DPRU
WORKING PAPERS

An Analysis of the Spatial Distribution of the Clothing and Textile Industry in SADC

Eckart Naumann

No 02/66

April 2002

Development Policy Research Unit
University of Cape Town

An Analysis of the Spatial Distribution of the Clothing and Textile Industry in SADC

Eckart Naumann
Development Policy Research Unit
School of Economics
University of Cape Town
E-mail: enaumann@commerce.uct.ac.za

Development Policy Research Unit
Working Paper 02/66

April 2002
ISBN 0-7992-2122-8

Abstract

This paper focuses on the clothing and textile industry in the SADC region, with specific reference to the locational characteristics and developments of these two industry sectors over the last decade. The study links the economic and spatial characteristics of the clothing and textile industries, looks at the current situation and analyses the drivers and barriers to industrialisation and location. Significant economic, political and social importance is attached to these sectors, especially in the light of the recent developments within SADC and trade agreements with the US and the EU. In order to further stimulate the development of the clothing and textile industry, as well as draw up relevant policy to ensure regional competitiveness and continued economic growth, awareness of the industries' locational distribution in the region is important. The paper finds clothing and textile production in the region to be highly polarised, with the industries being drawn to the more developed markets, as well as the surrounding lower-(labour) cost countries (having ready access to the South African market). Regional integration is one of the key criteria for the continued attractiveness of the region to the clothing-textile pipeline, as firms seek to build competitive supply linkages in order to improve their local and international competitiveness. These developments are to a large extent driven by the changing international trade environment.

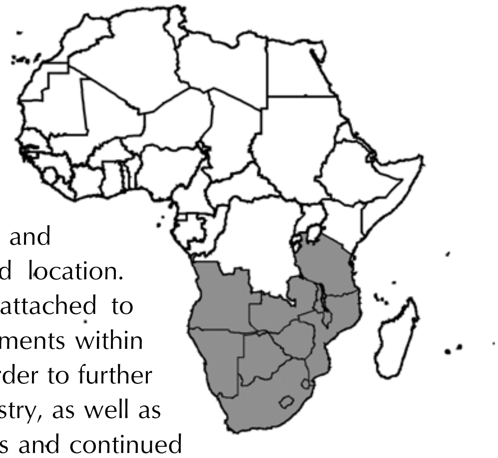
Development Policy Research Unit
Tel: +27 21 650 5705
Fax: +27 21 650 5711

Information about our Working Papers and other published titles are available on our website at:
www.uct.ac.za/depts/dpru/

Table of Contents

1. Introduction

1.1 Focus of this paper



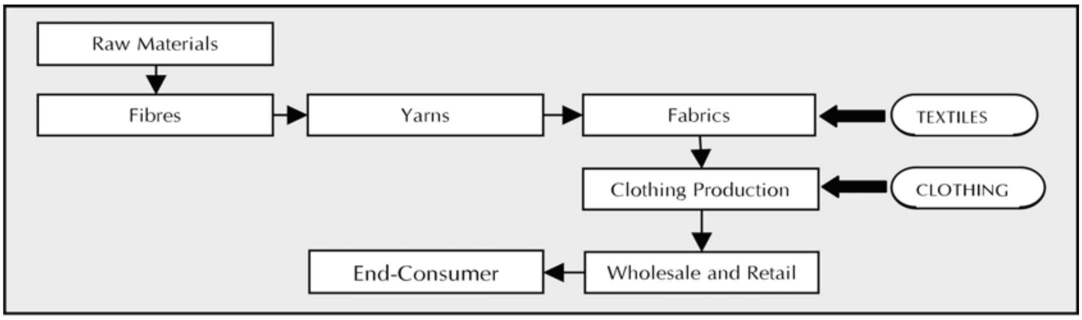
This paper focuses on the clothing and textile industry in the SADC region, with specific reference to the locational characteristics and developments of these two industry sectors over the last decade. The study links the economic and spatial characteristics of the clothing and textile industries, looks at the current situation and analyses the drivers and barriers to industrialisation and location. Significant economic, political and social importance is attached to these sectors, especially in the light of the recent developments within SADC and trade agreements with the US and the EU. In order to further stimulate the development of the clothing and textile industry, as well as draw up relevant policy to ensure regional competitiveness and continued economic growth, awareness of the industries' locational distribution in the region is of utmost importance. The 14 SADC countries are Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe.

1.2 Working definition of the clothing and textile industry

The clothing and textile industry encompasses a wide range of manufacturing activities, whose boundaries are not always clearly defined. A simple definition of the clothing sector would include the manufacture of wearing apparel such as menswear, womenswear, workwear, underwear, hats and fur and leather clothes. It does not include the manufacture of textiles or leather products such as footwear. The textile sector includes manufacturing activities such as the spinning, weaving and finishing of textiles, as well as other textile activities, including the manufacture of blankets, furnishings, automotive textiles, carpets, tents and the like.

For the purposes of this study, slight deviations were made from the narrow statistical criteria outlined above. Clothing production to a large degree deals with cut, make and trim (CMT) activities, including garment manufacture, furnishings (e.g. bed-sheets, curtains), industrial (including tents and tarpaulins), CMT-related activities and embroidery. The textile industry's production boundaries, as used here, include fibres, non-wovens, spinning, weaving, fabric knitting, dyeing (dye houses of commission printers only), knitwear, hosiery, tufting, coating, woven and knit packaging, narrows, ropes and twines.

Fig. 1 The Simplified Clothing -Textile Pipeline



1.3 Reasons for this study

The clothing and textile sectors are important industries in the region, both from an output and employment perspective. In addition, they provide a ready market for the output of complementary and upstream industries, as well as being an important supplier to the regional retail industry. Current and past studies have focused on a wide range of variables related to these industry sectors, but have largely neglected its spatial attributes. This study seeks to fill this "gap" and thus focuses on the locational dimension of the SADC region's clothing and textile production centres.

1.4 Methodology

This paper focuses on the clothing and textile industry in the SADC region, and links the spatial and economic characteristics of these two industry sectors. An important basis of this paper is provided by the graphic presentation of clothing and textile industry location in the SADC region, which is mapped using specialised Geographic Information Systems (GIS) software. A GIS (or geographic information system) provides an excellent means of presenting and analysing the spatial distribution of the SADC clothing-textile pipeline, revealing location patterns, trends, apparent dependencies and apparent inter-relationships that would be more difficult to present or discover in tabular format. For the purpose of this study, use was made of ESRI Arcview (3.2) GIS software.

To complement this mapping exercise, this paper analyses the industry qualitatively, by looking at the industrial policy framework and developments within the region, as well as quantitatively, using available country and sector statistics. For the GIS component of this study, various data collection techniques were investigated. It was found that substantial un-reliability and (out) datedness of industry address databases existed, as well as significant variances in data integrity across these sectors and countries. This necessitated the purchase of location data from a specialised textile and clothing consultancy, which has built a comprehensive industry database over more than a decade. In mapping the locational characteristics of the sectors, this study digresses from the norm by focusing on "production units" rather than separate "legal entities". In other words, a vertically integrated clothing manufacturing enterprise, with textile *and* clothing production capacity, would be counted as being 2 separate entities (one in each sector). The sectors where defined according to the criteria mentioned in Section **1.2** (Definitions). In most cases, however, the data refers to separate legal entities.

The raw data on clothing and textile production units was collated, and a database built with details of their locations (city / town). Each location (where clothing and textile production occurred) was subsequently mapped using its XY co-ordinates (longitude and latitude). The database was imported into the GIS mapping software, where query functions were used to map the activity according to industrial processes used (falling into the clothing or textile sectors). In the case of South Africa, the large number and dispersion of clothing and textile production units necessitated using the view of experts in allocating the total number of production units according to the most important production centres. In the case of Kwazulu/Natal, for example, these included Durban, Port Shepstone, Newcastle, Isithebe, Pietermaritzburg and Hammarsdale, although some other (minor) production centres may well exist. Nonetheless, any other production centres should, from a locational perspective, have similar drivers and barriers.

1.5 Limitations

As output and employment data for the individual production units is unknown, no definite trends are provided as to the total output and employment of these industries per production centre. The mapping of these production centres does, however, indicate where these industry sectors are located in the SADC region, which allows certain conclusions to be drawn and may have wide-reaching policy implications.

2. Issues affecting the location decisions of firms

2.1 Characteristics of the regional clothing-textile pipeline

The regional clothing and textile industries are characterised by clear location and operational patterns. Only four SADC countries (South Africa, Mauritius, Lesotho and Zimbabwe) are major producers of clothing and textiles, while several others also have relatively significant (in terms of each respective country's GDP) clothing and textile manufacturing capacity (Malawi, Mozambique, Tanzania, Botswana).

Clothing and textile production units are generally located in countries according to the perceived risk profile of that country, and the risk tolerance of the various stages along the production chain. While a number of SADC countries are perceived to be "safe" countries from an investor perspective, others are deemed to be too unsafe to contemplate setting up clothing or textile production units. Angola, for example, does not provide the clothing-textile pipeline with an overall attractive investment climate, notwithstanding the fact that the size of its population may serve as a ready market for the output of these industries. Other industries, such as the oil exploration and mining industries, may nonetheless find Angola a suitable "home". Other countries, such as the DRC, may fail to attract the clothing and textile industries for similar reasons as those mentioned above.

The manufacture of clothing and textiles is intricately linked, and to a large degree interdependent. The regional clothing industry provides a significant and ready market to the textile industry, while the clothing industry is to some extent dependent on regional textile manufacturing capacity and output. Further observations characterise the clothing–textile pipeline: from a locational perspective, textile production units (including cotton gins) are located on the one hand close to the source of their raw materials (e.g. in or near the cotton growing areas of SADC), and on the other hand near their main output markets (where the clothing manufacturing and retail industry is located). The mobility and locational decisions are strongly related to the different stages of the supply chain. The lower end of the more labour intensive clothing sector is to a large degree located in the lower cost countries in the region (preferably with easy market access to South Africa and / or good port facilities). The upper end of clothing production occurs mostly in South Africa and Mauritius. Reasons include availability of marketing facilities and opportunities, market access and greater access to design facilities and professional capacity. This part of the clothing industry is also less likely to consist of "fly-by-night" operators that utilise and maximise short term opportunities (mainly relating to wage costs and market access opportunities).

The retail sector also plays a particularly important role in influencing the locational characteristics of clothing production units, and the location thereof (which in itself is highly correlated with the location of the main economic centres in the region) in a significant way drives the location and output of clothing manufacturers.

The clothing industry in particular is also characterised by increasing mobility, due to the increasing importance of market access conditions and the fact that it is not nearly as capital intensive as the textile industry. In many cases, an observation particularly true in various SADC countries (such as Swaziland, Malawi, Mauritius etc.), attractive government incentives compete with each other for new investment in this sector through the provision (or subsidisation) of production facilities such as warehouses and factories. In such cases, production units merely require the installation of machinery (sewing machines), which are often wholly imported.

2.2 Drivers and barriers of clothing and textile industry location

This study maps the locational characteristics of clothing and textile production units in the SADC region, and analyses some of the most important drivers for industry location. A number of issues are at play here, and the development of the clothing - textile pipeline has over the past decades followed both **raw material considerations** (availability thereof) and **government policies** (e.g. import substitution, EPZ availability). Since GATT / WTO agreements and regulations have contributed to the increasing globalisation of world trade, new issues have become increasingly important in their impact on the locational decisions of firms.

Traditional drivers for industry location are still of importance, especially considerations such as the availability of raw materials. But the drivers of industry location decisions today focus predominantly on opportunities around **market access** and ready **access to factor inputs** (including labour). Together, these serve as catalysts for the development of supply chain linkages. These factors are of particular relevance in the SADC region, owing especially to the presence of different tariff regimes, bi-lateral and multi-lateral trade arrangements (within the region and beyond) and customs arrangements (e.g. SACU).

While existing enterprises in the clothing and textile sectors have based their location decisions on a previous set of drivers (such as ready access to raw materials and favourable government policies), new location decisions today require far more than a favourable domestic production and policy environment. To remain competitive, and this is true especially for participants in the clothing - textile pipeline, local *and* regional comparative advantage needs to be utilised through the development of regional supply chains. The development and extension of production efficiencies no longer depends solely on ready access to certain raw materials, but a host of variables. Of all the issues affecting industry location decisions, market access conditions have become the overriding final driver (or barrier). The sustainability of clothing and textile production, especially in SADC (where no single country enjoys overwhelming comparative advantage in the *entire* clothing - textile production pipeline), depends on the development of supply chain linkages through market access. Off course, the role of transportation costs (including cross-border charges etc.) also features prominently in the locational decisions of firms.

Agglomerations of economic activity generally translate into lower transaction costs through the achievement of economies of scale, locational proximity and the role that agglomeration plays in attracting service and support industries. By way of an example, South Africa is the dominant economy in the SADC region (and has the largest number of clothing and textile production units located there).

This makes access to the South African market important to regional clothing and textile producers, which is partially achieved by the MMTZ countries (Malawi, Mozambique, Tanzania and Zambia) through favourable conditions (one-stop transformation process), and by the countries forming part of the customs union with South Africa (Namibia, Botswana, Lesotho and Swaziland).

The agreement with MMTZ countries, however, provides only limited access to South Africa's clothing and textile market, as it is bounded by quantitative restrictions (Coughlin *et al*, 2001). In addition, the preferential access is qualified by the provision that such access is only provided for products to be consumed inside SACU (rather than used in the manufacture of export products). These considerations are significant for industry location in SACU and MMTZ partner countries.

Other market access issues are brought to the forefront by trade agreements, for example through the African Growth and Opportunity Act (AGOA). This provides especially the so-called *Lesser Developed Countries* (LDCs, into which category all SADC countries with the exception of Botswana, Namibia, South Africa, Mauritius and the Seychelles fall) with new access to the US market, without (until 2004 at least) the highly restrictive *rules of origin* faced by many competing countries. The overlap of this provision with South African market access conditions (through being part of the SACU or MMTZ countries) needs to be seen against the background of the secondary restrictions mentioned previously.

While the importance of regional supply chain linkages through the facilitation of market access are critical issues for SADC, significant barriers still exist to the realisation of such linkages. Uncertainties and restrictions relating to market access, tariffs and quotas, one- and two-stop transformation processes and other rules of origin continue to impact negatively on the locational decisions of firms. Until such time that market access issues become more favourable, future locational decisions in SADC will continue to be dominated by the size of the South African market, as well as favourable conditions in South Africa's neighbouring states (especially SACU). However, as trade liberalisation continues to lead to the lowering of tariffs, existing market structures are redefined and market access conditions change. Trade liberalisation leads to increasing market contestability and changes the nature of domestic and regional competition (Hartzenberg, 2000).

3. International trade arrangements impacting on the SADC clothing-textile pipeline

A number of agreements having a direct and / or indirect impact on the regional clothing - textile pipeline were concluded in recent years. These include the *Cotonou* (*Lomé*) *Convention*, the *Agreement on Textiles and Clothing* (ATC) (previously *Multifibre Arrangement*), the recent enactment of the *African Growth and Opportunity Act* (AGOA), the *EU-SA Free Trade Agreement* and the ongoing debate around a *SADC Free Trade Agreement*. A very brief overview of some of these is provided below, while the impacts of the other agreements are discussed in greater detail later.

3.1 The Lomé / Cotonou Convention

The Cotonou (also referred to as the EC-ACP) Agreement is the successor to the Lomé Conventions, which provide qualifying ACP (African, Caribbean and Pacific) countries with preferential access to EU markets. The agreement was concluded in June 2000 between the 77 ACP countries and the 15 Member States of the European Union (EU). It builds on 25 years of non-reciprocal preferential trade relations under successive Lomé Conventions, the last being Lomé IV (ECDPM, 2001). The Cotonou Agreement is different from previous Lomé Conventions, in that the trade regime will undergo a fundamental transformation. While the current all-ACP non-reciprocal tariff preferences will be maintained until 31 December 2007, a set of reciprocal economic partnership agreements (EPAs) or alternative trade arrangements will replace them. Negotiations around the new format of the agreement will commence in September 2002, and will lead to agreements that should be compatible with the rules of the WTO. Countries are invited to enter these negotiations either individually or as regional blocks, which is one of the key issues still requiring agreement in SADC. While the least developed countries (LDCs) will be entitled to maintain non-reciprocal preferences, the non-reciprocity with other countries will fall away. This will effectively lead to greater market access in the ACP countries for EU member states, and has potential implications for the regional (SADC) clothing-textile pipeline due to increased competition.

