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The Southern African Regional Clothing and Textile Industry: Case Studies of Malawi, Mauritius and Zimbabwe

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1. Introduction

If there is an industry in the Southern African region that exhibits huge potential for future growth, and that is characterised by significant forward and backward linkages, it is the textile and clothing sector[1]. All the activities and processes that constitute the 'textile chain' are present in the Southern African region: Cotton farming in Malawi, Tanzania, Zambia and Zimbabwe; Lint production and yarn spinning in Botswana, Malawi, Mauritius, South Africa, Tanzania, Zambia and Zimbabwe; Weaving and knitting in virtually all Southern African Development Community (SADC) countries; Garment manufacture in Botswana, Lesotho, Malawi, Mauritius, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe[2].

The past decade has been one of mixed fortunes for the regional textile and clothing industry with some countries experiencing positive growth in the sector, while others have witnessed a decline in the sector. Inter-firm/inter-industry relationships across national boundaries but within regional borders are a strong feature of the regional industry, and this has facilitated the rise in cross-border textile and clothing trade, investment, and, sadly indeed for some member states, de-industrialisation. New challenges have arisen that are being brought about by socio-economic and political forces that have triggered various firm-level (and industry-level) reactions. This working paper seeks to examine one of these challenges: ***trade integration***.

In the global context, the various trade agreements such as the Lome Convention, the Benin/Cotonou Agreement, the Multi-fibre Agreement on Textiles (MFA), and more recently the Trade and Development Act[3] that have governed trade between ACP countries and the West, have, in most respects, assisted in the growth of the development of the industry in Southern Africa, particularly in terms of market access. These trading arrangements have also led to various forms of firm level restructuring, relocation, mergers, acquisitions and indeed, shutdowns.

In the regional context, the SADC Trade and Investment Protocol - that is intended to further liberalise intra-regional trade in Southern Africa - has set in motion a wave of new opportunities and threats for clothing and textile firms in the region. Effectively, the global and regional trends and patterns alter the structure of the industry in the region, and together with its institutional framework affect the intra- and inter-industry relationships, supply networks, and linkages across borders.

This paper seeks to establish the consequences of a changing trade and investment environment for the clothing and textile industry in Southern Africa. The study covers Malawi, Mauritius and Zimbabwe - the three largest producers of textiles and garments outside South Africa. The paper specifically analyses the linkages between clothing and textile firms and examines firm level responses in light of increased efforts towards regionalism, and the spread of globalisation. Furthermore, an evaluation of the SADC institutional framework is vital with respect to understanding what this framework is 'saying' to the clothing and textile industry in Southern Africa, and what the prospects for the regional textiles and garment industries are.

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[1] *Excluding the leather and footwear industry.*
[2] *These are the major producers in the region and by no means implies that no garment manufacturing or yarn spinning takes place in other SADC countries. However these operations are considered to be too few and far between.*
[3] *This Act has two parts: the Africa Growth and Opportunity Act (AGOA), and the Caribbean Basin Trade Act (CBTA).*

2. An Overview of the Regional Clothing and Textile Industry

The clothing and textile industry in Southern Africa is a huge industry that directly employs up to 260 000 workers[4] and contributes 6% towards the region's national output. The industry is dominated by South Africa which accounts for 52% of all the formally employed employees in the regional industry, followed by Mauritius, Zimbabwe and Malawi who account for 28%, 7% and 4% of total formal sector clothing and textile employment respectively (Sibanda, 1999).

Between the three countries under scrutiny, there are up to 531 firms operating in the clothing and textile industry with a strong bias towards garment manufacturing firms - 81% of the total number of firms (Table 2.1).

Table 2.1: Number of Firms: Malawi, Mauritius and Zimbabwe, 2000

No. of Firms in:	Malawi	Mauritius	Zimbabwe	Total
Clothing Sector	11	293	128	432
Textile Sector	19	41	39	99
Total	***30***	***334***	***167***	***531***

Source: DuMhango, 2000, Jhamna, 2000, Muradzikwa, 2000.

The number of firms in Mauritius and Zimbabwe have declined over the past five years. In Mauritius, high comparative labour costs have encouraged relocation of some of the larger firms to destinations such as Madagascar and Botswana[5]. In Zimbabwe, the industry has suffered from the adverse effects of trade liberalisation, and the generally deteriorating economic and political circumstances in the country. An interesting point is one concerning the distribution between SMME's and large enterprises which generally appears to be quite evenly balanced (Table 2.2)

Table 2.2: Distribution of Firms between SMME's[6] and Large Enterprises[7]

	Malawi	Mauritius	Zimbabwe	Total
SMME's				
Clothing:	9	136	76	221
Textiles:	13	29	10	52
Large Enterprises				
Clothing:	2	157	52	211
Textiles:	6	12	29	47
Total	***30***	***334***	***167***	***531***

Source: Du Mhango (2000), Gibbon (2000), Jhamna (2000), Muradzikwa (2000).

Mauritius is clearly the larger of the three countries where production of textiles and clothing is concerned, accounting for 74% of the large enterprises and 62% of the SMME's in the clothing sector. However, in the textile sector Mauritius is less dominant accounting for 56% of SMME's, and 25% of large enterprises. Zimbabwe dominates in terms of large textile (spinning) firms (62%). Interestingly, the distribution between total SMME's (51%) and large firms (49%) is quite even across the three SADC countries.

With respect to employment figures (Table 2.3), it is evident that this industry is significantly labour-intensive (especially with respect to garment manufacturing) and is therefore regarded as a highly 'sensitive' industry. With such employment potential it is small wonder why this industry is treated as 'sensitive' or 'special'.

