages, such as a colonial past. From the vantage point of poor countries, the former trade regime with preferential access took initial disadvantages into account (although good intentions were mixed with protectionist interests in the North), and actually led to some industrial growth in many countries. But the companies attracted to African countries by quotas are now facing harsh competition, reflected in the strategies of companies such as Ramatex. The company continuously squeezes concessions from Namibia, while at the same time looking for greener pastures elsewhere. The attraction of China is immense; investors want to go there to take advantage of more than just a lax labour regulation regime.

It is nothing new that companies locate and relocate production in search of the optimal conditions for profit maximisation. Scale and speed of relocation processes have, however, increased during late capitalism. In the textile and garment industries the processes were spurred by changing international conditions of production (the MFA phase out, AGOA and the rise of the Chinese giant) and by changing local conditions of accumulation, for which labour regimes are essential. In the quest for gains in productivity and increased rate of exploitation, companies may (re)locate production to where profits are highest, one solution being a shift to cheaper wage zones (Lipietz 1982). The incentives offered by localities in the quest for foreign investment increase the mobility of capital by reducing the costs of (re)location (Harvey 1989). The trend today is that multinationals want to invest as little as possible in production units; buying from subcontractors is preferred to investment in subsidiaries.

Jessop (1998) terms the relocation option to stay competitive “weak competition”, weak in the sense that it is not creative, but rather destructive based on zero-sum attempts at securing investments in one locality at the expense of others. Since localities compete by adopting the same measures the effects of the measures on competitiveness are reset. Hence, when every city offers, for instance, the same tax exemptions the competitive advantage is lost. However, the next move often is to provide even more extensive exemptions, thereby spurring a race to the bottom: “competition seems to operate not as a beneficial hidden hand, but as an external coercive law forcing the lowest common denominator […] Many of the innovations and investments designed to make particular cities more attractive […] have quickly been imitated elsewhere, thus rendering any competitive advantage within a system of cities ephemeral” (Harvey 1989).

If trade regimes allow for extensive government interventions, there are less external pressures upon governments to reduce labour standards to stay competitive. Deteriorating standards are thus linked to openness of the economy. The Namibian President’s bold declaration that “there shall be no exploitation on Namibian soil!” (Melber 2005) sounds less like a guarantee and more like wishful thinking in light of the Ramatex experience, which was caused by the pressure of the open economy. Competitive pressures increase competition between companies as well as between localities. The possibility to create a "labour friendly state" is clearly limited when the competitive pressure between localities leads to a downward spiral to what the most desperate of the world's workers are willing to accept – the working of Ricardo's iron law of wages at the world scale.

Relocation is an adaptation on the part of companies to competitive pressures and may be induced by several factors. Each case must, therefore, be empirically investigated to determine the cause. Currently, companies suffer from a double squeeze; a competitive pressure to cut the cost of production on the one hand, and demands for higher ethical standards in production as consumers' awareness rise on the other. Relocation may thus in some instances be a flight from *low,* or at least *visibly* low standards. The case of Ramatex can illuminate both. If the company closed down merely to cut costs by expanding operations in China, it is possible to argue that the first competitive pressure had the strongest bearing. On the other hand, the argument that there was a lack of buyers due to trade unions raising the awareness of brand names on working conditions at Ramatex highlights the other. The third option, and the middle ground, is that Ramatex could kill two birds with one stone by relocating to China: China offers lower production costs as well as less publicity on breaches of labour standards.

4. Low and High Quality Production

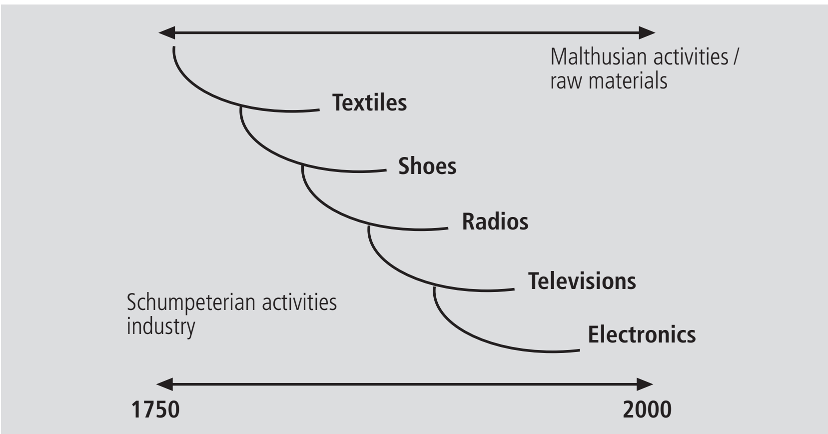
Referring to African countries, a delegate to the Textile Conference asked, "Can we grow rich through trade?" This is a complex issue. Trade does not bring prosperity – unconditionally. Looking back at Africa's history one has to ask which benefits centuries of trade in raw materials have been brought to African countries? Wealth was created, but where did it accumulate, how much was retained locally and put into productive use? Will a shift from raw materials to manufactured goods lead to development and have the desired spread effects locally? There are no guarantees as profits may continue to be repatriated whatever produce is exported.

However, the answer to the above question may still be yes. History, particularly the experience of the last century, shows that trade in manufactured goods brought prosperity to trading partners, but it matters what they trade *in*. According to Neo-Schumpeterian theory the development potential of trade is linked to the characteristics of the particular production from which the export produce origins: It matters whether you sell computers or blouses (Reinert 2004). This stands in sharp contrast to the mantra of neo-liberalism: Open your economy, go for free trade, export whatever can be sold and you'll get rich, sooner or later.

The basis for this mantra is Ricardo's theory of comparative advantages predicating that countries ought to specialise in activities in which they are relatively least inefficient. However, Reinert (2004) argues that this leads some countries to specialise in being poor. Investigating what economic activities will promote development, Neo-Schumpeterian theorists have established a "quality index of economic activities" (Reinert 2004). This refers NOT to the quality of *products,* but to specific characteristics of production. Thus, high quality goods can be produced and exported, but the production facility that created it, may score very low on the quality index. Studying the introduction of new technology and the concomitant increase in productivity, Reinert draws attention to how the rich countries export products that face high technological development and import either mature products or products where the potential for technological development is low. Using the example of the production of shoes, often regarded as part of the textile and garment industries, Reinert shows how the learning curve has levelled out since the middle of the 20th century. When this levelling out occurs, the potential of the industry to increase the welfare of people diminishes, Reinert argues.

Hence, by the time the poor countries are allowed to become major producers of shoes (in this example), the industry will, more or less, have lost its potential to raise the living standards in those countries. It is hence less a question of ef-

Figure 1: **How wage differences between rich and poor nations were formed through cumulative productivity explosions that led to higher wages**



Source: Reinert 2004, Figure 6

ficiency than of being involved in high quality activities, and Reinert (2004:118, our translation) argues that it was obvious in the 1990s that “it was better to be a mediocre computer engineer than the world’s most efficient dishwasher”. Reinert and Daastøl (2004) claim that the common thread of successfully catching up has been the distrust of free trade until ‘right’ economic activities have become firmly established. By ‘right’ they mean high-quality activities in which imperfect competition reigns and which are characterised by steep learning curves, rapid technological progress, high wage levels and/or branded products. The main characteristics of low-quality activities are, on the other hand, flat learning curves, little technological progress, low wage levels and/or substitutable commodities. Specialising in the latter activities renders countries vulnerable to changing conditions in the world market; especially since the low-quality activities often involve foot-loose industries. This was clearly seen in the fears on part of countries depending on exports of textiles or garments when the end of the ATC drew closer. Bangladesh was portrayed as a worst case scenario, depicting a situation where the country could lose 80 per cent of its export earnings almost overnight.

In the context of African textile and garment industries, it is worth noting that *art* and *design* have special characteristics that place them in the quality production category. In the market for such products, free competition does not reign due to the uniqueness of the products. There are examples of African design products having big success in high-income markets of the West; the South-African Monkeybiz and Streetwire are cases in point. These unique products are produced using labour absorbing technologies, whereas marketing technologies are advanced, a technology mix that could serve as a model for other African producers.

Ocampo (2001) argues that an active production development strategy needs to have the following two elements. First, it is necessary to increase the rate of innovation through transfer of technology, develop new production sectors and conquer new markets, and, secondly, to create what he terms “systemic competitiveness” through fostering synergies between firms and production sectors. Of utmost importance is strengthening of government intervention; and to make full use of incentives designed to diversify exports.

So far we have argued that successful industrialisation demands more than attracting foreign direct investors at any cost, and in whatever production sector that suits them. At the top of the priority list has to be government intervention that secures diversification and spurs private sector creativity; that protects the weaker producers and encourages a mixture of technology levels to maximise employment. Such an approach presupposes selective attachment to the world market. In the contemporary political climate, few discuss strategy alternatives to industrialisation based on invitation of foreign investors that are vulnerable to an ever-increasing international competition. In many developing countries proponents of small-scale industries and production for national markets witness that EPZ investments get the lion's share of small industrialisation budgets. Inward-looking strategies (Sunkel 1993) where diversification and infant-industry protection are major principles, and where the state protects the weak rather than the strong, are out of fashion. However, historical experience tells us that wealthy elites that smooth the path for the multinationals have the most to gain from such extraversion (outward-orientation of the economy) (Amin 1977).

5. Bloody Taylorism, Peripheral Fordism

Investments in EPZs are increasingly popular among latecomers in the industrialisation process. During the last couple of decades, more than 20 African countries have competed to attract foreign direct investors, smoothing their path but having little say in what type of production they establish. EPZs are characterised by low quality economic activities such as textile and garments, and assembly of electronic goods. Compared to many other industries, textile and garment production requires little investment in heavy machinery and training of staff, making it easy for them to shift location. The more governments invest in the zones, in infrastructure and in buildings that the companies can hire for a limited period of time, the more *foot-loose* they become. Host governments subsidise heavily to keep them which paradoxically makes it easier for them to leave and relocate production (Harvey 1989). If companies had to carry these costs themselves, they would probably be more reluctant to move.

African industrialisation based on the invitation of foreign investors in textile and garment production, spurs the contesting nations in a race to the bottom, due to the competitive edge of Asian producers. The multinationals enjoy privileges locally, but they are faced with harsh international competition, the effects of which are felt in the bargaining process between companies and governments. The pressure is transferred downwards; at the bottom are the workers, who "hold the keys to the success" of the EPZs by being willing to accept low wages and tough working conditions (Endresen and Jauch 2001). In some instances, the factory workers face inhuman conditions. The import of Taylorist "time management regimes" and physical control systems into contexts with lenient regulations regarding working hours, have been described as "bloody Taylorism" (Lipietz 1982), to denote dangerous levels of labour exploitation. Squeezing labour is a risky way of industrialising. Apart from the moral issues involved, it breeds social unrest that in turn may destabilise the economy, and subsequently result in less foreign direct investments. This is exactly what is feared in Namibia after the dispute at Ramatex where the unions were cast as scapegoats both for the close-down of Rhino, but also for retarding Namibia's future prospects for attracting foreign investments.

Superficially, many African EPZ factories may seem "modern" and not very different from the factories of industrialised countries. Machinery may be up to date, and management uses state-of-the-art communication technology. Productivity may be similar, but there are great differences in labour regimes. In industrialised countries, workers' struggles for more than a century have resulted in much higher wages and good benefit deals; and starting in the Fordist era, especially in Scandinavia, the welfare state provided security nets during times of illness and unemployment. The welfare state mitigates the effects of the fluctuations in the capitalist economy, and to some extent secures redistribution of social wealth. Industrial growth in developing countries based on the introduction of Western technology unaccompanied by the regulation regimes of the West, such as the welfare systems, has been termed *Peripheral Fordism* (Lipietz 1982). In Peripheral Fordist regimes, industrial growth and increased productivity do not lead to the formation of a prosperous middle class, but an impoverished class of industrial workers. However, the neo-liberal orthodoxy is now spreading throughout the world, and introduces social polarisation even in previous welfare states. The same strategies of attracting foreign investments, or, in some instances, engaging in concessionary bargaining to keep investments, are also seen in industrialised countries, which now face prospects of de-industrialisation and unemployment (Harvey 2003). In his book, *The New Imperialism,* Harvey claims that our era is characterised by *accumulation by dispossession,* envisaging tougher times for labour throughout the world; public goods and benefits are under attack. Attempting to attract foreign investors, states seek to control and discipline labour. Accompanied by the rolling back of the state, workers world-wide lose rights, their bargaining position weakens, and unions lose members.

The Namibian example also teaches us that unionisation is threatened by "labour flexibility"; more use of temporary labour through hired labour companies (recruitment agencies). Governments turn against labour unions that fight for decent working conditions, deeming their actions as "against the national interest". New players in the investment attraction game, the cities, change their role from managers to entrepreneurs. In the process, the condition for organised labour is changed since a third level of bargaining is introduced, in addition to state and company. Whatever the real reason for Ramatex' closure, the case shows us how unstable any strategy based on attracting foreign investors is. Where industrialisation is based on export-orientation in this EPZ version, the openness of the economy leads to a severe downward pressure upon labour standards. Governments and local authorities in alliance with companies end up trying to curb the demands of labour.

During the Textile Conference a delegate asked whether African governments are "at the mercy of multinational capital", wondering whether the freedom to design industrial policies is curbed by this connection. There is a close link between working conditions in Ramatex and the neo-liberal policies of attracting foreign direct investments that the Namibian government follows. Thus, the choice of an industrialisation strategy had a profound impact upon the type of national labour regime that was possible; it may even be termed a *structural coercion* (a term coined by Galtung): The choice of a strategy forced a government, even in a country where unions traditionally have been strong, to condone labour exploitation. And labour faced yet another factor, entrepreneurialism of cities. The cities struggle to enhance competitiveness and are directly involved in bargaining with multinationals – and where does that lead labour? New possibilities open up, new alliances with broad-based urban social movements may emerge as the worker is also a citizen.

6. A Double-Edged Sword?

From a neo-liberal perspective, standards are market imperfections and introducing international labour standards (ILS) is the direct opposite of the competitiveness agenda. If the free market is supposed to lead to the most effective allocation of resources and production, then any introduction of a bottom below which exploitation cannot go, impedes development. In this line of thought international labour standards are not necessary either; workers will benefit as soon as growth ensues and the benefits trickle down. Deregulation is hence seen as a good thing as it entails competition based on comparative advantages. Introducing ILS runs counter to neo-liberal ideology and their introduction and implementation, therefore requires trade union struggles and the mobilising of allies at many levels. Another issue is whether it will work. Can ILS prevent industrial flight from African locations, or attract new investors? How will ILS affect union and government strategies? And lastly, in terms of the development of African textile and garment industries, should ILS be advocated? Will it result in improved working conditions and wages for the workers?

Currently, companies should comply with internal regulation (for instance, voluntary codes of conduct) as well as external regulation (for instance, national labour acts that may or may not comply with international standards, and local regulation such as pollution prevention statutes). Stricter international regulation may directly affect the spatial strategy of companies, i.e. decisions on where to and where not to locate production, and where to source labour. The introduction of stricter regulation may induce capital mobility and thus industrial flight. But the competitive strategy of some companies may run counter to this, and stricter standards thus in some instances may have no significant effect upon capital mobility.

What are the implications of ILS for unions and governments? Competitive pressures result in unions' struggles to defend *national* standards; their demands are directed towards companies as well as the state to enforce stricter regulations. This was for instance seen in the Southern African Clothing and Textile Workers Union's (SACTWU) 'Buy Local' campaign in which the union sought to pressure retailers into committing themselves to buy a major part of their goods from local and ethical producers (Beckman 2005). In this case, SACTWU did not have the backing of the government. However, governments and unions that seek to improve labour standards today face the same dilemma: If they do not accept deteriorating labour standards, the result may be relocation and job losses. But whereas labour generally sees their interests as opposed to that of the companies, alliances may be built between states and companies.

How can strict international labour standards help African textile industries? In other words, how can their competitiveness improve as a result of ILS? On the one hand, if implemented properly, ILS may halt the race to the bottom and thus reduce the competitiveness of *Asian* countries (by "levelling the playing field"). By imposing a bottom below which labour standards may not fall, they are to some extent pulled out of competition.

Exploitation may be reduced and thus lead to increased welfare among African workers and hence have a positive macro-economic impact. ILS also reach beyond trade unions into those EPZ where unions are prohibited. In the long run this may make relocation a less attractive option, and hence decrease the movement of capital. On the other hand, too strict regulation might pressure some companies to externalise production and involve in more clandestine operations. And if standards are implemented to soothe consumers' conscience, then it might involve relocating to countries with weak or non-existent trade unions, where workers have few opportunities to get international attention.

More knowledge is needed to conclude on these important issues. We tend, however, to believe that strict ILS, while preferable on moral grounds and indeed being the only long-term solution, do not solve fundamental problems involved in the export-orientation strategies that many African countries now pursue. ILS are a good short-term weapon against China, but may backfire – if African countries continue on the export orientation based on attraction of FDI and low quality industrial activities, in short, pursue the EPZ strategy of industrialisation. It is also crucial to remember that the implementation of strict ILS gives a competitive advantage to industrialised countries, as it puts a potent weapon into the hands of law-abiding Western textile and garment producers.

7. Conclusion

What can we learn from the Namibian case of Ramatex? It shows the limited competitiveness of African localities, the "China attraction", the vulnerability of workers, the consequence of openness and of no protection to infant industries, the race to the bottom, the alliances between companies and governments. But above all, the Ramatex case is a lesson in the foot-looseness of contemporary textile and garment production. Brand name owners own no factories, relocation of production is done by two telephone calls, one to the previous subcontractor and one to the future subcontractor. Relocation is hence neither time nor investment consuming in these industries.

The problems surfaced in the Ramatex case cannot be solved by simply "adding stricter international standards" to the present regulation regime. The problems are of a more fundamental character: the outward-orientation of the economies in combination with a lack of protective measures, and the specialisation in a type of low-skill production that has a limited development potential. Obtaining increases in skills as well as local linkages have proved difficult. Furthermore, such production is immensely vulnerable as regards international ebbs and flows of demand, and ever-increasing attempts by many states to reach the very bottom of labour standards. The iron law of wages, i.e. wage levels dropping to what the most desperate of workers may accept, is at work.

The historical role of the state in the development of industrialised countries should not be underestimated. It is tempting, especially as seen from a Scandinavian perspective, to point to the bygone Keynesian era, where the possibility of labour to influence state policies was great. The alliance between organised labour and labour parties served as a strong protection against attacks on good working conditions that had been achieved through union struggles. We think that we may survive accusations of nostalgia and, therefore, do not hesitate to recommend organised labour to seek state alliances, seek powerful alliance partners to obtain protection against too strong competitors. We should add that protectionism is by no means dead in Europe; the EU protects weak member states against Chinese imports, so why abstain from protectionism?

Organised labour and textile producers should push ministries in the direction of mixed economies and less neo-liberalism. States should aid technological upgrading and skill formation in manufacturing, while at the same time encouraging labour-absorbing production, and a strong local market aided by closer regional (South-South) market integration. And lastly, although the politically correct argument would be to recommend cooperation rather than competition with Asian workers, we urge African textile producers to go for niche production of high quality African design products. Growth in sales stagnates – the wealthy Western consumer seems tired of mass-produced Asian goods!

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The Role of Core Labour Standards and Decent Work in Addressing the MFA Phase-Out

By Esther Busser

1. Introduction

There remains an urgent need for the promotion of core labour standards. Despite lots of efforts to provide workers with basic rights, violations continue on a large scale and the situation seems to get worse with increased globalisation, including in textiles and clothing. Core labour standards are those set out in the Declaration of Fundamental Principles and Rights at Work, adopted in 1998 by the International Labour Office (ILO). Those rights are freedom of association and the effective right to collective bargaining, elimination of forced and compulsory labour, elimination of child labour, and the elimination of discrimination in employment and wages.

It is striking to note that we live in a world today where, on the one hand, the large majority of people want stable jobs, decent wages, opportunities for improvement (training), unemployment benefits, safe and healthy working conditions but where, in reality, the opposite is true. Economic growth and growth in trade have not led to a more equal distribution of income, rather globalisation has excluded a large majority of people from its benefits.

Increased competition has put downward pressure on wages and working conditions. Governments both in developed and developing countries are increasingly pushing towards flexible labour markets, under pressure of both International Financial Institutions (IFIs – International Monetary Fund and the World Bank Group) and investors, thus taking away the necessary protections for workers, and which has resulted in casualisation and precarisation of work. In addition to this, autonomous trade liberalisation in developing countries, under structural adjustment programmes, has led to disruption of domestic industries without the necessary social safety nets or creation of new employment opportunities. The challenge we face today is to find ways to provide a decent job for all workers in this world, of which half does not earn more than two dollars a day.

2. The Importance of Core Labour Standards

This brings us to the importance of core labour standards. Increased global competition without protection of basic workers' rights has led to a race to the bottom. Following the phase out of quotas in textiles and clothing, there have been many job losses in developing countries, often in the poorest ones. At the same time a lot of pressure has been put on governments to relax labour legislation. In the Philippines for example, smaller companies in textiles and clothing have been exempted from the minimum wage legislation. In Bangladesh the maximum number of hours of work per week has been increased to 72, and several other flexibilities have been introduced in other countries. Many companies put pressure on workers and threaten workers with dislocation to China. But this is not limited to textiles and clothing. In other sectors, such as agriculture, similar developments take place, where increased competition for market share in export markets has led to deterioration of wages and working conditions.

The ILO World Commission report[1] referred to the WTO (World Trade Organization) Singapore Ministerial Declaration of 1996, when the WTO member states affirmed their commitment to the observance of the core labour standards. "These standards should not be used for protectionist trade purposes and the comparative advantage of any country should not be called into question". But, implicitly, the report says, "this means that no country should achieve or maintain comparative advantage based on ignorance of, or deliberate violations of, core labour standards"[2].

It is clear that fairer economic rules are not sufficient to ensure equal benefits from globalisation and the intensified competition on labour standards is a major cause for concern. The exploitation of (mainly) women workers in Export Processing Zones (EPZs) has expanded dramatically, including low wages, interference of workers trying to get organised, violence and sexual harassment, a high work pace and forced overtime. Competition for Foreign Direct Investment (FDI) has led to the provision of incentives such as labour flexibilities and exemptions from labour regulations (whether in law or in practice) and non or insufficient enforcement of labour legislation. Trade union rights are systematically undermined in EPZs.

1 The World Commission report on the Social Dimension of Globalization: A Fair Globalization, was released in February 2004. The World Commission was composed of 26 people from different backgrounds.

2 Idem. Paragraph 421, page 92

As suggested by the World Commission report, “the main international organisations and other actors concerned”, including unions and employers, should “work together to develop proposals for effective international policies to promote decent work, investment and trade both in EPZs and more generally in global production systems. Such proposals should address issues of labour standards, backward linkages to the domestic economy, and the ways that enterprises can move up the “value chain” through investment and technological upgrading”[3].

“There is a consensus that core labour standards provide a minimum set of global rules for labour in the global economy”[4]. “Core Labour Standards are regarded by many developing countries as part of a broader development agenda, both as a goal and also as a principal means of development.”[5] Labour standards provide the means to empower workers to gain a fair share of the increased productivity they are creating in all countries.

Besides the fact that core labour standards are fundamental human rights for all workers irrespective of countries’ level of development, they provide numerous benefits which outweigh their superficial cost, such as higher productivity, more social and political stability, fewer accidents and a lower level of absences due to illness. Accordingly, respect for core labour standards needs to become a sine qua non for development strategies in all countries[6].

3. Beyond Core Labour Standards: Decent Work

Core labour standards are thus an absolute minimum but respect for core labour standards is not enough. They are part of a broader framework that improves lives of workers and contributes to sustainable development. This broader framework is the Decent Work Agenda of the ILO. Decent work involves “opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men”[7]. Decent work is based on a broad perspective

3 Idem, paragraph 501, page 112
4 Idem, paragraph 415, page 91
5 Idem. Paragraph 425, page 94
6 See also Werner Sengenberger, Globalization and social progress: the role and impact of international labour standards, FES, 2005, Chapter 4.
7 ILO, Decent Work-the heart of social progress, http://www.ilo.org/public/english/decent.htm

that – in addition to fundamental workers' rights – includes not only decent wages, but also a sound working environment and fair working conditions, with a particular emphasis on women-friendly policies negotiated among the parties. Decent work "is central to efforts to reduce poverty, and a means for achieving equitable, inclusive and sustainable development"[8].

The Decent Work Agenda is based on four strategic objectives or pillars: (I) Standards and fundamental principles and rights at work, (II) employment, (III) social protection and (IV) social dialogue. In each of these areas people worldwide face deficits and gaps, such as unemployment, underemployment, poor quality and unproductive jobs, unsafe work, insecure income, denial of rights, gender inequality, exploitation, lack of representation, inadequate protection in case of disease, disability and old age, etc.

The Decent Work concept relates to trade and investment in different ways. First of all with regard to core labour standards the linkage to trade is a controversial one, however, without a social floor in the system, the increased competition has deteriorated lives of workers. Many workers do not share in the benefits of trade liberalisation. Worse, they very often face exploitation, and an increase in casualisation can be noted. Moreover, core labour standards are an integral part of the development agenda, and are a means for development.

With regard to the second aspect of the Decent Work Agenda, which is employment and its relation to trade, it is important to highlight that trade liberalization has the potential to be a means for economic growth and employment, and should, therefore, be part of the overall development strategy, rather than being an objective in itself. Moreover, trade liberalisation should not undermine policy space for governments.

With regard to social protection and trade, it is important to note that social protection not only benefits workers, but also makes adjustment to shifts in trade more acceptable and easier to deal with. Examples of social protection are unemployment benefits, job matching, retrenchment benefits, and safety and health standards. Governments should be able to set clear rules in the area of social protection and on safety and health, and should enforce these rules. Trade rules, instead of undermining these policies, should support adjustment policies and provide policy space for governments to implement these. Furthermore, there is a need for trade adjustment funds for developing countries, without further indebting countries or attaching conditionalities to it.

8 Idem

With regard to social dialogue it is first and foremost important to improve dialogue between workers and management. This requires training of both workers and management. The role of the government is one of legal enforcement. A clear position should be taken by governments in favour of balancing the rights of investors and workers.

Within the textiles and clothing sector, multistakeholder dialogues are needed, which involve buyers, suppliers, trade unions and government representatives, in all trade related talks, to discuss measures that ensure fair trade in textiles and clothing. More dialogue is also required at the international level between WTO and ILO. The ILO Decent Work Agenda should not be undermined by agreements in the WTO. Each organisation having a different mandate should strive to work together and ensure that benefits of trade liberalization are more equally distributed.

The ILO has started a Decent Work Pilot Programme in Textiles and Clothing in Morocco[9]. In December 2003, a national action plan was adopted by the tripartite constituents with the aim to improve competitiveness of the textiles and clothing industry through the promotion of decent work, by responding to the challenges that globalisation and trade liberalisation impose. Activities have been launched to promote decent work through social dialogue, with an aim to improve the quality and quantity of employment. These activities include: (I) Training on collective bargaining and dispute resolution; (II) Training on productivity and occupational safety and health; (III) The development of a gender strategy by the social partners; (IV) The review of existing training programmes with a view to maximising their impact and improving their coordination; (V) a rapid assessment of the prevalence of child labour; and (VI) The development of a social management upgrading project in a selected number of enterprises. Management and trade unions in Morocco are increasingly aware that there is a close linkage between raising economic efficiency to meet the demands of global competitiveness on the one hand and social progress on the other. Improving the social climate is an important factor in raising productivity structurally. Similar Decent Work programmes in textiles and clothing are now developed in Romania and the Philippines.

9 See also the Decent Work Programme in Textiles and Clothing in Morocco: http://www.ilo.org/public/english/bureau/dwpp/countries/morocco/

4. Instruments to Improve the Respect for Core Labour Standards

Trade unions have access to a number of instruments that can enhance respect for core labour standards. They include the instruments in the ILO, the OECD (Organization for Economic Cooperation and Development) Guidelines for Multinational Enterprises, the ILO Tripartite Declaration on Multinationals and International Framework Agreements. The ILO instruments provide for regular and special supervisory mechanisms, and these can be used by trade unions to report on cases of violations of core labour standards. This requires, however, the need for setting up a mechanism for collecting information and reporting.

More and more companies are entering into corporate social responsibility and make use of Codes of Conduct, which set standards for workers' rights and conditions in supply chains. Although these are voluntary initiatives and in some cases actions of pure publicity, Codes of Conduct could, in certain situations, play a positive role. Trade unions in companies where a Code of Conduct applies could seek to use this Code in case of problems. In a few cases, buyer pressure has led to improvements in the factory, but results depend of course on the buyer and on the level of information that can be gathered by the unions. On the other hand, by no means should such voluntary action replace the role and responsibility of the government for the enforcement of legislation. Preferably, the OECD guidelines for multinationals and the ILO tripartite declaration on multinational enterprises, which are both a set of recommendations for good corporate behaviour for multinationals, should be used more widely. In particular, the National Contact Points (NCPs) should be used in case of violations by OECD country based enterprises.

Another instrument available for trade unions are the International Framework Agreements (IFAs). These are agreements negotiated between a multinational company and a global union federation concerning the international activities of that company and which establish a formal ongoing relationship between the two. The most important aspect of IFAs is the commitment it embodies by the company to recognise trade union counterparts at a national level and to engage in genuine collective bargaining. IFAs may also contain elements such as the effective application of other core labour standards, payment of living wages, no excessive working hours, decent working conditions, skills training and the welfare of workers. They apply to all activities of the enterprise and its contractors, subcontractors and suppliers. In the area of textiles and clothing dialogues with major international buyers could be undertaken to conclude such framework agreements.

5. Using Trade Agreements to Promote Labour Standards

In theory, another option for trade unions could be the use of labour provisions in free trade agreements such as the African Growth and Opportunity Act (AGOA) and the EU Generalized System of Preferences (GSP) agreement or in bilateral and regional trade agreements. Examples of many different forms of such labour provisions can be found in trade agreements with the US such as US-Jordan, and North American Free Trade Agreement (NAFTA), with the EU, such as EU-Mercosur, and in regional agreements such as Mercosur. Such provisions could in theory be used to put pressure on governments to improve and enforce labour standards. However, in virtually all the above cases, these clauses are merely promotional and so, unsurprisingly, results have rather been disappointing. One positive example of labour provisions in trade agreements is the US-Cambodia agreement[10]. The US-Cambodia agreement rewarded improvements in the area of core labour standards with additional quotas for clothing exports to the US. This has led to increased exports from Cambodia, as well as to an improvement of working conditions and wages. An important requirement for success is the monitoring of factories, which, in the case of Cambodia, is done by the ILO. Other requirements are the improved social dialogue at the company level, training of management and workers, and an agreement, which covers all relevant producers, which, in the case of Cambodia, were producers of clothing (every factory had to register in exchange for an export license). The Cambodia example shows a clear link between improvement in working conditions and improvement of productivity and quality of products. The monitoring by the ILO has provided a safer space for workers to organise, but requires a national presence. Monitoring should be unannounced and has to be independent, transparent and credible. Another important element is training. Training is needed to improve the situation in the factory, and joint management / workers training is part of the strategy to mainstream social dialogue. The project is supposed to be self-sufficient by 2009.

The positive example of Cambodia is also recognised in the WTO report on options for least-developed countries to improve their competitiveness in the textiles and clothing business[11] where it notes that “The commitment of LDC governments to comply with international labour standards may, therefore, be a positive signal for international investors. If international labour standards are

10 See also the Better Factories Cambodia project : http://www.betterfactories.org/ilo/
11 WT/COMTD/LDC/W/37, paragraph 269, page 83, 28 June 2005

respected, monitoring costs and the risk of bad publicity are low for international retailers. Cambodia's experience is a good example of how LDCs can benefit from the premiums that markets may offer for products that are produced with acceptable labour standards or in environment friendly conditions".

An online discussion[12] earlier in 2005 amongst trade unions on social issues in bilateral and regional trade agreements showed that once an agreement is signed, which includes labour provisions, such provisions are not used effectively. The discussion also showed that few trade unions are engaged in discussions around FTAs, and if they are engaged in the process, this engagement is too often limited to labour provisions, but does not extend to impact of trade agreements on employment or on restrictions with regard to economic and social policies, clear exceptions being South African trade unions and the Mercosur Trade Unions. Because FTAs have far reaching impacts on employment and policies, trade union engagement in FTAs should go beyond the labour issues. Furthermore, trade unions should also focus on investment provisions in trade agreements and on bilateral investment treaties, which increase protection for foreign investors at the cost of protection of workers and the environment.

6. Beyond Labour Standards and Decent Work

There needs to be a stronger focus on sustainable development, the role of trade liberalisation in achieving this, and the necessary policy space to attain this. Trade unions should become more involved in policymaking and assessment of policies. This requires an understanding of the trade issues, an assessment of the impacts of trade liberalisation, continuous dialogue beyond labour issues with policymakers, and mobilisation and campaigning efforts to ensure that the voices of workers are heard. With regard to textiles and clothing this requires an assessment of the NAMA (Non Agricultural Market Access) negotiations. These negotiations will particularly impact on the preference receiving countries and on countries with an important domestic industry. At the same time, there is an urgent need to address adjustment issues in the context of trade liberalisation, which requires coordination among countries, among international organisations, and among

12 See also the report of the online discussion:
http://www.gurn.info/topic/trade/news/online/report_mar05.pdf

the different employers' and workers' organisations, and other representative civil society organisations, in countries facing adjustment. The example in textiles and clothing has shown that we are still far from such a joint response.

7. Conclusions

Continued efforts need to be made to enforce core labour standards in the textiles and clothing sector, through the use of different instruments currently available, and through increased awareness raising of the importance of respect for labour standards for sustainable development. More importantly, there is a need to look beyond core labour standards and to promote the Decent Work Agenda more widely, including a focus on decent employment creation, on social protection, in particular safety and health issues and unemployment benefits, and on social dialogue. Insufficient response to the quota phase-out in textiles and clothing should not be repeated in the future, and a more coherent approach should be used in reply to current and further developments in the sector. All stakeholders have to be involved in discussions around further liberalisation of this sector. Liberalisation impacts on quantity and quality of employment have to be assessed properly, and adequate solutions have to be in place to address any adverse effects. Moreover, countries should be allowed to protect domestic markets in the interest of development, and special provisions should be in place for those facing preference erosion.

International Labour Standards and their Relevance to Sub-Saharan Africa

By Lawrence Egulu

1. Introduction

Trade broadens markets. Countries with a small domestic market can sell their surplus products on the international market. This may lead to overall global growth and international specialisation. The international flow of commodities, capital, and people may bring new opportunities for countries and workers. The global market is set to enlarge and significantly affect an ever-increasing number of workers. However, the intensification of competition through the globalisation process impacts negatively on workers' rights when governments, keen to attract foreign direct investments (FDI) and to increase their exports, offer various incentive packages which include low cost of labour and restriction of trade union activities, especially in export processing zones (EPZs). There is, therefore, concern about the lowering of labour standards as a way of providing incentives for potential investors.

Violations of trade union rights are increasingly linked to international trade and investment, partly due to the competition for foreign investment by multinational companies (MNCs). Many governments are responding to these pressures by crude violations of core labour standards. The growing mobility of capital is increasing the bargaining power of employers, mainly MNCs vis-à-vis governments and workers. As long as some nations resort to such behaviour, other countries are placed at a competitive disadvantage if they do not follow suit. Such globalisation without a social dimension or any regulation is unacceptable and has to be rejected by the international community. The approach of the African Regional Organisation of the International Confederation of Free Trade Unions (ICFTU-AFRO) has been to call on the international community to have some means of dealing with governments and MNCs that persistently violate labour standards and show no inclination to do anything to improve them. Without such a mechanism, the action of these governments and MNCs will lead to an international system that has no respect for labour standards as disadvantaged trading competitors are forced to lower standards or risk being unable to sell their exports on the global market.

2. Africa in the Global Market

Recent economic trends show that Africa was the second fastest growing developing region behind Eastern and Southern Asia in 2003 and 2004. Africa's performance was underpinned by rising prices of oil and other commodities, an increase in foreign direct investment (FDI) and good macroeconomic fundamentals, backed up by improved weather conditions. As a result, real GDP grew at 3.8 percent in 2003 and by 5 percent in 2004, the highest growth in eight years. These signs of progress are encouraging, but still fall short of the continent's urgent need for much more rapid growth. Moreover, Africa is still far away from achieving the 7 percent growth that is required to meet the principal Millennium Development Goal (MDG) of halving poverty by 2015. The impact of globalisation on employment and the distribution of income within and between nations have also given rise to a number of interrelated concerns with respect to social repercussions of globalisation. In particular, increased international competition as a result of globalisation increases the pressure to cut production costs, including labour costs. The table below attests to the fact that globalisation is bypassing low-income countries, many of which are in Africa, with most beneficiaries being the rich OECD countries[1].

Africa's main trading partners in 2003 have been the US, France, UK, Germany, Japan and Italy. With annual growth rates of 30% and more, China is vastly becoming an important trade power, and may have already climbed to third position in 2005. The dominance of the African market by the US (the US has operated a consistent trade deficit with Sub-Saharan Africa) and China signals a change in the pattern of trade, in which trade was mainly between the former colonial masters and the colonies.

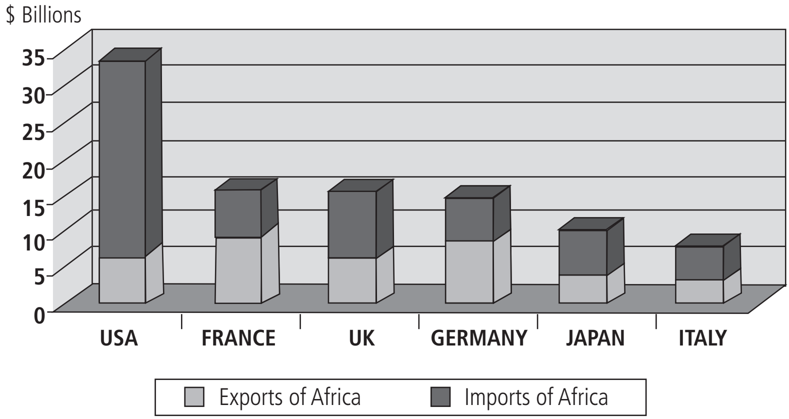
1 According to the UNECA (2004), Africa's trade performance is weak. "The region's share in world merchandise exports fell from 6.3% in 1980 to 2.5% in 2000 in value terms. It recorded a meager 1.1% average annual growth over the 1980-2000 period, compared to 5.9% in Latin America and 7.1% in Asia. Further, while about 70% of developing countries' exports are manufactures, Africa has hardly benefited from the boom in these exports. Overall on the continent, and particularly in sub-Saharan Africa, progress on export diversification has been slow".

Table 1: **GDP, Trade and Capital Flows (1985-2002)**

	US $ billion		Percentage share of world level	
	1985	**2002**	**1985**	**2002**
GDP				
India and China	558.5	1,922.4	4.4	6.0
Low income countries, excl. India	579.3	634.7	4.5	2.0
Middle income countries, excl. China	2,234.1	3,702.9	17.5	11.5
High income countries	9,393.4	25,867.0	73.6	80.5
World	12,765.2	32,127.0	100.0	100.0
Exports of goods and services				
China and India	79.1	685.1	3.4	8.7
Low income countries, excl. India	82.5	215.2	3.6	2.7
Middle income countries, excl. China	433.9	1,227.2	18.7	15.6
High income countries	1,718.7	5,732.6	74.3	72.9
World	2,314.1	7,860.2	100.0	100.0
Inflows of FDI				
China and India	1.7	62.0	2.9	9.8
Low income countries, excl. India	1.9	7.1	3.3	1.1
Middle income countries, excl. China	9.7	79.1	16.8	12.5
High income countries	44.7	484.3	77.1	76.6
World	58.0	632.6	100.0	100.0
Inflows of total portfolio investment				
China and India	2.3	49.8	1.7	6.9
Low income countries, excl. India	0.05	0.07	0.038	0.009
Middle income countries, excl. China	9.1	30.0	6.7	4.2
High income countries	123.8	639.9	91.6	88.9
World	135.2	719.8	100.0	100.0

Source: Gunter and Van der Hoeven (2004).

Graphic 1: **Africa's Principal Trading Partners, 2003** (Industrial Countries)



Source: Derived from IMF Directions of Trade Statistics Yearbook, 2004

2. Labour Standards in Africa's Policy Documents

Despite progress and commitments made in the status of ratification of core ILO standards, unacceptable labour conditions still prevail in a number of African countries, as a result of lack of proper international enforcement mechanisms. Furthermore, increasing economic competition accompanying the globalisation process threatens to further increase the exploitation of labour.

(a) African Charter for Popular Participation in Development and Transformation
The main policy document of the Organization of African Unity (now African Union-AU) with regard to labour standards is the African Charter for Popular Participation in Development and Transformation, adopted in Arusha, Tanzania in 1990. The Charter calls on the labour movement to "defend trade union rights, in particular the right to strike"; and to "promote workplace democracy through the call for the protection of workers' rights to freedom of association, collective bargaining and participatory management", inter alia.

(b) AU Employment and Poverty Summit
At a recent AU Employment and Poverty Summit, in Ouagadougou in September 2004, the outcome document supported the "continuing efforts made by our governments, social partners and civil society organizations to promote the decent work development agenda of the ILO" through the promotion and implementation of "international labour standards and, fundamental principles at work…."

(c) Labour standards are missing in NEPAD
The New Partnership for Africa's Development (NEPAD) is a programme of the African Union that pledges to extricate the continent from the malaise of underdevelopment and exclusion in a globalised economy, with poverty eradication being a major objective. NEPAD recognises that "peace, security, democracy, good governance and sound economic management are sustainable conditions for sustainable development". NEPAD is a pledge by African leaders, based on a common vision and a firm and shared conviction that they have a pressing duty to eradicate poverty and to place their countries, both individually and collectively, on a path of sustainable growth and development, and at the same time to participate actively in the world economy and body politic. NEPAD is premised on African states making commitments to good governance, democracy and human rights, while endeavoring to prevent and resolve situations of conflict and instability on the continent. Coupled to these efforts to create conditions conducive for investment, growth and development are initiatives to raise the necessary resources to address critical sectors such as infrastructure, education, health, agriculture and information communication technology. In its preamble, NEPAD is "appealing neither for further entrenchment of dependency through aid, nor for marginal concessions", but rather calling for a new relationship of partnership between Africa and the international community.

In the Declaration in Dakar, Senegal adopted on 20 February 2002 the two Pan-African trade union organisations – the ICFTU-AFRO and the Organisation of African Trade Union Unity (OATUU) – declared their opposition to the neo-liberal paradigm that is devoid of a social dimension, and reiterated that structural adjustment programs have failed in Africa due mainly to lack of stakeholder involvement and consultations, more so "NEPAD which pretends to pave the way for Africa's development, seems to have been painted on the very neo-liberal canvass, which ignores demands for social insurance, thus simultaneously constraining the ability of governments to respond effectively to any such demands".

To better incorporate trade union involvement, the following are proposed:

- the adoption of effective measures to provide free market access for African products. There is need, therefore, to redress the serious imbalances and discrimination against African countries as a result of prohibitive measures – barriers to trade and other unfair trade practices and rules;
- the incorporation of respect for core labour standards into the administration of NEPAD, and the establishment of a formal structure (within NEPAD) to address trade, development and core labor standards, with the full participation of the ICFTU-AFRO and OATUU;
- the inclusion of social, labour, gender, environment and development concerns in the NEPAD's trade and development policy review mechanisms;
- prioritising the creation of decent well-paid jobs as a basis for wealth-creation and poverty eradication;
- setting up an operational tripartite structure facilitating effective participation of African workers and employers; and
- including the representatives of African workers and employers in the Heads of State delegations negotiating NEPAD's implementation with development partners.

3. Labour Standards, International Trade and International Policy Tools

(a) The "African Growth and Opportunity Act"

The "African Growth and Opportunity Act" (AGOA), introduced on 24th April 1997, was criticised by the ICFTU-AFRO for its notable omission of workers' rights. In Geneva in June 1998, representatives of affiliated African trade unions deliberated on the bill. This Act aimed to introduce a new trade and investment policy for 48 Sub-Saharan African countries. Through this, the US government envisaged a new partnership with Africa that would focus on trade and investments rather than aid. Altogether, twelve eligibility requirements have to be met by any participating Sub-Saharan African country, in order to be part of future trade agreements, to receive additional assistance from the international financing agencies and to qualify for debt forgiveness.

AGOA Eligibility Requirements for Sub-Saharan African Countries

(A) a market-based economy that protects private property rights, incorporates an open rules-based trading system, and minimises government interference in the economy through measures such as price controls, subsidies, and government ownership of economic assets;

(B) the rule of law, political pluralism, and the right to due process, a fair trial, and equal protection under the law;

(C) the elimination of barriers to United States trade and investment, including by

  (I) the provision of national treatment and measures to create an environment conducive to domestic and foreign investment;

  (II) the protection of intellectual property; and

  (III) the resolution of bilateral trade and investment disputes;

(D) economic policies to reduce poverty, increase the availability of health care and educational opportunities, expand physical infrastructure, promote the development of private enterprise, and encourage the formation of capital markets through micro-credit or other programs;

(E) a system to combat corruption and bribery, such as signing and implementing the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; and

(F) protection of internationally recognised workers' rights, including the right of association, the right to organise and bargain collectively, a prohibition on the use of any form of forced or compulsory labor, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health;

(G) does not engage in activities that undermine United States national security or foreign policy interests; and

(H) does not engage in gross violations of internationally recognised human rights or provide support for acts of international terrorism and cooperates in international efforts to eliminate human rights violations and terrorist activities.

However, the ICFTU-AFRO felt that there were a number of flaws in the Bill. Firstly, there was an omission regarding the important aspect of workers' rights. Without a guarantee in the Bill that workers' rights would be respected, violations of their rights were likely to worsen. Secondly, the twelve eligibility requirements stipulated by the Bill were very constraining to African countries already burdened by the structural adjustment conditionalities set-up by the IMF and the World Bank. These conditionalities placed African countries at a disadvantage and contributed to a continuous cycle of underdevelopment. Thirdly, although the Bill referred to trade in textiles and apparel by Kenya and Mauritius, it did not address the effects of the transhipment of goods and services through African countries on workers in Africa and the USA. Fourthly, the Bill was suspect in its emphasis on short-term transient private sector development while it placed no emphasis on long-term trade and investments and on private and public sector commitments. Lastly, there was concern that the Bill undermined the sovereignty and integrity of African governments by dictating to them terms to be incorporated in their development agendas.

Following pressure from the ICFTU-AFRO and the AFL-CIO, a number of labour provisions, outlined in the AGOA eligibility requirements (see F above), were included in the final AGOA Act 434, signed by President Clinton on May 18, 2000 as the "Trade and Development Act of 2000".

(b) Making Multinationals adhere to Labour Standards

Where Multinational Companies (MNCs) outsource their businesses, subsidiaries, subcontractors and suppliers are not necessarily bound to abide by a uniform set of company principles. In a number of export processing zones (EPZs), several cases of violations of workers' rights have been documented. Due to pressure from trade unions and other human rights activities, a number of MNCs have opted for Corporate Social Responsibility (CSR), a concept which is all about management's voluntary actions. Trade unions have often argued that these initiatives are mere public relations gimmicks and have continued to call on businesses to take on board true social responsibilities by, for instances, adopting the two most often quoted non-binding but universally acceptable instruments – the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles concerning Multination Enterprises and Social Policy. Both were revised in 2000 and now incorporate all of the rights enshrined in the 1998 ILO Declaration of Fundamental Principles and Rights at Work and its Follow-up.