The Lomé Convention has, for example, had a very significant impact on the Mauritian clothing-textile pipeline in particular, and has been a strong driver of the development of these sectors. This preferential market access has promoted clothing and textile manufacturing in qualifying states (including ACP-status countries in SADC), especially those targeting EU clothing and textile markets. ACP countries in most cases hold very significant labour cost advantages over the EU, making them an attractive destination for the location of these sectors. Access to the EU under the Cotonou Convention is even more preferential than that provided to developing countries by most industialised countries under the General System of Preference

(GSP) provisions (Coughlin et al, 2001). For 90 developing countries (and economies in transition), notably in Asia, the GSP provisions provide the only preferential access to the EU market (European Union, 2001). However, this situation is set to change drastically when the clothing and textile sectors are fully integrated into the non-tariff mainstream in terms of the ACT / MFA.

The Agreement on Textiles and Clothing (ATC) succeeded the Multi Fibre Arrangement in 1995, and stipulates that quotas be phased out in four tranches during the 10 year period to 2005, as follows (WTO, 2002)

1 January 1995:	Each country would integrate clothing and textile articles that constitute no less than 16 % of (reference year 1990) clothing and textile imports;
1 January 1998:	Each country would integrate clothing and textile articles that constitute no less than 17 % of (reference year 1990) clothing and textile imports;
1 January 2002:	Each country would integrate clothing and textile articles that constitute no less than 18 % of (reference year 1990) clothing and textile imports;
1 January 2005	All remaining products to be integrated.

The implication of this is that preferential access to selected countries would, after 2005, be in contravention of WTO rules. This may have a significant impact on SADC (regional) clothing and textile manufacturers, since the low-cost producing countries of the Far East would have equal access to world markets and may thus become increasingly attractive. In addition, China's recent accession to WTO member status will significantly affect trade flows of clothing and textile products, and may well have a negative impact on driving the expansion and locational decisions of clothing and textile enterprises in the SADC region.

3.2 The impact of AGOA: current and future implications for industry location

The *African Growth and Opportunity Act* (AGOA) provides qualifying Sub-Saharan countries with duty-free and access to US markets, and covers the 8-year period from 01 October 2000 to 30 September 2008, and forms part of the United States' *Trade and Development Act of 2000*. The Act's express intention is to "authorise a new trade and investment policy for sub-Saharan Africa, renew the generalised system of preferences, and re-authorise the trade adjustment assistance programs" (AGOA, 2000). The Act offers potentially vast benefits for qualifying African countries, while setting stringent and thorough qualifying conditions. It would appear that SADC countries (all of whom have qualified with the exception of Angola, the DRC and Zimbabwe) stand to benefit the most from the provisions of the Act. Besides the Seychelles, all eligible SADC countries have also qualified for AGOA's *special apparel provisions*, a fact which has very important implications for clothing and textile production in SADC, as well as for (current and future) regional trade and supply chain linkages.

Textiles are currently disqualified from benefiting directly under the AGOA, and may not be exported to the US duty-free. However, the benefit to this sector lies in the fact that the AGOA will lead to additional demand for textiles produced in (eligible and qualifying) SSA countries, which includes most of SADC. The AGOA rules for the clothing sectors are significantly more stringent than for all other sectors. The AGOA is essentially a 2-part Act, on the one hand relating to the non-textile / clothing sectors and on the other to textiles and clothing.

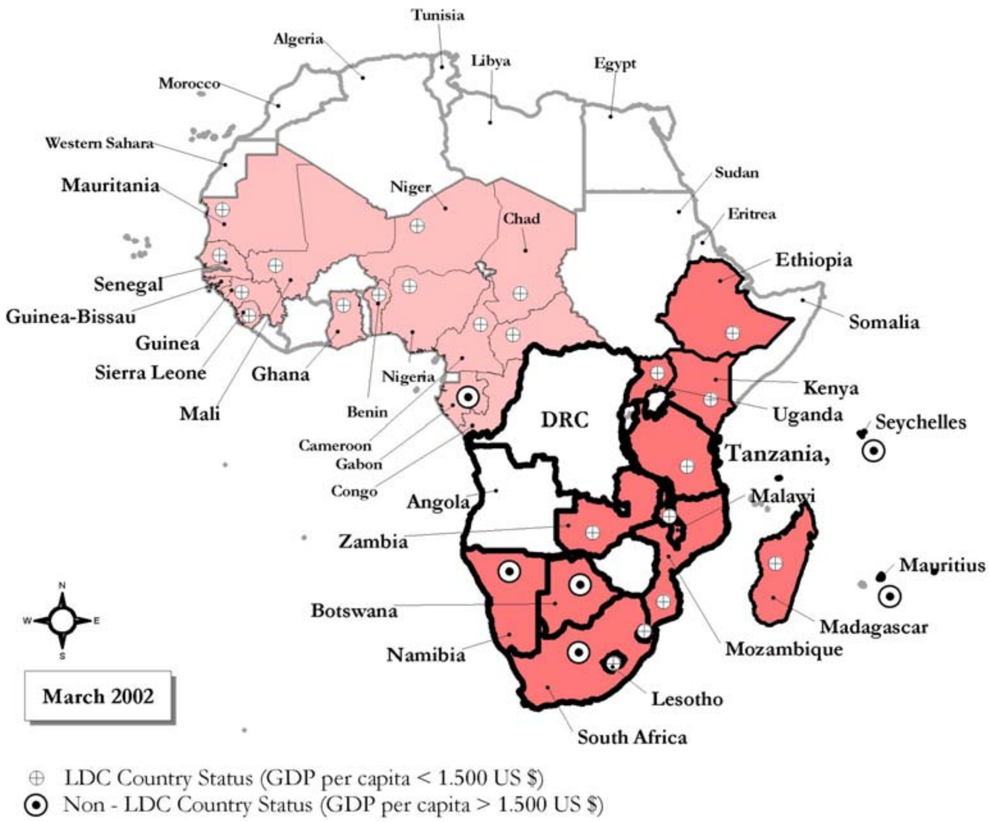
A special set of conditions applies to the latter. The average duty currently applicable to garment imports into the U.S. presently stands at 17.5%, but falls away where AGOA criteria are met. In order to qualify for the wearing apparel provision, qualifying countries have had to first meet the following conditions:

Exporting countries have to establish an effective '**Visa System'** and have in place strong enforcement mechanisms and verification procedures, to ensure compliance with the **Rules of Origin**; **Quotas** are in place to ensure that for certain garments a quantitative (as opposed to value-based) ceiling is not exceeded by beneficiary countries as a whole. This cap is measured in square metre equivalents (SMEs). Total trade in clothing between SSA countries and the US is currently only a small percentage of this ceiling, and is thus unlikely to pose quantitative constraints.

Almost half of qualifying SADC countries have also, under the AGOA, been classified as lesser developed countries, providing them with a 4-year window period for using third country (i.e. non-qualifying) textile and clothing inputs in exports intended for duty-free treatment in the US. This period expires in September 2004, and will alter supply chain linkages within the SADC region and beyond. Currently, most of the largest clothing and textile producing countries are not classified as LDCs (i.e. those with a per capita GNP of under $1,500 in 1998), a classification which only extends to Mozambique, Malawi, Tanzania, Zambia, Swaziland and Lesotho. Lesotho is particularly well geared towards benefiting from its LDC status, being ideally located to source regional textile inputs (especially from South Africa – also a member of the regional customs union SACU) after the third country exemption expires in 2004.

The implication of this important (LDC) provision is that South Africa, Namibia, Botswana and Mauritius may only use locally produced input materials in the production of AGOA-qualifying, or materials (i.e. fibres, yarns etc.) that are produced in one of the 14 wearing apparel eligible SSA countries (of which 4 are non-SADC countries: Madagascar, Kenya, Uganda and Ethiopia).

Fig. 2 AGOA Compliance and Compliance with Wearing Apparel Provisions



The benefits available to the SADC clothing industry are potentially significant, and in terms of market access and transaction costs, provide an important competitive advantage over many of the region's competing countries. Three inter-related trends have emerged: renewed local interest in the clothing and textile sectors, increasing new interest in the region by foreign investors, and renewed interest in the region by US retailers and manufacturers seeking new opportunities for product sourcing.

In numerous cases, especially in SADC countries such as South Africa, Lesotho and Mauritius, the AGOA has provided clothing and textile manufacturers with strong incentives to re-focus on the potentially lucrative export market, and in many cases to move up the value chain towards higher value-added production. This has become increasingly important, as the lowering of protective trade barriers is reducing local industries' grip on their domestic markets, leading to increasing import penetration.

Foreign investors are expressing renewed interest in the region owing to the AGOA, and this is driving location decisions. In many cases, trade quotas for the US market have been exhausted by foreign countries clothing and textile sectors, or trade has been hampered by restrictive tariff barriers. The LDC status of a number of SADC countries is a significant driver for medium term location decisions as it provides manufacturers with a window period to use third country inputs, in particular those from the Far East. While this provision is set to expire in September 2004, it allows producers time to establish supply chain linkages with eligible SSA countries and decrease the "dependence" on third country imports. It also allows for increases in the region's textile manufacturing capacity, which may be unable, in the medium term, to meet the increased demand by the clothing industry for "eligible" input materials.

Significant interest has been expressed by US trade missions visiting the region with a view to establishing sourcing arrangements for clothing (and other) products, and is an important component driving the diffusion of AGOA benefits. The highly competitive US retail market is constantly seeking to build least-cost supply chains for the US market, and the duty-free benefits under AGOA provide eligible regional supplier with renewed competitiveness. The AGOA is thus driving textile and clothing industry location both through pull-factors (US demand) as well as push-factors (increased investment in these sectors and AGOA eligible countries seeking the US market).

The following table provides an overview of AGOA eligibility, qualification, LDC status and trade effects of SADC countries. As the trade data measures AGOA eligible clothing trade flows from specific country's date of wearing apparel qualification to the end of November 2001 (the latest available figures), not all trade is captured. Also, a number of SADC countries (Mozambique, Zambia, Tanzania and Namibia) only qualified under the clothing provision (and the rules of origin) after this date. However, the table provides a reliable insight into the fact that the main SADC beneficiaries to benefit from the AGOA are those countries with the most established clothing and textile industry (namely South Africa, Mauritius and Lesotho - Zimbabwe being excluded). The table also shows AGOA-qualifying exports as a proportion of total clothing and textile exports to the US, and clearly indicates that Lesotho is currently the best-geared clothing producing country to take advantage of the AGOA (with 56% of exports to the US being AGOA-compliant.

Table 1 AGOA Eligibility, Apparel Provisions and SADC Trade Data (under AGOA)

Country	Date Declared AGOA Eligible[1]	Date Declared Eligible for Apparel (Clothing) Provision[1]	*LDC* Special Rule for Apparel (Lesser Developed Country Status)[1]	Qualifying AGOA Exports to US (Clothing) Period: Date of Eligibility to November 2001 [US $ Million][1]	AGOA Compliant Exports to US as % of Total Clothing & Textile Exports to the US[2]
Angola	n/a	n/a	n/a	n/a	n/a
Botswana	October 2, 2000	August 27, 2001	NO	-	-
DRC	n/a	n/a	n/a	n/a	n/a
Lesotho	October 2, 2000	April 23, 2001	YES	109	56 %
Malawi	October 2, 2000	August 15, 2001	YES	-	-
Mauritius	October 2, 2000	January 18, 2001	NO	34	14 %
Mozambique	October 2, 2000	February 8, 2002	YES	-	-
Namibia	October 2, 2000	December 3, 2001	NO	-	-
Seychelles	October 2, 2000	n/a	NO	-	-
South Africa	October 2, 2000	March 7, 2001	NO	27.6	15 %
Swaziland	October 2, 2000	July 26, 2001	YES	-	-
Tanzania	October 2, 2000	February 4, 2001	YES	-	-
Zimbabwe	n/a	n/a	n/a	n/a	n/a
Zambia	October 2, 2000	Dec. 17, 2001	YES	-	-

Source: [1] **www.agoa.gov;** [2] **US Office of Textiles and Apparel**

While the exclusion of Angola and the DRC as beneficiary AGOA countries is unlikely to have much of an impact on the region as a whole, Zimbabwe's exclusion has more far-reaching consequences. Zimbabwe is by far the largest grower of cotton in the SADC region, and has significant textile production capacity, all of which is excluded from being utilised for AGOA-qualifying output.

As can be seen in the following table, Zimbabwe accounts for approximately 50 % of cotton production in SADC, and is ideally located to supply its neighbouring countries and those beyond. The short- to medium-term implications for the non-LDC countries (South Africa, Mauritius, Namibia, Botswana), and medium term implications for all other SADC countries, are that they will be unable to take advantage of Zimbabwean-produced cotton (and related products) as this would disqualify production from AGOA-eligibility.

Regional cotton shortages (partly induced by Zimbabwe's non-inclusion) may, in the medium term, significantly restrict the potential diffusion of AGOA-related benefits in SADC by restricting the capacity of producing qualifying cotton-based clothing.

Table 2 Cotton Production in SADC

Cotton Production, Supply and Distribution by Cotton-Producing SADC Country 2001 / 2002 [1] ['000 Bales]							
Country	**Beg. Stock**	**Production**	**Imports**	**Tot. Supply**	**Dom. Use**	**Exports**	**End Stock**
Angola	7	20	0	27	15	5	7
DRC	5	15	15	35	30	0	5
Malawi	13	30	0	43	10	20	13
South Africa	66	100	250	416	325	30	61
Tanzania	119	350	0	469	50	225	194
Zambia	55	170	0	225	65	90	70
Zimbabwe	206	650	0	856	150	425	266
Total:	**471**	**1,335**	**265**	**2,071**	**645**	**795**	**616**
Source: US Dept. of Agriculture (2002). Foreign Agricultural Service							

3.3 The SADC Free Trade Agreement: Implications for Regional Clothing and Textile Production

SADC, whose 14 member states include the island states of Mauritius and the Seychelles, still requires a number of fundamental policy changes in order to make its trade policy environment internally and externally consistent. Although SADC has recorded significant progress in its integration agenda, the implementation of these initiatives is in many cases still lagging behind. A lack of institutional capacity at a national and regional level has exacerbated the structural problems associated with the integration process (SADC Review, 2001). The 5 member states of the Southern African Customs Union (SACU) have effectively already achieved a common market that SADC envisages on a broader scale.

3.3.1 Brief Overview of the SADC FTA – Current Status and Implications

Globalisation and regionalism are important emerging trends in international economic relations, with regionalism in effect moving trade relations beyond the geographical boundaries imposed by domestic markets (Hatzenberg, 2000). However, a number of unresolved technical and administrative issues have delayed the implementation of the SADC Trade Protocol, originally set to come into existence by September 01, 2000. Important issues around which most of the debate leading to the postponement has centred, include the dispute settlement mechanism, harmonization of intra-and extra-regional tariffs, and the critically important matters surrounding the 'rules of origin' (Coughlin *et al*, 2001). The liberalization of clothing and textile trade has been contentious the world over, and the SADC region is no exception, with final agreement still being sought by the SADC member states. At the root of the delay in concluding an agreement is the fact that the extended clothing - textile pipeline is of some significance in almost all SADC member states, especially in terms of industrialization, employment creation and foreign exchange receipts.

The implementation of the AGOA has added increased urgency to the negotiations. The AGOA, in extending duty-free benefits to qualifying and rules-of-origin eligible countries, imposes a number of conditions with major implications for the development of regional supply chain linkages. After 2004, not even the so-called *Lesser Developed Countries* (into which many SADC countries fall) will be able to utilize raw material inputs from abroad (i.e. from non qualifying third countries) for AGOA-compliant output, meaning that a greater reliance will be placed on regional supply chains. High trade tariffs and continuing uncertainty will prevent such linkages from being optimised, with a result that inter-country competitiveness will not able to be fully utilized.