(c) The Generalized System of Preferences (GSP)[2]

The Generalized System of Preferences (GSP) has in a number of cases included workers' rights clauses, as a result of pressure from the trade unions. The following successes in the trade union campaigns for fair investment regimes are worth noting:

- An ICFTU/ETUC joint submission led to the suspension of Burma due to that-country's use of forced labour. In January 2004, the EU endorsed investigations into Belarus' violations of workers' rights, which, if successful, would result into her losing the EU market. Other incentive clauses reward those countries that respect ILO core labour standards;

2 The GSP provides preferential access for developing country products to the developed country markets. Set up in 1971, a number of industrialized countries: Australia, Canada, the EU, Japan, New Zealand, Norway, and USA have operated them.

- As a result of AFL-CIO's campaigns, the US has since 1984 operated its GSP. Many countries have been subject to investigations, while others have lost their trading status with the US. The GSP has also encouraged other countries to improve respect for workers' rights;
- The ICFTU/Global Union Federations (GUF) Basic Code of Labour Practice was adopted as a benchmark against which company codes could be compared. Subsequent multi-stakeholder codes were based on the basic code;
- International Framework Agreements (IFAs), signed by GUFs and MNCs, recognise that the company intends to engage the relevant union in discussing issues of mutual interest to both parties. So far the ICEM, IFBWW, IMF, IUF and UNI have signed such IFAs;
- Under the Lomé IV Convention, partnership between the European Union (EU) and the African, Caribbean and Pacific (ACP) group of countries has been extended to trade unions (national federations as well as the ICFTU, WCL, OATUU, and the ETUC) in the two blocks of countries. The successor to Lomé IV[3], signed in Cotonou, Benin on June 23rd, 2000, was concluded after eighteen months of in-depth negotiations. In a number of regional economic groupings, trade unions have made inroads. At the EU/ACP, trade unions are part of the Economic and Social Committee, and some of their activities are eligible for funding;
- The 2004 Athens Olympics provided an opportunity for trade unions to expose the unfair labour practices of various sportswear companies. The ICFTU, ITGLWF, Oxfam, Clean Clothes Campaign and a number of national trade union federations joined forces to bring to light the workers' rights situation in countries such as Bulgaria, Cambodia, China, Indonesia, Thailand and Turkey.

(d) Labour Standards and the WTO Ministerial Conferences

ICFTU-AFRO's actions in the campaign to incorporate a workers' rights clause in all international trade agreements continued to be guided by the recommendations of the Conference on "Defending Workers' Human Rights in the Global Economy" held in Nairobi, Kenya, in March/ April 1998. The Conference adopted a special African position statement to the Second Ministerial meeting of the WTO (Geneva, May 1998) and other subsequent fora in which the question of workers' rights would feature. Some of the recommendations are below:

3 The Partnership Agreement between the members of the African, Caribbean and Pacific group of African states of the one part, and the European Community and its member states, of the other part.

Actions by ICFTU-AFRO:

- present this statement to the OAU Labour Ministers' meeting in Pretoria (13-18 April 1998) with a view of soliciting the support of African governments towards a workers' rights clause come the second bi-annual ministerial meeting of the WTO;
- circulate the same statement to the other African institutions, like the UNECA, ADB, OATUU, and all active economic groupings and NGOs;
- engage African governments with a view of soliciting their approval for the workers' rights clause;
- in collaboration with the ICFTU, promote this statement at the WTO ministerial meeting in Geneva (18-20 May 1998) and present it to the UNDP, UNICEF, UNCTAD and other relevant institutions;
- in collaboration with the ICFTU, seek periodic consultations with the IMF and World Bank in order to closely monitor the effects of their policies on the human rights of workers;
- prepare a report comprising a compendium of replies of affiliates concerning their governments' positions on workers' rights and trade, together with proposals for overcoming their opposition;
- closely work with ITS in order to ensure that effective codes of conduct and guidelines on multinationals are adopted and implemented;
- assist the trade union federations in order to enable them adequately respond to the challenges of globalisation;
- revitalise and be of support to sub-regional trade union organisations in order to ensure that they formulate social charters that are subsequently adopted by the respective sub-regional organisations;
- disseminate information about the differing situations in different sub-regions; and
- continue the fight against the repression of human and trade union rights in Africa.

4. Labour Standards within the International Financing Institutions (IFIs)

There have been several calls for widespread changes to take effect at the International Financing Institutions (IFIs), and to make sure their programmes are socially responsive. Of particular importance is the need for the incorporation of labour standards in their lending, bidding and development policies. Some modest progress in the trade union dialogue with the IMF and World Bank has been recorded, including the following:

- At the World Bank, a Labour Markets Team was set up at the Social Protection Unit within the Human Development Network.
- There has been stated commitment by the World Bank to the incorporation of labour standards[4]. In May 2003, the World Bank board discussed the role of core labour standards, while in September 2004 the International Finance Facility (IFC)-funded projects in Haiti and the Dominican Republic both had clauses requiring the borrowing company (Grupo M, a major international company specialising in clothing brands) to respect freedom of association and collective bargaining.
- Unions have since 1995 been consulted in the production of the World Bank's World Development Report.
- In February 2002, a protocol was agreed to by the World Bank and the IMF toward the holding of regular and enhanced dialogue. While high-level policy making political meetings are held once every two years, staff level meetings are annual and are subject-specific.
- In February 2003, the World Bank published a book *Unions and Collective Bargaining: Economic Effects in a Global Environment,* which gave some amount of recognition to the role of trade unions in economic development.
- A number of trade union secondments have been made to the World Bank since 2003.
  - The ICFTU-AFRO senior economist was seconded to the World Bank in Washington, D.C. The one-year special assignment (January to December 2003) involved, inter alia, encouraging trade unions to partake of the PRSP process, and directly linked unions with the World Bank, IMF and government departments responsible for PRSPs[5].
  - In the fall of the same year, a PSI official worked at the World Bank's public sector restructuring unit for three months.

4 At the meeting between the international trade union movement (Global Unions and WCL) and the IMF and World Bank, the World Bank's director for procurement announced that the World Bank, other multilateral banks and the International Federation of Consulting Engineers (FIDIC) had agreed to the inclusion of clauses on child labour, forced labour, records of workers and social aspects of works into the standard bidding documents. The IFC on the other hand was reviewing its safeguard policy to include the right to organise and collectively bargain non-discrimination at work, contract labour issues, health and safety and other working conditions (e.g. wages, benefits and hours of work). These would be additional to the existing safeguards – harmful child labour and forced labour.

5 As part of the assignment, the secondee published a World Bank Social Protection Discussion Paper No. 0147 titled *Trade Union Participation in the PRSP Process,* detailing the nature and extent of trade union participation in the PRSP process in 23 countries, namely Albania, Benin, Bangladesh, Bolivia, Bosnia & Herzegovina, Cambodia, Democratic Republic of the Congo, Ethiopia, Georgia, Ghana, Guyana, Honduras, Indonesia, Kenya, Malawi, Mongolia, Nicaragua, Pakistan, Sri Lanka, Senegal, Tanzania, Uganda and Zambia.

- In early 2004, an official from the IFBWW did some similar work in the World Bank's procurement division. Her main task was following up on the international work on ensuring that labour clauses be included in World Bank policy, in loan agreements and in construction documents.
- In late 2004 and early 2005, a WCL staffer was seconded to the External Affairs (EXTIA) Department at the World Bank.
- In the spring of 2005, a representative of the ITF was seconded to the World Bank's Europe and Central Asia (ECA) Region.

5. Violations of Workers' Rights in Africa Continue

Trade union rights violations continue on the African continent. The ICFTU's 2006 Annual Survey notes the following:

> *Already crippled by the burden of poverty and underdevelopment, the African continent carries the added weight of trade union repression. Whilst Africa's workers struggle to scrape a living wage from jobs that generally offer no social protection, the powers that be remain brutal in their oppression of trade union rights, responding to attempts to improve conditions with violent intimidation, arrests and dismissals. Collective bargaining continues to be very limited on the continent and the export processing zones developing in the wake of globalisation are simply inflating the scale of exploitation*[6].

Violations of workers' rights in Africa – Some Examples

In the EPZs – the symbol, par excellence, of the unbridled competition dominating the global market at the expense of social and labour rights – employers remain resolute in their opposition to any form of organising or trade union activity, particularly in Malawi, Mauritius and Nigeria. Across the continent, in the numerous zones stretching from Morocco to Madagascar, abuse is common currency. In Kenya, a workplace representative at a textile factory in the Athi River EPZ was dismissed and blacklisted after asking the company to pay the wage increases set down in the collective agreement signed the previous year. In Namibia, a Chinese worker at a Malaysian-owned textile plant reputed for its anti-union practices found herself in hospital following an attack by a dog used by security guards during a demonstration organised by the Chinese workers. They were protesting their working

6 See http://www.icftu.org/displaydocument.asp?Index=991222872&Language=EN, page 1.

conditions, the inedible food and the medicals imposed at their own expense. Four hundred Bangladeshi workers were evicted and had their work permits confiscated after protesting against the appalling living conditions. At the end of September, the court ruled that the company had to pay 66 of these workers ten months wages, their flight home and part of their legal expenses. An inquiry held by the National Union of Namibian Workers (NUNW) revealed that the Bangladeshi workers had paid recruitment agencies up to 21 million dollars without receiving any proof of payment, opening the door to serious suspicions of human trafficking.

See http://www.icftu.org/displaydocument.asp?Index=991222872&Language=EN , page 1.

In April 1999, President Yoweri Museveni of Uganda warned developing countries that there were some WTO member countries trying to "smuggle" the social clause into the WTO. He said such attempts were deliberate measures aimed at frustrating the developing countries' access to the international market. He said: : *"…I would like to observe that non-trade issues are being deliberately smuggled into trade to the detriment of our well-being. Currently, there is all out effort by some countries of the World Trade Organisation (WTO) to include a social clause in the mandate of the WTO that will establish a link between market access and the enforcement of labour standards… There are other issues being smuggled into trade such as the environment and stringent hygienic conditions for products originating in the South. All these are non-tariff barriers being constantly erected against us. Please watch out for them"*[7]. Museveni also justified underpayment by the fact that the workers in question were hitherto unemployed and now had some means of survival.

In December 2004, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) and UNITE[8] petitioned the United States Trade Representative (USTR) to remove Uganda from the list of beneficiary developing countries under the GSP and AGOA, the reasons being Uganda's "failure to make continual progress towards establishing internationally recognized worker rights",

7 Remarks at the opening of the 8th G77 Chamber of Commerce and Industry (CCI) General Assembly, in Kampala, Uganda.

8 UNITE (formerly the Union of Needletrades, Industrial and Textile Employees) and HERE (Hotel Employees and Restaurant Employees International Union) merged on July 8, 2004 forming UNITE HERE. The union represents more than 450,000 active members and more than 400,000 retirees throughout North America. UNITE HERE boasts a diverse membership, comprised largely of immigrants and including high percentages of African-American, Latino, and Asian-American workers. The majority of UNITE HERE members are women.

which constitutes independent grounds for AGOA eligibility. The case of Tri-Star in Uganda presents a particularly troubling example of workers' rights violations as a result of lowering standards in order to gain access to the US markets. A recent report found that young women at the factory were sometimes forced to work eighteen hours a day and that they were abused by managers. When the workers protested, they were confronted by riot police and then fired on. According to the report, a local newspaper quoted the President of Uganda as not only supporting the firings but also ordering them, claiming their protest actions would have "scared off investors."[9]

6. Conclusion

Trade will increasingly continue to be relied upon by African countries to generate the resources for financing development. By whatever name one might "baptise" Africa's development efforts, the reality is that none of them has made any meaningful inroads in far as making any significant dent into poverty is concerned. Poverty eradication requires a broad approach, taking into account not only the sheer economic aspects, but also the social, human and environmental dimension. This implies an increased focus on issues like good governance at national and international levels and the fight against corruption, respect for all internationally recognised human and trade union rights, gender issues, capacity and institutional building and environmental concerns. With the phasing out of the quota systems that had guaranteed some countries preferential trade access to the EU and US markets on January 1, 2005, a number of textiles and clothing exporting countries stand to lose immensely, while China, with its low labour costs and economies of scale, is the beneficiary. On the other hand, jobs are at risk in African textiles exporting countries. As long as investors play one country against the other, labour standards will continue to spiral downwards. And as long as no penalties are slapped on violators of workers' rights, those that observe them will be the losers.

9 Andrew Rice, "Letter from Uganda," The Nation, No. 6, Vol. 279, p. 28 (August 30, 2004).

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What Impact will the Outcome of the Hong Kong Ministerial Have on the Textiles and Clothing Sector?

By Esther Busser

1. Introduction

From 13-18 December, the 6th WTO Ministerial took place in Hong Kong. Although, in general, not much was accomplished, some substantive decisions were made in the area of Non Agricultural Market Acess (NAMA), which includes the textiles and clothing sector.

The NAMA negotiations can affect the textiles and clothing industry twofold. First of all, the negotiations in NAMA focus on tariff reductions. A reduction of domestic tariffs means that the domestic market is less protected against imports from other countries. Since the elimination of quotas at the beginning of 2005, many countries are already facing cheap textiles and clothing imports, especially from China, which harm domestic markets. A drastic reduction in applied tariffs would increase such imports, especially now that the EU and US have reached an agreement with the Chinese government to limit Chinese imports into the US and EU.

Secondly, many developing countries receive preferential access to developed countries' markets such as the EU and US. Tariffs on textiles and clothing are relatively high in developed countries; developing countries have a large benefit from the preferences they receive. A sharp reduction in the overall tariffs of developed countries will reduce the preference margin that many developing countries enjoy. Their advantage compared to other non-preference receiving countries will be reduced and market share might be lost.

2. Tariff Reduction Formula

The use of a Swiss formula for tariff reductions was agreed upon in Hong Kong. With a Swiss formula there is a greater reduction of higher tariffs than of lower tariffs, i.e. developing countries, which generally have much higher tariffs than developed countries, will have to reduce their tariffs to a larger extent (non-linear) than developed countries. In the previous Uruguay Round an average reduction was applied, whereby countries had to reduce their tariffs by a certain average. But they were flexible in terms of reducing certain tariff lines to a large extent and keeping others, which were more sensitive, higher.

This Swiss formula not only reduces high tariffs on a larger scale (with an aim to harmonise tariffs) but also applies the formula on a line-by-line basis, for all tariff lines. There are two types of Swiss formulae, and WTO Members still have to decide on which formula to use. The first one is a simple Swiss formula, and the second one is a Swiss type formula. Examples of the Swiss type formula are the ABI (Argentina, Brazil, India formula) and the Caribbean formula. The basis of the Swiss type formula is the average tariff of members, and which is more advantageous for developing countries, as they generally have rather high average tariff levels. The ABI formula would result in using multiple country specific coefficients. The Caribbean proposal goes a step further than the ABI proposal in that it also assigns credits to countries for specific situations such as dependence on preferences, dependence on tax revenue, limited export base, etc.

Simple Swiss: final bound tariff = ([initial bound tariff] x [coefficient]) / ([initial bound tariff] + [coefficient])

ABI: final bound tariff = ([initial bound tariff] x [tm x [coefficient]) / ([initial bound tariff] + [tm x [coefficient]), where tm is the national average bound rate.

Caribbean: final bound tariff = ([initial bound tariff] x [tm x [coefficient + C]) / ([initial tariff] + [tm x [coefficient + C]), where tm is the national average bound rate and C is the credit.

The value of C will be the sum of the values of relevant factors for each developing country such as: substantial tariff binding coverage, autonomous liberalisation, revenue dependence, need to maintain and strengthen domestic industries, policy space for development of potential industries and for general industrial development, adjustment costs for loss of preferences, existing degree of openness and vulnerability to external shocks, economic vulnerability.

For example, a bound tariff of 30% under a simple Swiss formula would result in a bound tariff of 15% after applying a coefficient of 30. A coefficient of 6 would lead to a tariff of 5% for a bound tariff of 30%.

The basis for tariff reductions shall be the bound tariff level. Countries with unbound tariffs in textiles and clothing will have to bind their tariffs and then apply the reduction formula (explained below).

The coming months will be used to determine which of the two types of formula is going to be used and, once a formula has been chosen, which coefficients shall be applied. The higher the coefficient, the lower the cuts, and the higher the final bound tariff. If, for example, the coefficient is 10 then the final bound tariff after formula cut will show a range of tariffs for a specific country with maximum tariffs of 10%. If the coefficient is 30 then the range of tariffs will show a maximum of 30%. It should be noted that the Swiss formula factually results in substantial cuts, even when using a relatively high coefficient.

A number of proposals were tabled based on the simple Swiss formula, either with one coefficient or with two coefficients. In the case of two coefficients there was a proposal by Pakistan for a coefficient of 6 for developed countries and a coefficient of 30 for developing countries. The EU proposed a coefficient of 10 for developed countries and 15 for developing countries. The US requests the two coefficients to be "within sight of each other". No concrete proposals for coefficients have been made with respect to the ABI formula.

Both types of the Swiss formula will bring about sharp tariff cuts, but, in comparison to the simple Swiss formula, the ABI or Caribbean formula would not entail such drastic cuts for developing countries. On the other hand, there is the issue of preference erosion for a number of developing countries if a major reduction of the developed countries' tariffs takes place. With respect to preference erosion an ABI formula would be less preferable than a simple Swiss formula, as it would lead to more preference erosion due to greater tariff cuts in developed countries, as they have low average bound tariffs.

3. Tariff Binding

As already mentioned above, tariff reductions will be carried out on the basis of the bound tariff. Countries that have bound less than 35% of their tariffs (the so-called paragraph 6 countries[1]) are required to bind 100% of their tariffs, but will not be asked to reduce their tariffs. Also LDCs are excluded from tariff reduction, but they are requested to bind their tariffs substantially.

1 Paragraph 6 countries with binding levels lower than 35% of their tariff lines are : Cameroon (0.1%), Congo (3.2%), Côte d'Ivoire (22.9%), Cuba (20.4%), Ghana (1.2%), Kenya (1.6%), Macao (15.6%), Mauritius (5.3%), Nigeria (6.9%), Sri Lanka (28.3%), Suriname (15.1%) and Zimbabwe (9.0%).

Many developing countries still have a large number of unbound tariff lines (e.g. Bahrain, Fiji, India, Malaysia, Pakistan, Philippines, Singapore, Thailand and Tunisia). In order to apply the tariff reduction formula, unbound tariffs have to be bound first. The negotiations, therefore, focus on the method of binding.

It was decided in Hong Kong to bind unbound tariffs by adding a non-linear mark-up to the applied tariff. This will then be the base rate for tariff cuts. The non-linear mark-up will consist of adding a number of percentage points to the applied tariff - either a constant number of percentage points, or a different number of percentage points depending on the level of the currently applied rate (the lower the applied rate the higher the mark-up, and the higher the applied rate the lower the mark-up). Most discussions have focused on a constant mark-up with proposals concerning the number for the mark-up, ranging from 5 to 30 percentage points. An applied tariff of 15% will thus receive a mark-up of, for example, 15% to get a bound rate of 30%. This tariff of 30% will then be reduced by applying the tariff reduction formula. With a coefficient of 10 in a simple Swiss formula, the new bound rate will be 7.5%.

4. Flexibilities for Developing Countries

Paragraph 8 of the "July framework"[2] provides for flexibilities for developing countries, which is the third key issue in NAMA negotiations. These flexibilities are:

"We agree that developing-country participants shall have longer implementation periods for tariff reductions. In addition, they shall be given the following flexibility:

a) applying less than formula cuts for up to [10] percent of the tariff lines provided that the cuts are no less than half the formula cuts and that these tariff lines do not exceed [10] percent of the total value of a Member's imports; or

b) keeping, as an exception, tariff lines unbound, or not applying formula cuts for up to [5] percent of tariff lines provided they do not exceed [5] percent of the total value of a Member's imports.

We furthermore agree that this flexibility could not be used to exclude entire HS Chapters."

2 This refers to the framework for further negotiations that was adopted at the WTO General Council in July 2004.

Developing countries can, thus, exempt up to 5% of their tariff lines from the tariff reduction formula, or identify up to 10% of the tariff lines for less than formula cuts.

A number of countries (Argentina, Brazil, Venezuela, China, Egypt, India, Indonesia, Namibia, Pakistan, Philippines and South Africa) had submitted a communication on paragraph 8 flexibilities at the end of last year (TN/MA/W/65), demanding that developing countries should be able to retain the right to revise the percentages (of tariff lines exempt from full tariff reduction, or subject to reduced tariff reduction) upwards to enable countries to manage the adjustment of sensitive sectors and to prevent social disruption caused by job losses and closure of enterprises that would be the result of further liberalisation. The Hong Kong Declaration does not elaborate further on the flexibilities.

It will be important to first look at how these flexibilities could deal with the concerns regarding job losses arising from the application of the formula in textiles and clothing, and then to determine if there is a need for an extension of these flexibilities (both the percentages and the value limitations could be too restrictive to offer enough flexibility).

5. Sectoral Negotiations

The NAMA negotiations framework also provides for sectoral negotiations. The aim of such negotiations is not only a more ambitious tariff reduction than a formula cut, but also an elimination or a harmonisation of all tariffs in a sector. A number of sectors have been identified for negotiations on tariff elimination or harmonisation. These are bicycles, chemicals, electronics/electrical equipment, fish, footwear, forest products, gems and jewellery, pharmaceuticals and medical equipment, raw materials and sporting goods, textiles, apparel and auto/autoparts.

The sectoral negotiations on textiles and clothing have not really started yet. They also differ from the other sectoral initiatives in that they might aim at tariff reductions that are lower than the tariff formula reductions in order to shield the sector from further disruption after last year's elimination of quotas. A number of developing countries are looking into this sectoral initiative, including Turkey, Tunisia, Mauritius, Jordan, Dominican Republic, North African countries and others. The coming weeks will bring about more clarity as to if and how this initiative will be taken forward.

6. Non-Tariff Barriers

Discussions regarding NAMA not only focus on tariff reduction but also on Non-Tariff Barriers (NTBs), such as technical requirements. A large number of NTBs have been identified by countries, but no agreement has been reached with regard to these NTBs. Some of the NTBs are dealt with in other negotiating groups, and some are dealt with bilaterally. SA 8000[3] is considered to be a NTB and is included in the list.

The US has tabled a proposal on labelling requirements in textiles, clothing and footwear. The aim of the proposal is to examine administrative and other practices that are used to implement labelling programmes in textiles, clothing and footwear industries, with an aim at identifying efficient methods for provision of the information.

7. Other Issues

Some general language on the need to address preference erosion and the situation of small and vulnerable countries is included in the Hong Kong Declaration. As indicated above, preference erosion will be substantial in the case of textiles and clothing if a Swiss formula is applied.

Another important issue is the impact of tariff reduction on tariff revenue. A number of countries depend quite substantially on tariff revenue for their government expenses.

8. The Linkage Between Agriculture and NAMA Negotiations

The Hong Kong Declaration includes a paragraph (para 24) on the link between NAMA and Agriculture with regard to market access for developing countries, stating that ambition on market access should be comparable in both areas of negotiations.

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3 The SA 8000 "standard" is a code of conduct with a "verification" system administered by the US-based NGO, Social Accountability International (SAI). Supplying companies can ask organisations authorised by SAI to issue them a certificate that indicates compliance with the SA 8000 standard. The supplier can then use this certificate to assure sourcing companies that its working conditions are consistent with the SAI code.

Whether full modalities for NAMA can be set by the end of April will depend mainly on the progress made in Agriculture, and, particularly, if an agreement can be reached among the major players – the US, EU, Brazil and India. Both Brazil and India are likely to cede substantially with respect to NAMA (as discussed further below) if Agriculture can be resolved. Overall, many commentators believe that a large number of developing countries might agree to a NAMA agreement provided they benefit from Agriculture. For example, Brazil already showed some flexibility with regard to the EU on NAMA in making a proposal that was then removed from the agenda anew. Many developing countries appear sanguine about NAMA impacts as they fall into categories that will enable them to limit the impacts for the time being (i.e. LDCs, or the "paragraph 6" countries that have bound less than 35% of their tariffs, both are exempt from tariff reductions). However, there remain a number of countries that will be more or less greatly affected, depending on the structure of their tariffs and the difference between bound and applied tariffs. If the industries that are prone to be affected by tariff reductions are highly labour intensive, a significant unemployment rate would, likely, be the result. Other countries will be affected due to preference erosion (primarily LDCs and ACP countries)

9. Negotiating Timelines

NAMA negotiating (days and) weeks are scheduled for March and April. Modalities are aimed for by 30 April 2006. The main issues that remain to be discussed and require a solution prior to the end of April are the coefficients of the formula, and the choice between a simple Swiss and a Swiss type formula, the flexibilities and the mark-up for binding of tariffs. It is very likely that developing countries shall continue to support a Swiss type formula. In the end, however, they may well be willing to give it up in exchange for a high coefficient in a simple Swiss formula. Especially for Brazil, a simple Swiss formula with a high coefficient would be less harmful than for other countries, as there is a big difference between its applied and bound tariffs. Therefore, considerable cuts will not have such a major impact, as these will mainly be cuts in bound tariffs but not (or only minor) cuts in applied tariffs. Other developing countries will, however, face severe cuts in applied rates. Members are also supposed to look at ways of dealing with preference erosion and small and vulnerable economies. And, finally, Members will have to set up methods and timelines for dealing with sectoral negotiations and NTBs. Decisions on these issues are expected by the end of July 2006. Depending on the outcome of the discussion on coefficients there might be more movement in the area of sectoral negotiations (i.e. if low tariff reductions are the result of the formula, it makes it more likely that the overall NAMA negotiations will be followed up by sectorals).

10. How Can Trade Unions Get Involved?

There are several processes for involvement: national, regional and international. The ICFTU lobby and policy work on trade is organised around the TILS network (Trade, Investment and Labour Standards) which also includes the Global Union Federations (GUFs) such as the International Textile, Garment and Leather Workers‘ Federation (ITGLWF). The trade union’s positions are discussed within this network with regard to a broad range of issues, including manufacturing trade and trade of textiles and clothing. In particular, the current round of negotiations (Doha Round) with an aim to lower tariffs in manufacturing substantially, as well as the end of quotas in textiles and clothing, have brought many concerns in connection with the current trade rules. Position papers are part of the work on trade, in particular with regard to the ongoing negotiations and the different elements therein as an outcome of TILS. At the regional level there are both the ICFTU regional office for Africa (ICFTU-AFRO) as well as the ITGLWF regional office. At the national level it is up to the national centre or the textiles and clothing workers’ union to, first of all, estimate the impact of possible scenarios that are under negotiation on employment, to identify an ideal scenario for the country, to lobby the government, in particular the trade minister for inclusion of the conclusions of the trade union assessment in the decision-making process. This can be done either through consultations (inside strategy) or through an outside strategy, such as using demonstrations, actions etc. At the same time, it is important to link up with other trade unions in the region that have similar positions. There is an important role here for the regional office. And, finally, it is important that the actions and lobby work that take place at the national level are brought back into the multilateral decision-making process in the WTO in Geneva, where negotiators come together. The national trade unions’ concerns and demands have to be heard at the national level and the international level, and the government has to be held responsible for decisions it takes at the international level that will affect the employment situation in each country.

Trade Union Resolution on the Future of the African Textiles and Clothing Industries

Resolution of the Participants of the Trade Union Conference "The Future of the African Textiles and Clothing Industries", jointly organised by Friedrich-Ebert-Stiftung, LaRRI, SACTWU and ITGLWF-Africa in Cape Town, South Africa on October 10-11, 2005.

We, representatives of workers in the clothing, textiles, footwear and leather industries of Ghana, Kenya, Malawi, Madagascar, Mauritius, Namibia, Nigeria, Lesotho, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe, having met in Cape Town on 10 and 11 October 2005, at a trade union conference on "The future of the African Clothing and Textiles Industries":

Noting that:

There has been a significant change in the global textiles and clothing sectors over the recent past, particularly since the beginning of 2005, due to the expiry of the Multifibre Arrangement (MFA), and the elimination of quotas as set out in the Agreement on Textiles and Clothing (ATC);

The continent has lost more than 250,000 jobs over the past few years, with large numbers of job losses in Lesotho, South Africa, Swaziland, Nigeria, Ghana, Mauritius, Zambia, Madagascar, Tanzania, Malawi, Namibia and Kenya. This means that more than a million African family-members have lost the stable source of their livelihood;

Cheap textiles and clothing imports from China have flooded our domestic markets, which has seriously injured our industries, resulted in loss of productive capacity, factory closures and retrenchments;

Loss of export orders and the flood of imports from China have also led to pressure on wages and working conditions of workers in textiles and clothing companies. This pressure has led to an increase in underpayment of workers, casualisation and contract work in the industries in the region;

China's Accession Protocol to the World Trade Organisation (WTO) provides for safeguard measures to be taken by Governments in case of imports from China in textiles and clothing that cause market disruption and/or injury to the domestic market;

African countries are pressurised to reduce trade protection and support for both infant and sensitive industries, though countries in the north and in Asia have used trade policies as important complementary tools for industrial development;

Governments compete for foreign direct investment through unsustainable and socially-damaging policies such as relaxation of labour rights and offering ever-increasing fiscal benefits, infrastructure and services; these packages pit one African government against another in a bidding war to draw foreign investors to their country with a net-benefit only to multinational companies;

Foreign investors in some cases have left the country overnight, closing the factories without offering any retrenchment benefits;

Export Processing Zones (EPZs) are increasingly created as a means to attract new investment. These EPZs are often characterised by bad working conditions, low wages, long working hours, forced overtime work and absence of trade unions;

There is a lack of a common approach of the African governments with regard to the issues of trade and investment in textiles and clothing. No coordination among the governments takes place, and no common policies are adopted towards investors and the attraction of investment;

The development of the industry under current trade preferences has failed to significantly develop production along the value chain, by using cotton, wool and other raw material production, through spinning, weaving, knitting and design into finished goods production processes;

Trade issues are often seen as the preserve of Ministries of Trade, with little stakeholder participation, and yet, trade agreements impact on practically all aspects of development;

A strong dependence of our textiles and clothing industries has been created, through the African Growth and Opportunities Act (AGOA), on the US market and on preferential treatment, and to a lesser extent on the EU market for some African countries through Cotonou, that utilisation rates have been rather low in the case of the EU Generalised System of Preferences (GSP) due to strict rules of origin;

Globally, retailers' procurement very often contribute to the erosion of labour rights as they source from countries and companies with very poor labour rights;

Buyers have substantial power to impact positively on the labour rights violations of workers in foreign companies;

Trade preferences are likely to be eroded within a relatively short time frame, due to negotiations on market access of non-agricultural products (NAMA) in the WTO, including sectoral negotiations on textiles and clothing with the aim to get zero tariffs in these sectors; And that there is no systematic research and database on the impact of the removal of preferences and trade agreements;

Global economic pressures require trade unions to cooperate more actively in order to pursue the mandate of fair standards and decent work;

Cooperation of unions in the sector still needs to be strengthened to achieve common positions and joint actions and campaigns;

The current trade in imported second-hand clothing has significant negative effects on employment in the industry and is not the most effective way of combating poverty.

Believing

The African clothing and textile industry can grow in output and employment provided policies are developed to modernise the industry, strengthen the skills of the workforce, develop capacities in product quality and innovation.

Now Resolve:

- To call on governments to put in place a comprehensive industrial and trade policy approach aimed at coping with the impact of the Agreement on Textiles and Clothing (ATC) in every country where the textile and clothing sector is significant, with different and specific measures tailored to the situation in each case and aimed at retaining and increasing employment in the sector;
- To call upon governments to make better use of the inputs available on the continent through strong beneficiation programmes and to develop a strategy for restructuring of the industries through integration of a regional value chain in textiles and clothing, by using the different strengths of the different countries;
- To call for coordinated action by African governments to institute temporary safeguard measures against Chinese imports of textiles and clothing on the basis of China's Accession Protocol;
- To address the need for training of workers to upgrade their skills and increase productivity and to modernise the industry through improved technology and methods that allow for innovation and efficiency;
- To improve social dialogue on the future of the textiles and clothing industries, between governments, businesses and organised labour at national, regional and continental levels;
- To ensure unions in the textile and clothing industry re-orient their approach and build capacities in industrial and trade policy through pro-active and innovative strategies;
- To market the region as an ethical source of goods, requiring commitment from business and governments to eliminate sweatshops, in order to capture a share of the "Fair Trade" market;

- To call on governments to promote decent work through an expansion in the quantity (more jobs) and quality (better labour standards) of clothing and textile employment on the continent and to work to eliminate casualisation, job insecurity, underpayment of workers and other forms of poor labour practices;
- To gather information with regard to the impact of the ending of the MFA, such as company closures, job losses, wages, working hours and violations of labour legislation as well as on foreign investor profiles and incentives. Such information should be gathered by each trade union, and should be sent to ITGLWF Africa Office, in order to create a database of information for research and lobby work;
- To call upon governments of the African Union to coordinate amongst them the attraction of foreign investment, in order to avoid destructive competition for investment among African countries, to avoid a race to the bottom in terms of incentives offered to investors; to develop guidelines on maximising the benefits of such investment (through measures such as technology transfer agreements and training in high level skills) and to ensure that domestic investors are not discriminated against in the provision of incentives and facilities;
- To call on SADC governments to fully implement the Charter of Fundamental Social Rights and to ensure that effective enforcement and follow up mechanisms are in place;
- To call upon governments of the African Union to build a social floor in Africa, including respect for and full implementation of core labour standards in the continent and promotion of Decent Work;
- To call upon governments of the African Union, in coordination with the African Group in the WTO, to coordinate strategies on trade policies and trade negotiations, in particular with regard to NAMA negotiations, opposing the sectoral negotiations, and to prepare proposals that address the issue of preference erosion in a satisfactory way. In addition, the need for policy space has to be safeguarded and should not be undermined by negotiations in the WTO;
- To call on governments to ensure that measures are put in place to address the negative impact of trade in imported second-hand clothing while at the same time ensuring that our domestic industries are able to provide affordable clothing to poor people;
- To call on governments in the developed world to expand trade preferences offered to African countries, including through improving the terms of existing agreements and the rules of origin;

- To ensure coordination among trade unions and information gathering on the issue of smuggling of products and dumping, in order to reduce the impact of these on the domestic market, and to ensure coordination among governments of the African Union and the establishment of measures, and the building of institutional capacity to eliminate all forms of illegal imports and smuggling;
- To promote an alternative development strategy such as the sustainable human development approach adopted by the UNDP;
- To lobby governments to support a Policy Coherence Initiative among multilateral institutions, with strong ILO involvement, aimed at creating and expanding decent work opportunities in the clothing and textile industries on the African continent;
- To undertake a major campaign to increase the rates of unionisation among workers in the industry, to identify through a public list the names of companies denying workers the right to join unions (including through a list of the 10 worst employers on the continent) and to campaign in solidarity against anti-union practices;
- To campaign that multinational corporations and major global retailers increase their sourcing from the African continent, support fair labour standards, comply with all legal obligations and promote decent work;
- To call for a Summit in Africa on the future of the clothing, textile and footwear industries, with strong participation by trade unions, investors and governments, in order to develop commitments for a common action plan to grow the industry and the welfare of its workers.

NAMES OF TRADE UNIONS

Signed on this 11th day of October 2005 in Cape Town, South Africa

Ghana

____________________________ ____________________________

Representative Union

Kenya

____________________________ ____________________________

Representative Union

Malawi

____________________________ ____________________________

Representative Union

Madagascar

Representative	Union

Mauritius

Representative	Union

Namibia

Representative	Union

Nigeria

Representative	Union

Lesotho

Representative	Union

South Africa

Representative	Union

Swaziland

Representative	Union

Tanzania

Representative	Union

Zambia

Representative	Union

Zimbabwe

Representative	Union

SATUCC

Representative

ITGLWF-Africa

Representative

ICFTU-AFRO

Representative

Country Reports

The Textile and Clothing Industry in Ghana

By Peter Quartey[1]

1. Introduction

Industrial development has been recognised as one of the surest means of ensuring higher and sustained growth rates. Hence, African countries including Ghana pursued import substitution industrialisation in the 1960s and 1970s. The rationale was to move African economies from their agrarian state to modern industrialised economies as has been the case of the east and south-east Asian economies. Consequently, policies to promote import substitution industrialisation were pursued and this led to the establishment of light industries to produce goods locally and operate behind tariff barriers. Like many African countries, Ghana's industrial strategy was meant to reduce economic dependence; hence, manufacturing industries were established to produce items that were previously imported. Consequently, industries making textiles, soap, wood works, aluminium, metal, to mention but a few, were established. However, during the initial stages, the sector was largely dominated by foreign owned firms but a shift of government policies in the mid 1970s led to increased state participation in the sub-sector. For over two decades after ISI was started, the textile sub-sector dominated the manufacturing sector and contributed significantly to livelihood. It employed about 25,000 of the labour force, accounted for 27% of total manufacturing employment and operated at about 60% of plant capacity (MOTI, 2004). The textile sub-sector has also been an important source of foreign exchange in Ghana[2].

However, by 1982, shortage of foreign exchange for importing raw materials resulted in the sub-sector operating at extremely low capacity. Consequently, most of these industries went out of business and the situation deteriorated under trade liberation, which formed part of the Structural Adjustment Programmes pursued

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1 I am grateful to the management and staff of FES (Ghana) for making this study possible. My appreciation goes to my field assistants (Simon Nettey, Johnson Glavi and Alex Afriyie) and also to Mawuli Gaddah. I also wish to acknowledge contributions from Mr. Abraham Koomson (General Secretary, TGLEU), Mr. Moses Zizer (Chairman, TGLEU) and Mr. Mingle (Executive Officer, TGLEU).

2 There is no data on textile exports prior to 1982.

in the 1980s and 1990s. Hence, employment declined from 7,000 in 1995 to 5,000 in 2000. The reforms led to increased importation of textiles and other used apparel, which facilitated the death and closure of many textile industries in Ghana. Over the past few years, the sector has shown considerable interest to increase production for the local market and also to take advantage of the opportunities provided under AGOA but the threat of cheap imports (including smuggled items) from China and Pakistan remains a major challenge to the survival of the few existing industries. This paper examines the future of Ghana's textile industry in the light of the current challenge faced from imported textile products.

2. Profile of the Textile Industry in Ghana

This section discusses employment trends, number of companies, importance of the sub-sector, local production versus imports, and the importance of the sector to Ghana's economy. In view of data limitation, survey data is used where time series data could not be obtained.

2.1 Employment Levels

Ghana's textile industry employed some 25,000 people and accounted for 27 percent of total manufacturing employment in 1977. However, by 1995, employment within the sub-sector had declined to a mere 7,000 declining further to 5,000 by the year 2000. As the situation continues to deteriorate, employment continues to decline; as at March 2005 the four major textile companies in Ghana employed a mere 2,961 persons. A survey of 40 textile and garments industries in 2005 also confirmed that the situation is getting worse[3].

Table 1: **Employment within Textile Industry**

	1975	1995	2000
Output (million yards)	129	46	65
Employment	25000	7000	5000
Ministry of Trade and Industry, November 2002			

3 About 44 percent of industry respondents have cut down on employment. From the total number of firms that had shed staff, 59 percent have laid off up to 5 percent of their workforce, 24 percent laid off up to 6-10 percent and 11 percent have cut down employment by over 70 percent between 2000 and 2005.

2.2 Number of Companies and Investments

By mid 1970s about 16 large[4] and medium sized textile companies had been established in Ghana. The garment industry also had some 138 medium and large-scale garment manufacturing companies during that time. However, inconsistent government policies over the years have contributed greatly to the decline in the sub-sector's activity levels. As at 2002, the four major companies that survived the turbulence in the sub-sector are the Ghana Textile Manufacturing Company (GTMC), Akosombo Textile Limited (ATL), Ghana Textile Product (GTP), and Printex with GTP maintaining the lead in the industry. The garment industry comprised of numerous small-scale enterprises which took the form of a sole proprietorship and were engaged in making garments for individuals as well as uniforms for schools, industries and governmental institutions such as the police, the army, hospitals, etc, and also for the exports market. The garment industry, however, depended directly on the textile industry.

Investments within the textile industry are mainly by local firms. A survey of 40 textile and garment industries within Accra-Tema revealed that only 5% were involved in joint ventures with foreign investors. The rest (95 percent) were locally owned and none was solely foreign owned.

2.3 Production and Textile Imports

Ghana's textile industry is mainly concerned with the production of fabrics for use by the garment industry and also for the export market. The sub-sector is predominantly cotton-based although the production of man-made fibres is also undertaken on a small scale. The main cotton-based textile products include: African prints (wax, java, fancy, bed sheets, school uniforms) and household fabrics (curtain materials, kitchen napkins, diapers and towels). These products form the core of the sub-sector. The main products of the man-made fibres (synthetics) and their blends include: uniforms, knitted blouses, socks etc. These are mainly made from polyester, acryl and other synthetics. There are also a number of small firms which hand-print their own designs onto bleached cotton fabrics, also known as tie and dye or batik cloth. Also, traditional or indigenous textiles such as Kente cloth (traditional woven fabric), Adinkra cloth (traditional hand-printed fabric) and other types of woven fabrics used for various purposes such as smock making etc. are proposed.

4 Size categories: small-scale (has 5-29 employees), medium-sized (has 30-99 employees), large-scale (employs 100 or more people)

Total industry output peaked at 129 million yards in 1977 with a capacity utilisation rate of about 60 percent. GTP maintained the lead in the industry with an annual production of 30.7 million yards (includes the outputs of Juapong and Tema plants). This was followed by GTMC, ATL, and Printex with production levels of 15 million, 13 million and 6 million yards, respectively. Unfortunately, total industry output declined from its 1970 level to 46 million yards in 1995 but recovered to 65 million yards in 2000[5].

As at March 2005, GTP was producing 9 million yards, ATL 18 million yards, GTMC 2.24 million yards and Printex 9.84 million yards. A total annual output of 39.04 million yards was produced by the industry as at March 2005, which translates to an average of 49.4% of initially installed capacity of the four firms. Thus, output had declined from 65 million yards, in 2000 to 39 million yards in 2005 (see Table 1). The reason for the decline in output varies[6].

Imports

Ghana's textile industry imports a lot of its raw material inputs for its operations, and also finished goods. Imports of raw materials are mainly from the Netherlands, China, India, the U.S, the E.U, Nigeria, Thailand to mention but a few. Textile imports into the country comprises of dye stuffs and chemicals, calico, khaki fabric, prints and finished textiles and garments of various kind like new dresses, bed sheets, used textile goods like blankets clothing curtains, accessories, like zippers, fasteners etc. Machinery and equipment and spare parts are also imported for use in the sub-sector. Whereas raw material imports such as cotton are complementary to local production, imported African prints from Nigeria, Côte d'Ivoire and South-East Asia tend to crowd out local production. These finished products often bear the patent designs, logo and trademarks of local textile industries, which are sold on the local market at a very cheap price.

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5 A recent survey of textile and garment firms in Accra-Tema indicated that firms have cut down significantly on output, in fact, more than half (about 75 percent) of textile and garment manufacturers answered in the affirmative. About 7 percent of this number indicated that they had reduced output by up to 20%, a further 32 percent indicated their output reduced by 21-30 percent. About 21 percent had reduced production by 31-40 percent while 11 percent have had their output reduced by 41-50 percent and a further 4 percent had recorded over 50 percent fall in output. The rest (25 percent) could not tell by how much they have cut down on production (see Table 1a in the Appendix).

6 The 40 survey respondents offered several reasons for cutting down on production; about 44 percent of the manufacturers who claimed they have cut down on production cited low demand for local textile products as the principal reason necessitating their action; while 15 percent also mentioned high cost of production and 11 percent cited high wage bills resulting in their inability to pay workers. Another 15 percent blamed the problem largely on the influx of imitated products from abroad, particularly Asia and Côte d'Ivoire. Others mentioned smuggling and dumping (7 percent) and lack of raw materials (4 percent). See Table 2a in the Appendix.

Imports of textile have grown steadily over the years. In 1992, the country imported US $ 35 million worth of fabrics and garments. This increased to US $ 57 million in 1998 and by the first half of 1999 US $ 42 million worth of fabrics and garments were imported (MOTI, 2002). It is estimated that at the end of the first quarter of 2005, imported textile prints will have accounted for 48% of total textile prints in the Ghanaian market (Ghana Employers Association, 2005).

The local market is facing stiff competition from finished imported textile prints such as calico, grey baft, furnishing materials usually from Côte d'Ivoire, Nigeria, China, and most recently from India and Pakistan. Consumers have argued that although the locally produced finished fabrics are relatively better in terms of quality, the market for imported products has increased because the products have attractive colours, new designs, a softer and glossier finish. Table 2 indicates the trend in imported fabrics from 1997-2000.

Table 2: **Textile Imports by Type (1997-2000)**

Year	Wax Print		Java/Fancy & the similar print		Calico (Bleached Fabric)	
	Qty/Vol. (KG)	US $ (000)	Qty/Vol. (Kg)	US $ (000)	Qty/Vol. (Kg)	US $ (000)
1997	30,775	106	152,300	406	9,418	41
1998	11,423	571	46,881	204	80,138	601
1999	86,700	2,318	136,634	477	182,091	1,044
2000	135,197	1,313	455,764	1,818	1,034,978	5,247

Source: MOTI, 2002

2.4 Importance of Textile Exports to Ghana's Economy

Textile exports are an important source of foreign exchange and revenue to textile manufacturing firms. Textile exports generated $ 27.2 million dollars in 1992 and this increased to $ 179.7 million in 1994 but revenue from exports declined consistently thereafter, and by 1998 they had fallen to US $ 3.173 million. It is worth mentioning that in 2000, Ghana qualified for AGOA, and exports of Ghanaian textile and apparel to the US market amounted to $550,000 in 2002, $ 4.5 million in 2003 and $ 7.4 million in 2004. Imports of US textile and apparel were $ 8.87 million, $ 12.73 million and $ 11.48 million, respectively, over the same period (http://www.agoa.info).

The decline in textile exports from 1992 to 1998 can be attributed to internal and external bottlenecks. Ghanaian manufacturers of textiles generally agree that the market for exports is huge, but have reservation about operating in some of these markets, particularly within the ECOWAS sub-region due to trade barriers. Some of the trade barriers include, among others, imposition of 20% duty by Côte d'Ivoire (contrary to ECOWAS regulations), transit tax collected at Benin, extortion by Nigerian authorities, and the risk of currency devaluation. Poor packaging of some manufacturers/exporters also serves as a barrier to exports to markets such as the EU and the United States of America. Also, poor finishing of products (quality/conformity to standards), technical barriers, inability of some manufacturers to meet export orders on schedule, high tariffs charged in some export destinations of Ghanaian textile, to mention but a few[7].