Currently, the rules of origin (and required regional transformation processes of products) are limiting trade opportunities in the region. However, the Southern African Customs Union (SACU), to which Namibia, South Africa, Lesotho and Swaziland belong, already has a special trade agreement with the MMTZ countries (Mozambique, Malawi, Tanzania and Zambia). This agreement expires in 2005, until which year MMTZ exports to SACU are granted an exemption from having to fulfil the requirements of a two-stage transformation process (subject to certain quotas). In effect, this means that a *limited* SADC Free Trade agreement is currently in existence, although important clothing and textile producing countries (such as Zimbabwe and Mauritius) are excluded from this agreement.

The quotas referred to above remain a contentious issue, however, since the MMTZ countries are pushing for flexible quotas that are increased upwards on an annual basis (Coughlin *et al*, 2001). South Africa, being the largest producer of clothing and textiles in the region, is concerned about a potential influx of clothing and textiles originating in the Far East that has not undergone a value-adding transformation process in the region. The (limited) exemption from a two-stage transformation requirement is thus only granted to the above-mentioned countries, where the domestic clothing - textile pipeline is not well developed.

3.3.2 SADC Integration as a Driver for Industry Location

The formal clothing and textile manufacturing industry is present, to some extent, in virtually every SADC member state. If one included the retail and raw materials sector (e.g. cotton growing), it becomes obvious why so much economic and political weight is attached to the clothing - textile pipeline. Different countries in the region have developed different areas of comparative advantage in activities involving these sectors, owing both to natural factor endowments and policy environments. In order to exploit these intra-regional advantages, especially in relation to the need for greater global competitiveness and the trade opportunities present under the various trade agreements, existing trade barriers need to be reduced substantially. This re-enforces the need for regional integration. An analysis of the regional clothing and textile capabilities shows that, while certain country-specific dependencies exist, the region can and does support the entire clothing - textile pipeline, from raw material production (cotton and synthetics) to the manufacture of fibres, yarns, fabrics and garments.

Regionalism through the integration of SADC markets is a critical driver for the locational decisions of firms, as this not only ensures greater access to raw materials, but also a larger market for the output of the clothing and textile industries. One of the greatest advantages of regional integration is that markets (and product pricing) become more efficient and competitive, while acting as a disincentive for inefficient and un-competitive firms. In terms of raw materials, for example, an important driver has been access to cotton. More than half of SADC member states are producers of cotton, although since cotton is an internationally traded commodity, its price bears relation to the current "world price". In the case of South Africa, manufacturers face the restriction of first having to utilise that country's supply of cotton before being able to source foreign grown cotton for their requirements. Some of the regional strengths and weaknesses relating to policy and trade relations are provided in the following table (based on Coughlin et al, 2001):

Table 3 Policy and Trade Aspects in Relation to the SADC Clothing-Textile Pipeline

Strenghts	Weaknesses
All SADC countries can export duty and quota free to the EU under the Lomé / Cotonou agreement, and in the case of South Africa, under the South Africa - EU FTA	Strict rules of origin require that the materials used in the manufacture of export goods for the EU market must be produced either in the region or sourced from the EU
AGOA has provided most SADC members with duty-free access for their clothing products to the US market	Zimbabwe, Angola and the DRC are specifically excluded. Zimbabwe's exclusion has important consequences for the development of regional supply linkages, especially since it is regarded as one of the most cost-effective regional producer of yarn and fabric
Almost half of the SADC countries (those with *LDC status)* have been provided with a special concession of using third-country raw materials for the manufacture of AGOA-compliant exports (which, however, expires in 2004)	The non-*LDC* status given to South Africa, Botswana, Namibia, Mauritius and the Seychelles means that these countries are at a relative disadvantage vis-à-vis the other SADC countries, by not being forced to use only regionally produced inputs in AGOA-compliant exports
Zambia, Zimbabwe, Malawi and Mauritius are members of COMESA, facilitating trade between them and allowing intra-regional comparative advantage to be utilised	Important regional clothing and textile producers such as South Africa, and to a lesser extent Botswana, are not included in COMESA and are thus at a disadvantage with regard to regional and East-African market access

The relatively stable policy environment and incentives have attracted investors in the clothing - textile pipeline in countries such as South Africa, Botswana, Swaziland, Lesotho, Mauritius and Namibia	Countries such as Zambia and Zimbabwe frequently change investment incentives, with the latter in particular being perceived as risky due to the unstable political and economic situation

The enactment of the AGOA has important implications for regional integration, and highlights outstanding SADC integration issues. As noted by Coughlin et al (2001), it has also brought a new urgency regarding the further liberalisation of regional clothing and textile trade. Only major changes to the current SADC trade dispensation will regional countries be able to provide an environment that is conducive to overcoming the significant supply-side constraints and actually stand a chance of benefiting fully from the AGOA. With the exception of Angola, the DRC and Zimbabwe, all SADC countries are AGOA eligible and have (with the exception of the Seychelles) qualified under the rules of origin (special apparel provisions). Kenya, Ethiopia and Eritrea (part of COMESA) are also eligible under these clothing provisions, while no other Sub-Saharan country has so far met the rules of origin requirements imposed by the AGOA. By the end of 2004, all clothing and textile industry inputs will have to be produced and sourced regionally (to ensure AGOA-compliance. Assuming that, by that stage, the SADC Trade Agreement has finally been concluded, such AGOA rules of origin requirements would act as an important driver for regional industry location of the clothing and textile sectors.

However, the absence of a concluded agreement may have important implications for industry location, as tariffs and other quantitative restrictions will act as significant barriers to market access, and thus impact negatively on industry expansion and the formation of regional supply linkages. In many cases, the comparative advantage that some countries may hold, particularly in terms of labour costs and (labour) flexibility, may be outweighed by the additional barriers imposed on the realisation of regional supply chains by tariffs and other trade restrictions.

4. Spatial Aspects of the Clothing-Textile Pipeline in SADC Countries

The SADC region is an area of great diversity. It covers 9,38 Million km^2 and is home to almost 200 million inhabitants (SADC Review, 2001). Roughly 35% of the population lives in an urbanised environment. Africa, and in particular the SADC region, has a long history of producing textiles and garments, as well as a number of upstream raw input materials such as cotton. However, many of the region's (and the continent's) textile factories had been erected with political and social motives, without fully considering economic feasibility and sustainability (Werbeloff, 1987). This then lead to high levels of institutional support and protection of this industry sector through the introduction of tariffs, quotas and subsidies. In many cases the result were economically in-efficient plants and under-utilised production capacity. In contrast with the region's textile industry, smaller scale clothing manufacturers still account for the majority of production output and employment, although a notable number of large clothing manufacturers occur in South Africa and Zimbabwe.

A large number of economic, social and political factors have contributed to the significant changes that have occurred in the region's clothing and textile sectors. These relate mostly to competitiveness issues both in SADC and elsewhere, which have resulted in increasing import penetration of the regional markets by producers from the Far East. More recently, the SADC trade protocol and the enactment of the African Growth and Opportunity Act (AGOA) are leading to a gradual re-alignment of the industry in the region.

Data in the following table shows that South Africa is by far the most dominant economy in the region, followed by Zimbabwe and Tanzania. Significant differences also exist in the locational characteristics of the clothing and textile industries in these countries, with a number of countries standing out. The location aspects of both industries were mapped for each SADC country, focusing on production units rather than separate legal entities (see *1.4 Methodology*).

As can be seen in the GIS-produced maps on page 21 (textiles) and page 22 (clothing), textile and clothing production in SADC is concentrated mainly in South Africa, Mauritius, Zimbabwe, Botswana and Lesotho, with small numbers of production units located in the remaining countries. Clear patterns of industry agglomeration occur in South Africa and some of its neighbouring countries, and mostly evolve around thematic drivers and barriers that relate to regional market access issues, intra-regional trade agreements and those with third countries, raw material and labour cost issues.

Important drivers for clothing and textile industry location are dealt with below on a country-by-country basis. Significant intra-regional opportunities, constraints and policy environments explain why some countries have seen a greater development of the clothing-textile pipeline than others.

Table 4 Economic and Demographic Indicators of the SADC Region

Economic and Demographic Indicators of the SADC Region					
Country	**Area [i] ('000 km^2)**	**Population [i] (Mill)**	**Urbanisation [i] %**	**GDP [ii] $ Billion PPP (2000 est.)**	**Econ. Growth Rates [i] 1991-1998**
Angola	1,247	12,9	26 %	10.1	0.5 %
Botswana	582	1,6	46 %	10.4	5.0 %
DRC	2,435	49,3	30 %	31	-6.0 %
Lesotho	30	2,1	17 %	5.1	4.7 %
Malawi	118	10	13 %	9.4	4.3 %
Mauritius	2	1,18	43 %	12.3	5.5 %
Mozambique	799	16,8	23 %	19.1	7.6 %
Namibia	842	1,74	27 %	7.6	3.9 %
Seychelles	0.4	0,08	n/a	0.61	3.3 %
South Africa	1,221	43,1	30 %	369	2.3 %
Swaziland	17	1,02	34 %	4.4	3.0 %
Tanzania	945	32	30 %	25.1	3.4 %
Zambia	752	10,4	38 %	8.5	1.6 %
Zimbabwe	390	13,1	31 %	28.2	3.3 %
Total	**9,380**	**195**		**510**	3.0 %
Data Sources: [i] SADC Review [ii] CIA World Factbook					

Countries in the SADC region are potentially an attractive destination for the location of clothing and textile manufacturers. Significant production currently takes place mainly in South Africa, Zimbabwe, Lesotho and Mauritius - industry agglomeration being an important ongoing driver for further expansion and new investments in these sectors. Looking ahead, numerous issues will impact on the locational decisions of current and potential investors in these sectors. Such issues include labour legislation and wages, bi-lateral and multi-lateral trade agreements (market access), country-specific investment incentives as well as broader policy issues.

The locational analysis of the SADC countries includes a brief overview of the history of the clothing-textile pipeline, its spatial distribution and the main drivers and barriers for industrial location.

Fig. 3 GIS Mapping of the Spatial Distribution of the Textile Industry in SADC

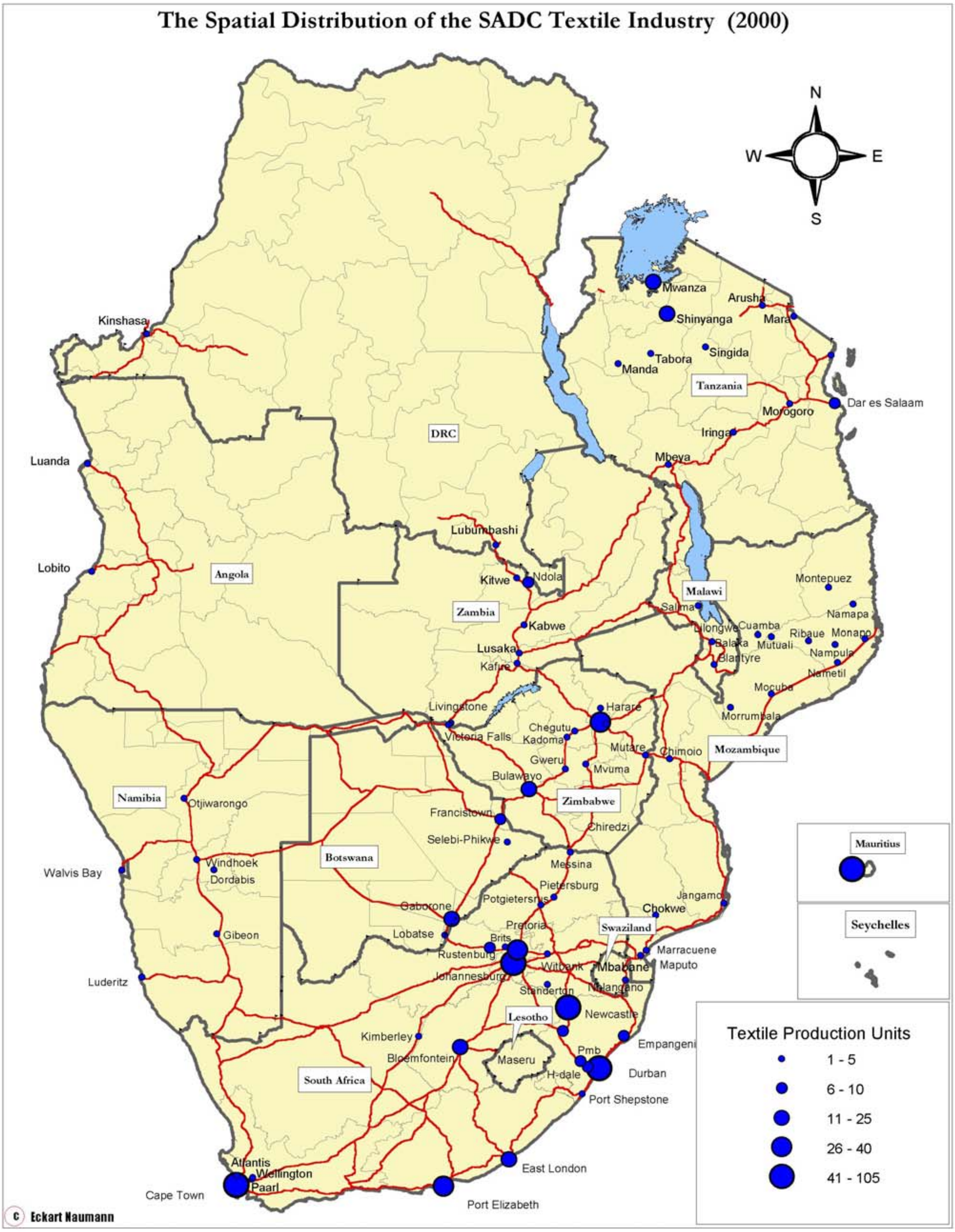
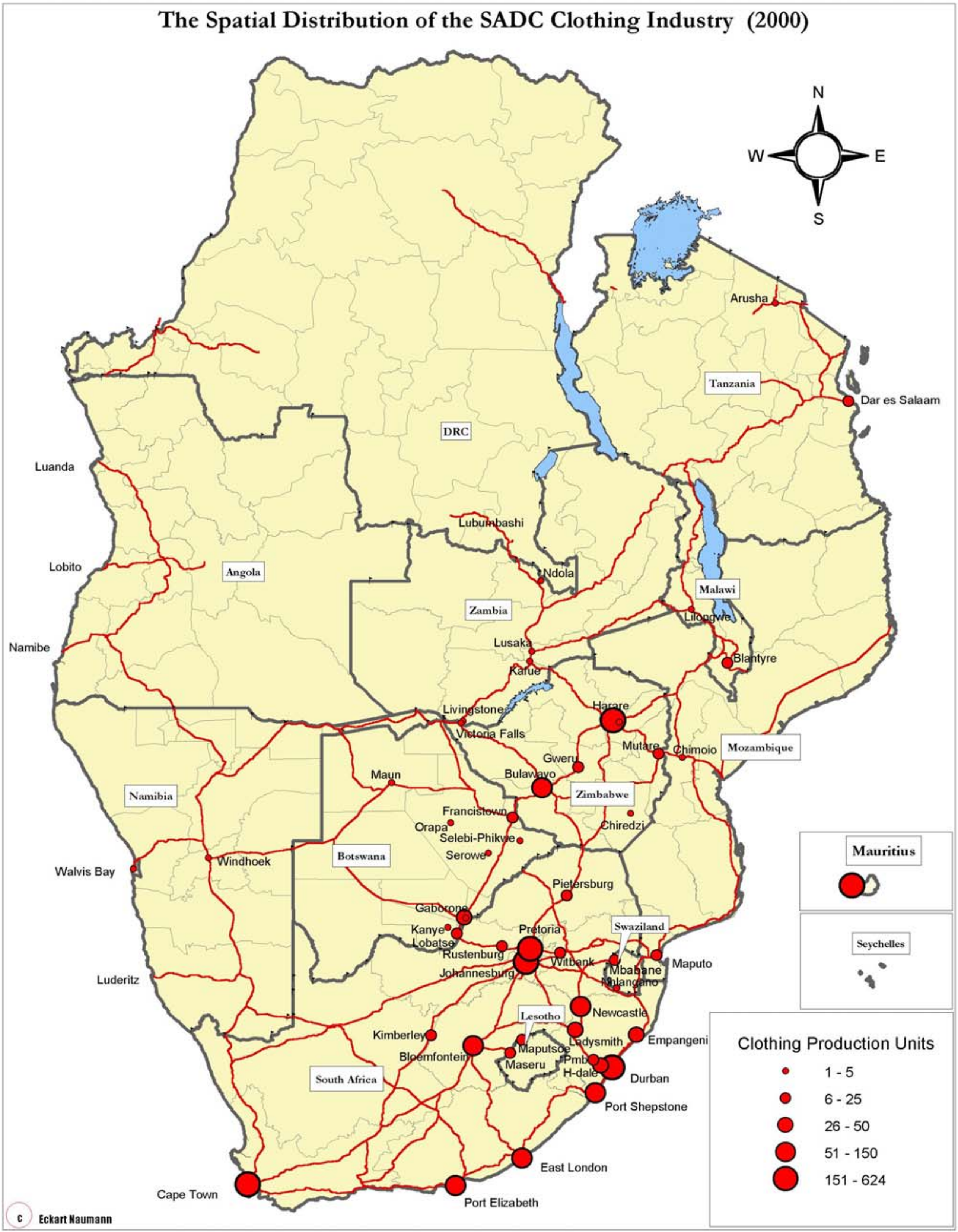


Fig. 4 GIS Mapping of the Spatial Distribution of the Clothing Industry in SADC



4.1 Angola

Developments and Brief History

Angola gained independence from Portugal on 11 November 1975. A devastating civil war subsequently engulfed the country following independence, which lead not only to the displacement of large parts of the population, but also the destruction of much of the country's industrial capacity. While the situation has improved significantly, the conflict has not yet been resolved, and the country still relies heavily on exports of primary goods and imports of intermediate goods and services.