Table 3: **General Textile Fabric Imports & Exports (excluding AGOA)**

	1992	1993	1994	1995	1996	1997	1998	1999
Exports US $ million	27.18	76.7	179.7	7.703	3.429	5.074	3.173	na
Imports US $ million	34.57	38.28	39.40	42.30	53.35	52.65	56.55	42.29[7]
Source: MOTI, 2004								

The main export destination for made-in–Ghana textiles as at 2004 includes EU countries (55%), the USA (25%), and ECOWAS (15%). The remaining 5% percent exported to other countries, mostly Southern and East African states (mainly South Africa, Zimbabwe, Namibia, Ethiopia etc). Textile and garment exports from Ghana comprise of fancy prints, wax prints, Java prints, calico smock, ladies dresses, men's wear, etc. The indigenous textile products like Kente, a special fabric produced on traditional loom, Adinkra (hand-prints) smock or Fugu are also exported. Batik or tie and dye fabrics are also used to produce all kinds of products for the exports market. These products include: a unique brand of carefully crafted handbags, casual wear for ladies and gents, shirts, dresses, napkins, cushion covers, bedspreads, chair backs, curtains, toys and many others.

7 A survey of 40 textile manufacturers cited transit taxes as the major constraint to exports (about 29%), followed by haulage and high transport cost (24 percent), extortion at the borders (12 percent), and poor infrastructure (12 percent). About 18 percent cited some other problems (see Table 3a).

8 Half-year figure

3. National Economic Policies Towards Promoting Growth of Textile and Clothing Industry

The textile sub-sector has the potential of accelerating growth in the industrial sector and the economy as a whole and has, therefore, become one of the main priority areas of government. The government initiated various programmes aimed at restructuring and improving the textile and garment industry. These programmes were meant to enable the industry to take full advantage of the African Growth and Opportunity Act (AGOA)[9] and increase employment opportunities for the growing population, expand and diversify the economy, promote both domestic and foreign investment as well as stimulate exports. Some of the national economic policies aimed at stimulating the sector include the following:

- **Textile/Garment Cluster Network:** A Spinnet Textile/Garment Cluster has been formed by the government in collaboration with UNIDO to bring together micro, small, and medium scale operators in the textile industry. The cluster was formed to address the problems faced by the sub-sector. Since its inception, the cluster had assisted in training in mass production strategies, sub-contracting, up-grading of technical and marketing/managerial skill of members, and financial assistance.
- **Textile/Garment Training Centre:** This is a training centre or laboratory established by the government in collaboration with UNIDO to be used to up-grade skills of textile and garment industries that take advantage of AGOA and exports in other destinations. The industry is also currently supported by 21 national vocational training institutes, which provide basic practical and theoretical training in tailoring and dressmaking.
- **PSI-Export Action Programme on Textiles and Garment:** Export Action Programme on Textiles and Garments is a special initiative of Ghana’s president designed to enhance private sector growth and development within the president’s vision of creating a ”Golden Age of Business” in Ghana.
- **Tariffs:** The current tariff structure is being revised to conform to the actual economic trends. It has been proposed that import duties on all imported clothing should be increased to create a level playing field for all textile products in Ghana. In addition, tariffs on all textiles manufacturing raw materials are to attract zero rate of tariffs in order to reduce cost of production for locally manufactured textiles.

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9 Under AGOA, the US government offers preferential access to American markets by weak nations for the period prior to the coming into force of the WTO rules on free trade and competition.

- **Credit:** A long-term concessionary credit for expansion, rehabilitation and modernisation of the textile sub-sector sector is under consideration besides an amount of US $50 million that has been recommended by the United Nations Industrial Development Organization (UNIDO) to be given to the sub-sector based on a study it conducted in 1995.
- **New Administrative Procedures:** In view of the threat to Ghana's textile industry, new administrative procedures for importing textile print into the country were introduced. Takoradi port has been identified as the single designation for textile imports, which means that all goods will be physically examined by the Customs Excise and Preventive Services. Also, an Economic Intelligence Task Force comprising the security services, public and private sector institutions was to be set up to check trade malpractices, including textile products. The government has also proposed to establish a consumer protection authority and small claims courts to address consumer complaints.

4. Reactions of Trade Unions Towards the Crisis[10]

The textile industry represents one of the more graphic examples of de-industrialisation over the last few decades and raises the need for serious rethinking of national economic policies. From the 1970s into the early 1980s, the sector used to employ over 25,000 workers nationwide. The textile industry has suffered and continues to suffer unjustifiably from unbridled importation of all manner of textile and garment products, some through dubious means with questionable origin and quality. These products have flooded the local market and have led to the collapse of many local textile industries.

It is against this threat that the Textile Garments and Leather Employees Union (TGLEU) was established as a national union outside the Trade Union Congress (TUC); a radical departure from established practice. TGLEU used to be a pressure group within the Industrial and Commercial Workers Union (ICU) and its activities were trade centred until it broke away from the ICU to set up an independent office in Tema in 1993. Although TGLEU was initially conceived in 1984, it was officially certified in 1993. TGLEU was formed in 1993 after its leaders

10 This section was written based on interviews with Mr. Abraham Koomson (General Secretary of T.G.L.E.U), Mr. Moses Zizer (Chairman, TGLEU) and Mr. Mingle (Executive Officer, TGLEU)

had accused the ICU for not pursuing the interest of the textiles sub-sector. Thus, it was the urgent need to save the textiles sub-sector from total collapse and the refusal of the TUC to grant TGLEU affiliate status that led to the secession and formation of the TGLEU.

Subsequently, several attempts have been made by TGLEU to save the textile industry from total collapse. One of such attempts was in the form of a letter sent by the union to parliament. Parliament responded that "Much as Mr. Speaker appreciates your confidence in Parliament to assist in addressing the issues, he would very much appreciate if your Association would be encouraged to continue with the measures it has already initiated to resolve the problem after which Parliament would be pleased to redress any residual matters". Other attempts by the union to save the textile industry include:

(a) In 1994, TGLEU appealed to parliament to introduce a legislation abolishing the 12½ per cent sales tax on locally manufactured African prints to end unfair competition with similar imported goods.
(b) Sensitisation of the civil society through the print and electric media.
(c) Organised labour within the national tripartite dialogue presented a proposal to the government in the 2006 budget to focus on TGLEU.

Although the Government of Ghana has responded to calls from organised labour to save the textile industry, these were not supportive or have been cosmetic only. Some of the reactions include:

(a) The National Tripartite Committee, including organised labour presented a proposal to the government to be incorporated into the 2006 budget. The proposal was not incorporated, but instead the government focused its attention on AGOA.
(b) President Kufuor, in his May Day speech (2005), stated that Ghana cannot subsidise the textiles companies, as in the case of Nigeria, because the country does not have resources to do so (www.ghanaweb.com: General News of Tuesday, 3 May 2005). It is speculated that some people in government are benefiting from the textile imports.
(c) The government suggested that political party cloths and Friday wears to offices should be manufactured in Ghana. Although a few people have heeded to the call, ironically, most of these special cloths worn on Fridays were imitated fabrics printed and sown in China before being exported to Ghana. Thus, apart from the political party cloths of the New Patriotic Party (NPP) and National Democratic Congress (NDC), the rest are printed fabrics from China.

TGLEU believes that in order to save the textile and garments industry from virtual collapse, the government has to rethink its policies. Firstly, importers could be given a quota or pay higher tariffs to create a level playing field or promote healthy competition. Secondly, the government should encourage Ghanaians to order their mourning cloths from the local textile industries. It is a known fact that Ghanaians have maintained the culture of using mourning clothes and that may save the textile industry from eventual collapse. Finally, it is also recommended that state institutions, religious bodies, schools and colleges and the private sector should be encouraged to order their anniversary clothes from the local textile industries.

5. Outlook

Nearly two decades after independence, the textile sub-sector was the major key player in Ghana's industrial sector, contributing significantly to employment and growth in the economy. However, the sub-sector which was once the leader in Ghana's industrial sector has undergone a considerable decline over the years due largely to the liberalisation programmes which made it almost impossible for Ghana's textile products to compete with the cheap imports, particularly from Asia.

It is, however estimated that the few companies that managed to survive operated at just about 5 percent installed capacity since 1995. Various reasons have accounted for the decline. Some of the major ones mentioned include: low demand for local textile products and influx of second hand clothing; lack of competitiveness of local textiles against imported textiles due to high cost of local textiles which resulted from high cost of production,[11] and smuggling.

In view of the current crisis faced by the industry, its outlook remains bleak and, therefore, calls for pragmatic polices that will lead to both local and global restructuring of the industry. Locally, it is necessary that concrete steps are taken to address the problem of cheap imports, under-declared imports, wrongly described textile imports, and copied brands, markings, tickets and labels including those of the Ghana Standards Board. In this regard, recent proposal by government to establish an Economic Intelligence Unit to arrest and punish those engaged in trade malpractices is timely. The penalty for those caught engaging in these malpractices should be severe to serve as a deterrent to other perpetrators of the crime. Secondly, the Unit should be proactive and effectively managed, otherwise, arresting the perpetrators will prove elusive.

11 Due to high cost of local cotton, obsolete plants and machinery, high cost of utilities, overstaffing, high cost of finance (high interest rate) etc

On the global level, trade negotiations and fair trade practices, particularly within the textile and garments sub-sector, should be made explicit and adhered to. Instances where countries copy brands and other product markings from other countries should be discouraged. This should go together with fair trade practices and preferential access to markets in developed countries.

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Appendix

Table 1a: **By how much have you cut down on production?**

	Frequency	Percent	Valid Percent
Don't know	7	4.1	25.0
1-20%	2	1.2	7.1
21-30%	9	5.3	32.1
31-40%	6	3.5	21.4
41-50%	3	1.8	10.7
Over 50%	1	0.6	3.6
Total	28	16.5	100

Source: Survey Data, July 2005

Table 2a: **Reasons for Cutting Down on Production?**

	Frequency	Percent	Valid Percent
No Response	1	0.6	3.7
Imitation from abroad	4	2.4	14.8
High cost of production	4	2.4	14.8
High wages leading to inability to pay workers	3	7.1	44.4
Low demand	12	7.1	44.4
Smuggling and dumping	2	1.2	7.4
Lack of raw materials	1	0.6	3.7
Total	27	15.9	100.0

Source: Survey Data, July 2005

Table 3a: **Major Constraints in Export Market**

	Frequency	Percent	Valid Percent
Transit Taxes	5	2.9	29.4
Extortion at the Borders	2	1.2	11.8
Haulage or High Transportation Cost	4	2.4	23.5
Poor Infrastructure	2	1.2	11.8
Others	3	1.8	17.6
Total	17	10.0	100.0

Source: Survey Data, July 2005

The Textile and Clothing Industry in Kenya

By Jacob O. Omolo

1. Introduction

1.1 Overview

Poverty reduction and creation of productive and sustainable employment opportunities has been one of the policy objectives of the Kenya Government since independence in 1963. Despite several policy interventions, Kenya is still faced with high incidences of poverty (60 percent), unemployment (14.6 percent)[1] and low economic growth rates (0.9 percent in the period 1997-2002). The Kenyan economy showed signs of recovery, registering 2.8 and 4.3 percent growths in 2003 and 2004, respectively (Republic of Kenya, 2005a). The growth in per capita income in the country has been slow at less than the average rate of growth of the population (1.9 percent per annum). Per capita income in 1982 constant prices, for example, declined from US $ 271 in 1990 to US $ 239 in 2002. The size of the working poor is also staggering comprising mainly subsistence farmers and female-headed households. The average annual rate of inflation increased significantly from 2 percent recorded in 2002 to 11.6 percent in 2004, reflecting continued erosion in purchasing power and declining standards of living. The poor performance of the economy has been attributed to, among others, poor socio-economic management, adoption of inappropriate policy regimes, lack of consistency, poor prioritisation and weak implementation of policies, lack of institutional capacity especially at local levels, low absorptive capacity of public institutions, lack of proper monitoring and evaluation system, and low levels of investment.

1 Sessional Paper No. 7 of 2005 on "Employment Policy and Strategy for Kenya" defines employment in the literal economic sense as any economic activity undertaken for pay. Many labour market players and stakeholders have shown strong reservations on the authenticity of the official unemployment statistics.

1.2 Import Substitutive Manufacturing and the Building of a Textiles Industry

The manufacturing sector in Kenya in 2004 accounted for over 20 percent of the country's Gross Domestic Product (GDP), provided employment opportunities to about 300,000 people in the formal and 3.7 million persons in the informal sectors of the economy. The textile sub-sector constitutes an important component of the manufacturing sector in the country. It is one of the key sub-sectors targeted under the country's strategy for economic recovery (Republic of Kenya, 2003).

In the first decade following the country's independence in 1963, manufacturing output in Kenya increased at the rate of 9-10 percent per annum on average, with notable expansion in the textile and garments production. At the time, public policy targeted import substituting industries for promotion (IPAR, 1996). The main policy instruments for such promotion included a combination of tariffs and import quotas supported by foreign exchange allocation measures. The exchange rate was also generally overvalued to contain the costs of imported raw materials, and credit and interest rates were implicitly subsidised for manufacturing enterprises.

The textile and clothing industry developed into a leading manufacturing activity in Kenya, both in terms of size and employment. It employed about 30 percent of the labour force in the national manufacturing sector. The industry also supports the livelihoods of over 200,000 small-scale farmers by providing markets for cotton. The success of the textile and clothing sub-sector during the import substitution period can be traced to the policy by the government that ensured a backward integration of the textile mills. Between the time of Kenya's independence and the end of 1990, the government systematically introduced controls in the sector: it helped cooperative societies buy ginneries from colonial settlers, controlled marketing margins, fixed producer prices and invested heavily in textile mills. The government also protected the local industry by imposing a 100 percent duty on imported goods. This ensured rapid growth of the local textile industry hitting an average production capacity of over 70 percent.

The scope of import substitution policy in Kenya was exhausted by the early 1980s. By mid-1980s, the textile and garment industry started to wane. The inward looking policies pursued as part of import substitution made it difficult for the country's textile exports to penetrate and retain their share of international markets. In addition, massive dumping of used clothes locally known as *mitumba* significantly undermined growth prospects and competitiveness of the sub-sector. Furthermore, since liberalisation of the Kenyan economy in 1990, the influx of textile goods into the country has led to notable reduction in the capacity utilisation of the local textile mills to about 50 percent.

1.3 Building an Export Oriented Textile and Clothing Industry through EPZs

The shift from an inward to an outward oriented development strategy in Kenya has been accompanied by the emergence of Export Processing Zones (EPZs). Kenya started implementing the EPZ programme in 1990. The country's EPZ programme is covered under the Export Processing Zones Act, (Chapter 517) Laws of Kenya. The Act defines EPZs as "…a designated part of Kenya where any goods introduced are generally regarded, insofar as import duties are concerned, as being outside the customs territory but are duly restricted by controlled access…" The objective of the programme is to promote exports, foreign exchange earnings, transfer of technology and skills, employment creation and enhancement of industrialisation (Republic of Kenya, 2004).

The EPZ incentive regime in Kenya provides exporting firms with a 10-year tax holiday, unrestricted foreign ownership and employment, and freedom to repatriate unlimited amount of earnings. The firms are also exempt from observing some core labour laws and regulations. For example, until 2003, trade unions could not organise workers in the EPZ firms. In addition, the Factories Act (Chapter 514) is not being enforced in the zones. The EPZs have enjoyed from the enormous market prospects presented by the tariff and quota advantages granted under the US-led African Growth Opportunity Act (AGOA) and the African, Caribbean and Pacific-European Union (ACP-EU) Cotonou Agreement (EPZA, 2005).

1.4 Current Status

The textile and clothing industry in Kenya faces significant crises. This emanates from continued deterioration in the purchasing powers of the majority of the population, thereby reducing effective demand for textile products, cheap imports, and the elimination of quotas as a result of the expiry of the Agreement on Textiles and Clothes (ATC), exposing the country to stiff competition on third markets from more established manufacturing economies such as China. Consequently, a number of firm closures and lay offs have been reported in the country's textile industry. Preliminary reports indicate that up to 12,000 jobs have been lost due to factory closures and reduced operations.

2. Structure and Development of the Industry

2.1 Industry Structure

The textile industry in Kenya is relatively diverse. It can be divided into four broad categories, namely cotton growing and ginning, yarn and thread production, fabric manufacture and apparel manufacture.

Cotton growing and Ginning
Cotton in Kenya is mainly grown by small-scale farmers in marginal and arid areas. It is estimated that Kenya has 140,000 small-scale cotton farmers down from over 200,000 in the mid-1980s when the industry was at its peak (EPZA, 2005). The Cotton Board of Kenya estimates that countrywide, 350,000 hectares of land is suitable for rain-fed cotton production with a potential to produce about 260,000 bales of lint annually. In addition, 34,500 hectares of Kenyan land is suitable for irrigated cotton production with an output potential of 108,000 bales of lint annually. However, as of 2003 only about 25,000 hectares were under the crop with a total lint production of a dismal 20,000 bales. Trends in production of seed cotton showed that the quantity of seed cotton produced declined from 19,314 metric tonnes in 2001 to 17,776 metric tonnes in 2003, representing a decline of 8 percent.

Cotton production in Kenya is characterised by a low average yield rate and poor cotton fibre quality. Figure 1 shows the cotton yields in selected countries with world and Africa average benchmarks. The figure shows that while cotton yield in Kenya is higher than that of Pakistan, India and Africa's average benchmark, it is much lower than those of strategic competitors such as China, Israel and Australia.

Ginneries are a focal point in the cotton industry. Their location, efficiency, capacity and organisation are critical to growth and development within the sector. There were 24 ginneries in Kenya in 2005 with an estimated installed capacity of 140,000 bales per year. The total annual lint production, however, currently stands at about 20,000 bales, which is significantly below the country's processing capacity and demand. The implication is that Kenyan ginneries could still handle production even if cotton output was to be increased by 600 percent. Table 1 shows the installed ginning capacity in the country per province.

The Table shows that Eastern and Central Provinces combined have higher installed ginning capacity but actual utilisation levels is less than a quarter. Coast Province has markedly high capacity utilisation. There are only about 10 ginneries that are currently operational. Some of the ginneries ceased operation due to shortage of raw materials and general mismanagement within the sub-sector.

Figure 1: **Cotton Yield Benchmark**

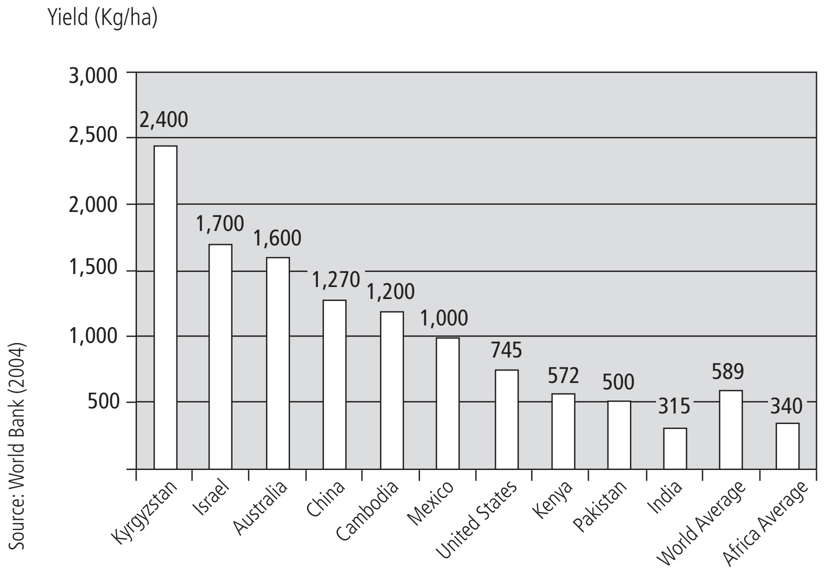


Table 1: **Installed Ginning Capacity by Province, 2002**

Province	**Installed Capacity (Bales per Annum)**	**Capacity Utilisation %**
Eastern/Central Province	43,375	24
Western	36,572	28
Coast	31,589	62
Nyanza	23,390	25
Rift Valley	4,253	24
Total	139,179	32.6

Source: EPZA (2005)

Yarn, Fabric and Garment Production

Before the decline of the textile industry in the early 1990s, there were 52 textile mills in Kenya devoted to fabric and yarn production. The mills had an installed capacity of 115 million square meters of fabric. It is estimated that the total annual fabric requirement in Kenya currently stands at 225 million square meters. With about a 50 percent decline in the number of textile mills in the country, coupled with drastic reduction in cotton production, Kenya's fabric demand greatly outstrips domestic supply. This implies that more gains, in terms of employment and income generation, can be derived from resuscitating the textile sub-sector in the country.

Garment manufacturing in Kenya has also experienced downturns over time. It is estimated that there were 110 large-scale garment manufacturers in the country in the early 1990s. The garment manufacturing sub-sector had a combined installed capacity to process fabric into garments of 141.3 million square meters. As in the case of textile mills, the number of garment manufacturers also went down over time. Specifically, the large-scale garment manufacturing concerns declined by half from 110 in early 1990s to 55 in 2004. Out of this, slightly more than half (29) are producing under the Manufacturing Under Bond (MUB) scheme while the rest (26) are registered under the EPZ programme. The actual number of garment manufacturers that are not covered in the framework of the two schemes are not documented.

2.2 Legal and Regulatory Framework

The institutional framework for regulating the textile and clothing industry in Kenya is placed under two government ministries. The Ministry of Trade and Industry oversees issues related to trade while the Ministry of Agriculture gives the framework for cotton growing and irrigation schemes. There is a Cotton Board of Kenya, functionally placed under the Ministry of Agriculture to coordinate production and marketing of cotton in the country. The Board was established under an Act of Parliament, Cotton Act (Chapter 335). The Act also provides for the promotion and regulation of the cotton industry. Other functions include to:

(I) Plan, monitor and regulate cotton growing and ginning;
(II) License and control ginners and other persons dealing with cotton;
(III) Regulate the export and/or import of cotton lint and seed;
(IV) Advise the minister on the pricing of raw cotton;
(V) Regulate and control the quality and supply of planting seeds through ginneries;
(VI) Carry out and promote research and development in cotton production and processing technology; and
(VII) Provide and/or co-ordinate training for any sector of the cotton industry

The textile and clothing industry has changed over time and this has created the need to revise the Cotton Act and other regulatory machinery. Consequently, the Ministry of Agriculture has prepared a bill to change the current Act into a more dynamic and responsive instrument.

3. Export Processing Zones

3.1 Level of Investment

Available data show that the number of gazetted EPZ zones in the country has increased gradually from 10 in 1993 to 41 in 2004 (Republic of Kenya 2005a; 1995). The number of operating enterprises within the zones has also grown from 12 in 1993 to 74 in 2004, representing an average annual increase of 47 percent (Kibua and Nzioki, 2004). Local investor participation, especially in the EPZs, has been significant. About 11 percent of the total EPZ firms are wholly Kenyan while joint ventures are 74 percent. The investors in the sub-sector are mainly drawn from Britain, Sri Lanka, Korea, China, India, Taiwan, Australia, South Africa, Germany, Italy and the United States of America.

According to the Export Processing Zones Authority, the total investment in the textiles sub-sector as at December 2003 was Ksh. 9.7 billion (US $132.9 million). Most of the large investors are in the EPZs while a few are under the MUB scheme. Table 2 summarises the level of employment, investment and exports by the EPZ garment manufacturing enterprises. The Table shows that the level of investment in garment manufacturing firms operating within the EPZs increased markedly from Ksh. 1.2 billion (US $ 16 million) in 2000 to Ksh. 9.43 billion (US $ 125.7 million) in 2003. A phenomenal growth in investment (211 percent) was recorded in 2000/2001. Growth in employment in the garment manufacturing firms closely mirrored this trend. Growth in exports was also significant, increasing from Ksh. 2.3 billion (US $ 30.7 million) in 2000 to Ksh. 11.08 billion (US $ 147.7 million) in 2003.

Table 2: **Employment, Investment and Exports by EPZ Garment Firms, 2000-2003**

Year	No. of Firms	Employment (Nos.)	Investment (Ksh. Billion)	Total Export (Ksh. Billion)
2000	6	6,487	1.2	2.3
2001	17	12,002	3.74	4.29
2002	30	25,288	6.90	8.15
2003	34	32,095	9.43	11.08

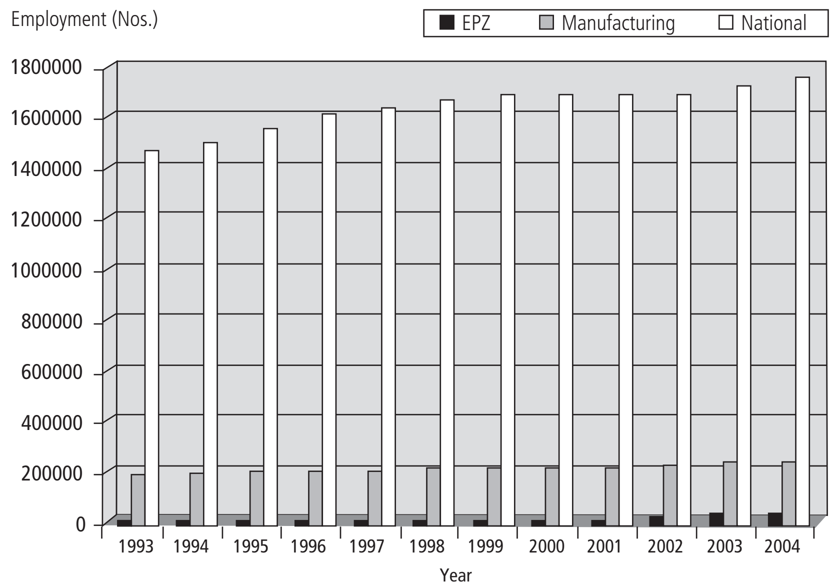
Source: EPZA (2005)

3.2 Employment

The textile and clothing industry has made a major contribution to employment creation and poverty reduction in Kenya. It has the capacity to create both direct and indirect employment opportunities. Though there is lack of accurate data on the actual level of employment created by all the units within the sub-sector, estimates show that the industry has created over 50,000 direct jobs and 150,000 indirect jobs. Employment data relating to the EPZs are fairly documented. The figures reveal that direct employment of Kenyans in all EPZ firms has grown from 1,594 persons in 1993 to 37,723 persons in 2004. The number of "expatriate" workers in the EPZs have been low as compared to local employees. For example, in the period 1998-2004, expatriates constituted about 2 percent of total staff.

Figure 2 shows a trend analysis of the level of employment within the EPZs, compared with total manufacturing employment and the national wage employment level.

Figure 2: **Employment Levels, 1993 - 2004**



Source: Republic of Kenya: Economic Survey (various), Government Printer Nairobi.

As reflected in Figure 2, the level of employment within the EPZs has grown over time from a negligible proportion of total manufacturing and national employment in 1993 to noticeable numbers in 2004. Total employment generated by the EPZs increased from less than 1 percent (0.84) of manufacturing employment in 1993 to 15.9 percent in 2004. In 1993, EPZ employment constituted only 0.11 percent of the total national wage employment. By 2004, the proportion had increased to 2.19 percent. Despite the significant rise in employment, the impact of EPZs in the promotion of the welfare of workers is still limited.

3.3 Wages and Working Conditions

The EPZs in Kenya are mainly characterised by unfair and restrictive labour practices including low wages, inadequately compensated overtime, sexual harassment and the violation of the organisational rights of workers. A survey of firms in the EPZs shows that wages in the zones are paid according to occupational categories of workers or sections in which the workers are engaged. The dominant occupational divisions (sections) in the EPZ factories are machining, ironing, cutting, packaging, cleaning, quality control, finishing and maintenance.

Salary records of the firms show that the lowest paid categories of employees are helpers, who earn an average of Ksh. 4,300 (US $ 58) per month[2]. The average wage rate for the labourers in the firms is only marginally (0.5 percent) above the Ksh. 4,279 (US $ 57.8) gazetted statutory wage rates for labourers in the region in 2005. Employees in quality control, maintenance and cutting sections are the highest paid, earning an average of Ksh. 7,419 (US $ 100.3) per month. Table 3 shows the monthly wages paid in various sections in selected EPZ firms in Kenya[3].

Table 3 shows that average monthly pay in the firms ranges between Ksh. 4,469 (US $ 60.4) paid in firm F and Ksh. 5,991 (US $ 81) being the average wage rate in firm A. The lowest average wage rate of Ksh. 4,469 (US $ 60.4) is about 40 percent lower than the average minimum monthly wage payable in Nairobi, Mombasa and Kisumu cities in line with the provisions of the Regulation of Wages and Conditions of Employment Act (CAP. 229), Laws of Kenya. It is also about 35 percent lower than the average minimum monthly wage payable to workers in Municipalities as provided for under the regulated Regulation of Wages and Conditions of Employment Act (CAP. 229), Laws of Kenya.

2 Average exchange rate is 1US $ = Ksh. 74
3 Actual firm data but letters used to hide identity of firms.

Table 3: **Monthly Wage Rates in EPZ-Companies Per Section (Ksh.)**

Section/Firm	A	B	C	D	E	F	G	H
Machine	5,626	4,913	5,100	4,903	5,000	4,983	5,242	4,913
Ironing	5,200	4,913	4,800	4,903	5,000	4,174	4,983	4,335
Finishing	5,000	4,913	4,567	-	5,200	4,491	4,684	4,335
Cutting	7,200	7,000	4,367	7,345	7,800	4,491	4,684	5,400
Packaging	5,000	4,335	4,300	4,903	5,000	4,491	4,684	4,335
Cleaning	5,000	4,335	4,300	4,903	4,335	4,174	4,684	4,335
Quality Control	7,200	–	–	7,358	5,086	4,476	–	–
Maintenance	7,700	–	–	–	–	–	–	–
Average	5,991	5,068	4,572	5,719	5,346	4,469	4,827	4,609

Source: Tailors and Textile Workers Union (TTWU) Records

Overall, the average basic wage rate for the eight firms was Ksh. 5,075 (US $ 68.6), which constitutes only 34 percent of the aggregate mean wages (Ksh. 14,886) paid by unionised firms in Kenya in 2004. The average wages for the selected EPZ firms were also 29 percent lower than basic wages paid in the textile, wearing apparels and leather sector in Kenya in the year 2004 (MLHRD, 2005). The low relative wages paid in the EPZs confirm findings of other studies that EPZs pay poverty wages (Human Rights Report, 2004).

Omolo and Omiti (2004) highlight that in 1997 the urban poverty line in Kenya was Ksh. 2,648 per adult equivalent. Assuming constancy, the lowest average wage rate paid in the EPZ firms is 67 percent above the poverty line. However, since 1997, the cost of living has changed by a cumulative figure of at least 62.8 percent (Republic of Kenya, 2005). The implication is that the estimated poverty line has increased by the change in the cost of living to about Ksh. 4,311 in 2004. Thus, the lowest average EPZ wage is only 3.7 percent above the estimated poverty line for 2004. Clearly, the wage rate is way below the expenditure requirement for a household of six as understood within the Kenyan context. The wages offered cannot, therefore, guarantee a worker and his/her family attainment of basic essentials of life as envisaged in many government policy documents, including the country's wage policy guidelines issued in November 2005.

Overwhelming evidence exist in support of the conclusion that the majority of EPZ factories in Kenya blatantly violate both Kenyan and international laws and conventions that protect employees' rights to associate freely and join a trade union of their choosing without interference or harassment from their employer. Of all the garment EPZ firms in the country, only 8 firms (7 in Athi-River and 1 in Mombasa) have signed a recognition agreement with the legitimate trade union body (Tailors and Textile Workers Union, TTWU) mandated under the Kenyan laws (Trade Unions Act, Chapter 233) to organise and represent workers in the industry. The others, especially those based in Ruaraka-Nairobi and Mombasa, have persistently refused to grant recognition to the union despite the latter having recruited and presented a union membership list signed by a majority of the workers as required by Section 5(2) of the Trade Disputes Act (Chapter 234), Laws of Kenya. In one occasion, the TTWU secured an Industrial Court Award compelling an EPZ company to sign a recognition agreement with it but the company has remained adamant and refused to sign. The box below gives a summary of the incidences leading to the case in question:

The TTWU first presented the management of company X with duly signed union affiliation forms in line with Kenyan labour laws in June 2000. In this submission, the union forwarded a list of 524 employees out of the company's total unionisable workforce of 700, representing a recruitment level of 74.9%. Kenya's Trade Disputes Act (Chapter 234) requires attainment of simple majority (51%) for union recognition. The company, however, refused to grant the TTWU recognition. They also refused to effect a check-off system, which according to the Trade Disputes should be accepted by any employer as long as an employee has consented through the signing of union affiliation forms.

Following the refusal by the company to recognise the union and effect check-off procedure, the TTWU reported the existence of a trade dispute to the Minister for Labour and Human Resource Development on 21st July 2000. The Labor Minister accepted the dispute and appointed an investigator on 15th September 2000 as per the provisions of Section 7 of the Trade Disputes Act (Cap. 234, Laws of Kenya). The government investigator established that the union had indeed attained the mandatory requirement of recruiting a simple majority (51%) of the workers as its members. The investigator recommended, therefore, that the TTWU be accorded formal recognition by the employer to facilitate, among others, commencement of collective bargaining processes. In the investigation report, the government investigator noted that the factory management had in several occasions refused to attend meetings proposed by both the union and the Ministry of Labor to discuss the issue in dispute (Recognition).

Even after receiving the investigation report, company X still refused to recognise the TTWU. Consequently, the Minister for Labor, acting on powers bestowed on him by Section 8 of the Trade Disputes Act (Cap. 234, Laws of Kenya), referred the matter to the industrial court for final arbitration. The matter was referred to the Court on 19th May 2003. On May 3, 2004, following a hearing evidence concerning the case, the Industrial Court issued a unanimous ruling. In this ruling, the Court held that: "The Court has no doubt in its mind that this is a blatant case of Unfair Labor Practice adopted by the Company in order to bring to an end any relationship between them and the Union, and with a cynical indifference to its effects on the peace and harmony within their industry….In the result and on the balance of probabilities, this Honourable Court is satisfied that this is a fit case for recognition of the union by the Company; and given a chance, all or almost all of the Company's employees will join the Union as members. Accordingly, I uphold the Minister's recommendation and award that the Company accord formal recognition to the Trade Union, and the parities must sign a recognition agreement within two (2) months of the date of this Award."

The TTWU, however, still remain unrecognised by the company, more than a year after the Industrial Court ruling. Company X continues with its operations uninterrupted!

4. Domestic Production, Imports and Exports

4.1 Domestic Textile and Clothing Production Versus Imports

Local textile manufacturers supply only 45 percent of Kenyan textile market requirements while imported new and used garments and imported fabric account for up to 55 percent of the market. Demand for textile products in the country is estimated to be growing at 3.8 percent per year. Table 4 provides a summary of the local textile market.

Table 4: **Local Textile Market, 2004**

Item	Fabric Equivalent (Million Square Metres)	Market Share (%)
Imported Fabric	32	17.5
Imported New Clothes	38	20.8
Imported Used Clothes	30	16.4
Local Manufactured Items	83	45.3
Total	183	100.0

Source: Republic of Kenya: Economic Survey, Government Printer, Nairobi.

Currently, there are 35 textile mills in the country. If the mills were to operate at their installed capacity, they would be in a position to create an additional demand for cotton lint of 60,000 bales per year[4], to help meet the increasing demand in the country.

4.2 Growth of Textiles and Garment Exports

The main exports in the textile sub-sector in Kenya are yarn, fabrics and made-up textiles. The volume of textiles traded in 2003 was 1,854 tonnes. This was some 18 percent below the volume exported in 2002. Textile exports from Kenya enjoy preferential access to regional and world markets under a number of agreements. Exports of textiles and garments to the East African Community (EAC) increased from Ksh. 1.9 billion (US $ 25.3 million) in 1990 to Ksh. 45.5 billion (US $ 606.7 million) in 2002. Table 5 summarises the composition of Kenya's exports to the EAC partner states (Uganda and Tanzania) in 2003. The data show that Tanzania imports more fabrics from Kenya than Uganda while Uganda consumes more than twice the value of made-up articles bought by Tanzania.

Table 5: **Kenya's Textile and Garment Exports to EAC in 2003 (Ksh. '000)**

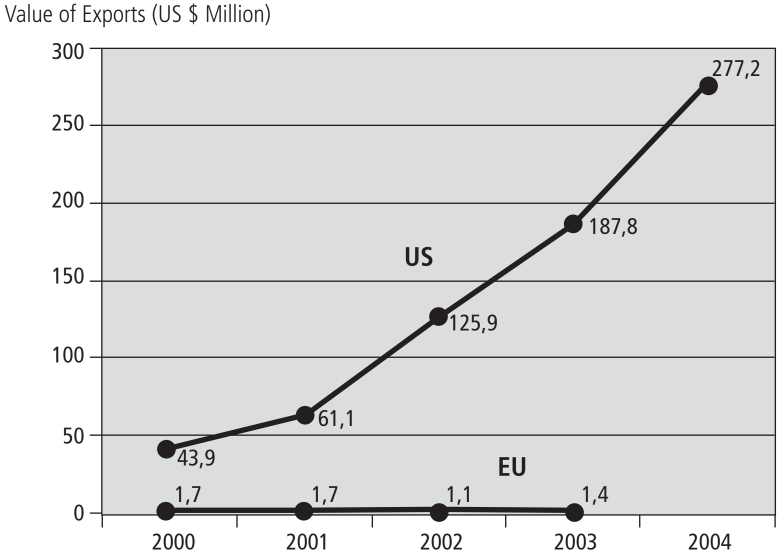
Country	Textile Yarn	Fabrics: Woven/Made	Made Up Articles
Tanzania	140,135	180,726	135,391
Uganda	122,293	39,796	286,509
Total	262,428	220,522	421,900
Republic of Kenya (2003)			

Kenya's textile and apparel exports to the Common Market for Eastern and Southern Africa (COMESA) for the year 2003 totalled Ksh. 550.4 million (US $ 7.3 million). The Democratic Republic of Congo (DRC) was the highest importer of Kenya's textile and garment products, totaling Ksh. 236 million (US $ 3.1 million). During the year (2003), Rwanda imported textile and apparel goods from Kenya worth Ksh. 88 million (US $ 1.2 million) while Ethiopia consumed Kenyan textile and apparel exports valued at Ksh. 55 million (US $ 0.7 million).

4 Current demand is estimated at 120,000 bales per annum.

The major export market for Kenyan textiles and garmentsis the US market. Kenya's exports of textiles and garments to the US under the AGOA framework have increased from Ksh 3.4 billion (US $ 45 million) in 2000 to Ksh. 20.8 billion (US $ 277 million) in 2004. Exports of textiles and garments to the European Union (EU) have been significantly below a billion shillings (Ksh. 0.13 billion or US $ 1.7 million) since the year 2000. The value of the exports of textiles and garments to the EU has declined from US $ 1.7 million in 2000 to US $ 1.4 million in 2003. Figure 3 shows the trend in the values of Kenya's textile and garment exports to the US and the EU over the period 2000-2004.

Figure 3: **Value of Textile and Garment Exports to US and EU, 2000-2004 (US$ Millions)**

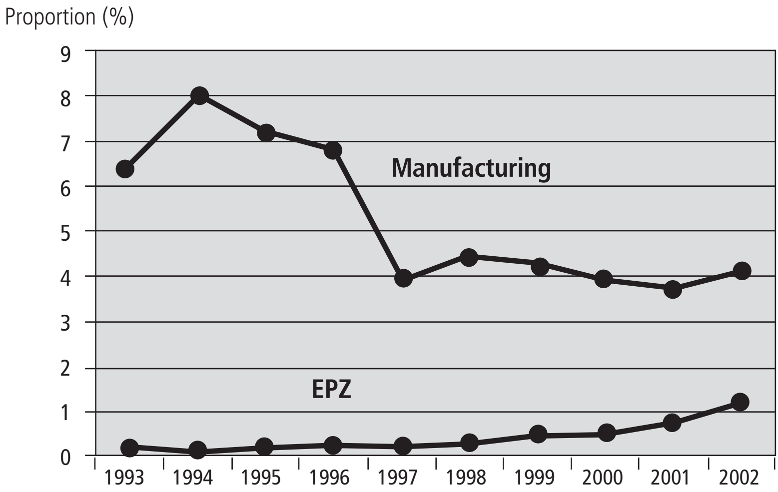


Source: Republic of Kenya, Economic Survey, Government Printer, Nairobi.

4.3 Importance of Textile and Garment Exports to Kenyan Economy

Textile and garment exports are important to the Kenyan economy in terms of generation of foreign exchange and incomes. An analysis of the value of national exports for the period 1991-2002 shows that the manufacturing sector has contributed about 23 percent of the total value of Kenyan exports over the period. The importance of EPZ exports to the national economy has remained dismal,

Figure 4: **Proportion of Manufacturing and EPZ Exports to GDP, 1993-2002 (%)**



Source: Republic of Kenya, Economic Survey (various), Government Printer, Nairobi.

gradually increasing from 0.2 percent in 1993 to 1 percent in 2002. Figure 4 shows the proportion of manufacturing and EPZ exports to the country's GDP.

Garment manufacturing remains the dominant sector in the EPZ, constituting about 41 percent of the firms within the zone. In 2004, the garment manufacturing enterprises in the zone contributed 92 percent of local employment, about 74 percent of total sales and 63 percent of local resource utilization (EPZA, 2005).

5. National Policies on the Textiles and Garment Sector

The textile and garments sector is an important component of the trade and industry sector of the economy. It is, therefore, one of the key sectors targeted for employment creation and poverty reduction in the country. The Kenyan government has outlined a number of policies aimed at promoting growth and development within the sector. These policies are contained in various policy documents, mainly the Economic Recovery for Wealth and Employment Creation (2003-2007) and the accompanying Investment Programme for the Economic Recovery Strategy.

To increase trade and investment within the sector, the government has proposed to review trade licensing agreements, to provide market information to Kenyan manufacturers, to support the private sector in identifying new markets, to improve the quality of Kenyan goods and to reduce non-commercial risks. Other measures proposed include promoting trade fairs and putting in place mechanisms for continued exploitation of benefits accruing from AGOA trade opportunities. The government has also pledged to improve the business climate by developing a new regulatory framework for finance and infrastructure, strengthening the rule of law, improving security and reducing the number of regulations and steps required for investing in the country.

6. Reactions of Trade Unions Towards the Crises

Kenyan trade unions have been greatly affected by the crises in the textile industry. The collapse of the industry in the last quarter of the 1980s saw a majority of workers being declared redundant. This meant a significant loss of membership by the unions and the erosion of confidence of workers on the capacity of trade unions to organise, protect and promote the welfare of workers. The revival of the industry, especially through the EPZs, has not helped in improving the situation. This is mainly attributed to the restrictive nature of the country's regulations, particularly on trade union recognition and collective bargaining. Most of the EPZ firms have, for example, not recognised the relevant trade union body mandated to organise workers within the industry.

Hostile membership recruitment environment, lack of interest by workers and poor service delivery to existing union are some of the factors that limit effective trade union organisation and representation of workers, especially within the EPZs. Most EPZ firms have a negative attitude towards trade unionism and do not allow union officials access into the firms to undertake sensitisation and recruitment activities. Workers, on the other hand, fear associating with the union as this can lead to their dismissals. A number of workers have over time been coerced by their employers either to resign from the unions or to join the management group. For example, in 2004 one of the EPZ firms in the country coerced and ensured massive resignation of about 150 workers from the TTWU. Focus group discussions with some of the factory workers and union representatives revealed that the mass "resignation" was instigated and supervised by the factory management who provided the workers with model resignation letters and walked around to ensure that the workers "resigned as required". The workers were told that failure to "resign" from the union would lead to their dismissal. A random check of copies of the said letters indicated that their wordings were the same except for employee's names, as shown in the box below. All the letters were also written on the same date with same details of the addressee.

Non-recognition of unions by some employers is a major factor hindering the improvement of the welfare of workers, especially in the EPZs. Kenya's existing labour legislation and constitution guarantee workers the right to freedom of association and collective bargaining. Enjoyment of such right is, however, dependent on a trade union being accorded recognition by the company in question. Non-recognition by unions are also blamed on weak union recruitment strategies.

The reaction by trade unions towards the crises in the textile industry has been piecemeal and uncoordinated. The limited advocacy and lobbying campaigns that have been done did not take an integrated approach to create a critical mass of voice that would awaken government to see the seriousness of the problem at hand. Non-coordination amongst trade unions in Kenya is a major setback in this front.

To
Tailors and Textile Worker Union
Consulate Chambers,
Race Course Road,
P.o Box 72076,
Nairobi

(Date)
I *(name of employee)* ID NO. *(Identification card number of employee)* working as a *(job designation of employee)* in *(name of company)*. I am not willing to join your union and I have informed the same to *(name of company)* with a photocopy of this letter along with another request letter to *(name of company).*
Yours sincerely,
(Employee's signature)
(Name of employee)

7. Conclusion

Poverty reduction and creation of productive and sustainable employment opportunities remain major policy objectives in Kenya. Despite several policy interventions, Kenya is still faced with high incidences of poverty, unemployment and low economic growth rates. Textile sub-sector constitutes an important component of the manufacturing sector in Kenya. However, inward looking policies initially pursued by the government, massive dumping of used clothes, illegal importation, expiry of the ATC quota regime, and general mismanagement of the agricultural and co-operatives sectors significantly undermined growth prospects and competitiveness of the textile sub-sector in the country. The industry is also under severe stress from Asian imports, particularly China and it is less likely that it can withstand the surge. Consequently, a number of firm closures and lay-offs have been reported in the country's textile industry, thereby aggravating the unemployment and poverty situations in the country.

Kenyan trade unions have been greatly affected by the crises in the textile industry. The collapse of the industry has seen a majority of workers being declared redundant. This means significant loss of membership by the unions and the erosion of confidence of workers in the capacity of trade unions to organise, protect and promote the welfare of workers. The revival of the industry, especially through the EPZs has not helped in improving the situation either. This is mainly due to the restrictive nature of the country's regulations particularly on trade union recognition and collective bargaining. Most of the EPZ firms have, for example, not recognised the relevant trade union body mandated to organise workers within the industry.

Reaction by trade unions has been piecemeal and uncoordinated. While the unions continuously voiced their reservations about cheap imported textile products, the same was done without any data-based research to show the magnitude of the problem. In addition, the few advocacy and lobbying activities by the unions have not focused on the relevant government machinery and policy making organs. Such campaigns have also failed to command a critical mass of support from other sectoral unions or civil society organisations to help influence change of policy discourse.

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Lesotho's Export Textiles & Garment Industry

By Mark Bennet

1. Introduction

Lesotho has a well developed apparel manufacturing industry. Its manufacturers are the single largest users of the apparel provisions of the African Growth & Opportunity Act (AGOA). In 2003, they exported US $ 393 million (104 million m^2 equivalents) to the United States; and in 2004, in spite of persistent US $ weakness, they exported an astronomical US $ 456 million (112 million m^2 equivalents).

Today Lesotho produces about 26 million pairs of denim jeans a year. They are produced by 8 factories which collectively employ almost 15,000 workers. It has a vertically integrated denim manufacturing mill – the Formosa Mill – which produces its own yarn and more than 7,000 tons of denim fabric annually. Almost 98% of all Lesotho-made jeans are sold in the USA; smaller volumes are sold into the EU, Canadian and SACU (Southern African Customs Union) market places.

It is estimated that Lesotho's garment industry also produces approximately 70 million knitted garments a year. A wide range of (mainly cotton) knitted garments is produced – from single/double jersey, pique, interlock and rib fabrics. A number of factories are now beginning to make fleece knitwear made from synthetics. These garments are produced by 34 factories which collectively employ about 28,000 workers.

A small number of firms supply services directly into the textiles and garment manufacturing value chain. Lesotho has two large computerised embroidery firms, and a screen-printer which has the capacity to screen more than 20,000 garments a day.