As a consequence, there is presently very little industrial activity relating to clothing and textiles in Angola. Cotton output, formerly an important crop in Angola's economy and source of input material for Angola's limited textile industry in the early 1970's, is now being imported. Angola recorded no exports of clothing or textiles in 2000, but recorded imports of US $ 37.4 million in the HS 60-63 category (clothing and related products), and US $ 13.05 million in the HS 50-60 category (textiles and related products). A flourishing second-hand clothing market (mostly internal but some imports under HS63) complements the clothing and textile imports. While some limited textile manufacturing capacity is located in the coastal towns of Luanda and Benguela (near Lobito), there are no known *commercial* garment manufacturers. Any future developments in the clothing and textile sectors are likely to be limited to these two centres.

Spatial Aspects of Industry Location

Angola imports most of its clothing and textile requirements. A high proportion of the country's cotton and sisal production capacity, which was significant before the start of hostilities, has been lost, and the country now records a significant trade deficit in the trade of textiles and clothing, as well as raw materials such as cotton. Most of the trade is in second hand clothing (included under HS63). As a consequence, only a small handful of textile manufacturing units exist in Luanda and Benguela, with no known formal clothing production units. Demand for formal clothing is limited, partly due to the widespread use of traditional attire (printed textile wrap-around fabric). This is not unlike the situation prevailing in a number of other SADC countries, notably Mozambique and the DRC.

Location Drivers and Barriers

Angola's uncertain political and civil situation is not conducive to the establishment of formal clothing and textile production units. The insignificant quantity of formal clothing and textile production that occurs in Angola is far outweighed by clothing and textile imports, and even greater trade in second-hand clothing. While the importation of second hand clothing continues to potentially undermine the development of formal clothing production in the country, the social, political and economic conditions are as yet still too unfavourable for Angola to be seriously considered as a location of clothing and textile production. What little formal textile production remains in Angola consists of cotton-related activities.

Angola is not a beneficiary country under the AGOA, and thus does not qualify for any of the provisions relating to the trade benefits offered under the Act.

4.2 Botswana

Developments and Brief History

Botswana has achieved impressive economic growth and political stability and is regularly ranked as one of the most competitive countries on the African continent. Its clothing and textile manufacturing capacity has grown significantly over the past two decades, and is spread out over four of the countries five urban centres. There are currently approximately 24 textile manufacturing units in the country, and approximately 63 garment manufacturers.

The country's first fully integrated cotton textile mill, *Algo Spinning and Weaving Mills*, was set up to produce denim. An existing denim mill, although already operational at the time, was only involved in weaving, but was later converted to a fully integrated blanket mill. A third denim mill was set up in the 1990s, but never entered into full production. A stand-alone spinning plant set up in the 1998 has also not been fully operational. Other forms of weaving, including circular knitting and towelling, have fluctuated in terms of production capacity and output, with numerous operations having shut their doors again. A major investment in fabric weaving capacity (*Haltek Weaving*) was liquidated before being fully commissioned, while Algo Spinning and Weaving Mills mentioned above, a subsidiary, also went into liquidation (largely due to problems at its Asian holding company).

Botswana's clothing industry has seen rapid growth in recent years, although there are still less than 100 clothing manufacturers in Botswana. Although some large players such as Diaporo International, Tex (PTY) Ltd, Eternal Garments, Pan African (formerly Capital garments) and Haltek closed their doors during the year 2000 (resulting in 3300 jobs being lost), most of this production capacity was bought up by existing and new clothing producers. Significant new investments have originated in Sri Lanka, probably as a result of the opportunities offered by AGOA, an investor-friendly climate and reasonable proximity to Namibia's harbour at Walvis Bay.

Attractive investment incentives, political and economic stability and the country's proximity to the important markets of South Africa and Zimbabwe are important drivers for the continued growth of the clothing and textile industry in this country. Although landlocked, the country has good access to the deep-water port of Walvis Bay (in Namibia), following the recent completion and upgrading of the transport network between the two countries. The "trans-Kalahari highway", links the manufacturing centres of Gaborone and Lobatse with Namibia, as well as providing easier access to the Namibian port facilities for manufacturers located in the inland regions of South Africa. The easing of restrictive trade barriers within SADC are likely to lead to growing linkages and supply chains between clothing and textile manufacturing countries.

Spatial Aspects of Industry Location

Botswana's clothing and textile industry has seen numerous developments in recent years, and this trend is set to continue. He clothing and textile pipeline is well established, with approximately 25 textile production units, and in excess of 60 clothing production units in 2000. Both the clothing and textile industry are located predominately in the Gaborone, with approximately 60% of the textile production units and 70% of the clothing production units operating from there. Gaborone is conveniently located close to the border with South Africa, and is equi-distant from the port cities of Durban, Maputo and Walvis Bay. Francistown, a short distance away from Bulawayo (Zimbabwe) accounts for 25% and 10% of the textile and clothing production centres respectively. A further important location is Lobatse, south of Gaborone, which is within 300km of Pretoria in South Africa and situated along a well-developed transport route. Selebi Phikwe, south of Francistown, has a number of clothing and textile manufacturing units, while clothing manufacturing activity is also recorded in Serowa, Maun, Orapa, Kanye and

Ramotswa. Although landlocked, the significant upgrading of Botswana's transportation network has significantly contributed to industrial development.

Location Drivers and Barriers

Although Botswana's economy leans heavily on the mining industry, a key focus in recent years has been to attract foreign direct investment, especially in employment-creating manufacturing industries. The fact that it is a landlocked country with a relatively small population counts against it in terms of accessibility to ports and limited domestic demand, although attractive export incentives attempt to attract investors wishing to export to the region and abroad.

Botswana on August 27, 2001 qualified under the apparel provisions of the AGOA. However, it has not been classified as a LDC, which would allow its industry to use third country inputs for qualifying clothing sector exports. Discussions are currently underway to re-designate Botswana (and Namibia) as being LDCs. With the AGOA in mind, exports to the US are being actively promoted, and special industrial zones (e.g. in Lobatse) set up to facilitate economical and efficient production through local supply networks (clustering). Lobatse is conveniently situated on the "trans-Kalahari highway", an upgraded transport route stretching from Pretoria / Johannesburg via Botswana to Windhoek (and the port facilities at Walvis Bay).

As Botswana is a member of the Southern African Customs Union (SACU), which unites South Africa, Namibia, Swaziland and Lesotho, few trade restrictions exist that would hamper trade between these countries of products that originate within these countries. This arrangement provides Botswana's companies ready access to the South African market, the most important in the region, while still being ideally placed to take advantage of trade links with the rest of the SADC region (Botswana shares borders with South Africa, Namibia, Zambia and Zimbabwe.)

4.3 DRC

Development and Brief History

After years of political, social and economic turmoil the Democratic Republic of Congo (known until 1997 as Zaïre) is slowly recovering and restructuring. Up until 1994 (the start of civil strife), the DRC was relatively stable with limited manufacturing capacity. The country's industrial centres are Kinshasa and Lubumbashi.

Until the mid 1970's there were 4 key cotton-based textile plants in the DRC (*Utex Africa, Sobenza, Amato Frere* and *Filisaf*), while another mill (*Zairetex*) produced blankets. Local production at the time accounted for approximately one third of consumption, the difference being sourced from abroad. By the early 1980's Sobenza and Filisaf had closed their doors. By the mid 1990's significant imports of second hand clothing (HS 61 category), mostly from China, further reduced what little local mill activity there was left.

Due to the general state of the economy, as well as cultural reasons, the DRC has had a commercial clothing industry to speak. The previous government discouragement of "Western-style" clothing resulted in most "robes" and traditional wear being produced by small scale, informal producers (many with a maximum of 5-10 sowing machines). Most other clothing was imported, including significant amounts of second-hand clothing. The only larger-scale manufacturer producing clothing commercially (the vertically integrated textile plant Utex Africa), being the supplier of cotton-based garments to the military, closed its doors early on in 2000.

Spatial Aspects of Industry Location

The DRC, despite its large population, has no formal clothing manufacturing industry to speak of. However, a small number of textile manufacturing units are located in the capital Kinshasa and in Lubumbashi, near the border with Zambia. The country relies on clothing imports, with a large proportion of trade conducted in second-hand clothing. Exports of clothing are negligible, and local production caters mainly for small parts of local demand.

Location Drivers and Barriers

The DRC is emerging from years of political and civil strife, and is as a result not an attractive locational destination for the clothing and textile industries. Mining dominates economic activity. While limited opportunities may exist in terms of production for the local market, the DRC is, as yet, in no position to take advantage of potential trade opportunities. It is also excluded from the AGOA, and therefore does not enjoy preferential access to the US market. The secondary effects of this non-inclusion include the fact that the other qualifying "AGOA countries" may not use DRC produced input materials in the production of AGOA-eligible exports (at least not after the LDC concessions expire on September 30, 2004).

4.4 Lesotho

Development and Brief History

Lesotho, entirely landlocked by South Africa and with its currency pegged to the South African currency, has a relatively small manufacturing base. Its main industrial centre is Maseru, where most industrial (ad clothing manufacturing) activity takes place. Some smaller production centres are Maputsae and Ha Nyene.

Notwithstanding its small size, Lesotho has made significant strides in its clothing manufacturing capacity, as well as in being internationally competitive. Apart from its wool and mohair farming activities, the country does not yet have any significant textile processing facilities, although this is set to change in the near future (owing largely to AGOA). The country's investment activity has instead focused largely on the employment creating clothing manufacturing industry, which has enjoyed significant institutional support since the early 1980's.

Initially, Lesotho's clothing industry consisted of a large number of women-owned small manufacturing enterprises that produced traditional dresses, school uniforms, knitted garments and ladies fashion items. These small enterprises enjoyed significant support from the Basotho Enterprises Development Corporation (BEDCO), which helped finance training activities and played a role in procuring raw materials from abroad. The larger, more mechanised clothing manufacturers started investing on a significant scale from the mid 1980s, and within 10 years Lesotho had become a major clothing manufacturer and exporter, mainly for the US apparel market. The small mountain kingdom soon became known as the "jeans capital" of Sub-Saharan Africa.

During 2000, Lesotho had approximately 25 major clothing manufacturers, employing in the region of 15.000 workers. Due to large-scale investment activities in the sector, mainly in clothing manufacturing capacity but also in the establishment of vertically integrated textile plants, employment levels have recently risen significantly. It is estimated that by the end of 2001 approximately 25.000 workers would have found employment in Lesotho's clothing-textile pipeline. Recent investments include major expansions at the largest existing denimwear manufacturers, namely *C&Y Garments* and *CGM Industrial* (*C&Y* has since integrated backwards into *De Nim Textiles*, renamed *Crucial Trading*). Towards the end of 2000 *Nien Hsing* announced its intention of setting up a US $ 100 Million denim fabric mill in Lesotho, in addition to two clothing (jeans) manufacturing plants.

Some minor constraints to further expansion of the clothing and textile industries have recently developed as a result of a lack of space for industrial activity, mainly around Maseru. Whereas a decade ago ample sites were available for rapid development, there now exists a general shortage of appropriate further space, and local and national government intervention has been required to remedy the situation. Notwithstanding space constraints, the rapid pace of company expansions and new investments appears to continue unabated. Lesotho has, to date, been the second largest beneficiary (after Mauritius) of AGOA benefits, for a number of reasons: attractive investment incentives and low manufacturing company tax rates, existing export-geared clothing manufacturing capacity, low labour wage rates and Lesotho's status as a lesser-developed country in terms of AGOA (allowing third country imports of input materials).

Spatial Aspects of Industry Location

Lesotho's clothing and textile pipeline is dominated by clothing production units, with as yet very little textile production to speak of. However, during 2001 a major textile mill was in the process of being set up in the country's capital Maseru, largely as a result of the country's current dependence on textile imports and the obvious gap in the market (after 2004, Lesotho will no longer be able to use third-country textiles as inputs for clothing exports). Lesotho's clothing industry is relatively young compared to that in other major regional producers, yet it has successfully attracted significant clothing investments and has achieved significant success in the regional and overseas export markets. There are approximately 30 clothing manufacturers in Lesotho, two thirds of which are located in Maseru. The rest are located in Maputsae, and to a lesser extent, in Ha Nyene. In many cases, the factories are very large, and employ thousands of workers each.

Location Drivers and Barriers

Lesotho's eagerness to attract (especially) export-oriented and labour intensive investment made the country a favoured destination from a clothing and textile production perspective. The country took particular advantage of economic sanctions (and as a result restricted market access) faced by South Africa prior to that country's democratic elections in 1994. As the domestic market for clothing and textile products is relatively small, most of Lesotho's producers focus almost exclusively on export markets. Strong existing trade ties with the US and the EU have lead to the growth of solid trade relationships, and Lesotho is now by far the largest beneficiary of duty-free benefits under the apparel provisions of AGOA, having qualified on April 23, 2001. In addition, the nature of the country's clothing - textile pipeline ensures that more than half of Lesotho's exports to the US qualify under AGOA (see Table x.x). This is partly due to the fact that very little production of textiles (which does not qualify under the AGOA) takes place in Lesotho - these are sourced abroad - and the fact that Lesotho qualifies under the *Special Wearing Apparel* provisions (AGOA) allowing the use of third country materials in the manufacture of qualifying garments.

Additional drivers to industry location in Lesotho include (Tradeport, 1999):

- Lesotho is a member of the Common Monetary Area (together with South Africa, Namibia and Swaziland), which means that its currency is fully and freely convertible into the South African Rand

- Lesotho is a member of the Southern African Customs Union (SACU)

- Rebates of up to 125% on the training of local (Basotho) workers

- Foreign investors may own 100% of their investment
- Lesotho has no history of expropriation of companies
- Manufacturing companies face a low 15% tax rate
- Labour is widely available, and collective bargaining arrangements undeveloped.

Specific locational barriers include the fact that the availability of industrial sites for development in the country's capital is rapidly decreasing, with location "bottle necks" being encountered. The relatively small domestic demand market and low per capita GDP means that the industry is wholly dependent on exports for its survival. Another potential barrier is the fact that Lesotho does not, as yet, have any significant textile manufacturing capacity and is thus reliant on imports. In relation to the fact that the country's access to third country textile imports (under AGOA) will end in 2004, this is an important consideration. It will then be reliant on textiles produced in the region by other AGOA compliant countries.