Since mid-2004 the industry has experienced problems. First there has been a massive appreciation in value of the local currency – the Loti (which is linked to the South African Rand). This has meant that Lesotho's exports have become more expensive. Then at the end of 2005 the World Trade Organisation's (WTO) Agreement on Textiles & Clothing (ATC – also known as the Multi-Fibre Arrangement (MFA)) expired which meant that the buyers of Lesotho-made garments could buy unrestricted quantities of garments from places like China.

2. Employment & Wages

2.1 Employment

It is estimated that Lesotho's export-orientated textile and garment firms currently employ about 40,000 workers – about 36,400 workers on a full-time basis, and about 3,600 workers on a temporary/casual basis. At its peak, in July 2004, it was estimated that the industry employed about 54,000 workers – at least 51,000 on a full-time basis and approximately 3,000 on a part-time/casual basis. Table 1 shows the growth in industry employment.

Table 1: **Growth of Employment 1999-2005**

	July 99	July 00	July 01	July 02	July 03	July 04	July 05
Employment	9 847	16 417	23 518	33 140	44 345	53 087	40 364

Table 2 shows the dramatic decline in the employment in Lesotho's textile and garment industry between July 2004 and July 2005. The knit garment sector of the industry has been affected the worst; while the woven garment industry has been hardly affected.

Table 2 **Number of Workers and Firms by Product: 2004-2005**

Industry Sub-Sector	July 2004		July 2005	
	Workers	Firms	Workers	Firms
Denim jeans / Woven garments	14 445	8	14 754	8
Knitted garments	35 472	37	20 889	30
Denim fabric	0	0	950	1
Ancillary (embroidery; screen printing)	670	4	171	3
Est. temporary workers employed	2 500	-	3 600	-
Total	53 087	49	40 364	42

Even today, Lesotho's textile and garment industry employs a significant proportion of Lesotho's population. In spite of the recent shocks to the industry, there are more people employed by garment and textile manufacturers than are employed by the Government of Lesotho as civil servants (in early 2005 it was claimed that there were 36,710 people employed as civil servants). In employment terms the industry is the country's second biggest formal sector employer if one was to include those Basotho who are employed in South Africa's mining industry (in early 2005 it was estimated that 47,122 Basotho migrants were employed in South African mines (down from 61,525 in early 2004).

2.2 Wages

The minimum wages and working conditions of workers engaged in Lesotho's textiles and garment industry are mainly regulated by Lesotho's labour laws; although in some instances agreements between unions and the representative employer's association do regulate conditions of service. For the period 1 October 2005 to 30 September 2006 the statutory minimum wages in the industry are as follows:

Table 3: **Statutory Minimum Wages**

Clothing, Textile & Leather Manufacturing	Monthly Wage (Maloti)	Weekly Wage (Maloti)	Daily Wage (Maloti)
Textile General Worker	643.00	160.00	34.00
Textile Machine Operator – Trained	686.00	172.00	36.00
Textile Machine Operator – Trainee	643.00	160.00	34.00

It was estimated that in mid-2005 the approximate 40,000 workers engaged in Lesotho's textile and garment industry earned about M306 million (US $ 48m [at an exchange rate of US $ 1 = M6.40]) per annum. It was conservatively estimated that in July 2004 the 50,000 Basotho workers employed in the sector earned approximately M449 million per annum (US $ 70m [at an exchange rate US $ 1 = M6.40] per annum). In 2004 many of the workers engaged in the industry were working overtime (resulting in workers earning overtime wages); the current economic plight of the industry means that hardly any of the workers work overtime. However, it is important to note that the actual income earned by workers in both 2004 and 2005 may be slightly higher as many workers do earn production incentive bonuses.

3. Firms in the Industry and Output

Lesotho is a significant producer of a narrow range of clothing products. In December 2004 estimates showed that the local industry was producing about 116 million garments per annum. Lesotho manufacturers are specialists in producing denim jeans – the country's denim jeans manufacturing industry makes about 26 million jeans per annum. The industry is also a significant producer of knitted garments – in November 2004 it was estimated that the industry produced about 90 million knitted garments a year. Currently it is estimated that the industry continues to make about 26 million pairs of denim jeans, and about 70 million knitted garments per annum. The industry has the following manufacturing profile:

- *Denim Fabric & Cotton Yarn:* Lesotho has one denim fabric manufacturing plant. The Formosa textile mill (owned by the Nien Hsing group: headquartered in Taiwan with textile and garment manufacturing operations also located in Taiwan, Mexico and Nicaragua) imports ginned cotton from a range of African countries (including Malawi, South Africa, Zambia, and Zimbabwe), spins it into yarn, dyes the yarn, and then weaves the yarn into fabric. The Formosa mill, which was commissioned in late 2004 at a cost of about US $ 120 million, is Lesotho's only textile manufacturing facility. This denim mill has the capacity to annually produce 6,300 tons of denim fabrics. In addition, Formosa Textiles has a ring-spinning facility that has the capacity to make an additional 10,800 tons of yarn which is suitable for use in the knit fabric manufacturing industry. Formosa beneficiates a large quantity of what it produces – mainly in the three denim garment manufacturers that it owns which are located in Lesotho. It also sells denim fabrics to garment manufacturers located in places such as Botswana, Kenya, Madagascar, Mauritius, South Africa, and Jordan. Formosa is now also starting to sell yarns to other knit fabric producers on the African continent. It is important to note that another Lesotho based jeans manufacturer – the CGM Group – also owns a vertically integrated denim fabric manufacturing plant. The Crucial Trade facility (formerly known as De Nim Textiles) is located 500 kilometers away near the South African city of Durban.
- *Denim Garments:* Lesotho has seven separate factories that specialise in the production of women's/men's/junior denim jeans. It is estimated that these firms currently manufacture about 26 million pairs of jeans a year. They also make limited quantities of cotton chino trousers. Lesotho's jeans manufacturing industry is dominated by the CGM Group (with 3 factories: CGM; United Garments and Presitex); and the Nien Hsing Group (also with 3 factories: C & Y Garments; Global Garments; Nien Hsing). Both of these groups employ

about 7,000 workers each. Lesotho's remaining denim garment manufacturer, Humin Jeanswear, also has a sister plant located in the nearby South African town of Botshabelo.

- *Knitted Garments:* Lesotho has 28 firms which specialise in the production of garments made from knitted (mainly cotton) fabrics. It is estimated that these firms currently (September 2005) make approximately 70 million knitted garments a year. While the production of the industry is diverse most of these manufacturers concentrate in the production of women's / men's / junior tops and bottoms. A small number of its producers also make a significant volume of fleece garments. A November 2004 survey carried out by the ComMark Lesotho Apparel Project estimated that these garment producers could annually consume between 22,000 and 26,000 metric tons of knitted fabric of the following specifications: "single jersey", "interlock", "1x1 rib", "2x2 rib" and "fleece". The majority of these firms are owned by people of Chinese origin (both from People's Republic of China (including Hong Kong) and the Republic of China (i.e. Taiwan) – although some of them have been in Lesotho for a long period of time and are now Basotho citizens.
- *Wovens:* Lesotho has one manufacturer that specialises in the production of woven garments. The company mainly makes industrial workwear and chefs uniforms.
- *Dual Production – Knits & Wovens:* There are 2 firms which produce both woven and knitted garments.
- *Embroidery:* Lesotho has two dedicated embroidery firms which do contract work for Lesotho's garment manufacturers existing. At full production these firms collectively employ about 500 people.
- *Screen printing:* there is one firm – owned by a Masotho – that provides screen printing services to the garment industry. This firm can screen at least 20,000 garments a day using a number of colours.

It is important to stress that the contribution of this sector to the Lesotho economy goes beyond the immediacy of the textiles and garment industry itself. There are important employment and economic multipliers. A range of other formal and informal sector economic activities take place in Lesotho which feed directly and indirectly off the sector. For example: a packaging industry (there are: one corrugated cardboard manufacturer which uses paper board imported from South Africa and two cardboard box manufacturing firms), the freight transport industry; the courier services; the shipping and forwarding agents, the security sector; the taxi industry; the street traders that sell food to workers that work in the factories, etc.

4. Exports

Lesotho has always had an export focussed garment manufacturing industry. Pre-2000 much of Lesotho's exports targeted the SACU market place – although some products were exported out of the SACU (mainly to the EU). With the coming into force of AGOA the market focus of Lesotho's garment industry switched to the United States.

The clothing and textile industry is Lesotho's most important exporter – it has been claimed that the industry contributes at least 19% of the country's GDP. In 2002, it was estimated that approximately 74% of Lesotho's total exports (aside from water which is piped to South Africa) were textile and garments; in 2003 it was estimated that more than 77% of Lesotho exports were textiles and garments. Almost all of Lesotho's garment exports go to the USA. Limited amounts go to other destinations such as Canada; even smaller volumes go to the member states of the European Union, Dubai, Qatar, Chile, Japan and Taiwan. In spite of EU trade preferences (via Cotonou & the Generalised System of Preferences (GSP)) Lesotho's EU garment exports are negligible. Between January 2005 and June 2005 Lesotho's EU garment exports accounted for about 0.2% of total textile and garment exports (total exports to the EU amounted to M1.390 million).

Table 4: **Garment Exports to EU Jan.-June 2005**

	Maloti		**Maloti**		
United Kingdom	1 527 932	France	261 130		
Ireland	613 462	Germany	88 725		
Netherlands	428 757	Spain	41 233	Total EU Exports	2 961 239

Lesotho firms are now also beginning to sell small (but growing amounts) of clothing to South African retailers; as previously mentioned Lesotho's denim mill also exports denim fabrics and yarns to Botswana, Kenya, Madagascar, Mauritius, South Africa and Jordan. In 2001, Lesotho exported more than US $ 217 million worth of textiles and apparel to the USA; in 2002 US $ 321 million were exported; in 2003 US $ 392 million; in 2004 US $ 456 million; between January-June 2005 Lesotho exported US $193 million worth of garments to the USA; (between January-June 2004 its USA garment exports were US $ 204 million). In spite of recent problems Lesotho remains the largest Sub-Saharan African (SSA) exporter of garments to the USA (27% of total SSA garment exports).

Purchasers of Lesotho's garment exports include well known brands/retailers such as: the GAP, Reebok, Jones Apparel, Levis Strauss, Walmart, K-Mart, Sears, Gloria Vanderbilt, Calvin Klein, Ralph Lauren, etc. It is thought that much of the garment exports to the EU are specialist items (mainly chefs jackets), and production for GAP stores. It is important to note that the Irish pro-Africa campaigner (Bono) and his wife (Allie Hewson) also source garments (some under the label "Edun") from Lesotho factories.

5. The Problems Encountered by the Industry

In the past 18 months – like garment and textile manufacturers located in many countries around the world – Lesotho's textile and garment industry has received severe knocks. In January 2005 about 5,800 workers were left unemployed when six factories closed their gates. The affected factories were: "Precious 6" which employed 300 workers; "Leisure Garments" which had 300 workers; "Modern Textiles" with 500 workers; "TW Garments" with about 2,205 staff; "Lesotho Haps" with 1,305, and, "Vogue Landmark" which employed 1,240 workers. A little later in 2005 Hong Kong International Knitters closed their factory doors resulting in about another 1,000 losing their jobs. All these factories were involved in the production of knitted garments. In all, about 1,100 jobs were lost in Maseru; while 5,750 jobs were lost in the Maputsoe and Ha Nyenye industrial estates. The main reason why these factories closed can be attributed to the strength of the Loti vis-à-vis the US $. In addition, it is quite possible that the decision by some owners to shut their factory gates was also in some way partly influenced by the expiry of the World Trade Organisation's (WTO) Agreement on Clothing & Textiles (ATC) – buyers that normally give them orders placed their orders in other factories in other countries.

The factories that have continued manufacturing operations have not been unscathed. Most firms, especially those that are engaged in the manufacture of knitted garments, have been forced to retrench staff; short time working is now a widespread phenomenon.

The Strength of the Loti

Over the past few years the Loti – which is tied to the South African currency at par (SACU's Common Monetary Area (CMA)) – has significantly strengthened in value. At the end of January 2002 one US $ would buy about 11.44 Maloti; in January 2003 you could only get 8.65 Maloti; in January 2004 one would have got 6.85 Maloti; and, at the end of January 2005, a US $ would have got you only

5.93 Maloti. At one point in December 2004 the US $ plummeted to 5.58 Maloti. In 2005, the Loti has weakened but its value has fluctuated significantly – at one point US $ 1 would have bought 6.90 Maloti. The strengthening of the local currency has meant that Lesotho's garment exports – the overwhelming majority of which is exported to the USA – have become too expensive. Because of the strength in the local currency, Lesotho has not been able to sell many garments in South Africa (which constitutes about 92% of the Southern African Customs Union's (SACU) economic activity).

The problems experienced by Lesotho's currency's strength have also been felt by other SACU members. In South Africa, research has shown that over a two year period from January 2003 to December 2004, about 37,500 textile, garment and footwear workers have lost their jobs mainly as a consequence of the strength of the local currency vis-à-vis the US $. (It is important to note that the strength of the Loti has also negatively affected Lesotho's economy in other way. Thousands of Basotho workers who were engaged in South Africa's mining industry have been retrenched mainly as a consequence of the rise in the value of the local currency.)

In the author's view the weakening of the value of the US $ and the strengthening of the local currency remains the single biggest factor responsible for the squeeze on local employment.

The Expiry of the Agreement on Textiles and Clothing (ATC)

Another major concern of the Lesotho government is the expiry of the WTO's Agreement on Textiles & Clothing (ATC). On 31st December 2004 the ATC arrangement finally came to an end. In terms of this agreement – which was introduced in 1994 when the Multi-Fibre Arrangement (MFA) expired – the developed countries of the world (mainly the USA, the member states of the EU, and Canada) were no longer able to impose quantitative import restrictions on the clothing and textile exports of developing countries. The main targets of these restrictions were the clothing exports of countries like Pakistan, India and the world's clothing manufacturing powerhouse the People's Republic of China. Lesotho was not really affected by these ATC quota restrictions.

Now that the ATC has come to an end there is substantial research to suggest that states like China, and perhaps to some extent India, will dominate the world's clothing trade. Lesotho was not unscathed. It has and will continue to be affected by the sourcing decisions of some international clothing brands who have been tempted to switch some, or all, of their garment procurement away from Lesotho factories and move it to production units located in places like China and India. It is thought that the recent imposition of anti-China textile and clothing safeguards by the USA and the EU has resulted in some dividends for Lesotho to the extent that some orders have started to drift back to Lesotho.

Changes To the African Growth & Opportunities Act (commonly known as AGOA)

Another major challenge facing Lesotho's garment manufacturers is that a feature of the AGOA trade arrangement, whereby the Lesotho garment manufacturers are allowed customs and quota free access to the USA economy, will change in September 2007. From this date onwards Lesotho manufacturers will be unable to source their fabric inputs from elsewhere in the world. They will be required to source all their raw material fabrics inputs from the USA or from other AGOA compliant countries (including itself). While Lesotho has sufficient fabric to make its denim jeans it still lacks the facilities that will make the knitted fabric that its knitted garment industry requires. Lesotho requires a range of knit fabric manufacturers that can supply its industries with between 20,000 and 26,000 tons of knitted fabrics. In other words, should AGOA third country fabric provisions expire in September 2007 and Lesotho not find alternative supplies of knitted fabrics (either via integrate knit fabric mills located in Lesotho or via competitively priced purchases of knit fabrics from AGOA eligible countries) then Lesotho will lose its knit garment industry.

World Trade Organisation (WTO) Tariff Reductions – Preference Erosion

A significant challenge that will soon confront Lesotho will arise from the proposals of the WTO to further reduce industrial tariffs on a worldwide basis. The main problem with this proposal will be that it, if left in its current form, will also affect global textile and clothing tariffs. Should this happen – and negotiations on this issue are likely to continue under WTO – it could undermine the preferential tariff preferences that Lesotho (and many other developing countries) enjoys when its products enter the modern industrialised markets of the world. At the moment, Lesotho's apparel products enjoy a significant tariff preference as a consequence of the AGOA legislation and the EU's Cotonou/GSP preferences. Lesotho's products enter these economies at 0% duties while many other countries pay significant customs duties. If global tariffs were to drop it would mean that the other countries which currently pay duties will pay less duties and this could undermine Lesotho's preference.

6. Efforts Taken by Lesotho to Mitigate Negative Pressures

Lesotho has initiated a number of programmes to protect the industry that exists. To date, this effort to assist the industry has included not only the endeavours of various Government Ministries, but has also involved the active participation of many other sectors of – society – in particular the Lesotho National Development Corporation (LNDC). Some of the measures taken include:

• *Inter-Ministerial Textile and Apparel Industry Task Team*
In late June 2004 the textile and apparel sector raised a number of concerns with the Government. The problems placed on the table were the subject of high level discussions involving the Lesotho Prime Minister, Mr. Pakalitha Mosisili. As a consequence of these discussions, the Prime Minister directed that an Inter-Ministerial Textile and Apparel Industry Task Team should be urgently established. This Inter-Ministerial Task Team immediately set-up a number of multi-stakeholder technical committees to analyse problems raised and to suggest solutions.

After two months of feverish work the Inter-Ministerial Task Team presented a report to the Prime Minister. The report was then adopted by Cabinet on 21 September 2004 as a Government working document. The report and its recommendations were wide ranging. It dealt with matters related to foreign exchange, taxation, industrial incentives, import and export clearance issues, the need for Lesotho to have a fabric mill post-September 2007, work and residence permits, security matters, and a range of matters related to improving infrastructure. Since it has been adopted a Committee chaired by the Minister of Trade & Industry, Co-operatives and Marketing has met on almost a bi-weekly basis in order to receive report backs.

• *Lesotho Government-led Delegation Trip to USA in January/February 2005*
To ensure that Lesotho's garment export drive to the USA remains strong, a multi-stakeholder delegation – involving the Minister of Trade, staff of the trade ministry, the LNDC, members of the private sector, and leaders of the trade union movement – visited the USA in late January 2005. The USA Ambassador to Lesotho also accompanied the delegation. The delegation held a number of meetings with the US government – both from its Congress and its Administration. In addition, the delegation held round table discussions with representatives of the major garment brands – the Gap; Levis Strauss. The trip was an overwhelming success. Not only did it raise the profile of Lesotho's textiles and garment industry; but the delegation has retuned to Lesotho with reassuring messages of support from some of the companies that source from Lesotho. Itt is expected that these messages of support will be translated into additional orders over and above the regular levels that are already being given to Lesotho.

• *Improving Firm Competitiveness*
Lesotho's garment firms have now started to invest in the training of their staff – some training programmes have had spectacular results (one ComMark programme has resulted in some firms improving firm output by up to 35%). Without a sustained investment in training Lesotho companies will find themselves increas-

ingly less competitive and this will result in many of them losing orders; increased firm productivity should also result in workers being able to earn higher incomes as their firms become more profitable.

• *Investment Promotion*
The Lesotho National Development Corporation (LNDC) has now also initiated plans to attract further textile and garment investments to come to Lesotho. In this regard, the LNDC is looking for additional investments that are involved in the denim value chain; and firms that produce knit fabrics. Lesotho is also trying to link Lesotho manufacturers with regional manufacturers – links with regional manufacturers will give Lesotho firms greater flexibility. They import most of their garment inputs – fabrics and garment trims – from China.

• *Incentive Structure*
The Government of Lesotho is now re-looking at the package of incentives that it offers investors. It is envisaged that the incentive package will not only affect manufacturers in the textile and garment value chain. It is looking at a new incentive package because of the crisis currently affecting most garment and textile manufacturers; and in the hope that such a new incentive package will be able to attract new investors (see Annex “A” for details of what Lesotho can offer existing manufacturers). The main incentive that is currently under consideration relates to the country’s corporate tax regime. Currently, all of Lesotho exporters have a more favourable corporate tax regime than exists for domestic focussed manufacturers.

Lesotho does not have any export processing zones. There are no derogations from the country’s labour laws for textiles and garment manufacturers – Lesotho’s garment and textile manufacturers have to comply with the same labour laws that every other Lesotho private sector employer has to comply with. Lesotho’s labour laws make no distinction between wage payments of foreign owned and local firms. Current discussion concerning Lesotho’s manufacturing incentive package do not include any requests for any changes to Lesotho’s labour laws.

Many of the incentives that Lesotho offers its textiles and garment exporters are those which are contained in the tariff book of the Southern African Customs Union (e.g. manufacturers are able to import fabric free of duty as long as the garments it makes from these fabrics are exported out of SACU – the 470.03 rebate). Importantly, Lesotho textile and garment firms can also earn the Duty Credit Certificate (DCC) incentive (which rewards companies that export). Lesotho’s DCC scheme is exactly the same as what South African textiles and garment firms earn. However, discussion in South Africa which will limit the length of the DCC scheme, and limit the ability of Lesotho manufacturers to use their DCC certificates in the SACU are a cause for concern. Should Lesotho DCC not be usable in South Africa, and the length of the scheme be reduced it will negatively affect Lesotho's textile and garment industry – many companies could close, then.

Annex

Lesotho's "Incentive" Package

Taxation

- a permanent maximum manufacturing tax rate of 15% on profits;
- no withholding tax on dividends distributed by manufacturing firms to local or foreign shareholders;
- no advanced corporation taxes are paid by companies on the distribution of manufacturing profits;
- training costs are allowable at 125% for tax purposes;
- payments made in respect of external management, skills and royalties related to manufacturing operations are subject to withholding tax of 15%;
- easy repatriation of manufacturing profits;
- a VAT rate of 14% (ensuring harmonisation with South Africa). Furthermore, the Lesotho Revenue Authority has introduced flexible VAT payment systems, to tax compliant firms, to ease cash flows.

Tariff Rebates & Duty Free Access to Global Markets

- As a member of the Southern African Customs Union (SACU) Lesotho textiles and garment firms are able to access almost the entire range of SACU rebates. Currently, firms make extensive use of the 470.03 rebate in terms of which firms are able to import, free of duty, inputs that are used to make products for export outside of SACU. A company that sells some of its produce into SACU will only pay duty on the imported raw materials used to make goods that are sold within SACU;
- Lesotho manufacturers, by being located in a Least Developed Country (LDC), get duty and quota free access to the following trading blocks and states:
  - SACU (50 million consumers);
  - USA (295 million consumers) – producers can benefit from AGOA. Importantly, up until September 2007, Lesotho firms can use fabrics made anywhere in the world in their garments destined for the US market;
  - European Union (400 million consumers) – producers can benefit from the Cotonou trade agreement;

 – Lesotho producers also have preferential access to SADC, the Mercosur (South America) trade block, and to Japan, certain Scandinavian states, Japan, Canada, Australia, and New Zealand.

Other Incentives

- Lesotho textile and garment manufacturers can earn Duty Credit Certificates. DCC are tradable instruments which can be used to offset the duty on fabric and garment imports. DCC earned in Lesotho can be sold in South Africa; firms earning DCC must spend 3% of their total payroll on training (Lesotho has no other training taxes / levies);
- the LNDC may loan funds to finance projects or take equity investments in projects;
- the Central Bank of Lesotho provides credit guarantee assistance to exporters.

The Textile and Clothing Industry of Madagascar

By Ralaivelo Maminirinarivo

1. Introduction

During the last two decades, Madagascar has been confronted with a series of economic challenges linked to the country's persistent indebtedness and its changing policies on investments. From a period of nationalisation and state control of the economy, it embarked on a process of structural adjustment since the 1980s, and, like many other developing countries, Madagascar has shifted its policies towards increasing liberalisation. As a result, the national economy remains precarious and extremely vulnerable to external shocks from the international economy. Today, the economic situation of the majority of the population is more depressed than at the time when the country attained independence from France. More than 70% of the population are living below the poverty line, and the GDP per capita has been reduced by half since 1960.

The development of the textile industry in Madagascar was slightly different to other Sub-Saharan African countries. During the 1960s and late 1970s, the national government attached prime importance to exports of traditional crops such as vanilla, while at the same time, pushing for a policy of import substitution through state-owned companies to produce consumer goods, including textile products.

The textile sub-sector became one of the fastest growing industries. Specifically, six industrial units were competitive until the 1980s, including state owned companies such as SUMATEX, and a semi-public company SOTEMA, which employed more than 2,000 workers. The growth of the sector was reinforced by the existence of cotton processing agro-industrial units, which provided the raw materials needed by the textile industry.

During the 1990s, the textile sub-sector declined and experienced factory closures. Only four domestic companies remained competitive. This negative trend can be attributed to various interrelated factors, such as :

- the mismanagement of state owned companies combined with financial difficulties and high levels of debt
- the lack of competitiveness in face of economic liberalisation
- the unfair competition brought about by the massive and fraudulent import of textile products and second hand clothing.

To attain the development objectives, as well as the reduction of the poverty rate by half within ten years[1], the Government attached particular importance to the revitalisation of the private sector, particularly in export processing zones (EPZ).

The promotion of the EPZs since 1995 resulted in a substantial recovery of the textile and clothing sub-sector, consolidated by the eligibility of Madagascar to benefit from AGOA. As a result, the textile and clothing industry became a major job provider and a significant contributor to the national economy.

The sector was again hard hit by the political crisis of 2002, which led to the dismissals of thousands of workers. While the clothing and textile sector recovered as from 2003, it presently faces a new critical situation. Since the expiry of the Agreement on Textiles and Clothing (ATC) 10 companies closed down and 5,000 workers were retrenched.

2. Structure and Development of the Textil and Clothing Industry

2.1 Growth of Export Processing Zones

Madagascar's economy is dominated by agriculture, whereas manufacturing is of minor importance. Between 1994 and 2003, the share of the secondary sector in the national GDP stagnated at around 11-12%. Within the secondary sector, a significant change took place with the development of EPZs. The contribution of the EPZs to the GDP of the secondary sector increased from 4.5% in 1995 to 7.1% in 1999 and further to 10.3% in 2001. Due to the political crisis in 2002 it declined by 2% followed by a remarkable growth in 2003.

Table 1: **Share of the Export Processing Zones (EPZs) to GDP (constant prices 1984)**

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Secondary sector/ GDP (%)	11.7	11.7	11.7	11.8	11.9	11.9	12.2	12.3	11.2	11.5
Share of EPZ inGDP (in %)	0.2	0.5	0.6	0.7	0.8	0.8	1.0	1.3	0.9	1.1
Share of EPZ in GDP of secondary sector (%)	1.9	4.5	5.5	5.7	6.5	7.1	7.9	10.3	7.8	9.2
Source : National Institute of Statistics										

1 In Paper for the Strategy of Poverty Reduction. May 2004

Although EPZs became significant for the manufacturing sector, their contribution to Madagascar's overall GDP remained small, amounting only to about 1 per cent in 2003. Overall, EPZs did not yet live up to their potential in terms of developing national industries.

2.2 EPZ: Number of Companies and Investment

Since the introduction of the EPZs, the number of EPZ textile companies has grown steadily, with an annual growth rate of 30 per cent. This can be attributed to the marked openness of the national economy, and the attractiveness of low labour costs. Most of the EPZ-companies (63.8%) operate in the textile and clothing sub-sector. The number of EPZ firms reached a peak in 2001-2002, and in 2003 the sector consisted of 114 companies.

The following table illustrates the prominence of the textile and clothing companies in the EPZ in comparison with other sub-sectors

Table 2: **Distribution of Companies in EPZs by Sub-Sectors of Activities in 2004**[2]

Sub-sector	%
Agro-business	5.9
Craft industry	3.8
Wood	2.7
Chemicals	4.9
Leathers	1.1
Clockwork, jewellery	0.5
Various manufacturing industries	5.9
Computers and services	8.1
Mechanics, Electrics	1.6
Textile and clothing	63.8
Mining	1.6
Total	100

Source: National Institute of Statistics

Note: Absolute figures not provided.

2 Source : Ministry of Industry and Trade, Data on exports

2.3 EPZ: Foreign Direct Investment (FDI) and Ownership

In 2000, the EPZs accounted for 36 per cent of all new foreign direct investment in Madagascar. Total EPZ capital stock then stood at 112,6 billion MGF, representing 22 per cent all the foreign direct investments[3].

Concerning the structure of shareholding, the share of local investors in the capital stock of the EPZs is estimated at 35 per cent, highlighting the predominance of foreign companies.

Though detailed data on investments per country are not available, recent surveys indicate the predominance of companies from Europe and the USA. A considerable increase of investments from Asia was noticed between 2000 and 2001[4].

Foreign direct investment from Mauritius

Mauritius is a special case as the neighbouring island is itself a developing country and has historically developed through the early establishment of EPZs. Up-to-date figures on textile companies originating from Mauritius are not available, but an indication of their importance can be received from figures on total foreign investment. Mauritian FDI accounts for 19 per cent of the total amount of foreign direct investment and ranks second after France, as illustrated in Table 3.

Table 3: **Distribution of Foreign Direct Investment (FDI) by Country of Origin: 2000 and 2001 (in Malagasy Francs)**

Country	2000	2001	Total
France	181 167 317 925	156 333 362 010	337 500 679 935
Mauritius	83 612 415 429	115 051 182 410	198 663 597 839
Belgium	38 251 352 977	50 878 335 989	89 129 688 966
Luxembourg	20 478 587 400	64 357 938 938	84 836 526 339
China	23 669 249 656	34 779 553 947	58 448 803 603
Canada	25 163 020 536	30 369 387 618	55 532 408 154
Reunion	26 072 936 559	26 643 680 726	52 716 617 285
Netherlands	22 196 381 718	22 686 891 344	44 883 273 062
U.S.A	29 468 172 673	11 587 221 340	41 055 394 013
Japan	7 477 067 018	10 655 748 417	18 132 815 435
Hong Kong	2 498 392 543	15 248 031 415	17 746 423 958
Sweden	4 714 319 370	4 373 140 679	9 087 460 048
Great Britain	1 795 499 943	6 253 473 845	8 048 973 788
Others	9 134 384 560	9 579 825 746	18 714 210 306
Total	475 699 098 307	558 797 774 423	1 034 496 872 730

Source : Survey FDE/IPF-INSTAT/BCM-2004

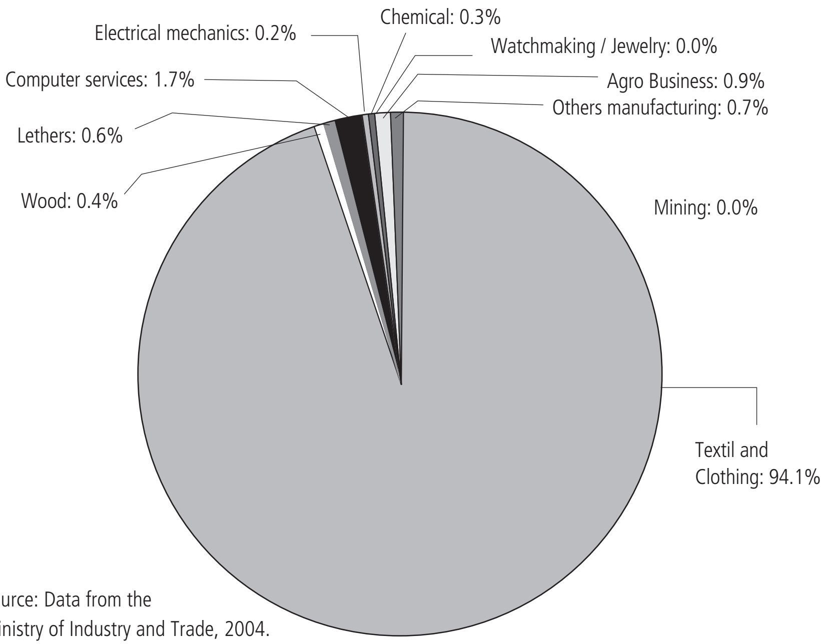
3 Source: National Institute of Statistics, Survey on Foreign Direct investment, 2004
4 Idem

2.4 EPZ: Employment Levels

The number of employees in all EPZ-companies was estimated at 115,000 in 2004, representing one third of the country's formal manufacturing jobs. EPZs have also led to the creation of 80,000 indirect jobs in the services and cotton production sectors.

The available data reveal the concentration of EPZ employment in the textile and clothing sector, which is the main source of employment accounting for about 94 per cent of all EPZ jobs. Graphic 1 is illustrative of the significant employment created by the sector.

Graphic 1: **Structure of Employment in EPZs per Sector of Activity in 2004**



Source: Data from the Ministry of Industry and Trade, 2004.

Women represent 80% of workers in the sector[5]. Their employment is, however, precarious as shown by a significant turnover rate which is worsened by the uncertainty in the industry after the end of the Agreement on Textiles and Clothing (ATC).

5 Groupement d'Expertise et de Compétence, Situational analysis of EPZ, 2004

2.5 The Export Boom for Clothing

Total exports from the EPZs increased by 48% per year between 1995 and 2000. During that period, the share of EPZ exports in total exports increased from 22 to 54%. The political crisis in 2001/02 brought large parts of the economy to a near standstill. Exports were nearly reduced by half but the economy started to recover in 2003.

The boom in the EPZ-export sector in the 1990s was primarily driven by clothing firms. Measured in local currency, the value of clothing exports increased by 700% between 1995 and 2000. The sector was hard hit in 2001 and 2002, when many companies closed down. It was only in 2004 that exports of clothing products shot above pre-crisis level, reaching an all-time high production level.

Table 4: **Growth of Textiles and Clothing Exports (1995-2004, in Milliards MGF)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Textiles										
cotton material	0,2	8,1	14	107,9	64,6	125,2	3,1	8,8	0,8	15,2
Silk material	0	0	137,1	2,6	55,7	155,9	0	0	0	0
Clothing										
Sweater, Pullover	81,6	100,4	122,1	286,5	409,5	848,5	585,4	177,7	406,4	1071,1
T-shirts	53,0	48,7	41,7	48,3	89,7	154,0	189,0	39,4	85,0	187,0
Off the rack: women	59,5	82,2	101,9	158,0	239,6	329,8	334,5	182,3	443,7	1050,2
Off the rack: for men	63,4	84,8	104,8	242,9	340,4	468,8	519,1	224,4	282,0	791,4
Textiles & Clothing	257,7	324,2	521,6	846,2	1199,5	2082,2	1631,1	632,6	1218,1	3114,8
Seafood										
Tinned tuna	121,0	117,3	41,7	208,3	172,4	137,7	184,3	194,7	252,4	
Shrimps	45,4	52,7	21,7	75,4	13,1	14,1	247,8	385,5	397,9	
Other exports	43,1	58,2	102,3	261,8	393,4	743,4	389,8	403,8	371,6	
Total exports all economy	467,3	552,3	687,2	1391,7	1778,4	2977,4	2452,9	1616,7	2240,0	

Source : National Institute of Statistics / INSTAT/DSE/SSES

Clothing exports from Madagascar essentially supply two markets: The USA and the EU where Madagascar enjoys preferential market access. The effect of preferential market access can be seen in particular between 1999 and 2004, when exports turned toward the US-market. Table 5 shows the growing importance of the U.S market share compared with the E.U, which can be attributed to the Africa Growth and Opportunity Act (AGOA).

Table 5: **Clothing Exports from Madagascar to the US and EU (US$m)**

	Madagascar	
	US	**EU**
1990	0.4	10.8
1991	0.1	15.1
1992	0.2	18.5
1993	1.5	46.3
1994	2.8	92.6
1995	6.7	122.0
1996	11.0	147.7
1997	15.3	177.1
1998	22.0	218.0
1999	45.7	213.9
2000	109.5	244.7
2001	178.2	238.3
2002	89.4	145.6
2003	195.9	127.9
2004	323.3	Na

Source: US ITC, US Department of Commerce, Otexa Eurostat, as quoted in Mike Morris (in this volume)

2.6 Domestic Production vs. Imports

Production for exports may benefit the domestic economy, if EPZ-companies are linked to the local economy sectors and source their inputs from local companies. The cotton industry is an essential component of the national textile sector. Many EPZ companies in Madagascar are indeed supplied with cotton fabric from COTONA, but there are problems with the quality, quantity and reliability of supply. EPZ-companies have therefore tended to turn their back on domestic firms and instead, increased their textiles supplies through imports (see Table 6).

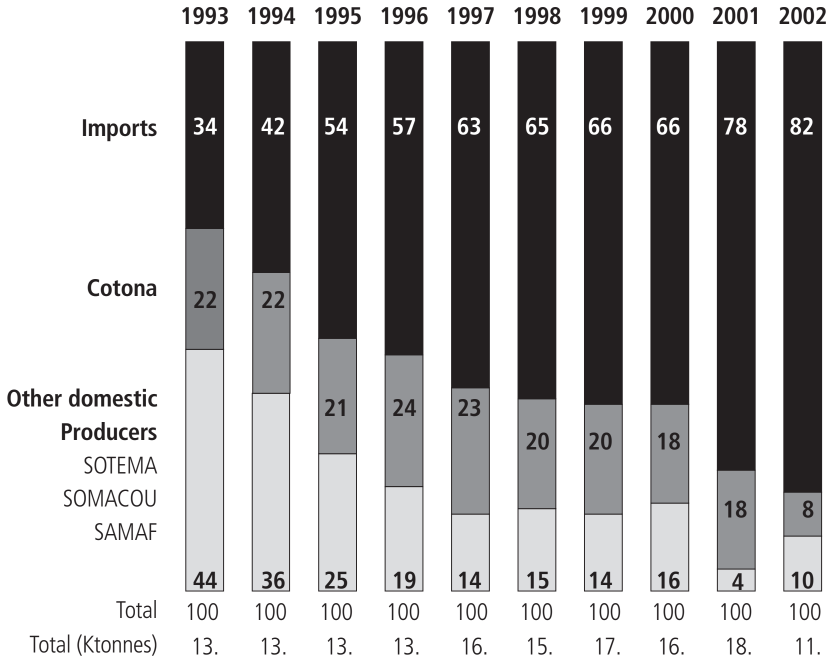
Table 6: **Annual Imports of Textile Products (in current Milliards MGF)**

Products	**2001**	**2002**	**2003**	**2004**
Cotton fabric	16.46	4.42	28.31	57.33
Other textile fabrics	43.54	38.65	136.47	355.49
New clothes and underwear	32.09	21.60	34.57	28.99
Second hand clothes	0.34	0.98	22.71	15.40
Other manufactured apparels	16.36	10.07	23.08	38.34
Total	108.78	75.73	245.13	495.54

Source : National Institute of Statistics

Despite the development of clothing industries in the EPZs, the overall decline of local industries in the textile and garment sector is patent, as only three national companies remain competitive (SAMAF, SOMACOU and COTONA). Over the years, the market share of local producers has been progressively eroded by massive fraudulent imports. The growing importance of imports to the detriment of the local companies is shown in Graphic 2.

Graphic 2: **Shares of Foreign and Local Producers on the Domestic Textiles and Clothing Markets (1993-2002)**



The figures in Graphic 2 show the growth of textiles and clothing imports to the detriment of local producers. The market share of COTONA, which is the main domestic producer, has been reduced from 22 per cent 1993 to a mere 8 per cent in 2002.

3. The New Challenge for the Clothing and Textile Industry in Madagascar

The production of textiles and clothing is confronted by many obstacles which, if not properly addressed, will seriously challenge the future of the industry in Madagascar. Key issues are related to the international market (such as the end of the ATC) as well as the local conditions of production.

- *The impacts of the new rules of international trade*
  The risks of disturbances of global markets as a result of the expiry of the ATC are tremendous, mainly due to the fact that the local economy was not prepared to face tough competition. Indeed, the threat of loss of export market shares and employment is real, with an increasing number of companies tempted to relocate production to more “attractive” countries. In 2004, already about 5,000[6] jobs have been lost in the EPZs.

- *High factor costs*
  Madagascar is disadvantaged because of its high factor costs, specifically electricity, water, telecommunication, freight and transportation costs. Table 8 compares these costs with those in neighbouring countries.

Table 7: **Factor Costs Per Country in U.S.$**

Item	Mauritius	Madagascar	Botswana	Kenya	Lesotho	Sri Lanka	South Africa
Electricity (Watt)	0.05	0.09	0.03	0.1	0.07	0.05	0.03
Water (M3)	0.29	0.34		0.43	N/A	0,36	N/A
Commercial rent (M2)	1.82-2.27	3.5-11	1.85-2.52	2-3.2	N/A	N/A	N/A
Local phone call (3 mn)	0.03	0.08	0.02	0.04	0,01	0.04	0.09
Phone call to the US (3 min.)	4	8.98	3.6	7.35	N/A	3.05	1.98
Internet: monthly service charge	22.9	66.5	14.7	65.6	12.3	6.5	8.5
Internet: phone use per minute	0.38	0.44	0.14	0.46	0.17	0.05	0.33

Source : Ministry of Industry and Trade, Survey on the EPZs, March 2004

- *The global business environment*
  Notwithstanding the efforts made by national decision-makers to improve the business environment in Madagascar, certain constraints hamper the competitiveness of the textile sector, specifically:

6 National Institute of Statistics

- the complexity of administrative procedures (especially customs procedures)
- the security of investments, which, despite tangible improvements, remains insufficient.

- *Labour standards*
  The precariousness of employment in the textile and clothing sector and the high rate of turnover are not favourable to the career development of employees. This also prevents workers from gaining access to continuous training to obtain higher qualifications which are needed to achieve improved competitiveness. There are many cases of abuse, which contradict the principles of decent labour standards and conducive working conditions, especially for women. Such poor labour relations undermine attempts to improve productivity.

4. National Economic Policies towards Promoting the Growth of the Textile and Clothing Industry

There are several priorities identified by Government and EPZ business groups, pertaining mainly to lobbying activities at the level of international institutions, the improvement of the local business environment, improved productivity, and the development of an innovative trade policy for the economically important sectors.

4.1 The Revision of the EPZ Regulations

The improvement of the local business environment is regarded as fundamental for attracting new investors. Among others, the following aspects are deemed essential:

- The revision of the law on EPZs is in progress, carried out by an inter-ministerial committee. However, the representatives of workers are not involved in the process.
- The updating of certain provisions and the introduction of new regulations for the promotion of investments and the creation of jobs are at the center of the revision committee's work. EPZ operators wish to have revised customs procedures to alieviate the burden of cumbersome procedures and to prevent risks of corruption in the customs operations. Currently, steps are taken to modernise the customs administration and to make it more transparent.

4.2 Addressing the Issue of Factor Costs

The identification of appropriate solutions for the high factor costs is essential for the sustainability of EPZs. This has to include cheaper forms of electricity and a railway line from the capital city to the main port.

4.3 Developing Innovative Commercial Policies

The main actors are aware of the necessity to adopt an aggressive commercial policy to extend the market shares of the textile and clothing industry. Thus, the exploration of the opportunities offered by the admission of Madagascar as a member of SADC as well as the development of policies for a reinforced regional integration is recommended. To this end, trade officials and business leaders have engaged in actions such as the promotion of trade fairs in Africa.

The consolidation of partnerships and commercial relations within the framework of the Indian Ocean Commission is equally fundamental.

4.4 Fostering Economic Actions to Improve Productivity

The competitiveness of the textile and clothing sector depends on its ability to maintain competitive prices, while preserving the quality of the products. Considering the limited integration of the sector within the national economy, which resulted in a marked dependency on imports of inputs and an increase of production costs, the vertical integration of the textile sector is planned, specifically through the revitalisation of cotton production.

Despite the experiences acquired by workers in the sector, the lack of developed technical skills needed to keep pace with the technological evolution in the sector constitutes a serious obstacle for a competitive level of productivity. There is thus a need for the continuous training of workers in the sector.

4.5 Negotiating and Lobbying in Favour of Developing Countries

Madagascar is actively engaged in trade negotiations and supports the declarations made by the Least Developed Countries (LDCs) regarding the rules of the World Trade Organization (WTO). Madagascar demands:

- the adoption of corrective measures within the World Trade Organisation and at the level of the other concerned institutions for the least developed countries to enable them to adapt to the new conditions in the global market.
- the consideration of new measures to facilitate the protection of developing countries' market shares.

5. Reactions of Trade Unions

The right to join trade unions and to participate in their activities is guaranteed by the Constitution and protected by the Titles II and III of the Labour Code. The rights contained in the ILO convention No 87 on the right for union activities and membership are implemented through these provisions, as well as the convention No 98 on the freedom of association and the protection of the right to organize.

Generally, trade unions have remained relatively weak in the EPZs, even though a revitalisation of the movement is presently taking place and 14% of the workers in the EPZ Sector are members of trade unions. The most active trade unions are those grouped in the national conference of Malagasy workers (grouping five trade unions) and the newly created trade union for the workers in the clothing sector.

Unionisation rates do not reflect that actual support at grassroot level as many workers are inactive because of fear of reprisals. Yet, from the viewpoint of trade union leaders, considering the number of trade unions operating at clothing and textile companies, the sector accounts for higher levels of unionisation than other industrial sectors. This current weakness of trade unions can be explained by numerous factors:

- the resistance of employers to the promotion of dialogue with trade unions and representatives of staff;
- the lack of interest of workers in trade unions;
- the insufficient knowledge of labour regulation at the level of trade union leaders;
- the difficulty of access to training for trade unions and the disrespect of employers regarding trade unions activities;
- the organisational weakness of trade unions leaders.

The very low number of concluded collective agreements illustrates the weakness of collective bargaining in Madagascar. Out of 62 clothing and textile companies in the EPZ sector (2003) there is only one which has signed a collective bargaining agreement. This explains the relatively high number of labour disputes in the EPZ sector, with an average of 30 labour disputes referred to the labour inspection every day.

However, there is a growing willingness of employers and employees to move towards a negotiated management of the issues concerning work and employment. Issues related to the professional classifications are currently being discussed between GEFP (grouping of business in the EPZ sector) and CTM (conference of Malagasy workers), and the negotiations on salaries have resulted in a proposed increase of the minimum wage in March 2004.

Trade union leaders believe that the decline of Madagascar's clothing and textile industry in the 1980s was a result of the mismanagement of state companies during the period of nationalisation. The promotion of the textile sub-sector since the 1990s has resulted in a significant promotion of employment, as investors were attracted by the low cost and the dexterity of local workers. However, this comparative advantage is insufficient in a context that requires advanced technical skills for competitiveness.

Currently, the actions taken by trade unions are focused on three main areas:

- the reinforcement of technical capacities of workers;
- the effective implementation of bipartite negotiations within the EPZ companies;
- the reinforcement of social dialogue at all levels.

5.1 Enhancing Training Programme for the Reinforcement of the Capacities of Workers

Though it has been revealed by a survey on EPZs in Madagascar that about half of the workers in the EPZs have benefited from training offered by employers, the lack of quality training centres that could meet the specific needs of companies compromises the professional development of workers and their access to the positions of technical supervisors. Such positions require specific know-how and are currently held by expatriates .

Given the highly competitive nature of the global clothing and textile industry, coupled with the end of the ATC, the improvement of the training system has become a necessity to enable workers to obtain better positions.

The improvement of the technical capacities of workers is also considered a priority of trade unions. Therefore, trade unions leaders decided to collaborate with the French Cooperation Mission to set up a continuous training system for workers.

5.2 Ensuring the Implementation of Bipartite Negotiations in the EPZ Companies

Facing the risk of successive retrenchments in the textile sector, trade unions and the workers' representatives are committed to collective bargaining. However, the balance of power benefits employers, and unions have to develop more efficient strategies to enforce negotiations. Within the framework of a future national project for the promotion of productivity through decent labour in the EPZs, capacity-building programmes are envisaged to enable trade unions and employers to engage in bipartite negotiations and collective bargaining. This project is supported by the ILO.