4.5 Malawi

Development and Brief History

Malawi's clothing and textile sectors have undergone major changes and fluctuations in the 1990's. The textile industry is currently located mainly in the country's commercial capital Blantyre, with a number of companies situated in outlying, decentralised areas. Clothing manufacturing activity is also located mainly in Blantyre, and to a lesser extent in Lilongwe.

Until the middle of the past decade, the formal textile industry consisted of essentially 7 textile enterprises, covering spinning, weaving and knitting (cotton excluded). This number fluctuated and was reduced to 4 by 2000. The country's clothing sector produced relatively small volumes of clothing in the early 1990's, and may well have faced eventual collapse if it had not been for the bilateral trade agreement with South Africa in 1995. This agreement saw significant increases in clothing production capacity, owing largely to favourable incentives, low wage rates and ready market access to the region (mainly South Africa). A number of companies re-located to Malawi from elsewhere in the region, including South Africa's *Pep Manufacturing*.

However, this bilateral trade agreement was not without its flaws, and was subject to wide-scale abuse. This lead to 'dumping' and 'trans-shipment' of clothing and textiles into the region, with South Africa often being the final destination thereof. The subsequent clamp-down on illegal imports by South Africa's revenue services lead to anti-dumping interventions (relating to the import of bed linen, curtains and towels) and renewed trade negotiations regarding the rules of origin. The resultant uncertainty around future regulations and market access issues, and the subsequent trade talks deadlock, lead to the closure of numerous clothing and textile manufacturing units in Malawi, especially towards the end of 1999. The imposition of quotas for duty-free exports from Malawi to South Africa exacerbated this situation. There are currently in the region of 20 clothing and textile manufacturing units in Malawi (approximately 10 each), with additional investments in the pipeline.

Spatial Aspects of Industry Location

Malawi's clothing and textile sectors have undergone significant fluctuations in the 1990's. They grew rapidly from 1990, with production volumes increasing rapidly. The trade agreement with South Africa and resultant market access lead to a number of foreign investors using this agreement to export clothing and textile articles to South Africa. Malawi's commercial centre, Blantyre, is the location for most of the clothing-textile pipeline's manufacturing activities, with over 50% of textile and 90% of clothing production units located there. Limited production also takes place in Lilongwe, Salima and Balaka. In total, there are approximately 10 clothing and 9 textile production units operative in Malawi, and the country is currently a net exporter of manufactured clothing.

Location Drivers and Barriers

Malawi's clothing - textile pipeline has evolved largely around two critical issues: market access and (low) labour costs. These sectors have developed mostly since the early 1990s. After initially struggling for survival, the 1995 bilateral trade agreement with South Africa provided a major catalyst for the expansion of these industry sectors. The agreement served as a driver not only for the expansion of existing manufacturing units, but also the re-location of a significant regional manufacturer (see Box 1) to Malawi. This trade agreement provided manufacturers with the benefits of ready access to the relatively low-cost labour that Malawi offered, while still preserving access to the South African market, the largest in the region. As a result, the Malawian textile-clothing pipeline, and trade with South Africa, grew rapidly.

At the June 1999 SADC Trade Negotiation Forum in Botswana, South Africa (together with the rest of the BNLS countries) proposed a 2-stage transformation rules of origin for granting duty-free access to the South African and BNLS markets[1]. This followed large-scale penetration of the South African market by foreign manufactured clothing and textile articles channelled through Malawi, without much (local) addition of value. The attraction of Malawi as a location for clothing and textile manufacturing thus declined rapidly, and many production units ceased or re-located operations. Malawi is currently still a net exporter of manufactured clothing, yet an importer of second-hand clothing and textile fibres.

In the meantime, the Malawian government provides investors with an attractive policy environment and investment framework, which allows (SADC Review, 2001):

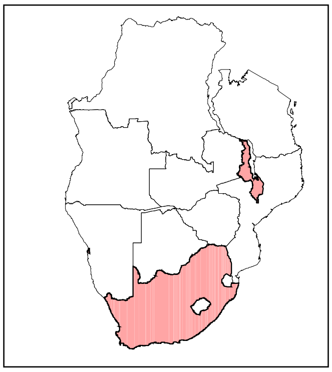
- Duty-free importation of raw materials for the manufacturing industries
- Generous tax allowances
- 100% deduction for manufacturing companies' operating expenses in the first 24 months
- Attractive tax rates and tax holidays for large investments
- Free access to foreign exchange in Malawi

[1] Ironically, South Africa's agreement with MMTZ countries subsequently provided these countries with concessionary access to one-stage transformed products, albeit with restrictions.

- Full repatriation of profits and dividends to investors from abroad

In addition, Malawi is an eligible country under the AGOA, and qualified for the *wearing apparel provisions* on August 15, 2001. In addition, it is classified as a *LDC* allowing third country imports in the manufacture of AGOA eligible exports.

Box 1



Case Study: Pep Manufacturing

Pep Manufacturing, today one of South Africa's largest producer of clothing, during 1996 relocated a significant portion of its South African operations to Malawi (through the establishment of a company called Mfumu Clothing). This followed the bi-lateral trade agreement reached between Malawi and South Africa, which provided Malawi with unrestricted access to the South African market without imposing specific rules of origin on Malawi.

Pep Manufacturing, a clothing manufacturer supplying mainly the lower and middle-end of the retail market (through its own retail outlets Pep Stores and Ackermans) was increasingly unable to compete with low-cost imports originating in the Far East. The core of the problem was cited as being South Africa's relatively high labour costs (in relation to labour productivity) and labour market inflexibility. This inflexibility related largely to South Africa's Labour Relations Act (LRA) of 1996, which imposed stringent restrictions in relation to conditions of employment on South African manufacturers.

The eventual decision to re-locate to Malawi, rather than another SADC member state, was driven by the bi-lateral trade agreement between the two countries. This allowed Pep Manufacturing to utilise the attractive labour conditions that Malawi was able to provide (employing 800 workers), while at the same time not compromising market access conditions (Pep's production in Malawi was geared almost exclusively towards the South African rather than the domestic market). As a result, Pep Manufacturing significantly enhanced its production competitiveness without compromising market access. In addition, the Malawian government provided Pep with attractive investment incentives, including infrastructural support and tax benefits.

While this arrangement was initially highly successful, negotiations around a SADC free-trade area re-visited issues around trade flows and value adding within the region. Significantly, South Africa insisted on a 2-stage transformation process for imports flowing into the country duty-free. In addition, suspicions were raised that the total inflows of textiles and clothing from Malawi exceeded that country's productive capacity, raising concerns about transshipment. As a consequence, the one-stage transformation concession that allowed Malawian manufacturers (and Pep) to use imported textiles (mainly of Far East origin) in the production of their South African destined exports, fell away. These changes in market access conditions led Pep Manufacturing to eventually dispose of its operations in Malawi and re-located back to South Africa, with the labour cost and flexibility benefits of location in Malawi no longer justifying the logistical costs involved in 'shipping' to the South African market. More recently, an exemption from the 2-stage transformation requirement (that originally characterised the Malawi - SA bi-lateral trade agreement) was extended by South Africa in 2000/1 to the MMTZ countries (Mozambique, Malawi, Zambia and Tanzania). Effectively, this means that the original trade arrangement *status quo* has to some extent been restored.

4.6 Mauritius

Development and Brief History

This small Indian Ocean island in the early 1970 set out resolutely to diversify its large agro-based (sugar) economy by encouraging the establishment of export oriented textile and clothing companies in its earmarked export processing zones (EPZ). The 1980's saw considerable investment inflows, especially from the far East, and the growth of the country's clothing and textile sectors into a formidable force. The country's initial focus on commodity garments was successful, but the resultant boom in exports eventually lead to a tightening of the labour supply market. Wage costs spiralled upwards, while this was not followed by productivity increases. To counter these influences, production of lower value-added commodity type textiles and clothing was shifted offshore, mainly to nearby Madagascar. Here, low-cost labour, an abundance of industrial sites and lax environmental legislation allowed the proliferation of commodity type manufacturers, assisted by the fact that Mauritius qualified for LDC status under the provisions of the AGOA.

Both the Mauritian clothing and textile industries consist of a relatively large number of production units. The installed plant capacities of textile manufacturers is very significant and exceeds that of other countries in the region. Its knitting capacity (circular and flatbed) is particularly significant, while large portions of the country's fibre and yarn requirement is imported. Mauritius has a large number of clothing manufacturers producing a full array of items including T-shirts and underwear, suits and jackets. Most of these manufacturing units are large enterprises, and are strongly export oriented. Existing trade linkages with the EU and the US are rapidly expanding, and Mauritius was, in 2001, the largest beneficiary of duty-free benefits extended under the AGOA's *wearing apparel provisions*. Mauritius was the first eligible country to qualify for duty-free access to the US, having met the rules of origin and "visa" requirements on January 18, 2001. Although there are significant further potential benefits for Mauritius under the AGOA, the country does not qualify under the special wearing apparel provision as it is not classified as a lesser developed country. The country enjoys close trade and cultural links with the Far East, and the non-availability of Far East sourced inputs (while still qualifying under AGOA) is forcing Mauritian clothing manufacturers to look elsewhere to source their input materials, as well as move some production abroad. The implications of AGOA and qualifying criteria are likely to lead to significant yarn shortages in the region, and consequently an obvious investment incentive.

Spatial Aspects of Industry Location

Mauritius has the second highest number of clothing production units in SADC, with almost 100 textile producing manufacturers, and approximately 250 clothing / CMT operators. As the institutional and policy environment is consistent across the island state, the industry is spread out fairly evenly, although the greatest concentrations of production units are naturally found in the capital Port Louis, as well as the towns of Curepipe, Phoenix, Quatres Bornes, Rose Hill, Vacoas and Saint Pierre. Mauritius has a long history of clothing and textile manufacturing, initially started when investors from the Far East set up manufacturing facilities and took advantage of trade opportunities on the input side (raw material imports mainly from the Far East) and the export side (exports mainly to the EU and US).

More recently, however, labour shortages and increased trade union activity resulted in wage increases that exceeded productivity increases, and Mauritian producers were increasingly finding that they were unable to successfully compete in the lower end of the market (mainly commodity-type clothing and textile articles). This lead to a move up the value chain, with renewed focus on higher value-added production. Commodity-type producers, on the other hand, increasingly sought out lower wage-cost countries, and significant production was shifted to Madagascar (attractive due to its close proximity, incentive framework, low-cost labour and "flexible" business regulations), Mozambique and, to some extent, Tanzania.

Location Drivers and Barriers

The most important initial driver for the growth of the textile-clothing pipeline was the Mauritian government's eagerness to promote these manufacturing sectors and move away from its heavy reliance on the sugar industry. Ready access to cheap labour, the relative proximity to Far East markets in the procurement of raw materials, and an investor friendly climate became important locational considerations for new and existing investors. The entire island received Export Processing Zone (EPZ) status, which at the time acted as a strong incentive for clothing and textile manufacturers to set up operations. Eventually, "*location hysteresis*" set in, with the existing set of producers, cultural similarities between investors and producers (many of whom, not unlike in Lesotho, originating from China) and established links with export markets providing an attractive production, supply *and* social network.

The clothing and textile sectors in Mauritius have undergone significant structural changes in recent years, as productivity increases have not kept pace with increasing labour costs. As a consequence, greater emphasis has been placed on higher value added production, with some parts of the (mainly commodity-type) clothing and textile pipeline re-locating to low-cost producing countries such as Madagascar, Tanzania and Mozambique. Whereas low labour costs were initially drivers for industry location in Mauritius, they have in recent times tended to become a barrier for entrants producing at the lower end of the market. Notwithstanding rising wage costs, the domestic workforce is relatively highly trained, brought about by years of expansion in these sectors and a re-alignment of the government's traditional focus (and dependence) on the sugar industry.

Mauritius' preferential trade agreements with the EU in particular were long seen as important drivers for the expansion of the industry in Mauritius. The Agreement on Textiles and Clothing (ATC) negotiated by World Trade Organisation (WTO) member states during 1995 as the follow-up to the Multi-Fibre Agreement (MFA) regulates the phasing out of protectionist tariff-based trade barriers by 2005. This removes some of the relative advantage held by exporters in Mauritius, a situation exacerbated by the recent accession to WTO membership status by China. This may introduce large quantities of clothing and textile products onto world markets, driving down prices and cutting into the market share of the world's smaller producers. In addition, Mauritius' classification as not being a lesser developed country means that it will not be able to access (non-AGOA) third country inputs if it wishes to export duty-free to the US. At present, however, Mauritius is benefiting from AGOA, with an increasing percentage of clothing products qualifying for duty-free benefits.

4.7 Mozambique

Development and Brief History

Mozambique's textile industry started with the production of natural fibres such as cotton and sisal, used mainly for export. By the time Mozambique gained independence in 1975, modest cotton-based clothing and textile industries had developed. Active institutional support during the first decade after independence initially lead to further development of these industry sectors, although the ensuing civil war and socialist policies eventually lead to the demise of the formal component of these industry sectors.

Mozambique experienced a gradual re-generation of the clothing and textile industries during the 1990's, largely due to the re-opening of existing manufacturing units and some investment in new CMT clothing manufacturers, geared mainly for export markets. Although Mozambique is a qualifying Sub-Saharan country in terms of the AGOA, it has yet to meet the eligibility requirements that would allow it direct duty-free exports to the US.

Due to an estimated 70% of the population living below the poverty line (CIA World Factbook), and GDP per capita estimated at US $ 140, Mozambique does not yet lend itself as a major market for clothing and textile industry final goods. However, attractive investment incentives, a flexible and low-wage labour force, and the country's proximity to other major regional economies (together with likely special-provision qualification under AGOA in the near future), may make this country an attractive investment destination.

Currently, the local clothing market is dominated by second-hand clothing, with imports in this category (HS 63) far outweighing total clothing and textile exports during 2000 (Trademap Database, 2002). Formal garment manufacturing, previously reliant on large-scale public orders for uniforms, bedsheets etc. by the military, hospitals and other state enterprises, have mostly disappeared as state orders decreased. Tailoring appears to be a flourishing activity, though, and various estimates put the number of people involved in this sector at between 20.000 and 30.000 people, with only approximately 10-15% employed in the more "formal" sector (MPCS, 2001).

Spatial Aspects of Industry Location

Mozambique's long history of clothing and textile production was driven partially by its cotton industry and the resultant ready access to raw materials. Years of civil and political strife, which only ended in the 1990's, had a very negative effect on the clothing and textile pipeline. The low per capita GDP has lead to a flourishing market in second-hand clothing and home industries. As a result, formal clothing and textile manufacturing activities are limited, although strong growth in manufacturing activity has recently been recorded. Textile production units are widely dispersed throughout the country, with approximately 11 manufacturing units located in the northern parts of the country, 4 in the central parts, and 4 in the southern parts of the country (see map). A strong contributing factor is the widespread use of traditional clothing (printed fabric or "*Capulanas*"), which makes relatively little use of formal clothing production processes. Formal clothing manufacturing units are located mainly in the south (Maputo), although significant informal tailoring occurs all over the country.

Location Drivers and Barriers

Mozambique is slowly emerging as a producer of clothing and textiles, although it already has a long history of informal clothing production, as well as a significant cotton-growing sector. The country is also one of the poorest in the world, and as such, only a limited local market exists for higher value-added manufactured clothing and textiles. In this commodity-type market segment, few local manufacturers exist, partially as a result of their inability to compete with the low-cost producing countries of the Far East.

A flourishing trade in second-hand clothing, which exceeds the market for new manufactured clothing and textile articles, continues to undermine further expansion of these industry sectors. In addition, informal tailoring activities are widespread and well developed, both as a result of the factors mentioned above, as well as the (previously referred to) abundant use of traditional clothing, which requires relatively little use of formal clothing production processes.