5.3 Promoting Social Dialogue and Negotiations

Trade unions feel sidelined as they are excluded from the main forum for discussions and decision-making on the future of the textile industry. The promotion of social dialogue within the framework of tripartite consultation for the promotion of productivity is, however, linked to the improvement of working conditions and the protection of workers' rights. This is the main focus of the trade union agenda. Thus, trade unions are engaged in national tripartite structures with a view of protecting the interests of EPZ workers. Unions also demand to be included in the major decision-making process on the future of the textile sector.

5.4 Developing an Action Plan for the Malagasy Textile Union

The end of the ATC forced the Malagasy Textile Union to draft an action plan that will be used as a tool for negotiations with the concerned stakeholders. The action plan includes four (4) interdependent objectives, namely:

- the training of shop stewards by the trade unions in the textile industry;
- Capacity-building activities for the trade unions;
- the setting up of a single and strong trade union within the textile sector;
- the improvement and the implementation of the regulations on the working conditions in the sector.

The training of workers' representatives will be effected through successive training programmes and seminars on various topics, such as the labour code, advocacy techniques, and gender issues in the workplace.

The main activities to be undertaken for the strengthening of the trade union consists of recruitment drives to increase membership and to negotiate wage increases by up to 40% in 2007. The operational objective is to set up a single and strong trade union covering 70 companies by June 2006.

Concerning the improvement and the enforcement of regulations on working conditions, the union wants to cover 80% of the clothing and textile workers through collective agreements, specifically addressing issues like classification, remuneration, canteens, medical care and social security, and breastfeeding.

6. Outlook

The textile and clothing sector consists mainly of EPZ companies, which operate in an environment of extreme competition. The future of the sector depends on the capacity of the stakeholders to develop pro-active strategies to address the growing vulnerability resulting from the new rules of international markets.

Although national authorities and the employers in the sector have embarked on some joint actions, the involvement of trade unions in the process remains limited and necessitates a serious consideration.

Madagascar has the advantage of having a plurality of investments, which can ensure a minimum of stability and sustainability in the face of possible relocation to other countries. However, as this matter is not confined to the borders of a single country, there is need to find a common solution for all concerned countries in Sub-Saharan Africa.

The efforts to achieve higher productivity cannot be separated from the task of achieving long-term job security and decent standards of work. These issues are a precondition for the attainment of improved productivity.

The Textile and Clothing Industry in Mauritius

By Gilles Joomun

1. Introduction

The textile and clothing sector appeared in the Mauritian government's agenda for the first time in the Meade's report in the 1960s. James Meade conducted a study on the Mauritian economy to find a solution for diversifying the sugar-based mono-crop economy. Meade advocated for the setting up of labour-intensive industries if Mauritius does not want to face the problem of 'Malthusian Trap'. The setting up of the textile and clothing industry was successful in terms of income generation, employment creation and capacity building for local entrepreneurs.

The success of the textile and clothing industry of Mauritius lies on three fundamental aspects:

- Conducive environment for investment
- Exogenous factors
- Preferential trade arrangements

Conducive Environment for Investment

In 1970, the government began its export promotion strategy with the enactment of the Export Processing Zone (EPZ) Act. The first Export Processing Zone was launched in 1971. The Act provided incentives and concessions to enterprises exporting their products.

The government took further steps:

1. Sustainable export growth through five successive stand-by arrangements and two structural adjustment programmes between 1980 and 1986
2. Establishment of key institutions like the Mauritius Export Development and Investment Authority for export promotion.
3. Monetary measures such as the devaluation of the rupee to make Mauritian exports internationally competitive.

During the 1980s Mauritius had a pool of educated labour, which was available at a cheap rate. Although the majority of the available workers was unskilled, they were very versatile and adapted easily to working in the textile and sector.

Exogenous Factors

The success of the textile and clothing sector is partly attributed to factors besides the control of Mauritian authority. Some of the factors which have contributed positively to the Mauritian economy, in particular the textile and clothing sector, are:

- The Multi-Fibre Agreement signed in 1982, which constrained several countries in their exports. It is in this context that investors from Hong Kong came to set up their firms in Mauritius.
- A combination of lower and falling oil prices together with a lower debt servicing arising due to the depreciation of the overvalued US dollar in 1984.
- An appreciation of the Taiwanese Dollar and thereby a fall in Taiwan's competitiveness on the world market led to Taiwanese investment in Mauritius
- After 1984, the appreciation of the European currencies in relation to the Mauritian rupee resulted in Mauritian goods becoming more competitive.
- During the 1990s, political uncertainty over the future of Hong Kong's reintegration into China encouraged investors to look for a safe haven and thus relocated to Mauritius bringing capital, marketing networks and technological know-how.

Preferential Trade Arrangements

Favourable terms of trade combined with ready markets attracted more foreign investors to set up their textile and garments firms in Mauritius. Investors, both domestic and foreign, successfully exploited all the preferential market access granted by the developed countries. The two main markets, which Mauritius could access through preferential trade agreements, were the EU and the US under the Lomé Convention and the GSP (now AGOA) respectively.

The Current Situation

For the past 30 years, Mauritius has benefited from a series of positive conditions, which have helped to create a solid textile and clothing industry with significant foreign and local investment. The sector was one of the main providers of employment and it contributed about 12% to the GDP.

The situation today with the dismantling of the Multi-Fibre Agreement and the new challenges of an extremely competitive world market has left the industry in a weakened state. The positive conditions, which have contributed to the thriving of the industry have now almost all disappeared. This forced Mauritius to rethink the textile and clothing sector in the country but many experts believe that this process started too late.

2. Structure and Development of the Textile & Clothing Industry in Mauritius

The textile and clothing industry in Mauritius experienced a rapid growth in the 1980s up to the year 2000. An analysis of the statistics over the past decade shows that the industry, which was once thriving is now facing a slow downfall. Employment, enterprise creation, contribution to the national wealth, growth of the industry and foreign direct investment are all showing a negative trend.

2.1 Employment

Table 1: **Employment in the Textile and Apparel Sector**

	1995		2000		2004	
	TOTAL	of which expats (est.)	TOTAL	of which expats (est.)	TOTAL	of which expats (est.)
Textile yarn & fabrics	4,659		5,557		7,681	
Wearing apparel	66,808		73,881		57,564	
Total Textile and Apparel Sector	73,462	6,145	81,438	13,848	67,249	13,792
All manufacturing	110,439	n.a.	114,477	n.a.	101,715	n.a.
Employment in T & A as % of Employment in Manufacturing	66.5		71.1		66.1	

Source: Central Statistical Office

The textile and clothing sector has created a lot of employment since the 1970s. Mauritius having a pool of unskilled but yet educated labour provided an adaptable workforce for the textile and clothing sector.

However, this workforce has gradually become more expensive and could not produce as much as expected by industrialists to meet the challenges of the world market. In the 1990s, producers began to turn to foreign workers from China, India and other Far East Asian countries. These workers were considered more productive as they worked longer hours and were paid the same as local workers. In 2004, it was estimated that around 15,000 foreign workers were working in the textile and clothing factories of Mauritius.

Figure 1: **Employment in the Textile and Clothing Sector**

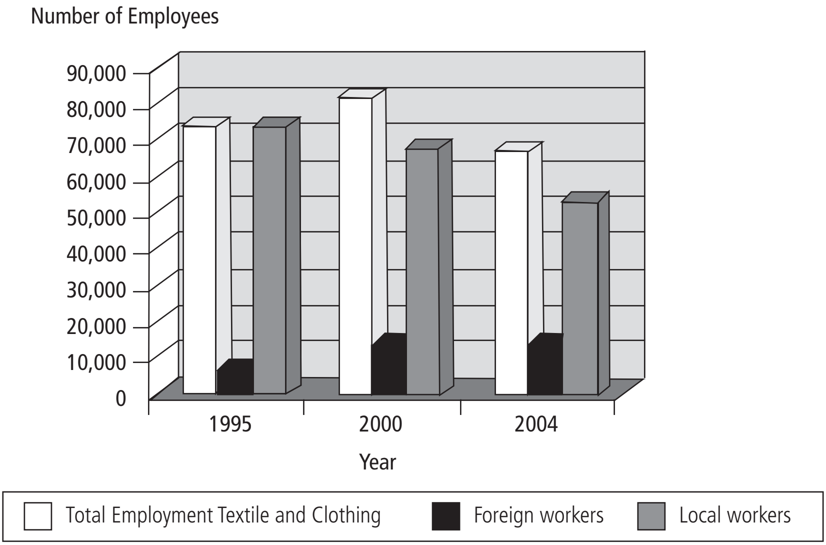


Table 1 and Figure 1 show the evolution of the labour force in the textile and clothing sector since 1995. There has been a constant increase in the labour force from 1995 to 2000, followed by a 17.4% decrease in the labour force from 2000 to 2004. This can be attributed to the closures of several factories since 2002 and to the lack of interest of locals to work in the sector. Mauritians and especially the young generation do not see working in factories as a viable career option. Many consider the working hours as being too long and the salary too low considering the facts that they are now more educated than the previous generation and that they can have access to further technical training to apply for jobs in the Information Technology or the tourism sector. Furthermore, in 1995 only 6,145 foreign workers were employed, while in 2000 this figure had doubled. However, it can be observed that in 2004 there has been a slight decrease in the number of foreign workers employed in the industry.

2.2 Number of Companies and Investments

Table 2 : **Number of Textile and Wearing Apparel Companies**

Industrial Activity	1997		2000		2004
	Total*	EPZ	Total*	EPZ	EPZ
Textile (Yarn and Fabrics)	52	34	65	46	41
Wearing Apparel	332	236	355	240	224
TOTAL	384	270	420	286	265

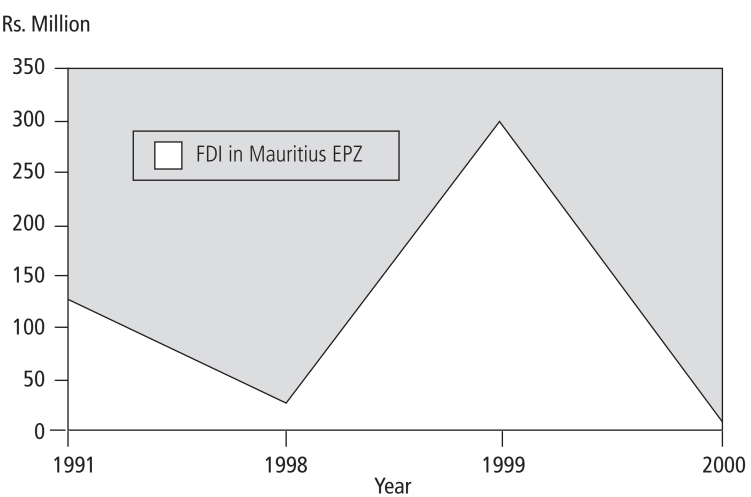
Source: Central Statistical Office & Bank of Mauritius * Non-EPZ and EPZ

Table 3: **Foreign Direct Investment (FDI) in EPZ Sector 1991 to 2000**

	Unit	1991	1998	1999	2000
FDI in Mauritius EPZ	Rs million	130	27	300	8

Source: Jeetah R. & Coughling P., SADC Study of Textile and Clothing Industry, Mauritius Country report, April 2001

Figure 2: **FDI in Mauritius EPZ**



In terms of FDI in the EPZ sector, it can be seen from Table 3 and Figure 2 that FDI in the EPZ has decreased in 2000 and although figures are not available for recent years, empirical evidence show that foreign investment in the EPZ sector is now marginal. Government policies in the recent years have aimed to encourage a diversification of the economy through the promotion of the offshore sector, the tourism sector and the Information and Technology sector. Mauritius now aims to be a cyber island.

2.3 Importance of Textile and Clothing Sector for the Overall Manufacturing Sector

The EPZ sector and by extension the textile and clothing sector has always represented an important proportion of the manufacturing industry in Mauritius.

Table 4: **Gross Domestic Product at current basic prices, 1990-2004 (Rs. million)**

	1990	1995	2000	2004
Manufacturing	8,143	14,289	24,701	31,850
Sugar	1,150	1,010	840	1,587
EPZ products*	3,965	7,067	12,523	13,134
Other	3,028	6,212	11,338	17,129
Gross Domestic Product (at basic prices)	33,415	62,260	104,271	151,296

Source Central Statistical Office

* Textile and Clothing products represent almost 80% of EPZ products

As can be seen from Table 4 above, the EPZ sector represented almost 50% of the contribution of the manufacturing industry to the national GDP in 1990, 1995 and 2000. In 2004 this contribution has fallen to 41% whilst the overall contribution of the manufacturing industry to the GDP increased consistently. This again is a sign that the importance of the textile and clothing sector is slowly losing ground to other sectors of the economy.

2.4 Domestic Textile and Clothing Production V/S Imports

Domestic Production of Yarn and Fabrics

The textile industry in Mauritius exists primarily as a provider of yarn and fabric to some local producers. The biggest garment factories are vertically integrated and produce their own fabrics. Currently, the textile sector is composed as follows:

- 4 woollen yarn spinning mills
- 2 cotton yarn spinning mills
- 2 cotton-weaving mills
- 30 knitting fabrics producers

The two cotton-spinning mills started their operation in 2003 and 2004 respectively. Prior to their operation, Mauritius was importing all its cotton yarn from India, the Far East and from Zambia amongst others. Mauritius with its two cotton-spinning mills now produces almost one third of the cotton yarn it consumes.

Imports of Yarn and Fabrics

Table 5 shows that there has been a decline in the import of yarn and fabrics as from 2003. This can be explained by the set up of the two cotton-spinning mills as from 2003.

Table 5: **Imports of Yarn and Fabrics (Rs. Million)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004[1]
Textile (Yarn and Fabrics)	6,643	7,250	8,888	8,931	10,843	10,650	10,365	9,949	9,225

Source MIDA and Central Statistical Office

1 Provisional

Domestic Production for Clothing

Most of the clothing production in Mauritius is exported. In that respect only a few local producers, mainly small factories and the informal sector, produce for the local market. Producers in the Export Processing Zone can sell a small proportion of their production on the local market but with the authorisation from the Ministry of Industry and Commerce. These producers normally sell their products in their own factory shops. These products are mostly sold to tourists and to the Mauritian middle and upper classes.

Imports of Clothing

According to a report published by the Mauritius Industrial Development Authority in 2001, the level of garment imports into Mauritius was approximately 3.8 kg per head of population (2001: p24).

The direct imports for knitted and non-knitted garments are shown in Table 6. The table shows the constant progression of the Mauritian imports of knitted and non-knitted products. The value of imports of garments has increased by almost 80% from 2000 to 2004.

Table 6: **Imports of Knitted and Non-Knitted Garments (Rs. Million CIF)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Knitted garments	58	85	85	115	116	134	167	171	186
Non-knitted garments	249	330	312	310	327	353	518	534	607
Total	307	415	397	425	443	487	685	705	793

Source: Central Statistical Office and MIDA

Moreover, Government, in its vision of making Mauritius a duty-free island, has removed duties from 80% to 0% on imported garment articles in its last budget of April 2005. This will certainly lead to a further increase in the Mauritian imports and also put more pressure on local producers who have now to face what they perceive as unfair competition.

2.5 Importance of Textile and Clothing Exports for the Mauritian Economy

The textile and clothing sector has been at the heart of the economic success of Mauritius during the past decades. As shown in Table 4, the EPZ which, as mentioned above is mainly composed of textile and clothing factories, has contributed around 12% to the GDP of the country between 1990 and 2000. However, in 2004 the contribution of the EPZ sector to GDP has fallen to 8.7%.

Table 7: **Gross Domestic Product Growth Rate Over Previous Year, 91/92 to 04/05**

	91/92	99/00	03/04[1]	04/05[2]
Manufacturing	4.8	2.6	0.1	-0.3
Sugar	-1.7	-45.0	3.1	6.5
EPZ products	5.6	5.9	-6.4	-7.4
Other	6.1	6.0	5.9	4.9
Gross Domestic Product (at basic prices)	4.9	3.2	4.0	4.1

Source: Central Statistical Office 1 revised estimates 2 forecast

From the table above, it can be noticed that the growth rate of the EPZ sector was 5.9% in 99/00 while it was – 6.4 in 2003/2004 and it is estimated to be –7.4 for 2004/2005. This negative growth shows how the textile and clothing sector is facing a crisis, which could have very adverse consequences for both the sector and the Mauritian economy.

Table 8: **Value of EPZ Exports to EU and USA, 1997-2004**

	TOTAL	EU		USA	
Year	(Rs. Million)	(Rs. Million)	% of Total	(Rs. Million)	% of Total
1997	23,049	16,304	70.74	4,354	18.89
1998	26,075	17,690	67.84	6,053	23.21
1999	29,131	19,214	65.96	6,824	23.43
2000	30,961	19,845	64.10	7,715	24.92
2001	33,695	21,291	63.19	8,804	26.13
2002	32,683	20,861	63.83	9,481	29.01
2003	31,444	20,507	65.22	8,474	26.95
2004	32,370	21,886	67.61	7,395	22.85
1st Quarter 2004	7,410	5,149	69.49	1,632	22.02
1st Quarter 2005	6,546	4,665	71.26	1,318	20.13

Table 8, on the other hand, shows that until 2004 the value of EPZ exports has remained more or less the same from 2001 to 2004. The value of exports to the EU have remained constant, whilst the value of exports to the US decreased slightly. The data for 2005 have not yet been published but indications from the figures for the 1st Quarter of this year are that there will be no improvement.

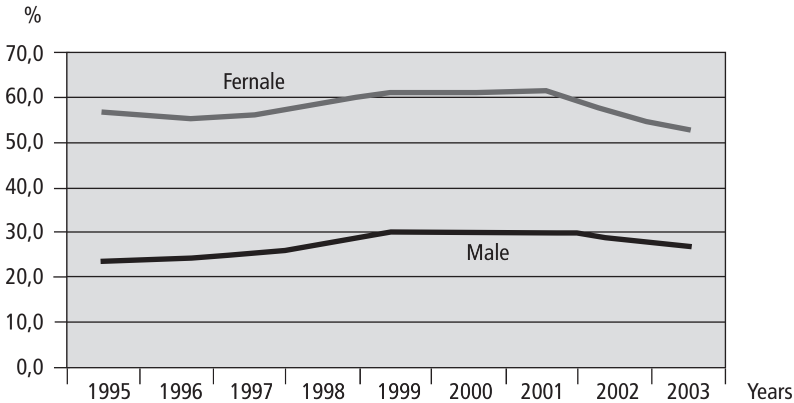
2.6 Impact of the Textile and Clothing Sector Development on the Society

The success story of the textile and clothing sector coincides with many important changes in the Mauritian society. It has undeniably contributed to the economic development of the country but it has also brought about important social changes, which are illustrated below:

(a) Emancipation of Women

The textile and clothing sector has employed and is still employing a majority of women. As shown in Figure 3 below, female workers represent about 60% of the employees in the EPZ. Women who were traditionally seen as housewives and who did not even get access to formal education, represented an important pool of labour for industrialists. With the advent of the EPZ, men were no more the sole breadwinners. Women also were and still are bringing income to their families. This has obviously brought a change in the role of woman: from a docile housewife to an independent income earner.

Figure 3: **Employment by Sex in the EPZ**



(b) House Ownership

Table 9: **Percentage Distribution of Housing Units by Tenure, Republic of Mauritius**

Tenure	**Housing Census**			
	1990		**2000**	
	Number	%	Number	%
Owner	179,700	76.0	257,700	86.5
Tenant	35,100	14.8	27,800	9.3
Sub-tenant[1]	900	0.4	–	–
Free	20,700	8.7	12,300	4.1
Other[1]	200	0.1	–	–
All Households	236,600	100.0	297,800	100.0

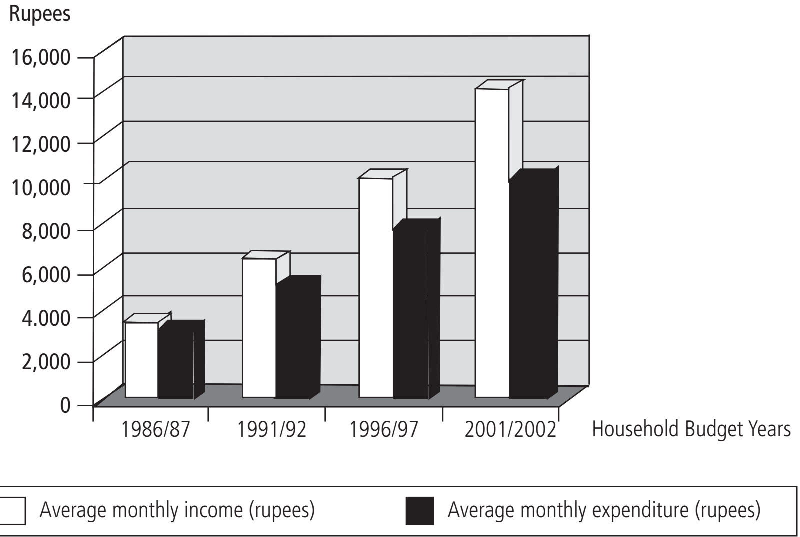
(1) Figures for “Sub-tenant” and “Other” are negligible for 2000 census

Source: Housing Characteristics 2000_files\cso_files\hous2000.htm. Date accessed: January 31, 2002

As can be seen from Table 9 based on the population censuses of 1990 and 2000, house ownership is high in Mauritius with 76% of housing unit being owned in 1990 and 86.5% being owned in 2000. Though the development of the textile and clothing sector is not the only contributor to the rise in ownership, it can be said that it has been one of the major factors behind this development.

(c) Increase in Household Income & Expenditure

Figure 5: **Average Household Income & Expenditure**



Household income and expenditure has also increased during the past 2 decades. According to the last Household Budget Survey of 2001/2002, while the average household monthly income was of roughly US $ 100 in 1986/87, it reached US $ 474 in 2001/2002. The same analysis can be made for the average monthly expenditure. In 1986/87 households spent US $ 87 on average while in 2001/2002 households' monthly expenditure stood at US$ 338.

2.7 Foreign Direct Investment of Mauritian Firms in Madagascar

Mauritian garments firms have taken advantage of lower costs of production, more particularly the low wages in Madagascar by relocating part of their production there. The first major move was by Floreal Garments, member of CIEL, a leading

Mauritian textile and garment group in 1990. It was estimated that Floreal employed about 5,000 employees in Madagascar in 2000. The other major garment enterprise which has relocated part of its production in Madagascar is the Compagnie Mauricienne de Textiles (CMT). It has moved its "low-end" operations to Madagascar and was reported to employ about 4,000 jobs.

The table below gives an indication of Foreign Direct Invest (FDI) from Mauritius to Madagascar from 1990 to 2002. FDI reached a peak of Rs. 57 million (about US $ 2 million) in 1999. However, the political crisis and the civil unrests (general strikes), which rocked Madagascar in 2002, directly affected Mauritian firms established in Madagascar. Some of them like Floreal and CMT had to repatriate their machines to Mauritius so as to minimise losses. Most of these Mauritian firms lost a lot of money especially in terms of orders which they could not meet. For example, Floreal lost US $ 14 million due to the crisis.[1]

Table 10: **FDI Flows Abroad, by Geographical Destination, 1990-2002**

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total World	8	170	674	587	19	63	48	67	329	162	333	82	36
Developed countries	3	-	5	3	8	4	3	-	27	5	180	-	-
Western Europe	3	-	2	3	3	4	3	-	21	-	180	-	-
European Union	3	-	2	3	3	4	3	-	5	-	180	-	-
France	3	-	2	3	3	4	3	-	5	-	180	-	-
Other Western Europe	-	-	-	-	-	-	-	-	16	-	-	-	-
Switzerland	-	-	-	-	-	-	-	-	16	-	-	-	-
North America	-	-	3	-	5	-	-	-	6	5	-	-	-
United States	-	-	3	-	5	-	-	-	6	5	-	-	-
South Africa	-	-	-	-	1	2	3	20	5	-	-	-	-
Developing economies	5	170	613	471	8	59	24	59	224	157	70	67	3
Africa	5	170	613	21	7	58	21	59	76	157	70	67	3
Other Africa	5	170	613	21	7	56	21	59	76	157	70	67	3
Comoros	-	165	-	-	-	49	18	26	-	-	-	-	-
Kenya	-	-	-	1	2	-	-	-	-	-	-	-	-
Madagascar	**5**	**5**	**-**	**20**	**4**	**5**	**-**	**13**	**19**	**57**	**2**	**2**	**-**
Mozambique	-	-	-	-	-	-	-	-	5	81	-	58	-
Reunion	-	-	613	-	-	-	-	-	17	10	-	6	3
Seychelles	-	-	-	-	-	-	-	-	30	9	68	-	-
South Africa	-	-	-	-	1	2	3	20	5	-	-	1	-
Asia	-	-	-	450	1	3	3	-	148	-	-	-	-
South, East, South-East Asia	-	-	-	450	1	3	3	-	148	-	-	-	-
India	-	-	-	450	1	3	3	-	148	-	-	-	-
Unspecified	-	-	56	113	3	-	21	8	78	-	83	15	33

Source: Central Bank of Mauritius

1 Business Magazine, 2-8 July 2003, p.5

In 2003, some of the firms and especially the big ones returned to Madagascar to reopen their factories or reinvest in new factories to take advantage again of the low costs of production in the country and because there was already a pool of trained workers available in Madagascar. However, there has been no clear indication of the value of FDI flows to Madagascar since 2002.

3. National Economic Policies to Promote Growth of Textile and Clothing Industry

During the 80s and the 90s, two institutions were set up by the Government to accompany the development of the textile and clothing sector in the country:

Mauritius Export Development and Investment Authority (MEDIA)
MEDIA was set up in 1983 and became the Mauritius Industrial Development Authority (MIDA) in 2000. MEDIA and later MIDA had the following objectives[2]:

- to promote the export of goods and services from Mauritius
- to develop and operate industrial sites and estates
- to plan, implement and review programmes of action for the development of export in export-oriented manufacturing, and
- to advise the Minister on all matters relating to export promotion

Its main tasks were, therefore, to assist local enterprises by amongst others:

- providing advice to entrepreneurs about potential market they could tap
- organising and participating in fairs to show Mauritian products
- helping small and medium enterprises in their development
- carrying out market surveys to identify new markets and new products which could be produced in the country
- developing industrial estates for enterprises to operate at concessionary prices

Though its action was not meant to be geared only to the textile and clothing sector, MEDIA/MIDA was one of the main support agencies for the sector which represented the main part of the EPZ.

Export Processing Zone Development Authority (EPZDA)
EPZDA was set up in 1992 to ensure a smooth transition from a labour-abundant to a skills-intensive economy.[3] The actions of the EPZDA were mostly meant to help the textile and clothing sector.

2 http://ncb.intnet.mu/mida/mnmedia.htm accessed on 17.9.2005
3 http://epzdanet.intnet.mu/main.htm accessed on 17.9.2005

The main objective of the EPZDA were as follows:

(1.) to promote the diversification of new product range
(2.) to sustain the growth of the core textile products
(3.) to move up market to attain higher value added of our exports
(4.) to promote and foster the promotion of textile clusters
(5.) to promote technology transfer and act as a technology watch
(6.) to provide support services in the field of regional cooperation
(7.) to reinforce knowledge transfer through research and dissemination of information
(8.) To impart skills development
(9.) To promote ICT applications in industry
(10.) To enhance enterprise efficiency through Business Process Re-engineering

One of the main achievements of the EPZDA was the setting up of a Clothing Technology Centre where training was delivered to employees of the clothing sector to enhance their capacity to use new technologies to be used in their factories.

MIDA and EPZDA have now been merged in a single institution called Enterprise Mauritius which has the difficult task to foster the revival of the export sector of Mauritius. The new enterprise is still at infancy stage and it is gathering from the past experience of the two organisations to develop viable and sustainable strategies for exports to increase.

Policies as from 2000

Textile Emergency Support Team

With the announcement of the dismantling of Multi-Fibre Agreement as from 1 January 2005, the government responded with the establishment of a High Powered Committee led by the Ministry of Industry. The committee decided that is was high time to review the sector and to put more emphasis on productivity and competitiveness of the enterprises, which were still surfing on the wave of the preferential access to EU and US markets.

A Textile Emergency Support Team (TEST) was set up in July 2003. TEST is a joint private/public sector initiative to assist enterprises in their restructuring to improve their international competitiveness. TEST was willing to help any enterprise, which would show interest to become more competitive. TEST undertook its task in two stages:

1. A diagnosis of individual enterprises to determine their strength and weaknesses in terms of productivity and competitiveness.
2. As a result of the diagnosis, to accompany the enterprises financially in restructuring their production process to be more competitive with the help of consultants.

The diagnoses were carried out by the National Productivity and Competitiveness Council (NPCC), again a joint public/private initiative set up in May 2000. Out of 260 textile and clothing enterprises, only 43 took advantage of the free diagnosis provided by the NPCC. None of these 43 enterprises actually went to Stage 2.

Fiscal Measures
In its 2003-2004 budget, Government granted special fiscal incentives to foster the creation of spinning mills. A 10-year tax holiday and a special tax credit of 60% of equity investments were granted to any investor who would set up a spinning mill. This led to the creation of two spinning mills and two more projects are on the way. This measure aims to enable Mauritian producers to meet the AGOA rules of origin criteria.

In its budget of 2005-2006, Government has extended the fiscal incentives granted to spinning mills to weaving and dyeing activities as well.[4]

4. Reactions of Trade Unions Towards the Crisis

The role of the trade unions has always been central to the development of Mauritius. From a historical point of view, trade union actions and labour movements have triggered important political, social and economic changes.

The fight led by trade unionists and labour representatives helped Mauritius gain its independence in 1968. Moreover, actions led by trade unionists after independence have directly or indirectly assisted the social and economic development. For instance, action led by trade unionists and political parties led to education being declared free at primary and secondary level for all Mauritians.

Trade unions have existed for a long time, particularly in the textile and clothing sector, which employs about 65,000 workers. 18 different trade unions are currently supporting the workers of the industry. However, the role of trade unions has evolved over the years and changed to meet the challenges faced by workers in the sector. Their role now is different to that played in the 1980s as outlined below:

4 Hon. Pravind Jugnauth, Minister of Finance and Economic Development, Budget Speech 2005-2006, April 2005, pp 29-30

1980s to 2000 – Fight for better working conditions of local workers
With the advent of the EPZ and the textile and clothing sector in Mauritius, trade unions' role was to pressure employers for better working conditions for employees. Factories were mushrooming in the country, and more and more young workers (especially women) were being employed. Factory workers worked on piece-rate basis and were encouraged to do overtime. In the 1980s, workers from the textile and clothing sector were receiving low salaries of not more than US$ 35 per month (including overtime payment).

Trade unions were then called upon to raise workers' grievances as they were underpaid and had to endure long working hours.

In the mid 90s a new phenomenon, the employment of foreign workers, led trade unions to express their fear for the future of local workers. The foreign workers from China and India mostly worked longer hours and were considered more productive than the locals. Trade unionists could not deny the fact that Mauritian workers were less productive than foreigners. They nonetheless fought to secure the jobs for local workers despite the claims of employers that the local labour was too expensive.

Since 2000:

Fight for better working conditions of foreign workers
Trade unions now try to assist the same foreign workers which they had vehemently fought a few years before. Many foreign workers, especially the Chinese, claimed that they were badly treated in Mauritius. They pointed out that they were living in inhumane conditions in their dormitories. Some also claimed that they were underpaid and that their recruiting agents were robbing them.

There have been cases of strikes and even riots, which resulted in police intervention. In such instances, Mauritian trade unionists intervened as moderators and attempted to solve the conflicts.

Fight for compensation for workers as result of factories closing down
The crisis of the textile and clothing sector in Mauritius since 2002 has had direct repercussions for the workers concerned as about 15,000 lost their jobs.

The job losses led to riots in some cases. Trade unions have played an active role in trying to secure decent monetary compensation for those who lost their jobs. They also acted in collaboration with the Ministry of Labour to find agreements between employers and employees to smoothen the impact of retrenchments.

The task of trade unions to negotiate for other jobs is very difficult. Most of the persons who have lost their jobs have more than 10 years experience in the textile and clothing sector. Many of these employees are older than 40 years of age and it is thus fairly difficult to re-skill them to work in other sectors, such as tourism and the emerging IT sector.

5. The Future of the Industry

During a workshop in August 2005 on the challenges facing the textile and apparel industry, Mauritius' Minister of Industry, Small and Medium Enterprises, Commerce and Cooperatives, Rajesh Jeetah stated that:

> *"(…) the EPZ sector, as one of the major pillars of the economy, has been going through a difficult period during these last three years. It registered negative growth rates of 6%, 6% and 6.8% respectively in 2002, 2003 and 2004. This year too, the EPZ is expected to register a negative growth of 8%. The situation is therefore not rosy at all."*[5]

The Mauritian textile and clothing sector is certainly facing a crisis, which is deepened everyday with news of further closing down of factories.

Moreover, the Third Country Fabric derogation, which was granted to Mauritius in October 2004 under AGOA, will phase out on September 30, 2005 and will most probably not be renewed. This derogation allowed Mauritius to source its raw material from countries outside the African Region therefore allowing some leeway for producers who have long established relations with suppliers in India and the Far East. The phasing out of the derogation means that Mauritius should imperatively source its fabric from the region to access the US market. Producers have always been reluctant to tap these sources of fabrics claiming that they lack supply capacity and were often of lesser quality than from their traditional suppliers.

The textile and clothing sector is therefore at crossroads and various opinions were expressed by stakeholders:

- Government wants to restructure the sector to make it more productive, efficient and competitive. In that respect, government is putting a lot of emphasis on training at all levels of the industry. The idea of clustering of small and medium factories has already been expressed and the NPCC has embarked in a campaign to promote the idea of clustering and benchmarking.

5 http://www.gov.mu/portal/site/industry-site/menuitem.83c13291f2973a4db3347524e2b521ca/ accessed on 16.9.2005

- On the other hand, local producers feel that they have been left without assistance and that the measures taken by government come very late. Big companies such as Compagnie Mauricienne de Textile (CMT) are still able to adapt fairly well to the changing economic environment. However, Mr. François Woo, Managing Director of CMT stated that the challenge of the textile and clothing enterprises is to be always faster than competitors like China and that the remoteness of Mauritius from its markets is a definite disadvantage. He, therefore, made an appeal to all stakeholders and specially freight forwarders to lower their prices and to be pro-active to help the textile and clothing sector survive in Mauritius.
- Other local producers argued that Mauritians tend to be too selfish. They should collaborate and work together to be able to meet the new challenges instead of thinking about their own vested interests. There were appeals from small and medium enterprises to get help and to be able to share the experience of bigger companies. There has also been one clustering initiative, which was not successful.
- Trade unions and workers from the sector are desperate for the remaining factories not to close down though they know that there is little they can do to prevent further closures.

In general, the Mauritian Government has been criticised for its lack of vision and for waiting too much before restructuring the textile and clothing sector. Many economic observers consider that Government should have started to think strategically about this sector since 2000 when the sector was still fairing well and when it had reached a peak in its development.

Government failed to see the threats to the sector and when these became obvious, it could only take short-term measures, which have not proved helpful to prevent factory closures and job losses.

The current debate about the sector tends to focus heavily on the rising cost of productions and particularly on the rising cost of labour. Yet, the reality is that it will be almost impossible to reduce the salaries of workers to the level they were back in the 1980s when the sector was booming. The challenge lies elsewhere:

The textile and clothing industry has to become more efficient, productive and quality-oriented despite the rising costs of production. All efforts of the stakeholders of the sector should be focused towards this goal. Some producers already stated that the only solution is to move up-market or to find a niche market. There were also calls from suppliers for high quality products while other competitors are producing lower quality but in large quantity.

The success of the textile and clothing industry lies therefore in the capacity of all stakeholders to rapidly adapt to the changing economic environment and on their will to meet the new challenges ahead of them together.

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Africa's Clothing and Textile Industry: The Case of Ramatex in Namibia

By Herbert Jauch

Namibia attained its independence in 1990, when the former liberation movement, the South West Africa People's Organisation of Namibia (SWAPO) became the ruling party. SWAPO enjoyed the overwhelming support of Namibian workers, particularly those organised under the umbrella of the country's largest trade union federation, the National Union of Namibian Workers (NUNW). The NUNW is still affiliated to the ruling party, hoping that this would help the labour movement to influence policies in favour of its constituency.

1. The Economy and Employment

Namibia's population of 1.9 million people is relatively young. More than half of the population is less than 20 years of age and more than 40% are less than 15 years old. In 2001, only 33% of the population lived in urban areas compared to a rural population of 67%. These figures are changing steadily due to increasing urbanisation that has taken place since independence.

In 2000, 888,009 Namibians were 15 years or older and the Labour Force Survey classified 541,447 people as economically active and 346,157 people as economically inactive. The bulk of those classified as economically inactive were students (52.3%), followed by ‚home-makers' (20.8%), retired and old people (18.4%) and those affected by illness and disability (6.9%). The number of economically inactive women (211,718) was significantly higher than the number of men (134,439).

The agricultural sector was the largest sector in terms of employment in Namibia, accounting for 123,297 (or 28.6%) jobs. It is, however, important to point out that this figure included about 78,000 communal/subsistence farmers, 1,623 commercial agricultural employers and 4,354 ‚own account' self-employed agricultural workers. There were 26,480 farm workers on private farms and 2,730 workers on public farms. Agriculture accounted for 53% of rural employment.

Other important sectors in terms of employment were community, social and personal services with 47,517 jobs (11.0%); 'real estate, renting and business activities with 42,128 jobs (9.8%), wholesale and retail and motor vehicle repairs with 39,850 jobs (9.2%); and education with 30,523 jobs (7.1%). On the other hand manufacturing accounted for only 22,921 jobs (5.3 %) which is an indication that this sector was still severely under-developed in Namibia.

Table 1: **Employment Trends (1997-2000)**

Industry	1997	2000	Change
Agriculture	146 899	126 459	-13.9%
Fishing	6 771	7 800	15.2%
Mining & Quarrying	6 592	3 868	- 41.3%
Manufacturing	25 983	22 922	- 11.8%
Electricity, gas & water supply	4 576	4 193	- 8.4%
Construction	19 801	21 788	10%
Wholesale & retail trade, repair of motor vehicle	33 815	38 902	15%
Hotels and restaurants	2 988	7 677	157%
Transport, storage & communication	13 480	14 308	6%
Financial intermediation	7 817	4 933	- 36.9%
Real estate, renting and business activities	20 244	39 318	94%
Public administration, defence and social security	22 029	24 419	10.9%
Education	24 023	30 538	27%
Health & social work	10 922	13 135	20.3%
Other community, social & personal services	24 518	46 289	88.8%
Private households with employed persons	28 547	22 209	- 22%
Extra-territorial organisations & bodies	229	327	42.8%

Source: Labour Force Survey 1997 & 2000

Using the broad definition of *unemployment*, the rural unemployment rate stood at 35.9% compared to 31.3% in urban areas. Unemployment also has a gender dimension as the rate was significantly higher among women (39%) than among men (28%).

Table 2: **Unemployment – Broad Definition (2000)**

	Overall percentage	Percentage among women	Percentage among men
Nationally	33.8	39.0	28.3
Urban Areas	31.3	37.2	25.4
Rural Areas	35.9	40.4	30.8

Source: Labour Force Survey 2000

2. Namibia‘s EPZ Programme

In 1995, the Namibian Government introduced the Export Processing Zones (EPZ) Act, which was justified on the basis that despite the creation of conducive investment conditions, economic growth and investments had remained far below government‘s expectations. The incentives offered to EPZ companies are:

- Corporate tax holiday;
- Exemption from import duties on imported intermediate and capital goods;
- Exemption from sales tax, stamp and transfer duties on goods and services required for EPZ activities;
- Reduction in foreign exchange controls;
- Guarantee of free repatriation of capital and profits;
- Permission for EPZ investors to hold foreign currency accounts locally;
- Access to streamlined regulatory service (‘one stop shop’);
- Refund of up to 75% of costs of pre-approved training of Namibian citizens;
- Provision of factory facilities for rent at economical rates

When the EPZ Act was passed, it stated that the Labour Act of 1992 would not apply in EPZs. The government argued that both local and foreign investment in the first five years of independence had been disappointing and that EPZs were the only solution to high unemployment. At the time, President Sam Nujoma described the exclusion of the Labour Act as necessary to allay investors’ “fear of possible industrial unrest”. He promised that regulations on conditions of employment would be put in place to address the fears of workers. He further described the non-application of Namibia‘s Labour Act in EPZs as “a delicate compromise, which is necessary to achieve the larger goal of job creation” (The Namibian, 30 October 1995).

The National Union of Namibian Workers (NUNW) opposed the exclusion of the labour act as a violation of both ILO conventions and Namibias constitution. The union federation instructed its lawyers to challenge the constitutionality of the EPZ Act in court. However, during a high level meeting between the government, SWAPO and the NUNW in August 1995, a “compromise” was reached which stipulated that the Labour Act will apply in the EPZs, but that strikes and lock-outs would be outlawed for a period of 5 years. Since 2001, the Labour Act fully applies in EPZs.

In 1999, the labour-based Labour Resource and Research Institute (LaRRI) carried out a comprehensive study of Namibia‘s EPZ programme. LaRRI‘s study was published in March 2000 and found that EPZs had fallen far short of the government‘s expectations of creating 25,000 jobs and facilitating skills and technology transfer needed to kick-start manufacturing industries in the country. At the end of 1999, the EPZs had created less than 400 jobs although millions of dollars had been spent on promoting the policy and on developing infrastructure with public funds. LaRRI‘s study received extensive media coverage and drew an instantaneous response from the Ministry of Trade and Industry, which is in charge of Namibia’s EPZ programme. The Ministry’s Offshore Development Company (ODC) argued that it was too early to measure the success and failures of the programme as EPZs would only show results in the long term. Citing Mauritius as an example to follow, the ODC argued that the island had to wait 20 years for their EPZ programme to yield positive results.

By the end of 2004, the total number of EPZ jobs had increased to about 10,000 largely due to the Ramatex investment in textiles and garments. Ramatex thus contributed to an increase of about 40% in manufacturing jobs. However, in terms of overall employment, the EPZ jobs (including Ramatex) account for only about 2% of all jobs and thus did not contribute significantly to reduce Namibia’s high rates of unemployment.

According to the figures provided by the Ministry of Trade and Industry in July 2004, Namibia’s EPZ investment and employment levels were as follows:

Table 3: **Employment and Investments in EPZs**

Sector	Investments (N$million)	Employment	Imports into EPZ (N$million)	Exports from EPZ (N$million)
Manufacturing (Overall)	1641.49	8391	1621.49	2129.54
Of which: Textiles and garments alone	563.81	8148	1610.25	2112.66
Mineral processing	3737.99	1417	160.51	325.84
Tannery and meat processing	167.5	215	8.66	12.49
Assembly operations	10.9	34	5.26	8.88
TOTAL	5557.88	10 057	1790.66	2476.75

Source: Ministry of Trade and Industry 2004

3. Clothing and Textile Investments

In 2001, the Ministry of Trade and Industry announced that it had succeeded to snatch up a N$ 1 billion[1] project ahead of South Africa and Madagascar which had also been considered as an investment location by the Malaysian clothing and textile company Ramatex. This was achieved by offering even greater concessions than those offered to other EPZ companies, such as corporate tax holidays, free repatriation of profits, exemption from sales tax etc. Drawing in the parastatals providing water and electricity (Namwater and Nampower) as well as the Windhoek municipality, the Ministry put together an incentive package which included subsidised water and electricity, a 99-year tax exemption on land use as well as over N$ 100 million to prepare the site including the setting up of electricity, water and sewage infrastructure. This was justified on the grounds that the company would create 3,000-5,000 jobs during the first two years and another 2,000 jobs in the following two years. The plant (which represents the first clothing and textile company in Namibia) turns cotton (imported duty free from West Africa) into garments for the US market. Ramatex‘ decision to locate production in Southern Africa was motivated by the objective to benefit from the Africa Growth and Opportunity Act (AGOA) which allows for duty free exports to the US from selected African countries who meet certain conditions set by the US government[2].

3.1 Who is Ramatex?

Ramatex Berhad was established in 1982 as Gimmill Industrial (M) Sdn., a small textile manufacturing plant in Batu Pahat, Malaysia. The Ramatex Group, as it is now known today, expanded vertically from dyeing and knitting mills into yarn manufacturing in 1989 and continued its growth into finishing fabrics and printing in 1992. On November 12, 1996, the Ramatex Group was officially listed on the Kuala Lumpur Stock Exchange. Ramatex is the undisputed leader in the Malaysian textile industry. Today, members of the Ma Family who originally set up the business are still the majority shareholders, owning 59 percent. They also still play an active management role.

1 The Namibia Dollar (N$) is linked to the South African Rand. In November 2005 the exchange rate stood at US $ 1 – N$ 6,7

2 These conditions include commitment to a ‘free market economy’ (including privatisation), the elimination of barriers to US trade and investment, protection of intellectual property rights, the elimination of subsidies and price controls etc.

Ramatex Berhad has subsidiaries in China, Mauritius, Namibia and South Africa. Ramatex has three garment factories in the Eastern Cape, South Africa owned by 2 of its subsidiaries: SA Tai Wah Textiles (Pty) Ltd and the May Garment Company (Pty) Ltd.. On 16 September 2003, SA Tai Wah and May Garment gave notice that their operations In Dimaza, Eastern Cape, South Africa would cease resulting in job losses for 2,500 workers. Apparently, this was due to the company‘s relocation of production to Namibia.

With a turnover of about U $ 200 million a year, the Ramatex group currently operates from three major manufacturing facilities in Malaysia, China and Namibia. The Malaysian facility mainly caters for the export quota markets, whereas products manufactured in China are mainly aimed at the Chinese domestic market and non-quota customers. The production in Namibia services the US market under AGOA.

The company has similar operations in all three countries consisting of spinning mills, knitting plants, dye and print houses and also operates (under the subsidiary names Gimmill Industrial and Fulong) several sewing plants. The company‘s total annual capacity stands at around 50 million kilograms of yarn, 30 million kg of knitted and dyed fabric and 75 million garments. The operations in Namibia are envisaged to reach 16 million kg of yarn, 12 million kg of fabric and 3.6 million garments per annum within five years.

3.2 Economic Significance of Ramatex

Ramatex set up an integrated production chain in Namibia, importing raw cotton from West Africa and machinery from Asia. The cotton is turned into fabric which in turn is processed into final garments that are shipped with US $ price tags into the USA. The factory compound consists of spinning, knitting, dyeing, cutting and sewing departments.

Ramatex and its four subsidiaries in Namibia currently employ about 8,000 workers. Given Namibia’s small manufacturing sector that accounted for only 23,000 jobs in 2000 (latest figures available), this represents a significant number of jobs. However, over 2,000 of the Ramatex staff members are migrant workers from Asia, mainly China.

All Ramatex products are currently exported to the USA but figures about the company’s volumes and sales are not made public. However, the trade statistics of the US Department of Commerce reveal that exports from Namibia into the USA increased from US $ 57.4 million in 2002 to 238.3 million in 2004 (see Table 4).

Table 4: **Value of Namibian Exports to the USA (in US $)**

2002	2003	2004
57.4 million	132.2 million	238.3 million
Source: US Department of Commerce.		

It is likely that a large part of these exports can be attributed to Ramatex and its subsidiaries. A rough calculation of labour costs (Table 5) in relation to the export earnings (price at port of entry-fob, Table 4) in 2004 reveals that labour costs in Namibia equal about 10% of the company's export earnings from the US market.

Table 5: **Ramatex Labour Costs in Namibia (in US$, estimated)**

Worker Category	Wage rate	Total
6,000 Namibian workers, regular working hours	US $ 90 x 12	US $ 5 400 000
Namibian workers, overtime	US $ 90 x 12	US $ 5 400 000
2,000 Asian migrant workers, regular hours	US $ 300 x 12	US $ 7 200 000
Asian workers, overtime	US $ 300 x 12	US $ 7 200 000
TOTAL		US $ 24 800 000
Source: Information provided by Ramatex workers		

As an EPZ company, Ramatex does not pay any import and export duties nor any corporate tax. As a result, Ramtex does not contribute towards government revenue. However, the Ministry of Trade and Industry claims that the company created many indirect jobs, for example in the transport industry, which moves containers between Windhoek and the port of Walvis Bay. The number of indirect jobs is difficult to quantify although private transport companies like Maersk and the parastatal Trans Namib seem to benefit from Ramatex' operations.

The Namibian government hopes that the creation of favourable conditions for Ramatex will lead to the attraction of more global textile companies to Namibia. The government is at pains to point out that workers and unions should be patient and refrain from making demands that could scare away foreign investors.

3.3 Ramatex and Labour Conditions

The criteria for AGOA eligibility include the protection of internationally recognised workers' rights such as the rights to free association, to organise, to bargain collectively and the right to "acceptable conditions of work", including minimum wages, hours of work as well as occupational health and safety standards (Section 104 of AGOA I). In the case of Ramatex, however, several workers' rights violations took place.

In 2003, the Labour Resource and Research Institute (LaRRI) carried out a study to investigate the working conditions and experiences of Ramatex workers. The main findings of LaRRI's study were:

- Ramatex workers earn very low wages. Workers who have completed training earn N$ 3.00 per hour, for overtime they earn an extra N$1.50. Trainees receive N$ 1.50 per hour plus 75 cents for overtime. Even when workers work long hours of overtime, they only reach about N$ 700.00 (U $ 100) per month.
- Most workers are forced to work overtime to supplement their basic salaries so that they can cover their basic expenses such as rent, water, food and transport. Most workers still have to share their limited income with their extended families and children.
- Both low salaries and long working hours have a severe impact on workers at Ramatex. Due to low salaries, most workers have to walk long distances to and from work. By the time they reach the factory, they are exhausted. When leaving the factory in the evening most workers still walk back long distances. Since most workers are women they pointed out that they do not feel safe to walk back home.
- Workers also indicated that they are not provided with protective clothing, which they regard as a basic necessity when working at Ramatex. Some workers have developed chest problems whereas others had allergic reactions because of being exposed to the dust from the fabric. This has created another burden for the workers because their expenses now include medical costs.
- Work-related accidents seem to be an everyday occurrence. One worker lost a finger because she got cut by one of the machines at the factory. Another had an injury to her eye caused by a needle. The workers reported that when they get injured and take sick leave, it is regarded as unpaid leave. Because workers are not paid sick leave, they end up working even when they are sick or injured.
- Workers further complained about the humiliation they endure when they get searched especially as they enter the factory in the morning, when they leave

or when they visit the bathroom. Women workers were particularly concerned about the body searches and indicated that it was uncomfortable for them, especially when they have their menstrual cycles.

- Workers reported inhumane treatment from their supervisors. The workers feel trapped because they can not take their grievances to their supervisors whom they felt did not have their well-being at heart. Some of the workers who have asked for compassionate leave have been told to go and never come back. Disputes and disciplinary procedures are characterised by endless signing of warning letters without any explanation.
- Workers frequently reported that they are verbally abused by their supervisors and often told how 'lazy and useless' they are.

3.4 Asian Migrant Workers

Namibian immigration laws and regulations as well as the country's Affirmative Action (Employment) Act of 1998 prescribe that work permits for foreign nationals shall only be issued if the required skills cannot be found locally. In addition, employers are requested to employ Namibian understudies to ensure skills transfer. Against this background, it is astonishing that Ramatex was allowed to import a large number of Asian migrant workers. Most of them are employed as mere production workers with basic salaries of around U $ 250-400 per month plus payment for overtime work. Their salaries are thus higher than those of their Namibian counterparts and the company obviously believes that Asian workers are more productive. There are also indications that the import of Asian workers serves the company's strategy of divide and rule. Workers are divided according to nationalities, they receive different remuneration and benefits and they find it hard to communicate with each other. As a result, there was hardly any joint action by the Ramatex workers. Protests over working conditions over the past few years by Namibian, Filipino and Bangladeshi workers were isolated from each other and workers found no support from the Chinese. Chinese workers are fairly content with their working conditions and merely try to save as much money as possible through excessive overtime during their 2-3 year contracts.

Ill-Treatment of Bangladeshi Workers
A different case was that of Bangladeshi migrant workers. Ramatex brought in the first group of 66 in 2003, followed by a second group of 418 in 2004. These workers came to Namibia because of the salary promised and the benefits (free food and accommodation). They had learned about the Ramatex jobs in Namibia through advertisements in local newspapers. They were recruited through agents

in Brunei and in Bangladesh whom they had to pay up to US $ 3,500 of which only US $ 1,000 were recorded with receipts.

The first group of workers was employed as sewers with a monthly salary of US $ 200. Quality controllers earned US $ 300 per month. The workers' contracts had been signed in Bangladesh and set out the monthly wages. They also contained a clause stating that: "The basic accommodation and food shall be provided by the employer, in accordance with the local situation in Namibia". The employer (Ramatex) was also responsible for the air ticket and for reimbursing the workers for "all approved medical expenses for in-house or designated clinic or hospital for medical treatment" (Work contract of a Bangladeshi worker employed at the Ramatex subsidiary Lichen Apparel)

The Bangladeshi workers received only 7 days of annual leave, while the Namibian Labour Act (1992) prescribes a minimum of 24 consecutive days annual leave. The workers had hoped that they would be able to recover their "agency fees" and save some money that they could send home to their families. However, after only 6 weeks in Namibia, Ramatex unilaterally changed their contracts by cancelling the provision of food and reducing the quality controllers' salary from US $ 300 to US $ 200 per month. This again was an open violation of the Namibian Labour Act.

In August 2004, Ramatex decided to fire the first group of 66 workers, claiming that they had not been productive enough. However, during July and August 2004, Ramatex had brought in another 418 Bangladeshi workers who were all unskilled workers and were paid US $ 120 per month – significantly lower than the first group. These 418 workers (all men) were accommodated under atrocious conditions in a house in Windhoek. Namibia's largest trade union federation, the National Union of Namibian Workers (NUNW), observed that conditions there were "even worse than those of the notorious migrant worker hostels in colonial Namibia" (NUNW press statement, 10 September 2004).

The Bangladeshi workers joined NAFAU in September 2004 but were deported at the end of that month after protesting against their treatment. Ramatex in collaboration with the Namibian police arranged for their swift deportation. The NUNW stated that:

"The Bangladeshi workers' experiences point to an international syndicate of labour brokers who engage in human trafficking. Their operations are similar to those syndicates that offer young women in Eastern Europe and South-East Asia seemingly attractive jobs (or husbands), and then sell them into the sex trade. The labour brokers essentially resort to blackmail as they force workers to pay huge amounts in hard currency (mostly undocumented) in order to get contacts… We would like to point out that when workers stand up for their rights, some government officials and ministries point to the need for protection of the "national interest". We are not sure what is really meant by "national interest". Does it means excluding workers' rights and trampling on their dignity? Does government believe that the national interest is identical with the interest of transnational corporations?" The NUNW also raised questions "about the relationship between the company and the Namibian government which has granted and continues to grant hundreds of work permits to unskilled and semi-skilled Asian workers who carry out tasks that could easily be performed by Namibian workers" (Press statement, 10 September 2004).

4. Trade Union Responses

Before the arrival of Ramatex, there was no clothing and textile industry in Namibia and consequently no industrial union catering for that sector. The Namibia Food and Allied Workers Union (NAFAU) decided to ad the sector to its scope but was confronted with many challenges in the process. When Ramatex started its operations in early 2002, it refused the union access to its premises, forcing union organisers to meet workers outside the factory during lunch breaks and after working hours. As workers suffered from skin rashes and allergies due to dust particles, highly exploitative wages and unfair labour practices, tensions boiled over. In July 2002, the Ministry of Labour issued an ultimatum to the company requesting the compulsory registration with social security for the Ramatex workers.

In August 2002, more than a thousand Ramatex workers downed tools in protest against vague work contracts, which they believed set their monthly salary at N$ 360. The strike was abandoned when NAFAU and the Ministry of Labour intervened to allay workers fears. Ramatex claimed that workers would receive performance-related pay on top of their basic N$ 360, which would bring up their salary to around N$ 800 per month. The company agreed to take the striking workers back and announced that workers would be paid N$ 3 per hour plus production-related incentives.

In September 2002, the Ramatex Executive Director complained to the Namibian Prime Minister that the Windhoek Municipality was not granting Ramatex sufficient additional land (at discount rates) for expansion. Ramatex threatened that unless their request was granted, they might move to other countries. However, the municipality pointed out that there was simply no more land available at the existing site and that Ramatex had illegally used some of its land for the construction of workers' hostels. On several occasions the company had refused to discuss these illegal building activities and even continued the construction without approved plans – despite the City's written instruction to stop.

In the weeks that followed, the Ministry of Trade and Industry (particularly the Investment Centre) and Ramatex tried to address some of the conflicts, which they attributed to a „clash of cultures“. An agreement was reached between the Municipality and the Ministry of Labour and Ramatex finally signed a recognition agreement with NAFAU in October 2002. This agreement covers the Namibian workers but does not apply to the Asian migrants.

In April 2003, however, tensions boiled over once again. Following a 'wildcat strike' over poor wages and conditions of service by over 3,000 workers on 14 April, the Ramatex management closed the factory for two weeks and threatened to eliminate the architects of the wildcat strike. The company also declared its intention to fire all workers. NAFAU tried to negotiate the re-opening of the factory but was unsuccessful and was even accused by some workers of selling out their demands.

When the factory re-opened its doors on 28 April, Ramatex wanted to fire 600 workers whom they accused of ‚masterminding‘ the strike. After negotiations between the company, NAFAU and the Labour Commissioner during which Ramatex was (once again) reminded about Namibia‘s labour laws, workers were issued with new contracts. The company also accepted that all accused workers would have to be given fair hearings.

However, in May 2003, Ramatex suspended 416 workers (without pay) accusing them of masterminding the strike. Shortly afterwards, several hundred Asian workers downed tools demanding wage increases and better conditions of service. This strike lasted just a few hours and was kept under wraps by the company, which did not even report it to the Ministry of Labour. The company claimed that some Buddhist workers wanting to observe the religious festival of 'Wesak' prompted the work stoppage. However, this explanation was contradicted as Ramatex dismissed seven of the striking Asian workers and sent them back home.

Although NAFAU managed to negotiate the re-instatement of most workers, several of its shop stewards were dismissed after disciplinary hearings, thus weakening the union's power at the plant.

By October 2003, Ramatex and NAFAU had reached some agreements. The company agreed that NAFAU should come up with a scheduled time to introduce courses or seminars for supervisors and management. In addition, the company has agreed that workers can elect two full-time shop stewards and one union official. These officials are supposed to be entitled to a fully furnished office on the company premises.

Despite the recognition agreement and the promises made by the company, NAFAU was unable to make progress on substantive issues. Although the company had agreed to introduce a transport allowance in early 2005, this was never implemented. NAFAU reported unfair labour practices and the company's unwillingness to negotiate substantive issues to the Office of the Labour Commissioner on several occasions. Despite several attempts to find a solution through mediation, progress has been slow. The company has never increased its wages or benefits over the past 3 years and NAFAU is currently negotiating with the company. These negotiations are likely to be difficult as the company threatens to relocate and enjoys the support of the Namibian government, particularly the Ministry of Trade and Industry. The Permanent Secretary of that Ministry recently stated in public that Ramatex wages in Namibia are not low by international standards. This confirmed government's view that unions should not pressurise Ramatex for better working conditions as this would endanger the company's future in Namibia.

5. Conclusion

Ramatex represents a typical example of a global production chain in the area of globalisation. The experiences in Namibia are in line with international trends of Transnational Corporations (TNCs) spreading their operations globally in search of increased profits. The fact that Ramatex managed to play out three Southern African countries against each other shows how TNCs utilise their bargaining position to gain increasing concessions from host countries, which are desperate to attract investors. Ramatex' employment practices are in line with other global textile companies who prefer young women workers who are seen to be 'docile' with 'nimble fingers' and less likely to join trade unions or resist company management.

The first few years of Ramatex operation in Namibia have been characterised by many controversies. Many of the conflicts and tensions have remained unsolved, as they are dealt with at the 'political level' (directly with the Namibian government) instead of addressing the root causes of the problems. Unless the problems experienced by Ramatex workers are addressed, Ramatex will be contributing to the establishment of a large number of 'working poor' in full-time employment, unable to meet even their basic needs. This is in sharp contradiction of the Namibian government's stated objective of promoting decent work in line with ILO standards.

The Ramatex investment did not come to Namibia free of charge. Based on the assumption that Ramatex and its subsidiaries employ about 7,000 Namibian workers with an average wage of N$ 500 per month, and given the expenses of about N$ 120 million in public funds to set up infrastructure for the company, the following calculation can be made: The financial support that Ramatex received from the Namibian government is equivalent to the salaries of all workers for 34 months – almost 3 years! A huge investment by any standard which can only be justified if Ramatex‘ operations in Namibia will lead to long-term sustainable jobs of decent quality. Otherwise one may well argue that the huge public investments could have been spent more efficiently on other programmes aimed at job creation.

Based on its findings, LaRRI recommended that Namibia‘s current EPZ policy should be reviewed to ensure that the policy results in investments that will promote socio-economic development in Namibia instead of draining national resources. We also urged that the environmental impact assessment study on Ramatex should be made public to allow debate on possible environmental threats and how they can be prevented; that trade unions should negotiate better salaries and working conditions through collective bargaining; that Ramatex should review its contracts and labour practices and bring them in line with Namibian laws and standards including compensation for accidents at work, implementation of affirmative action and collective bargaining in good faith.

Namibia’s experiences with Ramatex to date point to the urgent need to ensure (at the very least) compliance by foreign investors with Namibian laws, regulations, workers’ rights, as well as environmental, health and safety standards. Experiences elsewhere have shown that compromises on social, environmental and labour standards in the name of international competitiveness have led to a ‘race to the bottom’. The Namibian government as well as trade unions will have to demonstrate that they are serious in defending these rights that were only won through long and bitter struggles. It will be crucial to demonstrate to Ramatex that Namibian laws, regulations and rights are not negotiable. Otherwise, Ramatex will set an example for others to follow, resulting in the loss of some achievements made by Namibian workers since independence.

There are, however, limits to what we can achieve at the national level. Transnational corporations like Ramatex are highly mobile and exploit the opportunities created by neo-liberal globalisation. There is thus a need to tackle such companies fundamentally by questioning the neo-liberal global order and by creating mechanism of democratic control that will ensure an end to exploitative practices and the free reign of capital.

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South Africa

By Etienne Vlok

1. Introduction

The South African clothing and textiles industry has a long history. It has been and remains a very significant source of employment, particularly for women. It is concentrated in certain geographical areas, particularly provinces like the Western Cape, KwaZulu-Natal, the Free State and Gauteng and cities like Cape Town, Durban and Johannesburg as well as certain rural areas (such as industrial towns in the former homelands). In the traditional geographic concentrations, the industry has existed for many decades, is rooted in the unique history and cultural traditions of these areas, and provides a significant proportion of employment. In its rural concentrations, the industry is often the only source of formal employment and very many families are dependent on it for their survival. This geographic and demographic profile has resulted in tremendous social costs resulting from the industry's recent crisis and the resulting loss of employment.

Historically, three phases of the development of the textiles and clothing industry can be identified, linked to the level of protection and competition from international trade. Before democratisation and South Africa's integration into the world trading system, the clothing and textiles industry (like many other) were focussed on import substitution. The industry was highly protected and focussed almost exclusively on the domestic market. This allowed inefficiencies to go unchecked, and resulted in a failure to become internationally competitive (and, therefore, a failure to develop significant export capacity) and a concentration of production in low value-added products. Nevertheless, a number of high quality, high value-added producers, such as manufacturers of men's formal shirts, suits and other tailored garments came into being and achieved success both in the domestic and export markets.

After the end of apartheid rule, South Africa (SA) joined the World Trade Organisation (WTO) in 1994 and opened its market to international trade. During the late 1990s and early 2000s the South African currency, the Rand, depreciated steadily, eventually being significantly undervalued, and combined with an incentive scheme (the Duty Credit Certificate Scheme) allowed the industry to rapidly increase exports whilst at the same time remaining competitive against imports, despite liberalisation. Exports were concentrated in low value-added products.

Since 2002, the value of the local currency appreciated substantially and much of the export performance has evaporated. In addition, the appreciation of the Rand and the very substantial liberalisation of trade over the decade since WTO accession have made possible a very rapid and sustained surge in imports, particularly from China. This has resulted in an unprecedented crisis in the industry, characterised by large-scale loss of employment (the SA Clothing and Textile Workers' Union (SACTWU) recorded more than 55,500 job losses since 2003, and official statistics show a 37% reduction in employment since 1996) and of production capacity.

SACTWU has responded to this crisis through a variety of strategies aimed at reducing in the short term the pressure caused by the surge in imports, enhancing the competitiveness of the South African industry and placing it on a sustainable long-term development path. However, success in this regard depends on a fundamental restructuring and reorientation of the industry, the success of which requires a strong partnership between the industry, government and organised labour.

2. Structure of the South African Clothing and Textile Industry

2.1 Size of Industry

In 2004, the South African clothing and textiles industries generated sales of R34 billion, which, despite a recent decline, is a significant contribution to total manufacturing output. These sales were split almost equally between the two industries, with textiles contributing R17.4 billion and clothing R16.6 billion. Of total sales, only 18.7% of textiles output and 9.4% of clothing sales were exported. This means that the majority of sales are generated from the domestic market. In this regard, it is important to note that similar to developed economies, South Africa's clothing and textiles retailers yield considerable value chain power. For example, the top five retailers account for over 70% of formal SA clothing sales. The industry produces across the product spectrum, although the majority is still in the lower (mass) end of the market. There are, however, important centres of excellence in certain high value-added products such as men's tailored garments. This capacity is increasingly being lost as a result of the rapid surge in imports seen in recent years.

Determining the number of companies in the clothing and textile industry has always been difficult, mainly because of the informal nature of, especially, the clothing industry and the fact that operations can be set up almost anywhere. There are, however, approximately 2,000 active clothing, textile, footwear and leather companies, registered with the Clothing, Textile, Footwear and Leather Sector Education and Training Authority (CTFL-SETA). Of these, more than 80% (or approximately 1,600) are found in the clothing and textile industries.

Most companies in these industries are small to medium sized, meaning they employ between 20 and 200 people.

2.2 Ownership

While more established, larger businesses, particularly in the textile industry, are still owned mostly by white people, a great proportion of small and medium sized businesses, particularly in the clothing industry, are owned by black people, especially in Durban and its townships and Cape Town and its townships. Increasingly, we have also seen the ownership of some formal, larger operations changing hands and being bought by black owners.

While many individual companies are owned by foreign owners or even foreign multinationals, most firms are owned by South Africans. A large exception is the Daun group of companies (located in Kap, Courthiel and other holding companies), owned by a German-national, Claas Daun. The Group consists of several large textile, footwear and furniture manufacturers and leather tanners.

2.3 Employment

The clothing and textile industry is the most labour intensive sector of manufacturing (measured by number of jobs per unit of capital invested) and a very important employer, particularly in many poor communities and of low-skilled workers for whom few other opportunities exist. According to official employment statistics, textiles and clothing employed almost 143,000 people in March 2005 and contributed 12%[1] to total manufacturing employment. Of these, the majority are employed in the clothing sector (97,544 vs. 45,319 in textiles[2]). If one includes informal employment in the statistics, employment could be estimated at about 200,000[3]. These figures represent significant reductions from the levels of a decade ago – by 85,190 or 37.4% since 1996.

1 Using figures collected in the Survey on Employment and Earnings (March 2005).
2 Survey on Employment and Earnings (unpublished figures), first quarter 2005.
3 Official statistics for formal sector employment are provided in the Survey on Employment and Earnings, latest figures are for March 2005. Informal sector employment is derived from data collected for the Labour Force Survey and own estimates.

Table 1: **Clothing and Textile Employment**

Year	Total
March 1996	228 053
March 2005	142 863
Source: Statistics South Africa.	

The industry is a very significant employer of women. Figures compiled by the CTFL SETA show that 66.7% of workers in the industry are women, much higher than the proportion for all workers in the economy as a whole and the manufacturing sector. For the clothing sector alone, this figure is as high as 82%. This means that job losses in the industry have a disproportionate impact on women and women-headed households. An estimated 94% of workers in the clothing manufacturing industry are black (i.e. African, Indian or 'Coloured')[4].

2.4 Wages

The majority of workers in the industry are weekly-paid or "blue collar" workers. Wages are very low. The legally prescribed minimum wage as at 1 May 2005 in "non-metropolitan" areas (the industrial towns) was R217.10 per week (US $ 34.02). The rate for a qualified machinist in these areas was only R303.56 (US $ 47.57) per week, while in Cape Town and other cities it was R537 (US $ 84.15) per week. These wage rates are the lowest in the South African manufacturing sector.

2.5 Geographic Distribution

The industry is concentrated in specific geographic areas, where it is a very significant employer. According to the 1995 October Household Survey the industry employed 35% of the manufacturing workforce in KwaZulu-Natal, 25.5% in the Eastern Cape and 25.2% in the Western Cape. The last two decades have seen the establishment of many textile and clothing firms in the non-metropolitan areas. It was estimated in 2002 that there were 40,000 clothing workers in these areas, of whom 21,500 were in the non-metropolitan areas of northern KwaZulu-Natal[5]. In towns like Worcester, Isithebe, King Williams Town, Newcastle, Lady-

4 Report on the Clothing Textiles, Footwear & Leather Industry CTFL SETA Skills Audit 2004.
5 Gibbon, Peter. 2002. *South Africa and the Global Commodity Chain for Clothing: Export and Performance Constraints.*

smith, Paarl, Phuthaditjhaba, Botshabelo, Babelegi, Mogwase, Durban, Cape Town and Atlantis it is the major, or a very substantial, employer. The closure of factories in these areas has a massive social impact. There is a growing number of informal sector clothing workers who are spread throughout the country – but mainly in the areas in and around the greater metropolitan areas of Cape Town, Johannesburg and Durban.

3. The Crisis and its Causes

3.1 Growth of Local Markets and Decline of Domestic Production

Official statistics on retail sales published by Statistics South Africa indicate that the market for garments, textile products and shoes has expanded significantly in recent years. Over the last five years for which full-year retail trade data have been published (1999 to 2003), the real value of sales of men's clothing (in constant 1995 prices) increased by 55%, sales of women's clothing by 40% and sales of footwear by 38%.

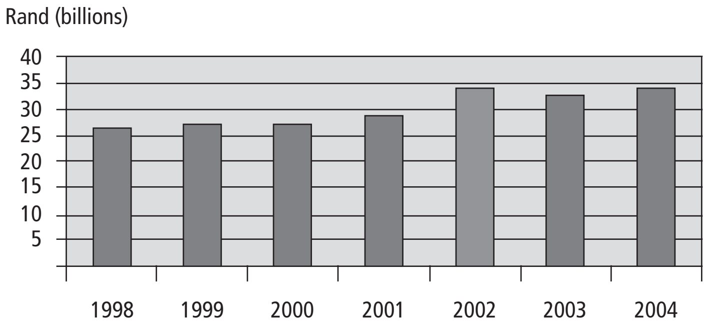
Table 2: **Real Retail Sales Growth 1999-2003 (constant 1995 prices, R million)**

	1999	2002	2003	99-03	02-03
Men's clothing	8,893	12,605	13,789	55%	9%
Women's clothing	13,855	18,980	19,462	40%	3%
Footwear	5,852	6,627	8,056	38%	22%

Source: Department of Trade and Industry economic database, using Statistics South Africa data published in Statistical Release P6242.1 – Retail trade sales.

One would expect these increases in retail sales to be accompanied by significant expansion in the local clothing, textile and footwear manufacturing industry and a concomitant increase in employment. However, this has not been the case – employment has declined dramatically (see Figure 1), while output has been stagnant over the last few years (see Figure 2). This indicates that the industry has not been able to adapt adequately to the challenge posed by increased import competition in the wake of trade liberalisation, currency appreciation and the increasing competitiveness of, in particular, China. The trends in South Africa's clothing and textiles trade are briefly summarised below.

Figure 1: **Clothing & Textiles Manufacturing Sales**



Source: Statistics South Africa, unpublished figures

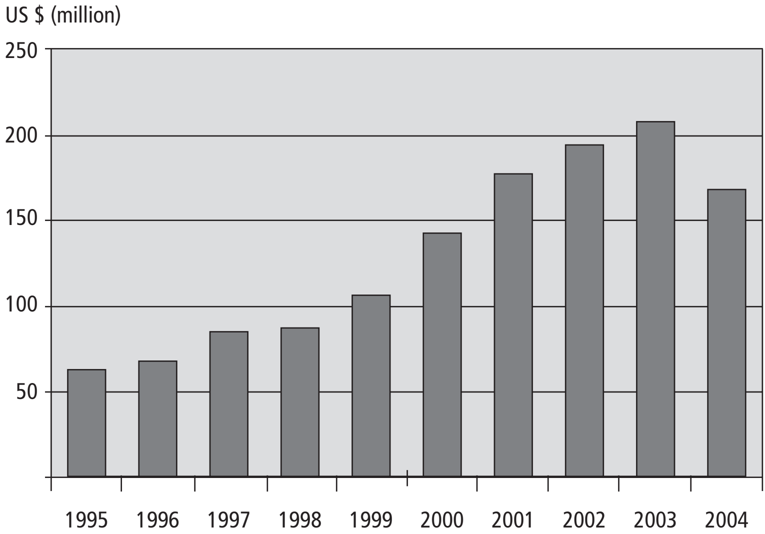
3.2. Growth and Decline of Export Markets

The combination of incentives, a depreciating currency and preferential access to the markets of certain developed countries (the United States (US) and European Union (EU) through the African Growth and Opportunities Act (AGOA) and the SA-EU trade agreement), resulted in a significant rise in exports during the late 1990s and early 2000s. However, with the appreciation of the currency, export performance has weakened drastically and the level of exports has dropped. Firms that took advantage of the opportunities provided by AGOA have suffered the most in terms of loss of orders and the resulting employment losses. This is evident in terms of the drop of apparel exports to the US through 2004 (see Figure 3).

Textile exports grew by 60% from 1995 to 2002, but declined by 35.6% through 2003 and 2004. Wearing apparel performed more impressively with 2002 levels 227% higher than in 1995. However, 2003 and 2004 also saw export levels decline significantly, contracting by 45.9% in real terms. The United States is the largest export destination for clothing, accounting for 55.2% of the total figure. The United Kingdom (UK) also features prominently, and at 21.1% it is the second biggest destination.

The following Figure 2 plots exports of textiles and clothing from South Africa to the United States measured in US dollars.

Figure 2: **SA Exports of Textiles and Clothing to the US, 1995-2004**



Source: www.tips.org.za

3.3 Surge in Imports from China

Currently, SA's clothing sector is nominally protected by tariffs of 40%. This is one of the highest rates for a manufacturing sector and higher than tariffs for the textiles sector. However, effective level of protection is substantially lower, as a result of the terms of the Duty Credit Certificate Scheme (DCCS). Duty credit certificates significantly reduce the real levels of protection afforded both the clothing and textiles industries.

The principal reasons for the decline in the industry are structural, but the current crisis was largely caused (and the long-term survival of the industry is seriously threatened) by a sharp surge in imports, especially from China – aggravated by the earlier pegging of the Chinese currency to the US Dollar and, subsequently, to a basket of currencies. This is also linked to the development of post-quota international textiles trade (despite the fact that South Africa had not in the past imposed quotas on Chinese imports), characterised by the dominance of China. South Africa's trade with China has expanded significantly over the last number of years. However, South Africa has not derived optimal benefit from this development of trade between the countries: the trade balance with China is negative and growing as South African imports are growing significantly faster than exports.

Exports to China are concentrated in raw materials and capital-intensive sectors, while a number of labour-intensive sectors (including but not limited to clothing and textiles) are experiencing rapid surges in imports from China. South Africa's trade deficit with China was R16.6 billion in 2004.

Imports of Chinese clothing products increased by 335% from 2002 to 2004 in US dollar value. China's share of imports increased from 54% in 2002 to 74% in 2004. By volume China's share is even higher, accounting for 85% of all imports of clothing. Over the same period, imports of textiles from China grew by 144% in US dollar value terms.

Table 3: **Clothing and Textile Imports from China 2000-2004** (nominal Rand and US Dollar value)

	2000	2001	2002	2003	2004	01-02	02-03	03-04
Clothing (US$ 000)	95 434	85 713	95 978	202 448	417 115	12%	111%	106%
Textiles (US$ 000)	48 939	54 115	77 779	120 618	189 933	44%	55%	57%
Clothing (R 000)	662 599	738 453	1 010 711	1 532 602	2 694 069	37%	52%	76%
Textiles (R 000)	339 782	466 224	819 063	913 123	1 226 740	76%	11%	34%

Source: TIPS EasyData (www.tips.org.za)

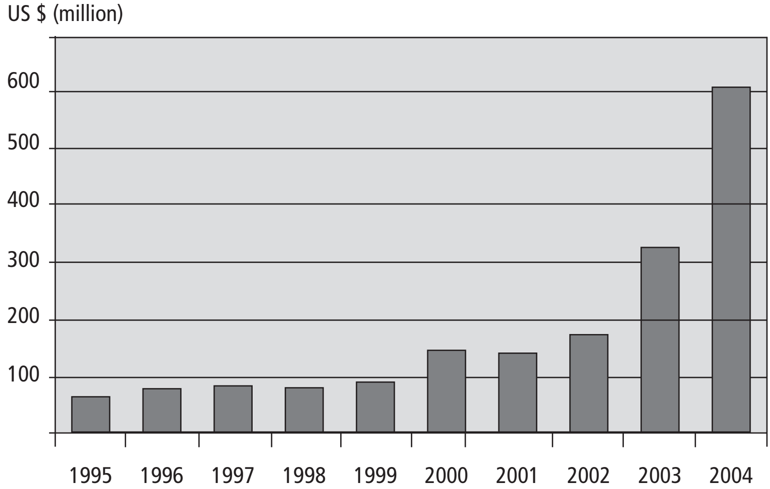
Figure 3 below shows the dramatic growth of Chinese imports, especially of clothing, over the last few years.

When total imports are examined, a similar trend is observed. Textile imports showed minimal changes from 1995 to 2001. The value increased by 34% in 2002 before decreasing by 15% in 2003. Imports of textiles grew during 2004 by 10% in Rand value. Volumes of imports have increased significantly, as can be deduced from the US Dollar figures in table 4[6]. Wearing apparel imports measured in inflation-adjusted Rand value, on the other hand, have grown considerably since 1995, with 2004 levels 376% higher than in 1995. Apparel imports grew by 57% in Rand value during 2004 alone and by 84% in US Dollar value. The volume of clothing imports in 2004 amounted to 389.3 million units which represented an increase of 81% over 2003. In 2004, nominal textiles imports reached R6.5 billion.

The nominal value of clothing imports in 2004 was R3.6 billion or US$560 million. China is the most important source of clothing imports, making up 74.3% of the total figure. India is the second most important source at 5.4%, while Hong Kong is placed third at 4.6%. Whilst Malawian imports declined, imports from

6 US Dollar values are a better approximation of trading volumes since the value of the Dollar is relatively stable and Dollar prices tend to be quite stable.

Figure 3: **SA Imports of Textiles and Clothing from China, 1995-2004**



Source: www.tips.org.za

India, and particularly China, have increased significantly, indicating that imports from African countries are being displaced by imports from Asia, to the detriment of regional development. Trends in clothing and textile imports are summarised in the table below.

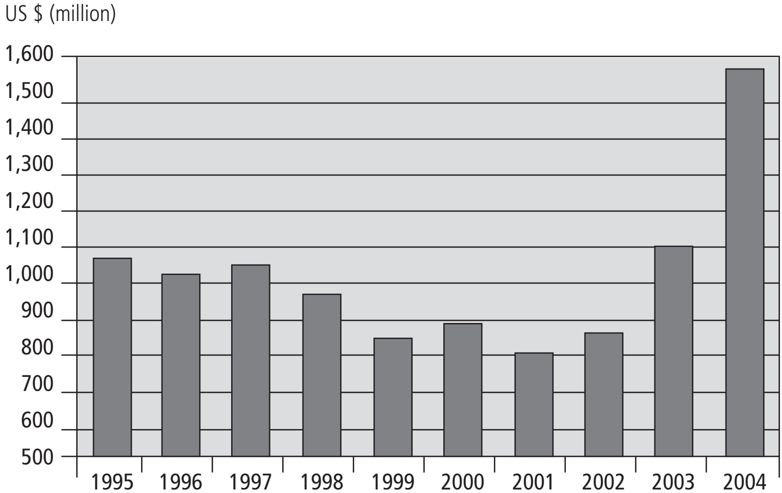
Table 4: **Total Imports of Clothing and Textile, 2000-2004** (nominal Rand and US Dollar value)

	2000	2001	2002	2003	2004	01-02	02-03	03-04
Clothing ($m)	193	169	176	305	561	4%	73%	84%
Textiles ($m)	671	602	659	777	1 003	9%	18%	29%
Clothing (Rm)	1 342	1 457	1 857	2 309	3 624	27%	24%	57%
Textiles (Rm)	4 658	5 188	6 937	5 884	6 477	34%	-15%	10%

Source: www.tips.org.za

Figure 4 shows the total imports of textile and clothing from the world (i.e. all importing countries) from 1995 to 2004, the most notable movement occurring between 2003 and 2004 where the value of imports increased from US $ 1.1 billion in 2003 to US $ 1.6 billion in 2004.

Figure 4: **SA Total Imports of Textile and Clothing, 1995-2004**



Source: www.tips.org.za

3.4. Imports Dominate Local Markets

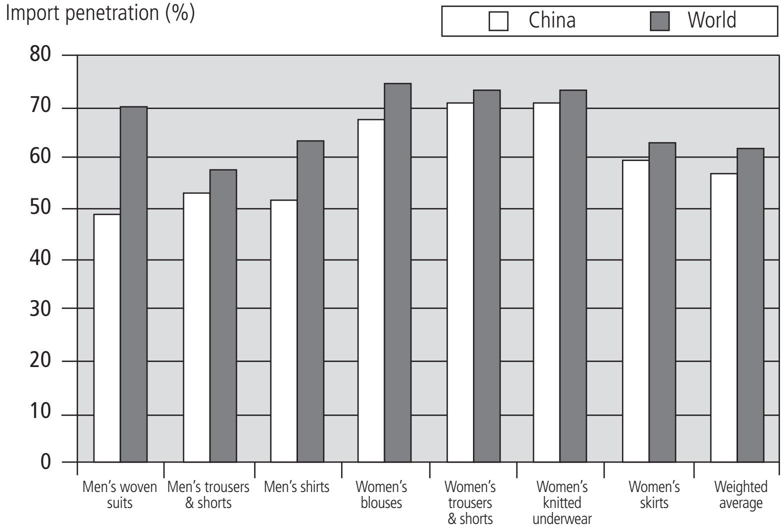
There is broad consensus that official data seriously underestimate the level of imports, as a result of widespread under-invoicing and other forms of illegal imports. Figure 5 uses official figures to show import penetration from China and the world for selected clothing products. The sample of nine products represents approximately 75% of local production. It does not include illegal and under-invoiced imports but does provide some indication of import penetration. (Production volume figures are not available per product since 2003.)

The graphic shows that, for instance, the import penetration for total imports of men's suits was 70% in 2003, while for Chinese imports it was almost 50%. The average import penetration for these seven products was more than 60% for total imports and more than 55% for Chinese imports.

4. The Employment Crisis

Figure 6 indicates the changes in employment figures in the South African clothing and textile industries from 1993. (It plots the average annual employment for each year, except for 2005 which is the first quarter employment figure.) The graphic

Figure 5: **Import Penetration: China and World by Units, 2003**



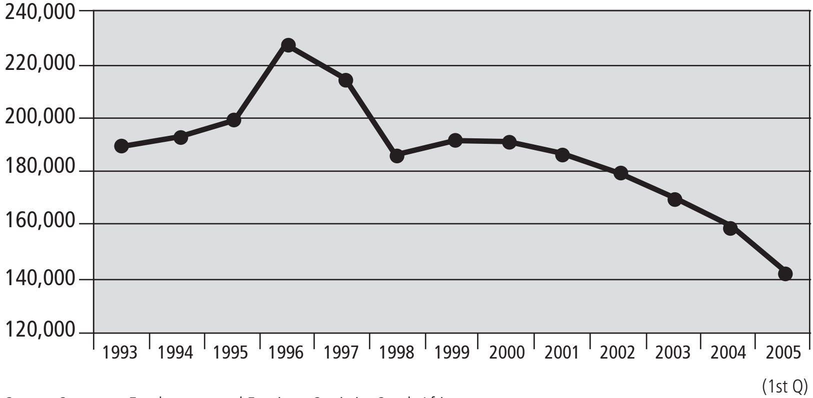
Source: Own calculations using SA Revenue Services and Statistics SA data

shows an especially drastic decline in employment since 2002. It should be noted that the employment statistics included the former homelands, Transkei, Bophuthatswana, Ciskei and Venda, for the first time in 1996 which explains the sharp increase evident in that year.

The sharp decrease in employment is confirmed, and further detail is provided by the comprehensive information on job losses in the industry that is collected by SACTWU's research unit, the Southern African Labour Research Institute (SALRI). SALRI's database tracks job losses through retrenchments, closures and liquidations in unionised workplaces in the industry[7].

7 By law, companies are obliged to inform representative trade unions of planned retrenchments. Information is collected from companies and trade union officials. The database excludes most employees outside of the bargaining unit (i.e. white-collar workers) and contract workers, non-unionised workplaces as well as jobs lost through natural attrition (resignations and retirements). Thus, the actual level of job losses for the industry may be substantially higher than what is recorded in the database. In order to establish the total job losses for the CTFL industry (including those outside the database), SALRI does a conservative extrapolation based on the job losses recorded in the database among SACTWU members. This extrapolation uses a formula based on SACTWU's representivity (which is also the proportion of the industry covered by the database).

Figure 6: **Clothing & Textile Employment (1993-2005)**



Source: Survey on Employment and Earnings, Statistics South Africa.

SALRI's job loss database shows that more than 55,500 clothing, textile and footwear jobs have been lost in 2003, 2004 and the first nine months of 2005. These job losses will have affected 277,875 people directly, given that at least five people are dependent on each breadwinner in the industry. The information is summarised in the table below. (The second column is job losses recorded on the database, the third column a conservative estimate of uncaptured job losses and the fourth column the estimated total job losses for the industry.)

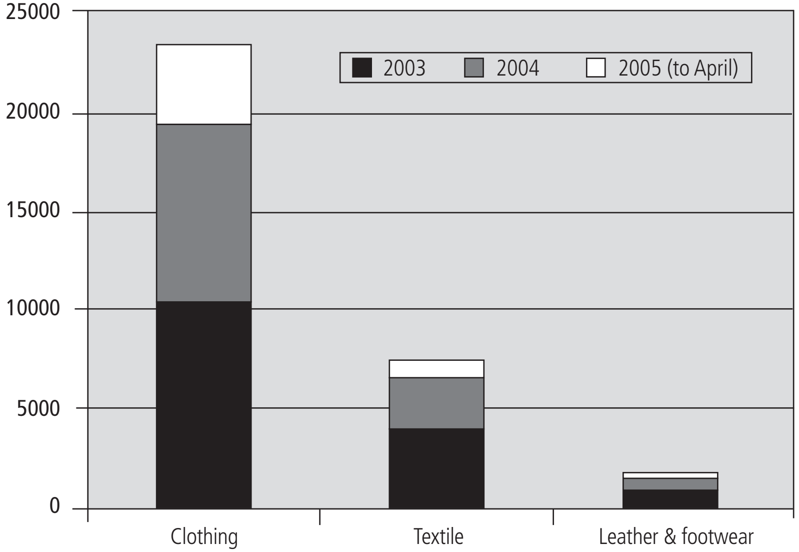
Table 5: **Recorded and Estimated Job Losses Since 2003**

Year	Recorded job losses	Estimated uncaptured job losses	Estimated total job losses
2003	15 386	5 934	21 320
2004	11 798	4 440	16 238
Jan-Sept 2005	15 605	2 412	18 017
Total			55 575

Source: SALRI job loss database, October 2005.

The CTFL industry job loss recorded by SALRI is broken down in Figure 7 by sector, i.e. clothing, textile, footwear and leather sectors.

Figure 7: **Recorded and Estimated Job Losses since 2003**

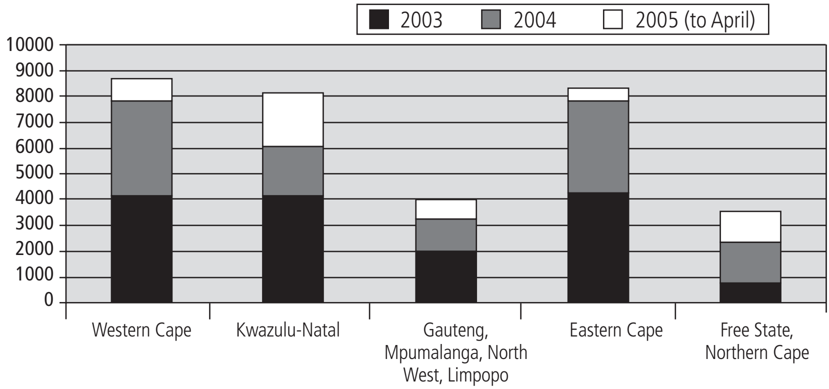


In Figure 8 those job losses recorded in SALRI's database between 2003 and the first four months of 2005 are broken down by province.

Closures and liquidations seriously affect small, medium and micro enterprises (SMMEs) in the industry. Forty-seven percent of closures recorded in the SALRI database in 2003 and 2004 were of businesses with fewer than 50 employees. During the same period, 39% of liquidations were of small businesses.

Many of these job losses occurred in rural areas, where wages are lowest and unemployment is already extremely high. This makes the possibility of retrenched workers finding alternative employment very slim indeed. An analysis of job losses in SACTWU's 31 branches from July 2001 to June 2004 showed that of the 5 branches with the largest number of job losses, three were based in low wage areas: Dimbaza (which accounted for 14% of all jobs lost nationally), Botshabelo (6% of total jobs lost) and Ladysmith (5% of total jobs lost).

Figure 8: **Recorded Job Losses by Province, Excluding Estimates**



It is striking that increases in retail sales have been accompanied by reduced production and employment loss in the associated manufacturing industry. Given the dramatic trade figures presented above, it is clear that the decline in output and employment in the industry (despite increases in retail sales) is the result largely of the surge in imports.

The large clothing retailers have shown spectacular improvements in their financial performance over the last number of years. The table below shows the profit before tax of five major retailers for the 2002 to 2005 financial years. It is clear that these increases in profits are the result, in part, of higher margins achieved on the sale of cheaper imported products.

Table 6: **Retailer Profits Before Tax (R million)**

	2002	2003	2002-3	2004	2003-4	2005	2004-5
Edcon	263	565	115%	1027	82%	1851	80%
Mr Price	193	256	33%	296	16%	411	39%
Foschini	283	513	81%	753	47%	1141	52%
Truworths	452	549	21%	761	39%	980	29%
Woolworths	599	778	30%	937	20%	1112	24%

Sources: Company Annual Reports 2002, 2003 and 2004 and Annual Results 2005.

5. Principal Competitiveness Challenges

It is clear that the industry has been unable to adjust adequately to an environment of more liberalised trade and a stronger currency. This inability stemmed from a number of factors – both structural and strategic – that are discussed in greater detail below.

5.1 Investment and Technology

In general, in comparison to competitor nations, investment in capital equipment and the level of technological innovation have been very low in this sector. The effect of these weaknesses is that the industry is not dynamic. Particularly problematic is the almost non-existent investment along the value chain. The result is that a significant part of the industry remains concentrated in the less sophisticated CMT sector.

New export and investment incentive schemes and policies are required that are designed to encourage greater investment and raise the value addition of production. These would include beneficiation schemes designed to develop an integrated value chain. It is also imperative that the industry raises investment levels and improves technology independent of whatever incentive schemes may exist.

5.2 Skills Base

Skills are crucial in modern manufacturing, and increasingly dependent on higher levels of education. The consequences of a systematic failure under colonialism and Apartheid to invest in the education and development of the largely black workforce remains. Investment in the clothing and textile sector has not significantly expanded a pool of highly skilled workers and technicians. While significant progress has been made in the Sector Education and Training Authorities, the overall level of skill is inadequate to the task of rapidly raising quality and shifting to high value-added production. Current training efforts are not bringing large enough numbers of workers into “learnerships”, and the industry itself is not able to finance a major skills upgrade. The capability of management at all levels is also a weakness. This is partly due to the view that textiles and clothing are “sunset industries”, making them unattractive to graduates. This weakness is compounded by the lack of investment in skills development. A significant scaling up of skills development is therefore needed.

5.3 Innovation and Design Capacity

The challenge of innovation is closely linked to skills development and investment. Apart from exceptions in a number of sub-sectors, the clothing and textiles industries have performed poorly in innovation and technology enhancement, with the industry perceived as being a follower rather than a leader. A concerted effort is therefore needed to change the approach to technology and innovation.

An area of great promise is our emerging competitive advantage in creative talent: in product-development, design and marketing. As the new democracy finds its voice and identity in the community of nations, the creative energy we are starting to see in music, film, and the arts is increasingly migrating to clothing design and fashion in general. The challenge is to merge the potential for technological advancement and innovation with design and industrial investment. This is crucial for competitiveness and increased value addition.

5.4 Firm-Level Competitiveness

Preliminary benchmarking studies completed in the South African textiles and Western Cape clothing industries have yielded evidence of operational un-competitiveness. Neither set of South African-based firms match their international counterparts in respect of the key performance indicators explored. For example, operational performance is comparatively weak for inventory holding, a key operational efficiency measure. Vast operational performance differentials also exist between individual firms within the clothing and textiles industries (suggesting substantial upgrading opportunities within the two sectors). It is, therefore, imperative that firm-level competitiveness is enhanced on a wide front.

5.5 Weak Value Chains

South Africa is a significant fibre producer in the form of wool and mohair. In past decades the capacity has been developed to produce synthetic fibres as well. South Africa also has some cotton production capacity and has access to a substantial cotton growing capacity in the Southern African region, much of which can easily be developed into a more coherent regional value chain. Lack of investment along the value chain and weak supply chain management have continued to weaken the value chain. The competitiveness of the sector is therefore significantly reduced. The beneficiation of local and regional raw materials must be enhanced, and an integrated value and supply chain comprising agriculture, fibre production, textiles, finished textile products, clothing design and clothing manufacturing developed.