Mozambique is eager to attract foreign investment, and offers investment incentives for a wide range of investment types. Special incentives are available for investments in less developed provinces, especially *Niassa*, *Tete* and *Cabo Delgado* (SADC Review, 2002). In addition, no customs duties are payable for the importation of input materials used in the manufacture of goods for export. Mozambique also has a double-taxation agreement with Mauritius, which is contributing to the trend whereby Mauritian clothing manufacturers are moving lower value-added production offshore to countries such as Madagascar and Mozambique (Gibbon, 2001). An abundance of low-cost labour is a further driver to clothing and textile industry location in Mozambique.

A further driver to textile industry location is the country's large-scale cotton production, which exceeds that of its neighbours, including South Africa (US Dept. of Agriculture, 2002). As a result, much of the country's textile industry consists of cotton ginning and related materials, with Mozambique's "cotton belt" located in the northern parts of the country (e.g. around Montepuez, Mocuba etc.). As only a small percentage of locally produced cotton is used domestically (the rest being exported), significant scope exists for further investment in cotton related processing and beneficiation activities.

Mozambique is also eligible under the AGOA, and has qualified under the *wearing apparel provisions* (on February 8, 2002). In addition, it is classified as a *LDC*, allowing the use of third country inputs until September 2004. The recent upgrading of the 'Maputo Development Corridor', which links the country's capital Maputo with Johannesburg, is further likely to drive new investment and locational decisions of the clothing and textile sectors. The development corridor ensures easy access to the South African market (the border being 60 km away from Maputo) for exports of textile and clothing articles, as well as for the import of raw materials where required. Maputo's well-established port facilities will be extensively upgraded in a development project starting April 2002, which will more than double its current carrying capacity and help facilitate increased trade linkages (Maputo.com, 2002).

4.8 Namibia

Development and Brief History

Although there is a considerable leather tanning and product-manufacturing sector in Namibia, its clothing and textile sectors are relatively small. Apart from the "cottage industry" manufacturers, mainly involved in spinning and weaving of carpets, rugs and wall hangings, there are as yet no fully-fledged commercial spinning, weaving or knitting mills in Namibia. However, as of late 2001 a large new integrated textile mill (*Ramatex*) was under construction in the capital Windhoek. This is likely to act as a catalyst for the further development of ancillary supply industries. Very attractive investment incentives, as well as Namibia's qualification under AGOA (including its special apparel provisions), are two of the main reasons this textile mill located there. On the clothing manufacturing side, a small number of formal manufacturing plants are located mainly in Windhoek and in the coastal towns of Walvis Bay and Swakopmund.

Spatial Aspects of Industry Location

While Namibia does not have a significant or highly developed clothing-textile pipeline, a number of production units are located in the country's main centres. Textile manufacturing occurs mainly in the coastal towns of Walvis Bay and Swakopmund, and to a lesser extent in Windhoek, Dorbabis, Gibeon, Luderitz and Otjiwarongo. Clothing production units are located in Walvis Bay and Swakopmund, and to a lesser extent in the country's capital, Windhoek. The total number of formal clothing and textile production units is 8 each for the clothing and textile sector.

Location Drivers and Barriers

Namibia recently managed to attract a large, vertically integrated cotton-textile mill (*Ramatex*) to its capital Windhoek. This follows the company's decision to move from a proposed site in the Eastern Cape Province of South Africa. A combination of highly attractive investment incentives (including EPZ status), ready access to labour, an excellent road transportation infrastructure and the port facilities (at Walvis Bay) were critical drivers for this investment. Namibia, eager to attract foreign investment, now offers investment incentives unavailable in many other regional countries. Other drivers include the fact that exchange rate risks are lowered by Namibia's "monetary union" with South Africa, with the country also being a member of SACU, the Southern African customs union. This allows ready access to the most important clothing and textile markets in the region, both as a source of imports as well as a destination of exports. While the investment mentioned above is of great significance in terms of Namibia's attractiveness as a clothing and textile production centre, it is also very likely to be an important driver to locational decisions by other role-players in the clothing-textile pipeline. The *Ramatex* investment is likely to lead to the establishment of important ancillary and supply industries in Windhoek or nearby.

Namibia is also a beneficiary country under the AGOA, and has recently qualified under the *apparel* provisions (on December 3, 2001). However, it is not classified as being a *Lesser Developed Country*. This means that in terms of AGOA-eligible exports to the US, input materials have to be sourced from and produced in eligible Sub-Saharan African countries (limited to those that have also qualified under the *special wearing provision*). This limits trade to most Southern and East-African countries, but excludes Zimbabwe and West Africa. The country is ideally located to benefit from better market access to the US, especially due to the proximity of deep-water port facilities at Walvis Bay (Namibia Ports Authority, 2002). In an industry and commodity chain where rapid response and reduced lead times are at least as important as many other factors, Namibia's relative "closeness" to the US market may prove to be an important competitive advantage during the duration of the AGOA, as well as being an important driver for renewed clothing and textile industry investment in the country.

4.9 Seychelles

Development and Brief History

Socialist rule, which ended in 1993, was not conducive to the development of the clothing-textile pipeline. The country's main industries are tourism and fishing. The Seychelles currently does not have a formal clothing or textile manufacturing sector, and relies on clothing and textile imports. A small number of informal / tailoring operations exist. Many of these operations double up as Boutiques. On the informal side, the strongest sector is screen printing, catering mainly for the tourist industry (printed T-shirts etc.). Apart from those enterprises that import fabric directly for own consumption, there are 2 fabric distributors and one fabric printing operation in Seychelles.

Spatial Aspects of Industry Location

A number of textile and clothing *distributors* are located on the island, as well as approximately 10 informal / tailoring operations. The country relies on imported fabrics and made-up clothing, while the closest related activity is the screen-printing sector (although, largely informal). A small quantity of screen-printed fabrics are exported. The Seychelles continues to rely on tourism as its most important industry.

Location Drivers and Barriers

This small island state has frequently been foregone as a textile and clothing industry location of choice for Mauritius and other SADC countries. It is officially classified as a middle-income country due to its relatively high per capita GDP. Important barriers to location of clothing and textile production are relatively high labour costs brought about, in part, by low employment levels. As such, the country is unlikely to e an attractive destination for low value-added clothing and textile producing activities, as it is unlikely to be able to compete with the low-cost producing countries of the Far East, and the region.

The Seychelles does, however, seek to attract investment in manufacturing activities through the creation of Export Processing Zones (called Seychelles International Trade Zones), which are conveniently located close to the port and airport. These offer very attractive investment incentives, including corporate tax exemption, no customs duty on capital equipment or consumables used within the zone, no social security contributions, no capital gains tax, no withholding tax and no tax on dividends. There are also no restrictions on *foreign* ownership of companies. The country is AGOA eligible, yet has not qualified under the *wearing apparel provisions* (meaning that they are currently unable to export duty-free clothing to the US). In addition, they are not classified as a *LDC* and will, once qualified under the wearing apparel provisions, be restricted to the use of input materials from other eligible and qualified countries in Sub-Saharan Africa.

4.10 South Africa

Development and Brief History

South Africa is the most dominant player in the regional clothing and textile sectors, and has a long history of clothing and textile manufacturing. Political and economic changes have been most significant since the 1994 democratic elections, with the South African industry rapidly moving away from its protectionist past towards an open, integrated economy. The country's clothing and textile industries were previously amongst the most highly protected of South Africa's industries, and are facing major challenges adapting to the requirements that international competition and foreign access to domestic markets bring with it.

The South African clothing and textile industries are characterised by producing a very diverse range of products. Its manufacturing capacity is located predominately in the provinces of Kwazulu-Natal, Western Province and Gauteng. On a whole, much of the total output was in lower value-added categories, which made the industry especially vulnerable following the reduction of protectionist measures since 1995. The situation was exacerbated by the 7-year tariff phase-down period initiated in 1995, rather than 12-year period that would have been required under the GATT.

As a result, some profound changes have occurred in the South African industry sectors. The unionised labour force has decreased significantly, due largely to (perceived) onerous labour legislation and subsequent moves by manufacturers to outsource a larger percentage of their production. As a consequence, there is a significant trend towards new contractual arrangements, piece-meal wage rates and flexible specialisation. While some manufacturers unable to remain competitive in a more open economy ceased operations, others were able to improve manufacturing efficiency and competitiveness sufficiently to survive. Currently, while still a net importer on aggregate of clothing and textile articles, a very large part of production is exported.

The recent free trade agreement with the EU, as well South Africa's compliance with the provisions of AGOA, make the country ideally suited to take advantage of the trade and investment benefits offered to it. Its transportation and telecommunication network is the most developed of the SADC region, with ready access to numerous deep-water harbours. It is currently the 3rd greatest beneficiary of apparel benefits under AGOA, after Mauritius and Lesotho, having met the rules of origin and “visa” requirements on March 7, 2001.

Spatial Aspects of Industry Location

South Africa's economy and has the most developed industrial base, infrastructure and communication network. It has a highly developed clothing and textile pipeline, with a very large number of manufacturing companies in each sector. The interrelatedness of the two industry sectors is one of the reasons for the close similarities in their location, with most companies in both industries being located in the coastal provinces of Kwazulu Natal and the Western Cape, as well as the inland province of Gauteng. Both Kwazulu Natal and the Western Cape have a very long-established tradition of clothing and textile manufacture, while international trade is easily facilitated using the deep-water port facilities in Durban and Cape Town, respectively, and the extensive rail and road network. In total, there are approximately 530 textile production units and 2350 clothing production units in South Africa, accounting for the majority share of the entire SADC region. Approximately 36% of South Africa's textile and 33% of its clothing manufacturing units are located in Kwazulu Natal (spread out between Durban Metro, Hammersdale, Port Shepstone, Isithebe, Newcastle and Empangeni). This is followed in the Western Cape by 22% of textile and 27% of clothing manufacturing units (located mainly in the Cape Metropolitan Area around Cape Town, and to a lesser extent in Paarl, Wellington and Atlantis). Gauteng has 22% of the textile industry's production units and 29% of the clothing production units.

Location Drivers and Barriers

As mentioned previously, South Africa's highly developed infrastructure, logistics network, industry, financial sector, supply network and service industries are important drivers that make the country attractive for the clothing-textile pipeline. Although not recognised as a low-cost producer (mainly due to relatively high labour costs), ready access in South Africa to design capabilities, capacities and marketing channels are important drivers for location especially of the higher-value sectors of these industries. This is also one of the reasons the textile sector in particular has been a regional leader in the development of technical textiles (e.g. medical gowns, parachute material, insulation materials etc.), which feature a relatively large design and R&D component. The sector's principal location in Kwazulu Natal, the Western Cape and Gauteng is the result of various factors. While the established nature of these sectors is an important driver for location in these regions, other important factors also contribute. South Africa has the largest number of substantial port facilities in SADC, and the most advanced road network - important considerations for the facilitation of trade. While the industries mostly developed in a protectionist environment, the opening of the markets has forced many to become internationally competitive. The large domestic market and high per capita GDP provide a ready market for clothing and textile output, while the penetration of the local market by imported goods has forced many local companies to (often very successfully) seek export and niche markets. Established trade links with the EU and the US in particular are important drivers for industry location.

South Africa qualified for benefits under the AGOA in March 2001, allowing for duty-free exports of clothing to the US. As South Africa is not classified as a LDC, it is excluded from using textile or clothing input materials produced in non-qualifying third countries, thereby excluding the use of, for example, Chinese produced fabrics (the largest single source of clothing and textile imports to South Africa). Although the special provision allowing third country imports to "lesser developed countries" expires in 2004, it possibly acts as a short-term barrier to industry location in South Africa. As the clothing industry in particular has to operate in a highly competitive world clothing - textile pipeline, South Africa's labour costs and legislation are sometimes perceived to be a barrier in this sector. While labour rates are significantly below those of developed countries, they exceed those in the rest of the SADC region. Tight labour legislation in the main industrial centres, coupled with a relatively strong labour union movement, has in the past seen firms relocate to the country's neighbours, as well as further abroad to Malawi and Zambia. The rapid expansion of the clothing and textile sectors in decentralised areas has lead to significant labour cost and productivity gains by manufacturers located there. Very significant investments (expansions, acquisitions and green fields investments), in particular by investors of Asian origin, have occurred in decentralised areas of Kwazulu Natal. Cultural similarities among investors have played a further important role in driving industry location in Kwazulu Natal.

4.11 Swaziland

Development and Brief History

Swaziland has a small clothing and textile sector, although agriculture occupies in excess of 60% of the population. Like a number of other countries in the region, Swaziland has been particularly exposed to the trade in second-hand clothing. This has had a negative impact on investment in the clothing and textile sectors. Swaziland forms part of the Southern African Customs Union (SACU), of which the country derives significant income. As a trade partner, South Africa forms the most important market to this country's exports (+/- 65%), while being the source of +/- 84% of the country's imports (SADC Review, 2002). The country's only export falling into the clothing and textile sectors is cotton *yarn*, although it also exports significant volumes of cotton.

Swaziland's textile sector only developed in earnest from the mid 1980's, when the country's first significant fully integrated cotton based textile mill was set up (*Natex)*. This was followed by a stand-alone spinning mill (*Spintex)*, forming part of the same group. However, economic conditions forced the closure of *Natex* in 1995. A knitwear manufacturing plant, with its own acrylic spinning plant, commenced production in the early 1990's (*New Biella Textiles)*. New investments in Swaziland include *FTW Garments*, while *Turntex* has increased its manufacturing capacity significantly. A number of further investments were planned for 2001, mainly by Taiwanese investors. Swaziland's qualification under the wearing apparel section of the AGOA is likely to lead to significant new opportunities for its clothing and (indirectly) textile sectors, while the close proximity to (and upgrading of) Mozambique's harbour in Maputo is likely to assist export initiatives.

Spatial Aspects of Industry Location

Approximately 90% of the country's clothing and textile production units are located in the capital Mbabane, while a very small number are located in Nhlangano (southern border with South Africa) and Big Bend (on the Swaziland / Mozambique / South Africa border). Mbabane is located less than 200 km from Maputo (Mozambique) and approximately 400 km from South Africa’s largest city, Johannesburg.

Location Drivers and Barriers

Swaziland's clothing and textile industry is relatively young, and the government has identified these sectors as important for employment creation. Swaziland is part of the Southern African Customs Union (SACU), allowing free movement of commodity goods between the Union's members (South Africa, Namibia, Botswana and Lesotho). This means that Swaziland (which shares borders with both South Africa and Mozambique) has ready access to the South African market for its clothing and textile outputs. At the same time, the country is ideally positioned to source South African manufactured input materials, while having easy access to the nearby port facilities in Maputo (Mozambique), a few kilometres away.

Investment incentives offered to investors in the clothing and textile sectors include the provision of infrastructure (in many cases even completed factory buildings), tax incentives such as tax holidays and accelerated write-offs, and "lenient" enforcement of the country's labour laws. Clothing and textile manufacturers can thus take advantage of Swaziland's investment incentives and relatively low labour costs, while at the same time having easy access to the South African market and the close port facilities mentioned above. However, Swaziland's AGOA eligibility and subsequent qualification (on July 26, 2001) under the *special apparel provisions*, coupled with its *LDC* status that allows the use of third country input materials, are probably the most important drivers for the location of clothing (and to a lesser extent) textile production units in that country. Taiwanese investors, known for their at times rapid entry (and exit) from a particular market and country, have shown particular interest in locating clothing and textile production units in Swaziland. This trend is helped by the fact that Swaziland has a double-taxation agreement with Taiwan, which allows these investors to avoid a double tax burden. In many cases, especially when a particular set of favourable circumstances changes, these investors exit an industry again, often even before their tax holiday and incentive package has ended.

4.12 Tanzania

Development and Brief History

Tanzania has undergone significant political and economic changes since independence, and is one of the world's poorest countries. Significant economic restructuring, especially of the banking sector, has contributed to renewed confidence and investment in the country.

From the mid 1960's, Tanzania's economic growth and development policies were based on state control and state investments, leading to a highly regulated economy. Many parastatal enterprises owe their establishment to these policies, with the textile industry being targeted specifically for state intervention and development. The abundance of locally grown cotton was one of the reasons for the state's drive to make the country self-sufficient in its textile requirements, with the surplus to be available for exports. While initially successful, the restrictive policy regime, inefficient parastatal enterprises and external economic shocks lead to a fall in agricultural and industrial production and inflationary pressures. By 1992, the textile industry's performance had declined to 20% capacity utilisation. The continued effects of poor production levels, idle capacity and management problems eventually lead to the virtual collapse of the clothing and textile industries.