5.6 Trade Distortions, Illegal Imports and Volatile Exchange Rate

The trends in clothing and textile trade have been described earlier. This is partly a cause and partly the effect of the industry's poor performance. It must, however, be recognised that there are distortions and unfair trading conditions in the global textile trade. Short-term measures to address the surge in imports must be coupled with other interventions designed to develop and exploit the competitive advantages that can form the basis of sustainability in the long term. This strategy document is an attempt to formulate such a coherent package of measures.

Illegally imported and under-invoiced goods compete unfairly with local products and present a significant challenge. The level of illegal imports has been conservatively estimated at between 10% and 30% of total clothing and textile sales. Even at 10% of domestic production, this would amount to about 15,000 jobs. It is therefore clear that combating illegal imports can have a significant employment impact.

6. Proposed Solutions and SACTWU's Interventions to Address the Crisis

SACTWU is engaged in a wide range of efforts to enhance the industry's competitiveness and shift it to a sustainable long-term growth path. These efforts include engaging other stakeholders – in particular business and government – in order to formulate a vision and strategy and devise specific interventions, as well as direct activities and interventions implemented on the union's own initiative.

Stakeholders have been engaged, for example, in a task team on the Clothing, Textile, Footwear and Leather industry convened by the South African Minister of Trade and Industry (and comprising representatives of industry, government and SACTWU). SACTWU's proposals for industry restructuring were adopted as the basis for the task team's report, and also fed directly into the Department of Trade and Industry's formulation of a Customised Sector Programme for the clothing and textiles industry currently underway. The detailed proposals included four packages of proposals containing twelve programmatic areas. These measures deal with demand and supply-side issues, and trade as well as social policy concerns. The first package of proposals is to introduce temporary safeguard measures on specified Chinese imports for a defined period, to help stem the surge of imports and to improve controls over illegal imports entering the country. The second package of proposals addresses the opportunity to reorient consumer buying towards local products, through promotional campaigns aimed at consumers and agreements with major retailers to build partnerships with local industry and source more of their goods from local manufacturers. It also looks at the potential of fashion tourism and opportunities in export markets. The third package of proposals addresses the need to strengthen supply-side performance of industry, through provisions dealing with supply-chain management, quality, design and product innovation, raw material cost reduction and increased investment. The final package addresses human resource development and providing a sustainable set of employment practices. The following measures were therefore proposed:

(1.) Introducing temporary safeguard measures on Chinese imports;
(2.) Combating high levels of illegal imports;
(3.) Promoting local sourcing by retailers;
(4.) Promoting local products to consumers;
(5.) Improving quality of locally-manufactured goods;
(6.) Promoting product and design innovation;
(7.) Improving technology;
(8.) Improving raw material beneficiation, building an integrated value chain and reducing input costs;
(9.) Improving efficiencies and supply-chain management;
(10.) Improving levels of investment;
(11.) Intensifying training of workers and managers; and
(12.) Improving sustainability of employment and combating sweatshops.

SACTWU is also directly responsible for or involved in numerous initiatives to increase the industry's competitiveness. These efforts seek to increase quality and promote greater innovation and better design, which would result in a greater ability to compete with imports from China and elsewhere. Initiatives include:

(1.) Intensifying training of workers and managers to improve productivity and to create a world-class labour force able to work efficiently and produce goods of high quality. This is done in cooperation with the CTFL SETA.
(2.) Promoting product and design innovation to ensure that the local industry continually comes up with fresh products. At the Cape Town Fashion Festival, SACTWU promoted 120 local designers and forged links between designers and manufacturers.
(3.) Creating a platform – the Fashion Imbizo – for industry, suppliers, customers, designers, service providers and workers to discuss ways to strengthen the industry and improve its products.
(4.) Showcasing the industry's products and services through a professional exhibition – the Fashion and Lifestyle Expo – aimed at consumers, customers and buyers.

(5.) Improving sustainability of employment to allow the industry to market itself as an ethical supplier, to improve disposable incomes in the industry, which in turn feeds into consumption, to motivate workers and to increase productivity.
(6.) Improving the quality of locally-manufactured goods to position the industry as a source for quality goods. SACTWU, with government, is exploring the idea of a quality conference in the near future.
(7.) SACTWU, in partnership with the dti and the Western Cape Provincial Government, has hosted three successful Cape Town fashion festivals. It has now become South Africa's premier industry promotion and development event. While it is hosted in Cape Town, it promotes the entire industry. Its key objectives are to celebrate the fashion industry and display its strengths and competitive advantages, promote sustainable high value-added exports, raise consumer awareness of opportunities to buy quality local products, develop design innovation and capacity and encourage a uniquely South African look and to create a platform for industry leaders to discuss the development of the industry. The 2004 festival included fifteen flagship events. These events were attended by 40,000 people. If the extensive media coverage attracted is taken into account, the event reached between 1.4 and 2.8 million people.

7. Conclusion and Outlook

The magnitude of the challenges confronting the South African clothing and textiles industries are clear from the information presented above. The international environment is incredibly demanding, with the removal of quotas providing an entirely new operating framework for clothing and textiles manufacturers alike. Given intensive global competition and unfavourable domestic operating conditions for clothing and textiles manufacturers, it is perhaps not surprising that the industries have declined over the last few years.

However, with the very significant employment and with a combined turnover of over R34 billion, it is also clear, however, that too many jobs and too many socio-economic multipliers reside in the two industries to lose them. And yet, recent trends and international evidence suggests that substantial employment and sales losses are likely over the next few years. Based on current trends the two industries are set to lose at least 50,000 jobs over the next three to five years.

However, detailed analysis by SACTWU indicates that an appropriate programme of interventions can secure these 50,000 and that there is a real opportunity for the two industries to create 50,000 new jobs once their foundations have been re-established. The direct benefits of this are clear. But the multiplier effect of the industry on economic activities elsewhere in the economy is also important. So too is the indirect job creation impact of the industry. Studies by the US-based Economic Policy Institute and South Africa's Industrial Development Corporation have shown employment multipliers ranging between 1 and 2.5 jobs created in other sectors for each primary job created in clothing or textiles respectively. Therefore, if the clothing and textile industry were able to create 50,000 direct jobs, 125,000 indirect jobs could be created in other industries.

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The Textile and Clothing Industry of Swaziland

By Winnie S. Madonsela

1. Introduction and Overview of the Swaziland Economy

The economy of Swaziland has been closely linked to and is dependant on the South African economy even before Swaziland as a British Protectorate gained independence in 1968. The Government of Swaziland has always adopted a collaborative stance towards the South African government, even when such a stance was unpopular during the apartheid era in South Africa. Swaziland's economy is so closely integrated with the South African economy, and Swaziland's currency, the Lilangeni, is pegged to the South African Rand on a one to one basis, making it vulnerable to Rand exchange control volatility. South Africa remains Swaziland's major trading partner.

Swaziland shares membership in the Southern African Customs Union (SACU) with Botswana, Lesotho, Namibia and South Africa. SACU is a regional trade arrangement that allows duty free access for goods and services to member countries. A Common External Tariff (CET) is charged on all goods entering SACU from non-member countries. SACU members are negotiating Free Trade Areas (FTA) with several economic groupings and individual countries, including the USA, the European Free Trade Area (EFTA), MERCOSUR, India and China. The conclusions of FTA agreements will certainly impact on market opportunities for Swaziland. Swaziland enjoys preferential access to European markets under the EU-ACP-Cotonou Agreement and to the US markets under the African Growth and Opportunity Act (AGOA).

Swaziland's economic performance has declined since the early 1990s. The average annual rate of real Gross Domestic Product (GDP) growth fell from 8% in the 1980s to 4% in the 1990s. Since then, growth has declined further. Official estimates put real GDP growth at 2.1% in 2004. Given the estimated population growth rate of 2.9%, the unimpressive economic growth implies a deterioration in the standard of living as measured by per capita income.

Agriculture forms the backbone of Swaziland's economy. A large part of the GDP is directly related to agriculture, as much of the value added in the manufacturing sector arises from processing agricultural and forestry products. The sector is also the largest in terms of employment with over 70% of Swaziland's working population dependent on it for their livelihood and income. The main crops produced are maize, cotton and tobacco.

The downward trend in economic performance in 2004 is a reflection of the low growth rate in Foreign Direct Investment (FDI), weaker performance of the manufacturing sector and low agricultural productivity. The slump in agricultural production was a result of three consecutive drought seasons in the region, which resulted in a serious food shortage throughout the country. This development exacerbated the already severe problem of high unemployment, income inequality and poverty. Growth in manufacturing output slowed down in 2004 following the closure of some major companies and weaker performance of the manufacturing sector emanating from the sustained strength of the Rand, which is at par with the Lilangeni.

Tables 1 below summarises Swaziland's economy over a number of years.

Table 1: **Major Economic Indicators**

	1998	1999	2000	2001	2002	2003	2004
Nominal GDP (E' Million)	7,439.1	8,412.0	9.630.0	10.838.2	12.436.8	14.302.3	16.262.4
Real GDP (factor cost; E' Mil.)	1.398.5	1.449.9	1480.1	1.504.3	1.562.6	1.607.9	1.615.0
Real Growth Rate	3.2%	3.4%	2.1%	1.7%	3.6%	2.9%	2.1%
Average Inflation	8.0	5.9	7.3	7.5	11.7	7.4	3.4
As % of GDP (factor cost)							
Agriculture	10.1	10.6	9.9	8.8	8.7	8.6	8.8
Manufacturing	36.9	36.0	35.8	35.6	35.4	35.2	34.8
Government Services	16.5	16.2	16.5	16.6	16.3	16.4	16.6
Labour Market (in 000)							
Paid Employment	91.9	93.3	96.3	95.5	98.7	98.6	96.5
Paid Public Employment	31.9	32.4	32.7	33.2	33.5	33.9	34.0
Paid Private Employment	60.0	60.9	63.6	62.3	65.2	64.7	62.5
Paid Employment Growth	0.5%	1.5%	3.3%	-0.8%	3.4%	0.2%	3.2%

Source: Central Bank, Ministry of Finance and Economic Planning & Development

2. Overview of the Clothing and Textile Industry

Historically, the clothing and textile industry in Swaziland has been linked to international markets. Prior to Swaziland qualifying for the AGOA benefits, the textile industry was not a major contributor to the country's GDP. The textile industry suffered from a lack of local quality inputs and was not protected from competing producers in South Africa. This led to Swaziland becoming a captive market for South African exports. Swaziland's consumers were serviced by South African retail clothing chain stores such as Truworth, Edgars and Tru Pep. With AGOA becoming law in May 2000 in the United States, Swaziland became a beneficiary as from January 2001. AGOA led to a sharp increase in Foreign Direct Investment (FDI) in the clothing and textile industry, creating thousands of jobs.

The textile and garment factories are located mainly in the Matsapha Industrial Estate, which is the main business site and the hub of industrial activity in Swaziland. Government has embarked on a programme of decentralisation of the textile industry to ensure that even rural areas benefit from the emerging industry. Factories established in rural Swaziland are found mainly in Nhlangano and Siphofaneni. Various additional production sites are earmarked for places such as Ebuhleni, Mpaka and Matsanjeni. Rural-based firms, however, face serious problems relating to lack of developed infrastructure and high operating costs.

One of the setbacks in the Swaziland textile and clothing sector has been the absence of local capital and investors. This meant that the industry is dependent on foreign investors whose motives are purely based on profits and not on development considerations. Equally problematic has been the fact that the jobs in this sector are of poor quality as they are characterised by a lack of job security and low levels of skill acquisition. The industry as a whole faces a host of difficulties ranging from unfavourable exchange rates to uncertainties with regard to availability of preferential markets in the future, especially with the expiry of AGOA in 2008. Even worse, the expiry of the Agreement on Clothing and Textiles at the end of 2004 had a severe impact on the industry.

Swaziland had experienced increasing FDI inflows in 2001 and 2002 in the clothing and textile industry, which contributed positively to the growth of the manufacturing sector as a whole. Swaziland's membership to AGOA assisted the country to retain existing FDI as well as to attract fresh FDI inflows, particularly in the textile and garments industry. This boom was, however, short-lived as FDI levels declined from 2004 onwards, leading to factory closures and retrenchments as mentioned below.

Table 3: **Swaziland's Textile and Clothing Companies**

Investor Name	Country of Origin	Target Market	Location	Invest-ment (I)	Employ-ment (E)	Establ.	Status April 2005	Status December 2005
FTM Garments	Taiwan	USA	Nhlangano	E13M	660	1999	Operational	Operational
Zheng Yong	Taiwan	USA	Nhlangano	E40M	2600	2000	Operational	Increased I. to E55M/E.to 3200
Leo Garments	Taiwan	USA	Matsapha	E11.5M	520	2001	Operational	Operational
Orient Sun	Taiwan	USA	Ngwenya	E8.5M	500	2001	Operational	Operational
Proton	Taiwan	USA	Matsapha	E13M	800	2001	Operational	Operational
Garment World	RSA	RSA	Matsapha	E10M	-	2003	Operational	Ceased Operations
Ho's Enterprise	Taiwan	USA	Nhlangano	E20M	610	2001	Operational	Operational
Chen's Garments	Taiwan	USA	Matsapha	E40M	1200	2001	Operational	Ceased Operations
Sarri Sun	Singapore	USA	Matsapha	E17M	200	2002	Operational	Ceased Operations
Far East	Taiwan	USA	Matsapha	E18M	100	2003	Operational	Increased E. to 400
Texray	Taiwan	USA	Matsapha	E45M	1700	2002	Operational	Operational
Fashion Int.	RSA	USA	Matsapha	E18M	500	2002	Operational	Operational
Chi Chai Tex	Taiwan	USA, RSA	Siteki	E30M	-	2002	Operational	Ceased Operations
Clothex	India	USA, RSA	Matsapha	E5M	-	1996	Operational	Ceased Operations
Procan Investment	Canada	USA	Matsapha	E10M	240	2004	Operational	Operational
Amarat	Afghanistan	USA	Siphofaneni	E5M	10	2003	Operational	Operational
Shun-Li	Taiwan	USA	Matsapha	E17M	620	2002	Operational	Ceased Operations
Chin-Tsu	Taiwan	USA	Matsapha	E5M	-	2003	Operational	Ceased Operations
Tseng Vise	Taiwan	USA	Matsapha	E50M	620	2002	Operational	Ceased Operations
Taitex	Taiwan	USA	Matsapha	E15M	163	2002	Operational	Operational
Juris Manufac.	RSA	RSA	Nhlangano	E1.8M	215	2004	Operational	Operational
Huan Ling	Taiwan	USA	Matsapha	E20M	-	2003	Operational	Ceased Operations
Matsapha Knitwear	Taiwan	USA	Matsapha	E450M	1200	1989	Operational	Operational
W&W Garments	Taiwan	USA	Matsapha	E30M	575	2001	Operational	Operational
Master Garments	Taiwan	USA	Matsapha	E10M	1140	2003	Operational	Operational
Bao Sheng	Taiwan	USA	Matsapha	E3M	200	2001	Operational	Operational
Lanka Products	Sri Lanka	USA	Matsapha	E13M	-	2005	Not Yet Operational	Operational

2.1 Employment Levels

The textile and clothing industry not only plays a major role in the manufacturing sector, but also in Swaziland's economy as a whole. This industry has remained a major generator of employment because of its labour intensive nature. In April 2005, the textile and clothing industry accounted for 14,373 jobs compared to 30,000 in 2004. This means that since August 2004, the industry has seen a loss of more than 15,000 jobs, due to factory shutdowns. This trend continued as the total number of jobs dropped further to 11,493 in December 2005.

The clothing and textile industry is, however, not the only manufacturing industry affected by job losses. According to the Central Bank of Swaziland, "formal sector employment is estimated to have contracted by 2% to 62,600 jobs in 2004 from 64,700 jobs in 2003. A contributing factor to the decline in job opportunities was the loss of competitiveness of Swazi products in world markets due to the strong Lilangeni against the country's major trading currencies, in particular the US dollar, which resulted in the closure of a number of companies, including textile companies. The number of investors in the clothing and textile industry declined from 26 in April 2005 to 18 in December 2005. The status of Swaziland's clothing and textile companies is summarised in Table 3 below.

Table 4: **Foreign Direct Investment into Swaziland; by Type, 1999-2004** (E' million)

Type	1999	2000	2001	2002	2003	2004
Equity	657.4	510.2	837.4	737.9	709.4	678.7
Reinvested Earnings	1,515.3	1,962.6	1,960.8	2,711.4	2,517.2	2,753.6
Long-term Capital	643.6	693.4	850.1	582.9	703.1	828.1
Short-term Capital	606.7	891.0	653.5	1,215.6	857.5	963.3
Total FDI	3,423.0	4,057.2	4,301.8	5,247.8	4,787.2	5,223.7
Change in Total FDI (%)	21.3	18.5	6.0	22.0	-8.8	9.1
Excl. Reinvested Earnings (%)	25.7	9.8	11.8	8.3	-10.5	8.8
Average Inflation (%)	5.9	7.3	7.5	11.7	7.4	3.4

Table 5: **Foreign Direct Investment into Swaziland; by Sector, 1999-2004** (E' million)

Sector	**1999** Stock	**1999** Change	**2000** Stock	**2000** Change	**2001** Stock	**2001** Change	**2001** Stock	**2002** Change	**2003** Stock	**2003** Change	**2004** Stock	**2004** Change
Manufacturing	2,330.0	32.4	2,859.0	22.7	2,919.0	2.1	3,634.1	24.5	3,331.8	-8.3	3,493.6	4.9
Services	341.5	-12.1	313.3	-8.3	343.0	9.5	499.8	45.7	417.8	-16.4	526.9	26.1
Investment	177.3	4.7	138.2	-22.1	175.8	27.2	194.8	10.8	188.6	-3.2	222.9	18.2
Agriculture	445.2	28.3	532.6	19.6	540.2	1.4	550.6	1.9	505.2	-8.2	543.1	18.2
Finance	93.3	-15.5	176.3	89.0	162.4	-7.9	219.7	35.3	288.0	31.1	270.7	-6.0
Mining	35.7	-25.3	37.8	5.9	161.4	327.0	148.8	-7.8	55.8	-62.5	166.5	198.4
TOTAL	3,423.0		4,057.2		4,301.8		5,247.8		4,787.2		5,223.7	

Source: Central Bank of Swaziland

2.2 Spill-Over Effects

The textile and clothing industry has had some spill-over effects, which benefited other sectors. It has provided transport operators with a constant market and also prompted government to improve the road network and embark on other infrastructural developments. Over the past 5 years, the average share of transport and communications infrastructure accounted for 36.8% of the government budget. This facility has not only benefited investors, but also local transport operators and Swazi nationals in general. Due to the large number of employees residing in areas surrounding the Matsapha Industrial Site, transport operators have experienced increased numbers of clients. Street vendors have also benefited from the textile and clothing industry. The increasing number of people relocating to industrial towns has provided sufficient means of survival to several groups such as landlords and operators of small retail outlets. There are, however, very serious negative social impacts associated with the surge of textile industries. These include escalating levels of crime, congestion and conditions of poverty and squalor.

2.3 The Nature of the Swazi Textile and Clothing Industry

As mentioned earlier, Swaziland is dominated by South African retail clothing chain stores. In recent years, a number of Asian retailers have entered the market with popular, low priced "imitation" brands of famous clothing labels. A number of locally owned boutiques have also mushroomed with the bulk of them sourcing their products from Dubai.

Swaziland has experienced an increase in textile-related exports to the United States because of AGOA. East Asian capital has sought to take advantage of Swaziland's offers of low tax rates and low labour costs coupled with preferential access to the US markets.

Swaziland's clothing and textile industry can be summarised as follows:

- **Retail Clothing Industry:** South African retail chain stores, Asian retail stores and locally owned boutiques. It is, however, difficult to determine their exact market shares.
- **Manufacturing:** East Asian companies and some South African companies. Asian companies source their inputs mainly from China. South African companies mainly source their inputs from South Africa.

One of the disadvantages for Swaziland's consumers arose from the practice of re-importing textile products manufactured in Swaziland back into the country. These products are produced cheaply but when they are re-imported, they are sold at high prices. This means that Swaziland is being used as a source of cheap labour, for products that eventually end up in Swaziland at exorbitant prices. Swaziland may as well manufacture these products and sell them locally at low prices, giving consumers a source of cheap products.

2.4 Value of Exports to US and EU Markets

Swaziland has benefited a lot from preferential treatment in the US market. Table 6 shows the values of clothing exports to EU and US markets.

Table 6: **Clothing Exports from Swaziland to the US and the EU** (US $ million)

Year	Exports to the US	Exports to the EU
1998	16.3	0.5
1999	23.2	0.6
2000	31.9	1.1
2001	48.1	0.8
2002	89.1	0.2
2003	140.5	0.2
2004	178.6	n.a

The statistics show the effect of Swaziland's AGOA membership on export earnings. Swaziland attained AGOA membership in 2001, and in less than 3 years, the value of Swaziland's clothing exports to the US trebled. The exports to the EU on the other hand have declined since 2000 and this is in part due to the absence of effective preferential access to EU markets for Swazi goods.

2.5 Wages

Although all national laws (including the Labour Act) apply in Export Processing Zones (where clothing and textile companies are located), cheap labour is seen as a major incentive for investors. According to the Wages Act of 1964 and the Regulation of Wages in the Textile and Apparel Industry, which came into effect on the 1st of September 2004, the minimum wage rate stands at US $ 21.8 (roughly about E139) per week for casual labourers, cleaners and machine learners. These low wages have come under pressure since 2004 when several clothing and textile companies indicated that they expected to be exempt from minimum wage regulations if they were to continue their operations in Swaziland.

3. National Economic Policies Towards Promoting Growth of the Textile and Clothing Industry

The Swaziland government has taken major steps towards promoting and encouraging export industries through promotional measures. The Ministry of Foreign Affairs and Trade through the Trade Promotion Unit (TPU) identified new export products and trade agreements, which create access to international markets. Swaziland's membership to regional economic groupings is one of the major incentives for investors to set up production in the country. Being a member of SACU, SADC and COMESA (Common Market for Eastern and Southern Africa), Swazi products have preferential access to a regional market of more than 320 million people. In addition, Swazi exports have preferential access to major markets such as the EU, the USA, Canada, Australia and Japan.

Financial Incentives for foreign investors offered by the Swaziland Government include the following:

- A corporate tax rate of 30% and exemption from tax on dividends for 10 years. This applies to investments in the manufacturing sector and other sectors such as agriculture.
- Duty free importation of capital goods, new machinery and equipment for use in the manufacturing industries, including the textile and clothing industry.
- An export Credit Guarantee Scheme granted through commercial banks and supported by the Central Bank for export-oriented enterprises.

- Double taxation agreements with the Republic of South Africa, the United Kingdom and the Republic of Taiwan (China).
- Competitively priced, well-built factory buildings readily available from the Ministry of Enterprise and Employment, and private developers.
- A regionally linked electricity supply network that provides a reliable and competitively priced service to all businesses, irrespective of size.
- A well-developed and robust telecommunications system that includes mobile cellular GSM services.
- Abundant and consistent water supply with a fair price, especially when compared to pricing in other countries of the region.
- An excellent transport link to regional and international destinations by road, rail and air.
- A low cost, reasonably skilled labour force.

4. Reactions of Trade Unions Towards the Crisis

Companies in Swaziland's EPZs are represented by the Swaziland Textile Exporters' Association (STEA), which deals with the Swaziland Manufacturing and Allied Workers' Union (SMAWU). The main problems in industrial relations arise from the fact that the most jobs created in EPZs are not "sustainable jobs" mainly because of the lack of job security and low levels of skill acquisition. Additionally, because of the government's desire to attract investors and to retain them, there are many cases of violations of minimum labour standards, including minimum wages.

The workers' unions hope to collaborate with the International Textile, Garment and Leather Workers' Federation (ITGLWF) across the region in an effort to develop capacity and solidarity among unions and workers. With this resolve, the unions believe they will realise improvements in working conditions in the country and in the region as a whole.

In order to do this, the trade unions have to gain recognition and represent their members effectively. Unions have embarked on collective bargaining and collaboration with international organisations like the ITGLWF and IUF. Local unions have received valuable advice from various unions such as the Danish Workers' Union and the Southern African Clothing and Textile Workers Union (SACTWU). Unions from other countries have supported education and training workshops for the local unions and have shared valuable information on how to carry out trade union activities effectively.

SMAWU cited very serious challenges facing the organisation, particularly with regard to recognition by investors in the industry. Despite these challenges, SMAWU has strived to reach in most companies the stipulated 50% plus one membership required for recognition This enables the union to have easy access to employees from the different companies, and to encourage them to join the union, and to enjoy the benefits of trade union membership such as support on issues like wages, working conditions, unfair dismissals, etc.. For SMAWU, the formation of the Swaziland Textile Exporters Association (STEA) contributed positively to the process of gaining recognition as it helped coordinate employers in the industry.

There are still a lot of challenges facing the union in achieving its stipulated objectives. These include lack of commitment to fair labour practices by employers and a communication barrier between the union and employers. The majority of the factory owners originate from China (Taiwan), and communication in English is difficult. Therefore, it is difficult for the unions to negotiate for their members. Further more, victimisation of workers, underpayments, unfair dismissals, retrenchments and company shutdowns are widespread in the industry. Such problems cause insecurity among workers and especially union members, who want to see positive outcomes from SMAWU interventions. On several occasions, trade unions had to seek help from international friends to solve the problems. In several cases such assistance has facilitated the process of recognition.

Another important development has been the establishment of a Joint Negotiating Council for the Clothing, Manufacturing and Textiles Industry (CFTL). The terms of the constitution governing the Council have to be observed by employers who are members of the employers' organisation and by all employees who are members of the union. Parties to the Council are STEA and SMAWU.

A call on the government to institute temporary trade safeguard measures against Chinese imports on the basis of China's Accession Protocol to the WTO is on the agenda, as was resolved during the draft statement on the state of CFTL industry. This initiative is expected to restructure the industry into a modern sustainable one with fair labour standards, wages and well-trained workers. Social dialogue involving trade unions will help in this regard. Affiliation of local trade unions to the ITGLWF is also an important step towards strengthening their ability to confront the existing crisis in the textile and garment industries.

5. Outlook

The outlook regarding FDI and the future development of the clothing and textile industry in Swaziland remains challenging. With continued market access to the USA through AGOA and to other markets through similar preferential market schemes, the industry could still grow. This prospect is, however, undermined by the expiry of the ATC and the intense competition from China as a production site offering a host of benefits to clothing and textile companies.

EPZs, at face value, appear to contribute positively to employment creation. However, they are characterised by deplorable working conditions and low wages which means that EPZs create a large number of "working poor": people employed on a full time basis but trapped in poverty. This problem, as noted earlier, is not unique to Swaziland but is characteristic of the whole region.

Whilst clothing and textile exports are very important for the domestic economy, there appears to be conflicting evidence with regards to re-investment of profits. Large amounts are being repatriated and thus lost as a source for industrial expansion.

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The Textiles and Clothing Industry in Zambia

By Grayson Koyi

1. Introduction

Zambia is listed as one of the poorest countries in the world. With a population of 11 million and a per capita Gross Domestic Product (GDP) of about US $ 421, Zambia is a country in political and economic transition. Its economic performance has been largely chequered, beginning with modestly high growth rates and fairly rapid general development between 1964 and around 1972, but sliding into low growth thereafter. The period between 1974 and 2000 has been characterised by low growth, rising poverty and major economic reforms. More recently, Zambia has started to witness some relatively sustained positive growth rates. An important aspect of this growth is the changing nature of its source. While mining has predominantly been the prime mover of economic growth in Zambia, recent efforts at fostering diversification to such sectors as manufacturing, agriculture and tourism are beginning to pay some dividends. This paper will focus on manufacturing, particularly the textile and clothing industry. The thrust towards promoting Non-Traditional Exports (NTEs) has placed emphasis on the textile and clothing industry.

Table 1: **Basic Economic Indicators, 1980 -2003**

	1980	1981-1990	1991-2000	2001-2003	2003
GDP (mn'US$)	3,350.05	3,544.3	3,736.8	4,439.5	4,920.0
GDP/Per Capita(US$)	583.9	522.2	413.3	414.7	421.0
Inflation (%)	11.6	50.9	68.8	20.5	17.6
External Debt/GDP (%)	84.1	191.4	204.1	173.7	146.0
FSE/TLF (%)	23.4	25.0	12.9	8.8	8.1

FSE = Formal Sector Employment; TFL = Total Labour Force — Source: CSO 2003

Placed in a historical context, Zambia's textiles and clothing industry has had an important role to play in the country's development. During the Import Substitution Industrialisation (ISI)[1] of the 1960s through to the mid-1980s, Zambia's textiles and clothing industry received substantial government support through an incentive system that favoured the entire manufacturing sector (Turok, 1989:78). This incentive system was determined by a combination of tariffs, quantitative restrictions and exchange rate management. The ultimate result was to limit the degree of and shelter the textile and clothing industry from external competition, reduce the role of the market and increase state involvement in establishing the level, composition and quality of investment in the industry.

Because of support from the state, Zambia's textiles and clothing industry grew considerably between 1964 and the 1980s. As the World Bank (1984) reports, Zambia's textiles, wearing apparel and leather contribution to total manufacturing value-added rose from 10.1 percent in 1964 to 18.4 percent in 1980. Table 2 below summarises the distribution of manufacturing value-added in selected years of the import substitution industrialisation era and highlights the relative contribution of textiles and clothing.

Table 2: **Distribution of Manufacturing Value-added, 1965-1980** (Percentage of total)

Sector	1965	1975	1980
Food Beverages and Tobacco	33.3	21.8	22.0
Textiles, Wearing Apparel and Leather	10.1	12.4	18.4
Wood, Wood Products and Furniture	7.0	4.9	4.2
Paper and Printing	5.6	5.9	5.7
Chemicals and Chemical Products	4.7	22.4	19.0
Non-metallic Mineral Products	16.7	6.7	6.6
Basic Metals and Products	22.2	25.1	23.7
Other Manufacturing	0.5	0.7	0.4
Total	100	100	100
Source: World Bank (1984)			

1 The ISI is an inward looking industrial development strategy characterised by production of non-durable consumer goods, and intermediate and capital goods to reduce dependence on western markets (Osei-Hwendie, 2003:1). The ISI was adopted during the early stages of economic development in the 1950s through to the 1980s.

The import substitution policy was able to build up a relatively diversified industrial sector with a mix of consumer, intermediate, and capital goods. The prominent sectors were food, beverages and tobacco; textiles and leather; chemicals and chemical products, and basic metals and metal products. However, and typical of the manufacturing sector at the time, very little was produced for exports. According to Gulhati,'the trade regime was biased against exports of manufacturing' (1989:23). Indeed, high rates of protection made the home market much more profitable than foreign sales and allowed high costs to co-exist with satisfactory financial performance.

Unfortunately, the import substitution policy proved costly for Zambia. With the fall in copper earnings after 1975, the textiles and clothing industry started to experience underutilisation of capacity. This was partly due to the nature of the investment in the industry and the scarcity of foreign exchange available for imported inputs and spare parts (Gweynne, 1996).

By 1990, Zambia was left with limited policy options. The pendulum had swung in favour of a market economy. With a burgeoning external debt burden, the government had to swallow a bitter pill and accept the 'sanctum of free enterprise'. In 1991, therefore, Zambia adopted the recommendation of the International Monetary Fund (IMF) and the World Bank (WB) to undertake fully-fledged trade reform and structural adjustment. Did this benefit the textiles and clothing industry? The answer is complicated. Some modest results were achieved elsewhere in the economy, but the opening up of markets and the promotion of international competition is yet to lift the textiles and clothing industry out of the doldrums. The frustration is unmistakable, 'instead of becoming lead industries for exports, the Zambian textile and clothing industry is being challenged by cheap imports[2] and is losing large segments on the home market' (Chikoti and Mutonga, 2002:3). Nonetheless, the textiles and clothing industry remains a sector of export interest to Zambia where the country could exploit its vast existing potential – if supply-side and international trade restrictions were resolved.

The purpose of this paper is to analyse the state of affairs in the textile and clothing industry in Zambia and to provide an insight as to the extent to which processes of global restructuring will be critical for the survival and growth of the industry. The approach is fourfold. First, the paper provides the structure and development of the textile and clothing industry in Zambia. In the second part, national policies towards promoting the growth of the textiles and clothing industry are discussed. The third part provides an outline of the reaction of trade unions towards the crisis. Finally, on the basis of the analysis, the outlook of the industry is given.

2 These imports are mainly Asian (in particular Chinese) textiles, South African textiles and 'worn clothing' from western countries.

2.0 Structure and Development of the Zambian Textile and Clothing Industry

2.1 Employment Levels

During the time of a thriving domestic market and import substitution, the textile and clothing industry boasted a record of over 140 companies, employing over 25,000 Zambians in the 1980s (Chikoti and Mutonga, 2002:1). However, the introduction of trade reforms was accompanied by sharp structural changes in the economy as a whole. The labour markets felt the worst impact of trade liberalisation. As already stated, in the pre-liberalisation period most of the firms in the textiles and clothing industry were state owned and formed part of the import-substitution sectors of the economy. They were protected by high tariffs and mostly dependent on state financing as they were considered infant industries. Arguably, employment in most of these industries was higher than economically necessary.

The liberalisation of trade exposed most of the firms to external competition. Because of their weak base, most of them could not withstand the competition from the foreign firms and ended up closing down or re-locating to the neighbouring countries where the production cost were perceived to be low[3]. These changes all impacted negatively on the labour markets of the country. As Chikoti and Mutonga (2002:1) reported, 'mass closures of garment factories and scaling down of operations of the textiles sub-sector saw resultant employment levels drop from over 25,000 in the 1980s to below 10,000 by the year 2002'. Consequently, formal employment as a percentage of the labour force declined from 23.3 percent in 1990 to 8.1 percent in 2003. Between 1981 and 1990 formal employment as a percentage of the labour force averaged 23 percent, but declined to 12 percent between 1991 and 2000 during which time trade liberalisation was implemented[4]. Table 3 below shows the sectoral distribution of formal employment before and after the peak trade liberalisation periods.

Table 3: **Paid Employment per Sector as Percentage of Formal Employment**

	1980	1981-1990	1991-2000	2003
Agriculture	8.6	12.8	13.9	15.4
Mining	16.5	13.6	9.8	11.7
Manufacturing	12.5	13.7	11.3	9.4
Services	62.4	59.9	64.9	63.5
Formal Employment/ Labour Force	23.4	12.9	8.8	8.1

Source: CSO, 2003.

3 Most of them relocated to Zimbabwe, Botswana and South Africa.
4 There were 451,076 formally employed people in 1981 and the number declined to 416,804 in 2003 despite the increase in the labour force.

As shown in Table 3, the percentage of paid formal employment in manufacturing dwindled from 12.5 percent in 1980 to 9.4 percent in 2003. Thus, in terms of employment levels in Zambia's textiles and clothing industry, a persistent and pervasive declining trend has been observed throughout the 1990s. As pointed out by Chikoti and Mutonga, it can be estimated that contraction in the textile and clothing industry has amounted to over 60 percent in the last decade. Thus, the uncomfortable reality is that trade liberalisation has taken away jobs in the textiles and clothing industry and unless a new trade agenda based on mutual responsibilities between developing and rich countries is forged, Zambia risks being locked into a permanent race to the bottom – beyond any meaningful prospects for reversal in the near future.

2.2 Number of Companies and Investments

In terms of companies and investments, the number of companies operating in the textiles and clothing industry in Zambia has shrunk from a record of about 140 companies in the 1980s to less than 50 companies in 2002 (Chikoti and Mutonga, 2002:2).

During the 1970s, the government had set up a number of companies in all the sub-sectors of the industry. For instance, at the level of primary industries, one big cotton and gin company, Lint Company (Lintco), was set up to develop cotton and ginning. By 1987, Lintco had planted over 78,000 hectares and achieved record production of over 64,000 tons of seed cotton. However, the change in the policy environment of the 1990s saw Lintco privatised in 1995 and its ginneries sold to Lonrho and Clark Cotton – which was subsequently bought by Dunavant. Actual investment figures in cotton seed and lint are not readily available. However, the Economic Report (2004:42) suggested that 'with the privatisation of Lintco, there has been expansion in the number of ginneries following large investments in the area of cotton seed and lint.'

In terms of the spinning sub-sector, the 1980s witnessed the emergence of a couple of major fully integrated textiles mills. Two prominent ones were the Kafue Textiles of Zambia and the Mulungushi textiles of Zambia, which were successfully meeting 80 percent of the domestic market requirement. A small number of spinning plants, such as Swarp Spinning Mills and Sakiza Spinning Limited, also existed alongside the two major state entities.

The 1990s witnessed some major investment into the weaving, knitting and garment sub-sector. A good example is the Mulungushi Textiles in Kabwe, which has since 1995 benefited from a joint partnership between the governments of Zambia and China to the tune of 13.2 million pounds investment. A substantial investment was also injected into Swarp Spinning Mills to export 100 percent yarn, whereby it doubled its capacity in the 1990s (Chikoti and Mtonga,2002:2). However, while the total installed capacity in 2001 was 23,500 tons, the downturn in the global yarn market coupled with other domestic difficulties reduced average industry capacity utilisation from 82.5 percent in 1996 to 62% in 2001.

Regarding the weaving, knitting and garments sub-sector, there used to be four major companies and over 60 smaller ones in the 1980s. The major ones included Kafue Textiles, Towels Textiles, Ndola Knitting Mills and Excel Textiles. However, the influx of cheap imports from Asia and the flow of second-hand clothing from rich western economies suffocated the sub-sector and by the mid-1990s only approximately 50 apparel manufacturers remained. As at December 2004, less than 10 of these companies had the capacity to compete regionally and internationally. Most are surviving by providing local niche markets, such as school uniforms, protective wear for mines, and professional uniforms, where they are able to compete on service and delivery.

2.3 Importance of Textiles for Overall Manufacturing

Despite the afflictions of the textile and clothing industry, its importance for overall manufacturing remains significant. Measured in value added terms, the contribution of textiles, leather and leather products (combined) is only second to that of food, beverages and tobacco. This has been the case especially since the early 1990s. Table 4 shows manufacturing value-added by sub-sector (in Kwacha Billion) at constant 1994 prices.

As seen from the table, the textiles sub-sector is a significant contributor to overall manufacturing value-addition in Zambia. Second only to the food, beverage and tobacco sub-sectors, the textiles sub-sector contributes about 16 percent to overall manufacturing value addition. The food, beverage and tobacco sub-sector account for about 60 percent of value-addition within the manufacturing sector. In the recent past, the textiles and leather sub-sector's contribution to overall manufacturing has risen on account of increased production of cotton lint and yarn. Official government sources have attributed this to 'the expansion in the number of ginneries through new private sector investments which has resulted in a significant increase in the production of both cotton and lint'(Economic Report, 2004:42). Since 2004, Zambia began to export directly to the United States of America under the African Growth and Opportunity Act (AGOA). Before 2004, textile products were only indirectly being exported to the United States through third countries.

Table 4: **Manufacturing Value-added by Sub-sector (in K'billion) at constant 1994 prices**

Sub-sector	2001	2002	2003	2004	% Change 2004/2003
Food, beverage and Tobacco	164	172.8	187.7	197.3	5.1
Textiles, leather and leather products	46.8	49.7	51.3	52.4	2.1
Wood and Wood Products	20.3	21.9	24.4	26.1	7.0
Paper and Paper Product	7.8	8	8.6	8.8	2.3
Chemical, Rubber and Plastics	28.8	25.1	26.4	28.8	9.1
Non-metallic Mineral Products	4.8	4.9	5.6	6.3	12.5
Basic Metal Products	1.2	1.2	1.4	1.5	7.1
Fabricated Metal products	6	5.8	6.1	6.4	4.9
Total Manufacturing	273.7	289.4	311.4	327.6	5.2
Total GDP	2,621.3	2,707.9	2,846.7	2,988.9	5.0
Share of Manufacturing in Total GDP	10.4	10.7	10.9	11.0	0.2

Source: Economic Report (2004:43)

2.4 Domestic Textile and Clothing Versus Imports

A look at domestic textiles and clothing against imports points to an unfavourable trade outcome. In 1996, for instance, textile exports amounted to US $ 42.2 million while imports amounted to US $ 31.2 million. At the time, there was a clearly favourable trade balance. However, by 2003, the trade balance had reversed with import penetration of textiles surpassing exports. As shown in Table 5, textiles imports in 2003 amounted to US $ 57.7 million while exports stood at US $ 49.1 million. In percentage terms, textile exports rose sluggishly by about 16 percent while imports surged by 85 percent over the same period.

The increased volume of textile and clothing imports suggests a case of trade imbalance. The surge in imports is attributable to the influx of cheap imports and the increasing phenomenon of second-hand clothing. Zambia's textile and clothing industry is thus challenged by the increasing influx of imported textiles and clothing. This resulted in the crowding out of Zambian industries as the government failed to provide import protection. A key weakness of the post-1991 trade

Table 5: **The Structure of Zambia's Trade (US$ million), 1996-2003**

	Exports		Imports	
	1996	2003	1996	2003
Animal and Vegetable Products	32.4	53.0	68.3	170.4
Food Stuff	32.61	55.5	22.3	25.8
Mineral Products	43.0	33.9	105.4	170.0
Chemicals and Plastics	27.0	9.2	150.1	339.9
Raw Hides, Skin Leather	2.4	2.7	1.5	2.0
Textiles	42.2	49.1	31.2	57.7
Wood and Wood Products	5.8	6.8	32.4	104.0
Footwear, Head Gear, Stones and Glass	11.8	73.2	17.5	32.9
Metals, Machinery Electrical and Transport	732.8	661.3	343.5	603.9
Other Products	1.8	1.2	30.1	40.3
Total	931.6	946.2	802.2	1,547.0

* Percentages in parenthesis

Source: Central Statistics Office, (2004)

policies in Zambia is that they failed to pay sufficient attention to export promotion. Instead, they focused primarily on liberalising imports through reducing and abolishing quantitative restrictions.

2.5 Importance of Textile Exports for Zambia

Textiles are part of Zambia's non-traditional exports. Evidence shows that the value of such exports has increased from US $ 90 million in 1990 to US $ 360 million in 2002. This means that non-traditional exports have increased their share in export earning from 8 percent in 1990 to 39 percent in 2002. A closer examination of the export structure based on the value of sub-sector earnings reveals that there has been a dramatic change in the composition of manufacturing exports. Specific to textiles, it can be seen (refer to Table 6) that the contribution of textiles rose sharply from 16.7 percent in 1993 to 30.5 percent in 1995 before a slight fall to 28.2 percent in 1998. The share of textiles in non-traditional exports is, therefore, huge and makes textiles exports very important for Zambia. As such it is imperative that access to markets for such a growing sub-sector should be secured if its performance is to be enhanced.

Table 6: **The Contribution of Manufacturing Products to Non-traditional Exports** (US$ '000)

	1993	Share of sub-sector exports	1995	Share of sub-sector exports	1998	Share of sub-sector exports
Building	3,695.0	5.6	5,220.5	4.1	8,582.7	5.7
Chemical Products	1,005.5	1.5	3,058.0	2.4	689.5	0.5
Engineering Products	31,303.7	47.2	39,402.9	30.7	31,672.1	21.1
Garments	687.8	1.0	145.6	0.1	417.4	0.3
Handicrafts	80.5	0.1	83.0	0.1	162.7	0.1
Leather Products	1,259.0	1.9	1,944.2	1.5	3,133.9	2.1
Non-metallic Minerals	1,361.4	2.1	703.7	0.5	532.1	0.4
Other Manufacturers	30.0	0.0	530.0	0.4	3,090.0	2.1
Petroleum Oils	173.3	0.3	11,360.8	8.9	6,813.3	4.5
Processed & Refined Foods	15,117.3	22.8	25,207.5	19.7	49,407.1	32.9
Textiles	11,062.0	16.7	39,146.0	30.5	42,369.9	28.2
Wood Products	550.1	0.8	1,417.8	1.1	3,192.4	2.1
Total Value Manuf. Based Exports	66,325.6	100.0	128,219.9	100.0	150,063.2	100.0

Source: Export Board of Zambia, Export Audit Reports, 1991-1998; Bank of Zambia, Annual Reports.

Table 7: **Zambian Exports to Major Trading Partners, 1999-2004 (%)**

Region/Continent	1999	2000	2001	2002	2003	2004
SADC	23.8	29.1	29.9	37.2	43.7	48.1
Rest of Africa	1.6	1.3	2.1	1.1	1.1	0.8
Africa Total	25.5	30.5	31.3	38.3	44.8	48.9
Asia	6.5	1.6	5.9	6.1	11.2	7.9
European Union	53.1	55	55.4	47.6	34.5	26.2
Rest of Europe	14.2	11.8	6.5	6.7	8.1	16.0
Europe Total	67.3	66.7	61.9	54.3	42.6	42.3
Rest of World	0.9	1.1	1	1.4	1.5	1.0
World Total	100	100	100	100	100	100

Source: CSO, External Trade Statistics Bulletin, 2004.

While specific external trade statistics on the destination of textiles and garments were not immediately available, Table 7 shows Zambia's total export market share by major trading partners over the past five years.[5]

From Table 7 it can be seen that while the European Union has previously been the major destination of Zambia's exports, its percentage market share has steadily declined from 53 percent in 1999 to 26 percent in 2004, representing a decline of about 50 percent over the last six years. European Union (EU) preferential access, therefore, becomes very relevant to reversing this trend and spurring Zambian exports to the European market.[7] On the other hand, Table 7 reveals that the Southern African Development Community (SADC) has increased its percentage market share as a final destination of Zambia's export, rising from 23 percent in 1999 to 48 percent in 2004. In terms of key export markets for Zambia, therefore, current statistics suggest that SADC is the biggest export market followed by the European Union. The rest of the world accounts for about 1 percent of the total market share. In regard to AGOA, it remains a potential target market for Zambian exports if exporters can meet the demand and standards required by the USA market.

2.6 'Quota Hopping': A Case of Evidence from Zambia?

The preferential access system has brought into life 'quota hopping', in particular by Asian companies, which are moving to Africa to circumvent export restriction from the preferential system in their home countries. To add focus to the preceding analysis on the structure and development of the Zambian textile and clothing industry and to tie-in the issue of 'quota hopping', evidence from one Zambian textile company that has partnered with a Chinese firm is provided in Box 1.

6 Specific time-series data on the destination of textiles exports is currently unavailable.
7 In terms of textiles, the major European destinations buying mainly 'gray cloth', cotton lint and yarn are Germany, Italy, United Kingdom and Belgium.

Box 1: **Zambia-China Mulungushi Textiles**

Zambia-China Mulungushi Textile Joint Venture Ltd. (ZCMT) is now the largest textile company in Zambia. The company in Kabwe, about 140 km to the north of the Zambian capital Lusaka, employs 2,000 workers and produces 1,800 tons of cotton yarn, 17 million meters of various fabrics and 100,000 pieces of garments every year. Its two ginneries could process 20,000 tons of seed cotton a year. It also has a refinery that produces about 600 tons of cotton seed oil. The ZCMT is also into cotton growing. Through 5,000 contracted farmers, it controls 10,000 hectares of cotton farms.

With an annual tax bill of billions of Kwacha, the ZCMT has become the life line of Kabwe, a once bustling mining town that has run out of its mineral resources. Many businesses in the town depend on the ZCMT for their survival. It would be hard to imagine that just five years ago, the ZCMT itself was one of the many dead factories in Kabwe, with its machines decaying in dust and workers sent home. The factory, formerly under the Defence Ministry of Zambia, was built with Chinese aid. It was inaugurated in 1983 after five years of construction financed by a 11.17-million-pound interest-free loan from the Chinese government. However, due to the deteriorating macro-economic situation and inefficiency, the company closed down in 1994.

In July 1995, however, the then Chinese vice-premier Zhu Rongji suggested during his visit to Zambia that the factory be turned into a Zambia-China joint venture to bring it back to life. The proposal was readily accepted by the Zambian government. It was eventually agreed that China's 11.17 million pound investment in the factory and another allocation of 1.5 million US dollars for overhaul will be turned into a 66-percent stake in the new joint venture, while the Zambian side will take up the remaining 34 percent stake. It was also agreed that the positions of chairman of the board of directors and general manager as well as all main management positions will be held by Chinese. . To ensure that the new joint venture will have enough operating fund, the Chinese government further provided it with 200 million yuan in low-interest loan.

In January 1997, about 30 management and technical staff from the Qingdao Textile Corporation in east China's Shandong Province arrived in Zambia and immediately started the overhaul work. It took the new management about 20 days to restart the factory, after repairing all the equipment, drafting new rules and regulations and recruiting workers. The new joint venture, known as the ZCMT, was formally inaugurated in May 1997 by visiting Chinese premier Li Peng. Immediately after the resumption of production, the ZCMT ran into new problems such as poor product quality, low efficiency, insufficient varieties of products and long delivery periods, all of which demanded the replacement of the outdated equipment. Over the last six years, the ZCMT has spent about 20 million US dollars on new spinning, weaving, dyeing and printing machines as well as a computer auxiliary design system, hence greatly improving the quality and varieties of its products. Then cotton supply also became a problem. The monopoly over the raw cotton market by a few big companies made it difficult for the ZCMT to source cotton at a reasonable price to the level that it had to import cotton from Tanzania, resulting in much higher costs. Starting from 1998, the ZCMT began to move into cotton farming. It provided farmers with seeds, fertilizer and pesticide in credit to farmers. In return, the farmers sold their cotton to the ZCMT. Five years later, the ZCMT has become the third largest cotton purchaser in Zambia. It purchased 9,000 tons of cotton in 2002 and 5,000 tons in 2003. In addition to meet its own needs, the company even exported 2,000 tons of cotton since 2002 to China, where there is a high demand for cotton. The ZCMT has set up a marketing network not only in Zambia but also in the whole sub-region. It has 18 stores across Zambia and two subsidiary companies in Tanzania and Namibia. The ZCMT products can be found in Zimbabwe, Malawi, Mozambique and many other countries in the sub-region. Taking advantage of the Africa Growth Opportunity Act (AGOA), the ZCMT is also doing its best to explore the US market. In 2000, it delivered 11,000 pairs of short pants to the United States, the biggest ever single export of textile products to the US market by a Zambian company!.

Source: People's Daily Online – http://english.peopledaily.com.cn/

The case highlighted in Box 1 presents a very interesting scenario. On the one hand, it is presented as a show case of radical revival and crucial intervention to salvage the company from permanent collapse. On the other, it's a subtle case of systematic quota hopping. Overall, it demonstrates the policy dilemma confronting African governments on how to move forward in a global world that defines and changes rules to suit a few global actors.

3. National Policies Towards Promoting Growth of the Textile and Clothing Industry

Government is in discussion with stakeholders and was requested to make quick and bold changes in regulations concerning this sector. Some key areas that Zambia will need to address are detailed below.

3.1 Stimulating the Domestic Textile and Clothing Industry

Zambia has, since 1991, acted very ambitiously in the conduct of its foreign trade. Some may argue that the pace of trade liberalisation has been too swift. They argue that Zambia has suffered too many industrial casualties during this era. In some cases, the casualties were inevitable – e.g. many of the import substitution industries shut down. Moreover, the domestic market alone does not justify the economies of scale required for a viable industry unless the industry is developed to utilise a unique local natural resource or material. This then places the emphasis on export capacity. Positive measures to stimulate the textile and manufacturing industries are therefore of the essence. A leaf can be taken from other cotton producing countries that continue to subsidise their production of the raw material cotton (e.g. USA, China, the EU, Central and South East Asia), thus artificially keeping world prices lower than they otherwise would be. This in turn puts undue pressure on Zambia's local cotton growing and ginning industry to charge spinners a price for cotton that is higher than international prices.

3.2 Export Duty Drawback Scheme

The export duty drawback scheme was put in place with the assistance of the World Bank and allows registered exporters to claim back all duties on their inputs regardless of whether the inputs are local or imported. However, in determining the levels of duty refund, lower duty rates (COMESA rates) have been applied. The industry requested that the substantive rates of duty be applied in the determination of duty drawbacks as this is the only way Zambian textile exporters can be compensated for the competitive and comparative disadvantages they face.

3.3 Encourage Local Consumption

Zambia urgently needs to put in place safeguard measures against imports of textiles and clothing from countries that offer unfair advantages to their exporters, thereby causing material injury to Zambian producers. The differential in the import duty structure between raw materials (cotton, yarn, fabrics) and finished goods (garments, household textiles) should be increased. Here, the difference of only 10% in the tariff for fabrics (at 15%) and for garments (at 25%) is too low. Although it may not be possible to introduce a new import duty band of above 25%, it is important to overcome this problem. Possible steps include the reduction of duties to zero for essential manufacturing equipment, spares, and input materials that are not made in Zambia such as synthetic yarns, certain types of fabrics, chemicals, dyes, packaging, etc. Secondly, the Duty Drawback coefficient should be improved. Industry also requested Government to ensure that Government tender procedures become more transparent and proactive in supporting and encouraging local industries.

3.4 Resolve the Problem of Second-hand Clothing (salaula)

Zambia is one of the few countries in the world, which permits unlimited imports of second-hand clothing. These goods, generally perceived to have been used before fall under tariff heading 63.09 on which the duty rate is 25%, the same as any other item of (new) clothing. The problem is, of course, that second-hand clothing has no value in the country of supply and is therefore shipped to Zambia at little or no cost. There is also another problem: the tariff for second-hand clothing requires that the articles “must show signs of appreciable wear”. With shipments of second-hand clothing to Zambia, this is not always the case. Many garments are unworn, having been discarded because they are out-of-season, factory seconds or merely thrown away for other reasons not associated with “appreciable wear”. In this regard, Zambia must seek a solution to this problem, either through the World Trade Organisation (WTO), or through the introduction of safeguard legislation (which would enable additional duty to be levied), preferably on a deductive or computed value. In line with this, Zambia could impose quantitative restrictions, and impose a fixed duty rate of say K10, 000 to K15, 000 (US $ 2.50 to US $ 3.00) per kg. To continue allowing unlimited quantities of discarded clothing into Zambia without the proper collection of the appropriate customs duty based on the real value (not cost) of the garments will ensure the continued contraction of Zambia’s clothing manufacturing industry. Countries such as Kenya and Uganda have already started taking action (such as imposing punitive tariffs and/or quantitative import limitations) against imports of second hand clothing.

3.5 Negotiate for Improved Access Under the SADC Trade Protocol

Improved access offers Zambian exporters better prospects (than COMESA) for increasing their exports. However, the quotas negotiated for Zambia are very small and cover a very small percentage of its textile capacity; these quotas need to be increased substantially, especially for yarn initially, and later for other products. Currently, the Southern Africa Customs Union (SACU) countries have made a new offer that provides for an accelerated phase down of their import duty structure for textiles and clothing imported from countries of the Southern Africa Development Community (SADC). Zambia must utilise these opportunities immediately as they will allow for duty free and quota free yarn exports from Zambia into SACU countries. Thereafter, Zambia should push for increased SADC quotas for all textiles and clothing products.

3.6 Introduce Cotton Lint Procurement Schemes

Zambian spinning mills are placed at an international disadvantage because they have to buy their annual requirements of cotton lint during the marketing season (May to August) and then bear the cost of storage and finance, directly or indirectly. In view of cash constraints, these mills generally pay import parity prices plus premiums to cover both storage costs and the inherent holding risk of the ginners. The result is that Zambian mills procure cotton lint at total costs that are substantially above the international world market price. Whereas spinners in other countries in Asia are able to secure cotton through government schemes at predetermined prices below international prices, Zambian firms are not accorded this incentive. It is proposed that a scheme be put in place that allows spinners to obtain cotton lint at lower prices. Such a scheme would require the financing of cotton requirements for the spinners by Government, through a crop marketing agency, or some other financing mechanism. Alternately, lint producers should be compelled to meet local requirements at world prices less the freight component, before they are allowed to export any lint. It is also crucial that lint is offered to the local industry in local currency, as is done in all other countries.

3.7 Seeking Fair Foreign Trade Regimes

The Zambian government has actively been seeking and supporting bilateral, regional and multilateral trading arrangements. The key issues include the establishment of fair domestic and foreign trade regimes that facilitate trade to take place on a common set of agreed rules and without stifling domestic production and disrupting sales in foreign markets due to trade restrictions. Zambia recognises that the WTO has a potentially important role in promoting development prospects by reducing trade barriers in the international markets through negotiations and implementation thereafter. In terms of the negotiations regarding the Agreement on Textiles and Clothing, Zambia, like any other Least Developed Country (LDC) has made very little progress in this area.

4. Reaction of Trade Unions

The trade unions in the affected sector have been slow to react. However, there's a redeeming note that they have now begun to set about various forms of expansionist strategies as well as engaging in labour rights advocacy strategies aimed at establishing and re-asserting themselves with a visible presence in the new industrial set-up. Five broad areas of reaction can be observed. Firstly, the unions in the manufacturing sector in general are acting to broaden the membership service base to ensure that membership means the union takes care of important aspects of its members' lives. Secondly, the unions are working and bargaining with managers over issues such as job designs, career planning, and training.

Thirdly, the unions have been re-organising to gain more internal political clout. On the one hand, this has meant making grassroots organising and recruitment an integral feature of union activity, activating existing members while reaching out mainly to the unorganised within the industry. A related activity has been to work aggressively to reclaim unionisation of workers in privatised companies. Altogether, this re-organisation strategy has helped the union to deal with the problem of declining collective influence.

Fourthly, an integral component of the union reaction was an attempt to integrate young, well-educated and female workers in the leadership and decision-making structures. What is not clear though is whether this has resulted in issues of young and women workers having a firm place on the union's agenda. However, this new strategy serves to capture the hearts and minds of the "new look" workforce that would otherwise not be interested in belonging to the union.

Lastly, the unions have also reported increased involvement in labour rights advocacy strategies. This has not only enabled alliance building with the NGO community, but linked the local labour struggle with similar efforts at the international level.

5. Outlook

The outlook for the textiles and clothing industry is mixed. Zambia has a clear strategic option to become a major supplier of yarn and, to a lesser extent, fabric within the SADC region and the international market. For clothing, however, Zambia's potential to develop a significant and viable export-oriented industry is less clear. But, Zambia possesses many of the prerequisites for a successful textile industry. The government provides a stable political climate and the economic environment is becoming more predictable. It is a major cotton producer; and the foundations for the industry are in place, including unused capacity that could quickly be brought on stream. Going against Zambia, however, are its weak economy and a poor investment climate. Assaulted by competing imports, the clothing industry in Zambia is feeble and unlikely to recover quickly. Already depressed, it is likely to suffer even more as imports increase from the Asian region and other SADC countries under the new SADC trade protocol.

The yarn industry, on the other hand, has done well in recent years and has been the major target of investment in new equipment. Manufacturers have found markets, primarily in Europe and, more recently, the SADC region, that are very demanding in terms of quality and delivery and have been supplying them successfully and profitably. Thus, the cotton lint and yarn sub-sectors have continued to register positive contribution to non-traditional exports. This positive growth is likely to continue in the coming years. The fabric formation industry has not done well in recent years because, with the decline of the clothing industry, it lost its main market. Idle capacity, notably at Kafue Textiles, could, however, be brought on stream quickly. The recent investment and increased production in Zambia-China-Mulungushi Textiles indicates a potential for increased fabric production.

With the opportunities offered by AGOA and the requirements for African produced yarn and fabric, Zambia should be an important supplier for the SADC region's textile and apparel industries. Since Zambia is a major producer of high-quality cotton lint and transportation costs fall if yarn and fabric are made close to the source of cotton, converting more of Zambia's cotton into yarn and fabric within Zambia would cut raw-material costs and improve the competitiveness of the regional clothing industry.

The expected sharp increase in the mining activity in the north-western province should also likely have spill-over effects on the textiles and clothing industry. Besides, the export processing zone act is likely to take effect in 2006. For the government, it is hoped that this will spur increased investment into the textiles and clothing industry. However, based on the experiences elsewhere, this is questionable. For unions, this means more challenges to ensure labour standards are observed. Overall, the implementation of the private sector development action plan aimed at removing some impediments for manufacturing activity may positively impact on the textiles and clothing industry. The challenge, however, remains at the multilateral trading system level where trade and market restrictions remain.

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The Textile and Clothing Industry in Zimbabwe

By Godfrey Kanyenze

1. Introduction: Policies and Growth of the Industrial Sector in Zimbabwe

1.1 The Era of Import-Substitution Industrialisation

By moving to the north from his South African base, Cecil John Rhodes hoped to find a second gold rand north of the Limpopo River. When hopes of finding the second rand were dashed, especially following the collapse of the Johannesburg Stock Exchange in 1900, a process of diversifying away from mining was launched, beginning with agriculture and extending into manufacturing in Rhodesia, now Zimbabwe. By 1940, the country already had a relatively developed industrial base, with the only integrated iron and steel plant in sub-Saharan Africa. It is estimated that by then, the manufacturing sector accounted for 10% of GDP and 8% of exports (Ndlela & Robinson, 1995). When the Federation of Rhodesia and Nyasaland involving what is now Malawi, Zambia and Zimbabwe was established in 1953, this accelerated the process of industrialisation, with much of the investment going to Rhodesia.

The collapse of the Federation in 1963 was followed by the Unilateral Declaration of Independence (UDI) by the minority white regime in Rhodesia in 1965, which resulted in the imposition of sanctions by the international community. This ushered in a new era of inward looking Import Substitution Industrialisation (ISI) and an intensive process of industrialisation where the state played a central role in resource allocation. A centralised foreign exchange allocation system was introduced, with an elaborate system of state enterprises and price controls. This foreign exchange rationing benefited the companies that were in existence in the late 1960s, undermining new and especially small enterprise growth. However, the state machinery operated in close consultation with the predominantly white private sector. The 1964 bilateral agreement with South Africa provided a basis for sanction-busting and the generation of the much-needed foreign currency.

Whereas the manufacturing sector accounted for 17% of GDP in 1965, its share had grown to 25% by the advent of independence in 1980. This is exceptional by Sub-Saharan African standards. While the share of manufacturing output in

GDP in Zimbabwe averaged 23.3% of GDP during the period 1980-89, the corresponding figure for Sub-Saharan Africa was only 10.4%. Agriculture is the dominant sector in most Sub-Saharan African countries, contributing on average 31.6% of GDP during the period 1980-89. In the case of Zimbabwe, agriculture accounted on average for only 12.2% of GDP over the same period. Apart from its relative size, the manufacturing sector was diversified. On the advent of independence, industry already consisted of some 1,260 separate units producing 7,000 different products.

The manufacturing sector presents its own contradictions. The import substitution industrialisation strategy, which had performed well during the sanctions period, (particularly during the fastest growth period of 1966-74), was already showing signs of severe stress by 1980. All easy and moderately hard industrialisation had been exhausted by 1975 (Green and Kadhani, 1986). The deliberate policy of compressing imports to contain the balance of payments situation left capital stock in an obsolete and depleted state. The manufacturing sector itself became a net user of foreign exchange. Although it contributed 32.1% of export earnings in 1984, it accounted for 90.6% of imports during the same year. Furthermore, the high level of protection created a monopoly structure whereby 50.4% of manufacturing products were produced by single firms, 20.6% in subsectors with 2 firms and 9.7% in subsectors with 3 firms. This meant that 80% of goods produced in Zimbabwe were monopoly or oligopoly products (Ndlela, 1984; UNIDO, 1986). This market structure was further exacerbated by the concentration of production in the two major towns, Harare (accounting for 50%) and Bulawayo (accounting for 25% of all manufactured products).

With the advent of independence in 1980, the country was readmitted into the international community. However, government retained the control measures of the pre-independence era. In this regard, government policy continued to favour big business, thwarting the growth of small and medium sized enterprises. However, in spite of the widespread controls, the World Bank (1989) found Zimbabwean industries to be highly efficient, thereby defying expectations and experiences elsewhere where controls were associated with gross inefficiency. As a result, World Bank support during the 1980s focused on establishing export incentives without pressing for the liberalisation of the economy.

1.2 The Era of Export-led Growth and Export Processing Zones (EPZs)

However, as the foreign exchange shortage hit harder, resulting in depressed investment and low levels of employment, the World Bank and IMF leveraged for the liberalisation of the economy in the late 1980s. As a result of this pressure, government introduced the Economic Structural Adjustment Programme (ESAP) in 1991. Through ESAP, government shifted from the highly interventionist approach towards a more market-driven economy. The liberalisation of trade was an important component of ESAP, and in fact Zimbabwe was way ahead of schedule on this issue. Other measures accompanying the liberalisation of trade included the removal of export incentives, phasing out of the import-licensing regime, elimination of foreign currency controls, reduction in tariffs to create a tariff band ranging from 0 to 30% and achieving an export growth rate of 9% per annum. These measures were followed by further liberalisation within the multilateral context of the WTO since 1994 and the regional frameworks such as SADC Trade Protocol and COMESA Free Trade Area (since 2000).

To promote exports, government adopted the strategy of promoting Export Processing Zones (EPZs) through the EPZ of 1995. EPZs in Zimbabwe were established country-wide and not confined to industrial parks. The following are the incentives offered to qualifying firms for an EPZ status:

- Corporate tax holiday of 5 years and a low flat rate of 15 percent thereafter;
- Duty free importation of capital equipment and machinery for EPZ operations;
- Duty free importation of all raw materials and intermediate goods required in the production process and in construction;
- Exemption from withholding tax on dividends;
- Exemption from fringe benefits tax on EPZ employees;
- Exemption from withholding taxes on interest-earned, fees, remittances and royalties;
- Exemption from branch profit tax for a branch of a foreign registered company operating in EPZs;
- Exemption from capital gains tax.

To be an EPZ company, the following criteria have to be met:

- Be a new investment (Greenfield investment);
- Export at least 80 percent of annual sales/turnover;
- Create employment opportunities and undertake human resource development;
- Undertake value addition activities;
- Provide adequate environmental safeguards;
- Strive to achieve significant technical know-how and technological transfer; and
- Be approved by the Export Processing Zones Authority (EPZA).

Zimbabwe has benefited from the Lomé arrangements since 1980, and now from the Cotonou Agreement (2000) where the EU provides preferential market access to its market. It has not enjoyed market access under the African Growth and Opportunity Act (AGOA) with the USA since it is not eligible because it did not meet the criteria of good governance.

1.3 The Current Crisis

Following the opening up of the economy, the manufacturing sector, and especially the textiles, clothing and footwear sub-sectors were hardest hit by the closure of companies that accompanied the influx of cheap imports. Like other major producers of textiles and clothing and footwear, Zimbabwe was hit on two fronts, namely, I) cheap imports especially from Asia and particularly China are crowding out local producers on the home market and II) in third markets where the quota system is under threat following the expiry of the Agreement on Textiles and Clothing (ATC) in December 2004.

The crisis in the textile and clothing industries coincided with a national political crisis in Zimbabwe, which emanated from the fall-out of government with the people owing to the adverse impact of ESAP. For the purposes of this paper, it is important to distinguish the post-independence, pre-ESAP period (1980-1990), which was the period of continued import substitution industrialisation, the ESAP period (1991-95), and the period of political crisis when government undertook policy reversals and adopted a fire-fighting management, “crisis by crisis” approach (“ad hocism”). Consequently, the Zimbabwean economy is now mired in crisis as characterised by critical shortages of foreign exchange and a thriving parallel market, fuel, basic commodities, rising inflation (265.1% as at August 2005), punitive interest rates (of at least 300%), falling real incomes and widening income differentials, endemic unemployment (75%), poverty (80% of Zimbabweans live below the poverty line) and its feminisation, onerous debt and the scourge of corruption. While cumulatively, real GDP declined by 31% during the period 1999-2004.

2. Structure & Development of the Textile and Clothing Industry in Zimbabwe

2.1 Importance of the Textiles, Clothing and Footwear Industries in the Manufacturing Sector

Table 1 provides data on the percentage share of the textiles and clothing and footwear sub-sectors in manufacturing gross output for the period 1985-95 and the index of volume of production for these sub-sectors and the manufacturing sector for the period 1995-March 2005.

Table 1: **Percentage Share of Textiles and Clothing & Footwear in Manufacturing Gross Output & Index of Volume of Production**

	% of Manufacturing Output			Index of Volume of Production (1990=100)		
	Textiles	Clothing &Footwear	Manufng / GDP	Textiles	Clothing &Footwear	Manufng
1985	11.3	6.3	18.1			
1986	10.1	6.2	19.5			
1987	10.0	6.4	20.7			
1988	11.0	6.8	19.5			
1989	11.0	6.3	23.0			
1990	10.9	7.0	20.5	100.0	100.0	100.0
1991	10.8	7.0	24.1			
1992	8.3	5.5	26.9			
1993	10.9	5.9	21.0			
1994	8.7	5.7	19.1			
1995	7.9	5.0	19.2	59.3	82.9	96.0
1996			16.4	74.7	97.2	108.2
1997			14.9	74.0	106.2	108.0
1998			14.0	79.1	114.6	106.6
1999			13.4	87.3	125.7	99.9
2000			11.4	72.8	120.8	93.3
2001			9.7	69.0	123.0	86.9
2002			7.2	49.4	108.4	76.2
2003			10.8	32.0	104.4	64.0
2004				39.8	96.2	58.0
Jan-Mar'05			39.7	95.2	62.5	

Source: Quarterly Digest of Statistics, CSO, June 2001 & March to December 2003 & Unpublished CSO Data.

Data on the distribution of manufacturing output by sub-sector are only available up to 1995. However, Table 1 indicates that the textiles sub-sector accounted on average for 10% of total manufacturing output between 1985 and 1995, while clothing and footwear represented on average 6.2% of manufacturing gross output over the same period. The share of the manufacturing sector in GDP averaged 21% during the respective period. While the textiles sub-sector produced on average 11% of total manufacturing output during the period before economic liberalisation (1985-90), its share declined to an average contribution of 9% during the period of ESAP (1991-95). The share of the clothing and footwear sub-sector in manufacturing output declined from an average of 7% during the pre-ESAP period to 6% during the period of ESAP.

Following the introduction of ESAP, the share of the textiles sub-sector in manufacturing output declined from 11.3% in 1985 to 7.9% by 1995, while that of the clothing and footwear sub-sector dropped from 7% in 1990/91 to 5% by 1995. The share of the manufacturing sector in GDP declined from a high of 27% in 1992 to 19.2% by 1995 and 7.2% by 2002. The decline during the ESAP period (1991-95) was mainly due to the influx of competing cheap imports, while the further decline after 1995 reflected both the liberalisation of trade and the current economic crisis. Thus, the opening up of the economy since 1991, exacerbated by the current political crisis, has resulted in marked de-industrialisation. The index of the volume of production for the textiles sub-sector plunged from 100 in 1990 to 59.3 by 1995 (due mainly to trade liberalisation) and further to 39.7 by March 2005 (due to both the liberalisation of trade and political crisis). The index for the clothing and footwear sub-sector fell from 100 in 1990 to 82.9 by 1995, peaking at 127.5 in 1999 before declining to 95.2 by the first quarter of 2005. The manufacturing sector dropped from an index of 100 in 1990 to 96 by 1995. This indicates that the manufacturing sector suffered de-industrialisation following the liberalisation of trade since 1991, while the textiles sub-sector was the worst affected..

The current 'Look East' policy of Government, which actively promotes investment from Asia and particularly China, has exacerbated the situation, resulting in an influx of cheap, poor quality imports from Asia, and especially China.

2.2 Number of Companies and Investment by Country and Domestic Investment

A study by FAFO (2000) suggested that in 1999, there were 90 companies operating in the textiles sub-sector of which 1 was operating in the EPZ. Out of 250 companies in the clothing sub-sector, 5 were in the EPZs, and only 1 of the 70 companies in the leather and shoe industry had EPZ status. The ownership structure is reflected in Table 2.

As indicated in the FAFO study (2000), the output is mainly for the local market, with the main export destination being Europe where preferential access is granted through the Cotonou Agreement (formerly Lomé Agreements). According to information provided by the Federation of the two unions covering the textiles and clothing sub-sectors, 10 companies closed in the textile industry between 1990 and 2005, while 30 closed in the clothing sub-sector during the same period. Since the EPZ legislation was signed into law by the President in 1995,

Table 2: **Ownership of Companies, 1999**

Sector	Clothing Industry	Textile Industry	Leather and Shoe Industry
No. of companies	250	90	70
Owners/Nationality			
British	24%	31.3%	6.3%
Indians	24%	22.9%	-
Jews	8%	14. 2%	2.1%
Coloureds	2%	-	-
Zimbabweans	42%	20.3%	15.0%
South Africans	-	6.3%	16.7%
Palestinians	-	4%	-
Greeks	-	-	4.2%
Lebanese	-	-	10.4%
Italians	-	-	16.7%
Koreans	-	-	6.3%
Portuguese	-	-	16.7%

Source: FAFO, 2000, Table 4, pages 8-9.

273 projects have been approved. Of these, 166 are currently operational. As at 31st March 2001, EPZA had approved the development of 130 projects and 10 operating zones. Of the total approved projects, only 66 were fully operational, of which 27 were in the agro-processing sector, 16 in manufacturing, 6 each in leather, footwear and services, 3 each in floriculture, furniture manufacturing and textiles and clothing, 1 each in chemicals and timber processing, as depicted in Table 3 below.

Of the total investment made, 30% was by foreign investors, 30% by joint ventures between Zimbabwean and foreign companies, and 40% by Zimbabwean investors. By March 2001, EPZs had generated only US $ 246 million in foreign currency. Of this total, agro-processing, textiles, clothing and furniture manufacturing have accounted for US $ 114, US $ 59, US $ 29 and US $ 20 million respectively. By 31st January 2004 EPZ projects had created an estimated 31,193 jobs (permanent, contract and casual). Table 4 shows the total employment figures per sector and the percentage share of employees in EPZs per sector.

Overall, the total number of jobs rose by 50 percent from 15,574 by 31 March 2001 to 31,193 by 31st of January 2004. The agro-processing accounts for the highest number of employees, namely 52.6 percent of the total workforce in EPZs and a total of 16,420 workers. Textiles & clothing employ 13.3 per cent of the total EPZ workforce.

Table 3: **Performance of EPZs in Zimbabwe as at 31 March 2001**

Sector	Number of Firms	Employment	Investment Z$	Exports US$
Agro-processing	27	8,893	1,291,323,472	113,693,109
Manufacturing	16	832	1,419,724,588	29,413,189
Floriculture	3	93	32,600,000	925,013
Furniture manufacturing	3	385	203,437,304	20,399,197
Chemicals	1	72	194,998,000	5,959,759
Leather & footwear	6	516	215,600,000	12,338,450
Timber processing	1	14	3,000,000	131,906
Textiles & clothing	3	4,710	52,000,000	58,845,288
Services	6	59	197,700,000	3,901,983
Total	66	15,574	3,610,383,364	245,607,885

Source: Export Processing Zones Authority of Zimbabwe

Table 4: **% Share of Employees by Sector as at 31st January 2004**

Sector	Total Employment	% of Employees
Agro-processing	16,420	52.60
Manufacturing	1,723	5.50
Floriculture	5,989	19.20
Furniture Manufacturing	1,298	4.20
Chemicals	72	0.23
Leather and Footwear	589	1.89
Timber Processing	880	2.82
Textiles/Clothing	4,163	13.30
Services	69	0.22
Total	31,193	100.00

Source: Export Processing Zones Authority of Zimbabwe

2.3 Employment and Union Coverage

Table 5 illustrates the levels of employment and trade union coverage for the periods 1990 and 2005.

Table 5: **Employment, Retrenchment, Job Losses and Union Coverage in the Textile and Clothing Industries, 1990 & 2005**

Sector	Employment		Retrenchment	Job Losses	Union Membership		Union Density	
	1990	2005	1990-2005	1990-2005	1990	2005	1990	2005
Textile	24,000	11,522	12,500	12,478	12,000	11,503	50.0	99.8
Clothing	27,000	17,300	20,000	10,000	15,000	12,000	55.6	69.4

Source: Zimbabwe Textile Workers' Union (ZTWU) & National Union of the Clothing Industry (NUCI).
Notes: Where job losses are less than the retrenchment figure, this implies some of the retrenchees got absorbed by other companies in the industry.

The levels of employment for the textile and clothing industries have shrunk from 24,000 and 27,000 respectively in 1990 to 11,522 and 17,300 respectively by 2005. The union density in the textile industry increased markedly from 50% in 1990 and 52% in 1999 to 99.8% by 2005, reflecting the aggressive mobilisation of membership by the union following the threats emanating from the loss of membership due to retrenchments. This was a result of the five-year strategic plan adopted by the Zimbabwe Textile Workers' Union (ZTWU) in December 1999, which sought among other things to raise the union density to 90% by the end of the plan in 2004. According to the General Secretary of ZTWU, Silas Kuveya, the study circle approach to trade union education contributed to the raising of union membership, to almost a closed shop situation. The study circle programme was funded by the International Textile, Garment and Leather Workers' Federation (ITGLWF). The union density in the clothing industry also increased from 55.6% in 1990 to 69.4% by 2005. This increase in membership in both industries was greatly boosted by the Zimbabwe Congress of Trade Unions (ZCTU) organising support project of 1999. Through this project, unions undertook joint membership recruitment exercises and were provided with financial resources.

According to FAFO (2000), union densities are higher in EPZ compared to non-EPZ companies, with densities of 100% compared to 52% in non-EPZ companies for textiles, 60% for clothing compared to 47% in non-EPZs and 82% compared to 75% in non-EPZs in leather and shoe industry (all for 1999). Wages in the textile, clothing and footwear industries remain pathetically low, averaging US $ 40 a month.

2.4 Exports Relative to Imports

The import substitution industrialisation programme resulted in an inward-looking economy, with hardly any export culture. ESAP sought to restructure the economy towards exports largely through the depreciation of the exchange rate. However, the performance under ESAP was dismal. Whereas exports were expected to grow at an annual average rate of 9% during the period 1991-95, the actual outturn was an average annual rate of 0.9%. Export performance has deteriorated during the subsequent period of crisis. Table 6 reflects the export to import situation in the leather and textile industries for the period 2000-2003.

Table 6: **Export Relative to Import Performance of the Leather and Textile Industries, 2000-2003**

	Exports				Imports			
	Leather products		Textile products		Leather products		Textile products	
	Z$'000	Tonnes	Z$'000	Tonnes	Z$'000	Tonnes	Z$'000	Tonnes
2000	794,044	5,478	1,341,903	24,885	59,092	322	3,527,232	25,917
2001	61,341	513	175,792	2,223	20,586	73	1,936,554	14,743
2002	370,929	4,444	1,667,842	26,773	66,253	123	3,002,569	20,937
2003	40,651	1	11,144,214	34,901	9,251	2	5,036,927	43,070

Source: Quarterly Digest of Statistics, March to December 2003, CSO, pages 25 & 31.
Notes: Leather products include leather, leather manufacturers & dressed fur skins while textile products include textile yarn, fabrics, made-up articles and related products (all commodity classification 6).

Whereas the leather industry is more export-intensive, the textile industry is more import-intensive. Except for 2002, imports of textiles far outweigh exports. The scenario could be intensified by the erosion of preferential access to developed markets due to the expiry of the Multi-Fibre Agreement.

3. Reactions of Trade Unions Towards the Crisis

Three unions affiliated to the ZCTU organise the textile, clothing and leather industries. These are ZTWU, NUCI and the Leather, Shoe and Allied Union respectively. They are all affiliated to the International Textile, Garment and Leather Workers Federation (ITGLWF). The National Union of the Clothing Industry goes back to the early 1940s, while the textiles union separated from the clothing one following the enactment of the Industrial Conciliation Act in 1958 and the leather union was formed in 1980.

To deal with the challenges they are facing, the unions formed the Federated Unions of Textile, Clothing and Leather Workers of Zimbabwe, which seeks to amalgamate these unions into one. To date, the Federation has developed an education and training policy (2001), a gender policy (2004) and an information system policy (2005). As far back as 1996, the Zimbabwe Textile Workers' Union and the National Union of the Clothing Industry, in conjunction with FOS-Belgium, initiated a project on "Creating Social Awareness Through Worker Education," whose key objective was the raising of worker awareness and consciousness regarding their socio-economic rights and reviewing the socio-economic situation of the clothing and textile industries. In August 1999, the Zimbabwe Textile Workers' Union and the National Union of the Clothing Industry organised a comprehensive workshop on "The Impact of Globalisation on Workers in the Clothing and Textiles Industries", facilitated by local and regional researchers.

Efforts to address the crisis went beyond the national level. On 8-10 May 1999, representatives of the textile, clothing and leather industries from Lesotho, Malawi, Mauritius, Mozambique, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe met in Maputo, Mozambique to deliberate on the fate of their industries

The Maputo Declaration called upon governments to adopt appropriate macroeconomic policies, pursue debt cancellation, promote workers' rights, to use industrial policy to promote and develop local industries, seek preferential access to developed countries, desist from promoting EPZs, use the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy adopted by the ILO in 1977, involve trade unions in trade and WTO business, promote equitable regionalism with a strong accent on social development, support regional collective bargaining agreements and tripartite dialogue and negotiations as well as democratic governance. They undertook to build their organisations, and especially strong shop-floor structures, unionise at least 20% of the non-unionised workers annually, share information and build a comprehensive database, to unite actions across the region to defend jobs, fight for a living wage and workers' rights, coordinate their work and meet as a regional structure at least twice a year, engage their governments, empower shop stewards and unite the union movement.

Following a regional meeting held in Cape Town, South Africa, union representatives from the textile, clothing and leather industries of Lesotho, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe issued a statement on China and the Southern African clothing, textile and footwear industry on 22 September 2005. The statement noted the global and local challenge emerging from Chinese imports, decrying unfair trade emanating from unfair practices from China such as its use of subsidies, suppression of workers' and trade union rights, poor working conditions and wages. It also drew attention to attempts by the EU and USA and other governments to protect their markets by entering into agreements with China to limit the flood of imports by introducing safeguard measures. The statement further called on African governments to work with unions in developing trade safeguards and a trade and industrial policy.

Beyond piece-meal knee-jerk reactions, the unions, as part of a ZCTU initiative, developed a comprehensive alternative policy 'The Beyond ESAP' document which outlined a sector-by-sector alternative. The draft alternative document was discussed and adopted at the ZCTU Congress in 1995. One central recommendation was the establishment of an institutional framework for social dialogue and negotiation of policy. Government went on to establish the National Economic Consultative Forum (NECF) in 1997 on the basis of this recommendation. However, the NECF was reduced to a cosmetic talk-shop, without institutional representation. As a result, the ZCTU boycotted it. Since 2004, the African Labour Research Network, in conjunction with the regional trade union movement, is developing 'An Alternative to Neo-liberalism in Southern Africa – ANSA.' The ANSA project walks on two legs, namely, i) the development of detailed alternatives through a combination of intellectual input and participatory approaches involving trade unions from the region, and ii) the mobilisation by the trade unions and other civil society groups in the region and engagement of governments and key stakeholders (SADC, COMESA, AU, World Bank, IMF, WTO etc).

4. Outlook and Way Forward

Clearly, the textile, clothing and footwear industries are in crisis and their future is under threat from the various processes of globalisation. Following the introduction of ESAP, the share of the textiles sub-sector in manufacturing output declined significantly mainly due to the influx of competing cheap imports, the liberalisation of trade and the current economic crisis.

After years of denial, the World Bank admitted that ESAP had failed. In a candid 'Performance Audit Report' it conceded that, "… the concerns, however, go beyond the issues of pace and design: the comprehensiveness of the program seems a fundamental issue, especially given the objective of reducing poverty. Given the highly dualistic nature of Zimbabwe's economy (where the white minority dominates formal sector economic activity and owns two-thirds of high potential land, and the black majority is concentrated in rural, communal areas and the urban informal sector), it would appear that some basic questions were not explicitly addressed at the outset. ," (1995: 11).

Kapil Kapoor who was the chief economist at the World Bank office in Zimbabwe during the ESAP period, pointed out that: "Given the weak implementation capacity in African economies, ... structural adjustment programs, in general, have unrealistic expectations about how fast adjustment can occur; consequently, the political costs of speedier implementation are also often underestimated," (1995:3). While the World Bank / IMF framework sees trade liberalisation as resulting in the collapse of inefficient industries and their replacement by efficient ones, Kapoor has cautioned that the adjustment is not automatic since successful exporting requires "... the upgrading of export infrastructure, the provision of export finance, and the development of market intelligence," 1995:4). This does not happen overnight. Thus, export growth requires more than just depreciating the exchange rate. Lessons from South East Asia suggest that industrial development requires a strategic role of the state in guiding and leading the market through provision of incentives to those productive sectors offering the best returns (picking winners).

Addressing the First Forum of the Structural Adjustment Participatory Review Initiative (SAPRI), on 2 September 1999, Tom Allen, the then Resident Representative of the World Bank also admitted that ESAP had failed. He attributed its failure to the following:

- Growth needs to be inclusive – "Partial deregulation without a restructuring of the dual economy creates social tensions and not enough jobs";
- Social sector expenditures need to be protected and targeted measures to deal with poverty should not be seen as 'add ones' but as an integral part of the programme;
- State intervention is necessary – "Getting the prices right and making markets work better are important, but these need to be complemented with measures to ensure that the 'unequal' balance of power of those who can readily engage in the market and those who cannot, does not lead to dangerous levels of social tensions"; and
- National ownership is critical.

At the 1999 annual meetings held in October, the Fund and the Bank adopted a new Poverty Reduction and Growth Facility (PRGF) to support Poverty Reduction Strategy Papers (PRSPs) that are:

- Country-driven, with the broad participation of civil society, elected institutions, key donors and relevant IFIs;
- Developed from an understanding of the nature and determinants of poverty and the links between public actions and poverty outcomes;
- Recognise that sustained poverty reduction will not be possible without rapid economic growth; and
- Oriented toward achieving outcome-related goals for poverty reduction.

However, PRSPs suffer from the following limitations:
- Participation of civil society is subject to the discretion of governments and is not formalised;
- The macro-economic framework is taken as a given and hence, while the PRSPs are prepared in a participatory manner, the PRGF itself is not. Participation has focused on social issues.

In this regard, the way forward should be guided by the following considerations:
- The realisation that the creation of decent work is central to poverty reduction and eradication and hence trade negotiations should take into account whether or not they facilitate or undermine the promotion of decent work. In this regard, trade negotiations should include ex ante impact assessments of trade on food security, social conditions, rights, gender and human development (Sustainability Impact Assessments – SIAs);
- diluting labour standards to promote exports is a distortion to development and hence the 8 Core ILO Labour Standards and active labour market policies should be upheld;
- The need to recast the concept of development to move away from the traditional focus on growth to promote sustainable human development as recommended in the UNDP Human Development Reports. As pointed out by the African Heads of State in 1990:
  "We, therefore, have no doubt that at the heart of Africa's development objectives must lie the ultimate and overriding goal of human-centred development … We are convinced that to achieve the above objective will require a redirection of resources to satisfy, in the first place, the critical needs of the people, to achieve economic and social justice and … to empower the people to determine the direction and content of development," (The Abridged Version of the African Charter for Popular Participation in Development and Transformation, Arusha, 1990: 4);
- Comprehensive industrial and trade policies focusing on coping with the challenges emanating from the expiry of the ATC should be put in place at national and regional levels;
- There ought to be flexibility in the interpretation and implementation of WTO agreements with respect to Special and Differential Treatment to allow for the adoption of national policies that promote human development and protect national self-determination;
- There is better protection under a multilateral trading system than bilateral negotiations, in which case bilateral and regional trade agreements should be

subordinated to multilateral agreements (ongoing negotiations such as the Economic Partnership Agreements between the EU and ACP countries should desist from the WTO + agenda and promote the right to national sovereignty);

- The better treatment of foreign companies (e.g. EPZs) creates distortions to national economies and hence should be avoided;
- Fairness in Non-Trade Barriers and the provision of technical assistance to build requisite capacities to meet the agreed standards. Other UN agencies such as ILO, FAO, UNCTAD should also be involved to ensure a balanced, holistic approach that informs WTO negotiations;
- The current global configuration gives weight to the paradigm of the World Trade Organisation (WTO), World Bank and IMF at the expense of the UN agencies responsible for social development, equitable growth, workers' and trade union rights, engendered development and environmental sustainability such as the ILO. As recommended in the ILO's World Commission on the 'Social Dimensions of Globalisation,' a Policy Coherence Initiative must be supported through which the UN agencies should review their operations to take a holistic approach to development beyond markets;
- Tariff peaks and tariff escalation in markets of interest to developing countries should be eased to allow LDCs the opportunity to add value to their raw materials;
- The right of developing countries to use tariff protection must be guaranteed within the framework of the 'less than full-reciprocity' provision of the Doha Ministerial Declaration;
- The call to democratise the WTO's working methods, and especially its informal settings and to include civil society;
- The G20 Group should be encouraged to go beyond their current focus and interest in agriculture to take up trade union concerns; and
- Unions must take up and promote the issues and positions taken by the ICFTU with respect to the Agenda of the 6th Ministerial Conference of the WTO (Hong Kong, 13-18 December 2005).

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Appendix

Trade Union Conference on

"The Future of the African Textile and Clothing Industries"

Cape Town (Ritz Hotel, SeaPoint), October 10-11, 2005

Programme

Jointly organized by:
Friedrich-Ebert-Stiftung
LaRRI (Namibia)
Sactwu (South Africa)
ITGLWF

Sunday, October 09

Arrival of participants

Monday, October 10

08h30-09h00 Welcome and Opening

- Rudolf Traub-Merz, FES
- Thabo Tshabalala, ITGLWF
- Monroe Mkalipi, SACTWU

Introduction into Programme

- Herbert Jauch, LaRRI

Session 1: Global restructuring of textile and clothing sector after the end of the MFA / ATC and its Impact on sub-Saharan Africa

Under the Muli-fibre agreement (MF) and the Agreement on Textiles and Clothing (ATC), the EU and the USA protected their domestic markets from cheaper Asian products with quotas. Exports from African countries benefited from the MTA thru preferential market access under AGOA (USA) and Cotonou (EU), the real advantage being however dependent on the application of the 'rule of origin' for inputs. With the expiry of the MTA, the global market is challenged by a huge restructuring exercise, creating few winners and many losers. The session tries to examine the extent of restructuring, changes in production and employment, consolidation and determining factors.

09h00-10h30 Chair: Godfrey Kanyenze
Presenter: Jean-Pierre Lapalme, WTO

- *The termination of the ATC and the restructuring of the global market: How do WTO rules now apply to trade in textiles and clothing with special emphasis on Africa?*

– *The present situation: main applicable WTO rules, preferential treatments, the specific rules applying to China;*
– *Challenges ahead: adjustment;*
– *the Doha development Agenda.*

Presenter: Mike Morris, School of Development Studies

- *The dynamics of the Global Textiles and Clothing value chain, the rise of China and the space for sub-Saharan Africa thru AGOA.*

Session 2: **Reports on the State of Textiles and Clothing Industries in Sub-Saharan Africa**

African countries relied on different strategies to promote textile industries: import substitution, export promotion, Export processing zones (EPZs). They differed in their consequences on backward-forward linking, role of FDI and investment policies. Country reports will focus on state of national textile industry, development model selected, current and future economic policies towards protecting and promoting textile sector.
Note: If feasible, Country reports should be grouped according to promotion strategy.

11h00-12h30 **Part 1: Country Reports:**
Chair: Esther de Haan
- Ghana: Dr. P.K.Quartey, P.K, ISSER
- Zambia: Grayson Koyi, CSAWUZ
- Nigeria: Salihu Lukmann, NLC
- Tanzania: Hassan Chamzin, TUICO

Discussion

14h00- 15h30 **Part 2: Country Reports:**
Chair: Winnie K. Madonsela
- Kenya: Jacob Omolu IPAR
- Zimbabwe: Dr. Godfrey Kanyenze, LEDRIZ
- Madagaskar: Mamy Ralaivelo

Discussion

16h00-17h30 **Part 3: Country Reports**
Chair: Moses Kachima, SATUCC
- Swaziland: Winnie K. Madonsela, University of Swaziland
- Mauritius: Gilles Joomun, StraConsult
- Malawi: Grace Mulima, MCTU
- Namibia: Herbert Jauch, LaRRI

Discussion

Tuesday, October 11

Session 3: **Promoting textiles industries in Africa – Which instruments are available under WTO?**

The session will discuss the different means available to promote growth of African textile industries under WTO-rules. What instruments are available under current WTO-rules?. Which instruments could be negotiated in the DOHA-round? How would the results of the NAMA-negotiations impact on the textile sector? How can the WTO-clause on selective and differential treatment be applied to national needs?

08h30-10h00 Chair: Esther Busser
Presenter: Michiko Hayashi, UNCTAD

- *How to promote textile and clothing industries in Africa under WTO rules?*
- *What support measures / tools can be used to offset the impact of increased competition in the global market? (GSP,GSTP, preferential rules of Origin, safeguard, subsidies,etc.)*
- *What stakes do the textiles and clothing industries in Africa have in the Doha-negotiations? (e.g. NAMA-negotiations Special and differential treatment)*

10h30-11h30 **Part 4: Country Reports**

Chair: Herbert Jauch
- South Africa: Etienne Vlok / Ebrahim Patel, SACTWU

Discussion

Session 4: International Labour Standards – How can they help African textile industries?

Textile industries appear to be a sector where FDI-hopping from Asia is particularly pronounced. some, if not most of the current translocation of textile companies back to Asia is primarily motivated by sourcing for cheaper labour costs. Countries like China are pushing for more textile exports and are known to ignore international labour rights. In recent years, several African governments have put deregulation of the labour market on their reform agenda, trying to limit labour standards. The international labour movement is pushing hard that all countries accept labour standards. The main question are: Is the non-application of labour standards an decisive factor in creating wage differentials? Are African economies forced to reduce labour rights to become economically competitive exporters from Asia? Could the uniform application of labour standards (which?) for all textile producing countries be a relevant factor in helping African textile industries to survive? What is the policy of the AU? Is Cambodia a positive example and can decent work programmes in the textile and clothing sector be helpful?.

10h30-12h30 Chair: Herbert Jauch
Presenter: Sylvi Endresen, University of Oslo

- *Labour standards, competitiveness of localities, and spatial strategies of companies. The case of Ramatex, Namibia*

Presenters: Esther Busser, ICFTU-Geneva
Lawrence Egulu, ICFTU-AFRO

- *Topic:ICFTU-Policy towards Int. Labour Standard and its relevance to Sub-Saharan Africa*

Session 6: Which way forward?

14h00-17h00 Chair: Thabo Tshabalala, ITGLWF

- Issue: Conference resolution
- Issue: How to lobby national and international institutions?

Closing

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