Tanzania does not have a significant formal clothing industry, owing largely to the abundance of second-hand clothing, informal micro-enterprises and prevalence of the traditional dress code (*Khanga* and *Kikoi* wraparound attire). The *Khanga* fabric manufacturing sector has grown strongly since 1998, largely making use of imported greige fabric rather than domestically produced fabric. The majority of companies in the textile sector are cotton gins, while the formal clothing manufacturers are mostly components of fully integrated textile mills.

Economic reforms started in the late 1980's have led to the removal of price controls and the abolition of state monopolies in marketing, production and distribution. The evasion of import duties, coupled with unsatisfactory investment and export incentives, are still significant constraints to the expansion of the clothing and textile sectors. Tanzania's recent eligibility under the AGOA provisions are likely to provide the country's clothing and textiles industries with incentives to increase production and focus on regional and foreign export markets.

Spatial Aspects of Industry Location

A number of factors have over the past decades contributed to the virtual collapse of the country's clothing industry. As a result, only a small number of clothing production units remain in the capital, Dar es Salaam, while a handful are located inland in the Arusha / Moshi area (these are part of vertically integrated textile mills). A much larger number of production units in the textile sector remain, although the large majority (in excess of 75%) are cotton gins. This is owing to Tanzania's traditionally abundant supply of cotton. Of the approximately 60 textile production units that remain in existence, most are located away from the country's commercial centres, but close to their cotton supply sources. 30% are located in the north-western town of Mwanza, while 20% are situated south of that town in Shinyanga. The rest are spread out, and are located in the capital Dar es Salaam, and towns that include Tanga, Morogoro and Mara.

Location Drivers and Barriers

Tanzania's relative abundance of cotton has, in the past, promoted the development of a clothing and textile industry. But socialist reforms in the 1970's, which led to the nationalisation of many production units in this sector (including cotton gins etc.), also lead to their eventual demise. The administration of the large public sector that followed nationalization policies led to the establishment of parastatal holdings companies, financed and supervised by the government (Musonda and Madete, 2001). Structural Adjustment Programs (SAPs) initiated by the IMF and the World Bank during 1985 - 1991 eventually enhanced growth prospects in the country, and gradually made Tanzania more attractive to clothing and textile sector expansion and investment (mainly in cotton-related activities). However, Tanzania's manufacturing industries are still mainly involved in processing the country's agricultural outputs, although the government is eager to attract investment in non-agricultural manufacturing industries.

The demise of many formal clothing and textile manufacturers is both a cause and result of the flourishing market in second-hand clothes and textiles. Imports of second-hand clothing far outweigh imports (or exports) of newly manufactured clothing and textiles. This is a significant barrier to locational decisions regarding the clothing and textile sectors.

Tanzania's recent qualification under the African Growth and Opportunity Act (AGOA) is, looking forward, likely to be the strongest driver of renewed interest and investment in the clothing-textile pipeline the country has seen in the past 2-3 decades. While being AGOA eligible as well as recently (on February 4, 2002) having qualified under the *wearing apparel provisions*, Tanzania has the added (medium term) advantage of being classified as a *Lesser Developed Country*. This enables manufacturers located in the country to source input materials (such as fabrics) from non-qualifying third countries such as China, for use in products that may be exported to the US duty-free. However, this benefit expires in September 2004, after which qualifying input materials have to be produced either locally, or sourced from other eligible and qualifying Sub-Saharan African countries. This special provision has been a driver of industry re-location from Mauritius to Tanzania (mainly in the lower value-added segment), offering both an abundance of labour, and access to the US market for clothing using third country input materials referred to above. Abundant labour supply, labour market flexibility and low labour costs are critical drivers and determinants of industry location, especially at the lower end of the production value chain.

4.13 Zambia

Development and Brief History

Zambia is one of the SADC regions most landlocked countries, and thus does not have ready access to port facilities. Not unlike many other countries, the country's clothing and textile industries for many years operated in a heavily protective policy environment, shielding it from much foreign competition. Restricted access to foreign exchange, together with a deteriorating economic climate, led to the existing stock of capital (machinery and equipment) not being upgraded and eventually becoming unproductive and inefficient. The relative abundance of cheap labour initially compensated for this situation.

Economic liberalisation in 1992/1993, especially regarding international trade, added renewed pressure on the country's clothing and textile industries. In particular, the market was now being flooded by cheap clothing imports (much of it second-hand) from the region and abroad. Disposable income was rapidly absorbed by these new imports, with second-hand clothing capturing the majority of the market. Also, political liberalisation both in Zambia and South Africa lead to the influx of South African retail stores, selling internationally sourced products to the medium to upper end of the market. The combined effect of the above has lead to very little of the domestic market being left to local clothing manufacturers, and as a result very few formal enterprises in this sector still exist. While there were approximately 150 clothing manufacturers in the 1980's employing 15.000 people, these had declined to less than 60 by the mid-1990's and a mere handful today (offering employment to only 1000 people). The situation in the textile sector has been similar, notwithstanding significant capital expenditure in the mid 1990's and the pursuit of export markets. The number of enterprises in the textile industry declined to approximately 20 in the year 2000, including 5 cotton gins. Zambia recently qualified under the AGOA, which should contribute positively to the country's clothing and textile sectors. An important aspect of the country's qualification is that it can be used as a source of raw materials (cotton) and locally produced textile by other (qualifying) countries wishing to ensure AGOA-compliance.

Spatial Aspects of Industry Location

Zambia has traditionally had a strong cotton growing industry, and as a consequence, an established (yet small) clothing and textile industry. The country's cotton production exceeds its consumption, and it is thus a significant exporter of processed and unprocessed cotton. Very little textile production takes place in the country's capital, Lusaka, although a number of formal clothing production units are located there. The largest number of textile production units is located in the northern town of Ndola, which is in the border region with the DRC. Further textile production takes place in Kabwe, Kafue, Kitwe and Livingstone, while there are approximately 8 cotton gins spread out in the country's Southern, Eastern and Central Province. Approximately half of the country's clothing production units are also located in the town of Ndola, with others located in Lusaka and Livingstone. Important considerations for locational decisions regarding Livingston (in particular the clothing industry) include the growing tourism industry and general development, while Ndola may serve as an important "frontier" town for trade with the DRC (whose formal clothing production industry is virtually non-existent).

Location Drivers and Barriers

Zambia's clothing-textile pipeline essentially revolves around the processing of cotton products, resulting from the country's long history of cotton production. Zambia is a significant net exporter of cotton, but is recording net imports of manufactured textiles and clothing. The import of second-hand clothing continues to undermine local production capacity.

Zambia shares borders with the DRC, Angola, Namibia, Botswana, Zimbabwe and Mozambique, and does not enjoy ready access to port facilities. A barrier to clothing and textile industry location in Zambia is the fact that, in terms of trade flow potential and regional supply chain linkages, none of the country's neighbours form a striving market for clothing and textile products. Exports are further disadvantaged by a lack of port facilities and, at times, poor road infrastructure. Although Zambia is attempting to attract foreign investment in non-traditional sectors (i.e. non mining and agriculture), a relatively unfavourable taxation regime continues to discourage potential investors. Zambia is AGOA eligible and has qualified under the *wearing apparel provisions* on December 17, 2001. In addition, like most other Sub-Saharan African countries, it is classified as a *LDC* allowing the use of third country clothing and textile imports in the manufacture of AGOA-eligible products. Besides ready access to cotton, there appear to be few significant locational drivers for clothing and textile production in the country. Cotton related activities are currently concentrated in cotton gins, while opportunities in other cotton-beneficiation activities may exist.

4.14 Zimbabwe

Development and Brief History

Zimbabwe, like South Africa, has a well-established clothing and textile pipeline, with many of the textile mills having been set up as early as the 1940's. Up until the early 1990's, the Zimbabwean clothing and textile sectors were heavily dependent on the South African market, with which it had a preferential trade agreement.

However, the expiry of this trade agreement, coupled with a severe drought that negatively affected the economy, lead to significant problems for Zimbabwean clothing and textile manufacturers.

Subsequent structural adjustment policies attempted to remedy the situation, and significant replacement of outdated machinery and equipment took place in (especially) the textile industry. However, the benefits of these programs were not as pronounced as they were intended to be, as a result of various internal and external factors impacting negatively on the local economy. These included a further severe drought (which placed strain on the country's financial resources and agricultural output, incl. cotton), a reduction of protective barriers by Zimbabwe and an increase in protection by the South African authorities. These developments had the effect of further exposing the Zimbabwean clothing and textile sectors to international competition, while at the same reducing access to the South African market. Notable closures of Zimbabwean clothing and textile manufacturers include *Cone Textiles* (>5.000 employees), *Fashion Enterprises* (>1.000 employees), *Associated Knitting, Biona Textiles, A1 Knitting* and *Zimbabwe Textile Industries.*

Towards the end of the 1990's, Zimbabwe's clothing industries consisted of approximately 60 companies (many having more than one production unit) producing a wide range of fibres, yarns, non-wovens, blankets, sewing thread, hosiery and carpets. The clothing manufacturing industry consisted of approximately 250 separate companies (~ more than 250 production units), producing the entire range of clothing products.

Recent political instability has led, in particular, to severe foreign exchange restrictions, an artificially pegged exchange rate (some 6-7 times higher that the official rate), high inflation and interest rates, preventing Zimbabwean companies from affording and accessing much needed capital and equipment. Stringent foreign exchange repatriation requirements (at the pegged exchange rate) are seriously undermining the success of exporting companies, although these companies are generally still profitable (largely due to parallel financial market gains). The worsening political and economic situation lead to further manufacturing and retail company closures during 2000 and 2001, although exports were still increasing and performing well (Zimbabwe is a net exporter of clothing and net importer of textiles). Even exports to the USA have been increasing in $ terms, notwithstanding the fact that Zimbabwe does not qualify under the AGOA and is thus unable to benefit from the duty-free provisions of the Act. Being a significant producer of clothing and textiles in the region, the non-compliance with the AGOA has the further implication of disqualifying regional clothing and textile manufacturers from utilising Zimbabwean produced textile products in their exports intended for the US market. The existing shortage of (qualifying) textile producers is thus further magnified, with potentially significant implications for the region.

Spatial Aspects of Industry Location

Zimbabwe has the third largest number of clothing and textile production units in the region, and is an important player in regional supply networks. The current political and economic situation continues to extract a heavy toll on manufacturers across the country, with a significant number of production units rationalising operations, relocating or closing down. The country's clothing manufacturing units are located mainly in Harare (60%) and Bulawayo (30%), the countries two most important commercial centres. Smaller concentrations of manufacturers are located in Gweru, Mutare and Victoria Falls. Mutare's close proximity to the Mozambican port of Beira, as well as local demand for clothing and textiles, is likely to make it a relatively attractive location. Victoria Falls, on the other hand, has traditionally experienced strong demand especially from the tourism industry (T-shirts, fabrics etc.), and is ideally located to take advantage of input and output linkages with Zambia's clothing and textile manufacturers. Textile manufacturing units are located mainly in Harare (47%) and Bulawayo (32%), although a number of smaller centres also have producers of textiles. These include Mutare, Ruwa, Gweru, Victoria Falls, Glendale and Mvuma. The total number of clothing production units in 2000 was approximately 275, while just over 70 textile production units were in operation.

Location Drivers and Barriers

The overriding barrier to clothing and textile industry investment and location is the country's current political and economic turmoil, and resultant widespread uncertainty. Limited access to foreign exchange and an unfavourable exchange rate have made investments in imported machinery and equipment prohibitively expensive. Profitability of clothing and textile companies is often dependent on parallel market exchange rate transactions, although this applies only to those firms that are active in the export market. Although international competitiveness in product categories with a high labour content is continuing to ensure clothing and textile exports, much of this profitability relates to exchange rate profits and parallel market transactions.

Zimbabwe has a long tradition of clothing and textile production, and as a result long-established production units. Many of these are enterprises are utilising an old stock of capital that has often long been amortized. As a result, many companies are able to operate in a trading environment where only variable production costs need to be met. Technological inefficiencies are often compensated by low wage costs as a result of excess labour demand and high unemployment levels. Zimbabwe is seen as one of the lowest-cost producers of textiles in the SADC region (Coughlin et al, 2001), which is an important consideration for supply chain linkages. The country has been excluded from the AGOA, and is thus unable to benefit from duty-free access to the US market.

Notwithstanding the significant locational barriers, Zimbabwe is ideally located in the region with ready access to SADC markets. It shares borders with its main trade partner, South Africa, as well as Mozambique, Botswana and Zambia. Access to port facilities is facilitated via Mozambique (Beira), less than 200km away from Zimbabwe's eastern border at Mutare. Other regional ports are Maputo (Mozambique) and Durban (South Africa), although these involve transportation over significant distances.

5. Future Attractiveness of SADC for the Clothing-Textile Pipeline

The locational decisions both of existing clothing and textile manufacturers in the region, as well as potential new entrants, are based on a wide range of inter-related variables. A number of these variables (mainly in the macro-environment) have been discussed previously in this report. These variables include the current and future policy environment in the SADC member countries and the region as a whole, (free) trade arrangements, issues around local and national incentives, labour costs, raw material costs (material inputs, energy and water) and others. Due to the binding nature of a number of international trade agreements, as well as the significance of preferential market access agreements, developments of the regional clothing-textile pipeline are divided into three time periods as follows: present - end 2004, 2005- 2008 and post-2008.

5.1 Present - End 2004

Significant changes affecting the clothing-textile pipeline are set to occur towards the end of 1994, relating mainly around:

- The ending of the AGOA special provisions to lesser-developed countries *(LDCs),*
- The culmination of the final phase of the Agreement on Textiles and Clothing (ATC) and
- The expiry of MMTZ country one-stage transformation concessions given by South Africa.

Significant opportunities and trade advantages that are currently available to the clothing and textile sectors will cease to exist, as the concession allowing LDCs to use third-country inputs in the manufacture of AGOA-compliant exports falls away. In the light of the significant shortage of regionally produced (and thus compliant) fabrics, a major incentive regarding the locational attractiveness of many of the SADC region's less developed countries falls away, especially those that are far removed from SADC's dominant producer of clothing and textiles (South Africa). The ending of this provision is also likely to have a major impact on Zimbabwe's clothing-textile pipeline, for although it is not AGOA-eligible, textiles and related products produced there may still form part of the input material of other (qualifying) LDC-status exporters in the region. For example, Zimbabwean textiles may, until September 2004, be used by countries such as Zambia, Malawi, Lesotho, Swaziland, Mozambique etc. in the manufacture of AGOA-eligible clothing exports.

The second dominant issue is the integration of the ATC into the existing WTO / GATT regulations governing international trade. Up until the end of 2004, SADC member countries will be able to continue benefiting from preferential trade agreements with the region's largest trade partner, the EU. Under the Lomé / Cotonou Agreement, as well as the EU-SA FTA, the entire region has preferential (duty-and quota-free) access to the EU market, and as a result enjoys a significant competitive advantage (due to lower or no tariffs and quotas) over competing countries.

This market access is an important consideration in the locational decisions of clothing and textile manufacturing companies, although it is likely to be an important driver in particular to the clothing industry. This sector is relatively labour intensive (while the textile sector is relatively capital intensive), and is thus geared to take advantage of preferential market access even in the short to medium term. In other words, the end of the ACT is likely to be less of a dis-incentive for the locational decisions of the clothing sector than it is for textile sector. Nonetheless, the ACT is likely to feature significantly in the locational aspects of future clothing-textile pipeline investment, especially as the end of 2004 draws nearer.

During the period under review, the MMTZ countries (Mozambique, Malawi, Tanzania and Zambia) will continue to enjoy preferential market access to South Africa and its customs partners. The benefit lies in the fact that until 2005, the MMTZ countries are exempted from the stringent 2-stage transformation requirement imposed by South Africa. These countries will thus continue to be able to use third-country textile inputs in the manufacture of clothing articles destined for the South African market. This agreement has important implications for the MMTZ countries, as not only have they qualified under AGOA's wearing apparel provisions, are classified as LDCs, benefit under the Lomé / Cotonou Convention, but they also have preferential market access to the South African market (as well as the other SACU countries. However, according to Coughlin et al (2001), quota restrictions on MMTZ "one-stage" product imports remain, and limit the actual benefits to these countries.

5.2 The Period 2005 - 2008

The regional clothing-textile pipeline is likely to face tougher trading conditions in the 2005 - 2008 period, owing to the fact that the ATC (quotas) and special AGOA (LDC) concessions will have expired. These were highly important locational drivers for the regional clothing and textile industry, and will expose these sectors to significantly greater international competition than previously experienced. The ATC will, by 2005, have lead to the phase-out of restrictive quotas on clothing and textile trade (although trade tariffs may still exist), which will prevent countries from limiting clothing and textile imports. The fear is that this will lead to countries such as China rapidly increasing world market share in the trade of clothing and textiles. The impact of this on competing countries' clothing and textile sectors is likely to be severe, and as yet difficult to quantify.

The ending of the AGOA wearing apparel concessions extended to LDCs will also have the impact that many SADC countries will no longer be able to attract participation in the clothing-textile pipeline purely as a result of this status. After September 2004, all (qualifying) SADC countries will now have to compete off an equal base, and source all their material input requirements in the region or from the US. The anticipated massive shortage of qualifying textile production capacity in the region is likely, post September 2004, to significantly constrain SADC countries from benefiting under AGOA. However, while the rules of origin requirements imposed by AGOA will have changed significantly by the start of this period, the benefits of US market access to qualifying SSA countries are still significant. Although the AGOA makes for provision for a (growing) cap on clothing exports to the US, this quota still far exceeds the likely productive capacity of clothing exporters in the region. As a result, the quota does not pose a short or medium term barrier to regional clothing and textile industry location. However, the nature of the AGOA makes provision for the unilateral withdrawal of benefits by the US government (without recourse to independent dispute resolution), and this continues to generate a certain measure of uncertainty.

The expiry of the MMTZ concessions will, as they currently stand, result in a greater amount of clothing and textile transformation done regionally. While there are inherent benefits in greater value added regionally, this is still likely to be a barrier to clothing and textile industry location in the region, and may simply serve to protect existing inefficiencies in the South African textile industry.

5.3 The Period Beyond 2008

Locational decisions by manufacturing enterprises are based on a number of drivers and barriers, amongst them the availability and cost of raw materials, market access issues, labour costs (in labour-intensive industries), legislative factors and the location of ancillary and support industries.

By the end of 2008, the international trade in clothing and textiles would have been significantly liberalised, and clothing and textile firms would no longer locate in the region based on the previously available preferential market access agreements such as the Lomé / Cotonou Agreement, MMTZ concessions etc. The ATC will be firmly integrated into the general GATT / WTO provisions, and countries such as China (one of the largest producers of clothing and textiles in the world) would by that stage have been a WTO member for a significant number of years (with important trade and market access implications). Quotas will no longer be available as a tool for protecting domestic markets from imported clothing and textile products.

The AGOA expires in September 2008, and unless this agreement is extended (preliminary negotiations are currently underway for an AGOA II that encompasses textile exports), preferential US market access for qualifying SSA countries will cease. Preferential access to the US market under AGOA is currently one of the most important drivers for new investments (and market entrants) in the regional clothing-textile pipeline.

The table below summarises some of the salient features impacting on SADC member countries' attractiveness regarding the location of clothing and textile manufacturing firms in the years ahead.

Table 5 Attractiveness of SADC Countries for Clothing and Textile Sector Investment

Investment Attractiveness of SADC Countries for Clothing and Textile Investment				
	Attractiveness / Potential			Key Drivers and Barriers affecting Location Decisions
Country	**High**	**Med.**	**Low**	
Angola			X	Little formal clothing and textile production; not AGOA-eligible; political instability; transport and communication sector inefficiencies; Lomé / Cotonou
Botswana	X	?		Attractive Industry Incentives; Stability; SACU membership; AGOA-eligible (may be re-designated as LDC status by US); Lomé / Cotonou
DRC			X	Political Instability, not AGOA-eligible; few existing trade linkages; transport and communication infrastructure relatively un-developed; Lomé / Cotonou
Lesotho	X			Highly geared towards clothing industry; AGOA-eligible and LDC status; strong established trade links with US; low-cost labour; attractive incentives; Lomé / Cotonou; some space constraints for industrial development
Malawi	X	?		AGOA-eligible with LDC status; existing clothing-textile pipeline; MMTZ concessions; Lomé / Cotonou
Mauritius	X			Strong trade links with US market and SADC countries; AGOA-eligible (not LDC status); highly developed clothing-textile pipeline & local expertise; Lomé / Cotonou
Mozambique		X		AGOA-eligible and LDC status; port facilities; pref. access to South African market through MMTZ status (as well as upgraded road link with SA via Maputo Dev. Corridor) ; Lomé / Cotonou
Namibia		X		Little formal clothing and textile manufacturing; AGOA-eligible, not LDC classified (may be re-classifed by US); strategic port facilities in Walvis Bay; Lomé / Cotonou
Seychelles			X	Insignificant formal clothing and textile production; AGOA-eligible but not LDC classified; large distance from regional markets; Lomé / Cotonou
South Africa	X			Very established clothing-textile pipeline; AGOA eligible (non LDC); strong exist. regional linkages; highly developed port facilities and transport network; EU-South Africa FTA
Swaziland		X		AGOA-eligible and LDC status; access to SA market; flexible labour market; short term benefits esp. due to LDC status; few domestic textile suppliers; Lomé / Cotonou
Tanzania		X		AGOA-eligible and LDC status; MMTZ concessions; established cotton production (and beneficiation); pref. access to South African market; Lomé / Cotonou
Zambia		X		AGOA-eligible and LDC status; MMTZ concessions; significant cotton production; distance from port facilities; Lomé / Cotonou
Zimbabwe			X	Not AGOA-eligible; established domestic clothing-textile pipeline and regional linkages; political instability major barrier in short term; Lomé / Cotonou

The integration of SADC markets through the streamlining of external and internal trade barriers would have important implications for the regional clothing-textile pipeline. Few regional manufacturers can, on their own, compete successfully and sustainably with the low-cost producers of the Far East, especially China. Through the development of regional supply chain linkages, the competitive advantages that individual firms, regions or countries hold, may be maximised.

If the free movement of goods and services is not assured, high transaction costs and quotas will continue to be a barrier to the utilisation of regional efficiencies. A likely scenario that may follow from this, and taking into account the external and regional trade agreements (and related market access issues) discussed above, is that of a polarisation of the regional clothing and textile industries. On the one hand, this may lead to an agglomeration of these sectors in countries perceived to offer a "secure" environment, such as South Africa and Botswana. These countries offer a relatively stable interest and exchange rate environment, which are important considerations for clothing and textile manufacturers. High labour costs in South Africa may be offset by the benefits associated with a highly developed transportation network, port facilities, service industries and communications infrastructure. The relatively capital-intensive textiles and higher value-added fashion apparel segments are likely to be attracted to these countries. On the other hand, firms may be drawn to the regional low-cost producers (such as Swaziland, Lesotho, Malawi), where low labour costs and attractive investment incentives by governments (eager to see the development of industrial capacity) may play an important role. Commodity-type clothing manufacturers (relatively labour-intensive) would be particularly drawn to such countries. This scenario may be to the disadvantage of the "in-between" countries (such as Zambia, the DRC, Angola), which would be least attractive from a clothing and textile perspective.

6. Conclusions and Policy Issues

The clothing and textile industries are widely dispersed throughout the SADC region, with much importance attached to the sectors by most countries. Due to the fact that these sectors have traditionally contributed significantly to SADC member countries' GDP and employment, as well as accounting for significant revenue streams through the imposition of trade tariffs, the sectors are emerging from a highly protectionist environment.

In the past, locational decisions by clothing and textile manufacturers were largely based on considerations such as the availability of raw materials, government policies (protection and subsidisation) and factor inputs (e.g. the cost of labour). International developments such as the globalisation of world economies through bi-lateral and multi-lateral trade agreements, has forced the clothing-textile pipeline to emerge from its previously protected environment. Measures that previously distorted development and trade are increasingly being phased out, and new issues having an impact on the location of the clothing-textile pipeline are gaining in importance. Supply-side issues (e.g. factor inputs) remain very important, but market access issues have become critical considerations for industrial location. While the clothing and textile industry is located to some extent in most SADC countries, it was found that high concentration of production units occur particularly in South Africa, Mauritius, Zimbabwe. Lesotho also has a number of large clothing production units, which account for significant output volumes.

Trade agreements, especially the recent enactment of the Africa Growth and Opportunity Act (AGOA) that allows duty-free access to the US market, are having a significant impact on locational decisions in the clothing-textile pipeline. Most SADC member states were AGOA eligible and had qualified under the strict rules of origin. The non-inclusion of Zimbabwe, however, has wide implications for the region, as it disallows the use of that country's inputs in the manufacture of AGOA-compliant exports. Zimbabwe is an important regional producer of clothing and textiles, and its absence may further restrict eligible textile availability and thus supply chain integration. Zimbabwe's inclusion would have been an important catalyst for regional integration, owing in particular to the multi-faceted policy environments relating to the clothing and textile industries.

No individual SADC member state is in a position to be internationally competitive along the entire clothing - textile pipeline. Countries such as Mauritius and Lesotho, both highly successful exporters, rely heavily on efficient access to third country (produced) input materials, and preferential trade agreements with the EU and the US. The Agreement on Textiles and Clothing (ATC), which will fully integrate the clothing and textile sectors into the general WTO mainstream, is set to have a significant impact on the regional industry.

From 2005 onwards, SADC countries will be forced to compete on an even footing with all other countries as restrictive and selective quotas on clothing and textile products fall away. However, AGOA related *tariff* concessions will continue to provide eligible countries with a comparative advantage over their traditional competitors, at least until 2008. Uncertainty surrounds the situation of the clothing and textile industries in SADC after 2008, as many of the current and medium-term drivers for industry location will have fallen away. The regional clothing-textile pipeline will increasingly come under pressure to compete and remain internationally competitive. Current and potential clothing and textile industry investors in the region will be spoilt for choice, especially from 2005 onwards. To remain attractive, SADC member states will have to offer the industry more than merely attractive incentive packages.

Important policy issues from an industry location perspective centre around market access issues and the ready (and competitively priced) availability of factor inputs (material and labour). The following policy issues may require priority attention:

Factor Inputs: Access to competitively priced factor inputs is of critical importance.

- Many regional countries labour costs do not compare favourably with those of the Far East. While it would be politically difficult to lower these costs in nominal terms, policymakers need to **systematically support productivity-enhancement** programs in the clothing-textile pipeline in order **to achieve lower the per product labour costs;**

- In some countries, particularly in South Africa, minimum wage legislation continues to act as a disincentive for productivity improvements and new investments. **Piece-meal payments** (subject to a minimum wage) are of critical importance as an incentive for productivity improvements, as is the availability of decentralised areas that are *not* covered by any bargaining council agreements;

- **Ready access to raw materials free of undue restrictions and transaction costs** is a pre-condition for efficient and sustainable production. Where the region does not have the current or near-term capacity to supply certain raw materials, these should *not* be subject to import tariffs and other transactions costs. In such cases, SADC should rather take advantage of other countries' efficiencies, and provide the platform for the efficient beneficiation of such materials. The region as a whole should follow the lead of selected SADC countries (such as Mauritius) that have allowed the free in-flow of such raw materials;

- **Ready access to items of a capital nature**: Restrictions such as tariffs and duties should be abolished on clothing-textile machinery and equipment if it is intended to remain in productive use in the region (say for a period exceeding 3 years). SADC countries already face challenges in terms of investments in capital equipment due to an unfavourable exchange rate, and should thus not be additionally burdened by punitive transactions costs;

Trade Barriers and Market Access: The region will only remain attractive as a location of the clothing and textile industries if trade barriers are made externally consistent and are internally downscaled or removed.

- The **external trade regime needs to be consistent across all SADC member states**. This would assist in preventing trans-shipment and would set the framework for **the removal of intra-regional trade barriers**. SADC clothing and textile competitiveness can only be utilised if regional supply linkages can develop without undue restrictions;

- Market access is one of the prime drivers of industry location. The AGOA in particular offers the regional clothing and textile industries vast opportunities. T**he up-take of these will remain limited, especially from 2005 onwards, if the restrictive trade barriers (such as quota restrictions, tariffs and cross-border charges) are not removed.** The AGOA requires eligible countries to utilise only regionally produced inputs for qualifying exports, yet continuing intra-regional barriers and transaction costs will significantly lower the benefits to clothing and textile producers;

- Uncertainty continues to affect the clothing-textile pipeline as a result of differentiated one-stage and two-stage transformation requirements. South Africa continues to push for two-stage transformation in order to protect its domestic clothing and textile industries, although (limited) medium-term exemptions have been granted to Malawi, Tanzania, Zambia and Mozambique. Introducing one-stage transformation across the region would remove much uncertainty, and increase the region's attractiveness especially from a clothing-industry perspective as it would improve this sector's international competitiveness. However, the regional textile industry may suffer as a result and is unlikely to be able to compete with cheap textile imports. This would have additional implications for AGOA, as textile production capacity may be lost to the region. As a result, **it is recommended that such a move (towards one-stage transformation requirements) be treated with caution.**

Cross-Border Investments: The development of efficient regional supply networks may necessitate cross-border investments.

- Restrictions and uncertainties currently inhibit cross-border investments in the clothing-textile pipeline, yet these are becoming increasingly important as firms seek to take advantage of intra-regional efficiencies. For example, Mauritian firms have successfully relocated some of the lower-value added commodity type production to Madagascar, Mozambique and Tanzania, largely as a result of these countries' lower labour production costs and bi-lateral investment agreements. **Barriers to cross-border capital investments should be eliminated** across the region to further facilitate efficiency and productivity improvements that are required to make regional textile and clothing production more competitive.

- SADC member states should realise that cross-border investments are beneficial for the region as a whole, and should place regional concerns ahead of sometimes 'selfish' short term concerns. **Cross-border investment opportunities should be publicised and supported**, as the long term results will be increased regional competitiveness and attractiveness for industry location.

7. References

AGOA (2000). African Growth and Opportunity Act. Internet: www.agoa.gov (accessed January 2002)

CIA World Factbook (2001). Internet: *www.cia.gov*

Coughlin, P. et al. (2001). The SADC Textile and Garment Industries. Constraints & Opportunities, Myopia or Global Vision; SADC

ECDPM (2001). ECDPM Strategy 2001-2005. Maastricht: ECDPM.

EuropeanUnion(2001).Internet:http://europa.eu.int/comm/trade/miti/devel/ngsp_reg.htm (accessed March 2002)

Gibbon, P (2001) *Perscom*. Centre for Development Research, Denmark

Hartzenberg, T (2001). South African Regional Industrial Policy: from Border Industries to Spatial Development Initiatives. Journal of International Development, Vol. 13, 2001

Maputo.com (2002). Maputo City and Port Guide, internet: www.maputo.com

MPCS (2001). Marketing Planning Communication Services; *Perscom*.(Joop de Voest)

Musonda and Madete (2001). *Tanzania Investment Policy and Performance*, Economic and Social Research Foundation (ESRF), Paper Prepared for CUTS Centre for International Trade Environment and Economics

Namibia Ports Authority (2002). Internet: www.namport.com (accessed February 2002)

US Dept. of Agriculture (2002). Foreign Agricultural Service, internet: www.fas.usda.gov (accessed February 2002)

WTO (2002). Internet: www.wto.org (accessed march 2002)

SADC Review (2001). Internet: www.sadcreview.com (accessed February 2002)

Trademap (2002). Trademap trade database. Internet: www.trademap.net
Tradeport (1999). Trade and Country Information. Internet: www.tradeport.org

Werbeloff, A (1987). Textiles in Africa: A Trade and Investment Guide