[4] This excludes employees who ply their trade in the informal sector in the form of micro-scale knitting, crocheting and sewing activities. Due to the paucity of data, the exact extent of the informal clothing and textile sector in the region remains unknown.
[5] See Jahmna, M " Restructuring of the Mauritian Clothing Industry in the Light of New Trade Agreements" (2000).
[6] Measured as being any firm with between 1 and 100 employees.
[7] Measured as being any firm with over 100 employees.

Table 2.3: Clothing and Textile Employment in Southern Africa

Country	Employment Numbers (1998)
Angola	300
Botswana	2 100
Lesotho	9 368
Malawi	10 500
Mauritius	73 573
Mozambique	5 100
Namibia	1 000
South Africa	136 824
Tanzania	8 000
Zambia	7 800
Zimbabwe	18 200

Source: CSS, DTI, and Department of Labour Lesotho (1999), Valentine (1998)

In terms of labour costs, which account for a very high proportion of total costs for SADC producers (estimated at about 28%), Zimbabwe has clear advantages over its counterparts in the SADC region in the textiles sub-sector, and indeed over other non-SADC countries (Table 2.4).

Table 2.4: Hourly costs of unskilled labour in the textile industry, 1997

Region/Country	Unskilled Labour Cost (US$ per hour)
1. OECD	
Germany	25
U.K	13
USA	14
2. NON-OECD EUROPE	
Hungary	2.40
Turkey	2
3. ASIA	
China	0.55
India	0.65
4. SADC	
Malawi	0.52
Mauritius	0.95
South Africa	2.35
Zambia	0.95
Zimbabwe	0.50

Source: O'Brien, 1997

3. Inter-Industry Linkages Within the Clothing and Textile Chain in the SADC

In general trade terms, Malawi and Zimbabwe are more import-dependant on SADC than the rest of the SADC countries (Table 3.1). Again, South Africa dominates as a source for SADC imports but for its part, South Africa imports very little from the SADC. Mauritius is relatively less dependant on SADC although it faces relatively lower import duties than Malawi and Zimbabwe (Table 3.1) and (Table 3.2).

Table 3.1: Trade and Import Duties Within SADC, 2000

Country	SADC Imports as % of total imports	Imports from South Africa as a % of SADC imports	Import duty from SADC as a % of total import duties	Import duty from South Africa as a % of SADC duties
Malawi	47.4	67.2	37.1	34.1
Mauritius	17.2	92.8	16.9	16.6
Mozambique	39.8	81.1	25.8	33.0
South Africa	2.5	--	0.7	--
Tanzania	7.7	70.8	8.6	5.9
Zambia	48.0	74.8	48.0	39.6
Zimbabwe	48.7	87.0	55.5	46.9

Source: Tsikata, 1999, Lewis, 2001

Zimbabwean producers tend to face relatively higher duties than other SADC countries for its exports to South Africa. Could this imply that producers in Zimbabwe are relatively competitive 'in the neighbourhood' to the extent other SADC member states need to impose relatively higher duties so as to protect cheaper produced Zimbabwean goods from competing 'unfairly' with their respective domestic industries?

An important caveat to keep in mind is the fact that trade integration normally tends to benefit countries that already have a substantial amount of trade taking place between them. In spite of the post-apartheid 'boom' effect[8] that increased intra-SADC trade quite significantly, only a small proportion of exports from SADC countries are sold within the bloc: 13 percent, compared to 18 percent initially in MERCOSUR, and 33 percent for the EU at its inception (Lewis, 2001).

Table 3.2: SADC Trade Data for Malawi, Mauritius and Zimbabwe (US$ '000)

Exporting country	Malawi	Mauritius	Zimbabwe	Total SADC exports	Total world exports
Malawi	-	6,520	55,440	243,240	439,000
Mauritius	78	-	6,770	287,882	1,673,000
Zimbabwe	17,750	17,100	-	1,272,300	2,118,433
Importing country				**Total SADC imports**	**Total world imports**
Malawi	-	64	44,800	118,905	603,000
Mauritius	3,700	-	14,960	27,840	2,387,000
Zimbabwe	84,700	7,270	-	897,000	2,834,000

Source: DTI, 2000

With respect to clothing and textile trade, there are some strong intra-industry linkages that exist between Malawi, Mauritius and Zimbabwe[9]. For instance, Zimbabwe imports 9% of her total textile imports, that are then used as inputs in the product of garments (apparel), from Malawi and a total of 43% from the whole of SADC (Table 3.3).

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[8] *South Africa joined SADC and formal trade linkages that were restricted during apartheid, were increased!*
[9] *And indeed, with Botswana and South Africa. But an analysis of the industry in these countries is beyond the scope of this paper.*

Table 3.3: Textile Trade in Malawi, Mauritius and Zimbabwe, 1999

Country	Textile Imports	Textile exports
Malawi	***19% (South Africa)*** ***15% (Zimbabwe)*** ***4% (Mauritius)*** 67% (East Asia[10]) 5% (Other)	***90% (South Africa)*** ***4% (Zimbabwe)*** 6% (Other)
Mauritius	***1% (SADC)*** 87% (East Asia) 9% (Europe) 3% (Other)	***2% (South Africa)*** ***1% (Zimbabwe)*** 45% (Europe) 25% (USA) 5% (Madagascar) 22% (Other)
Zimbabwe	***17% (South Africa)*** ***12% (Botswana)*** ***9% (Mauritius)*** 32% (East Asia) 14% (Europe) 16% (Other)	***14% (Botswana)*** ***9% (South Africa)*** ***5% (Malawi)*** 37% (Europe) 21% (East Asia) 5% (USA) 9% (Other)

Source: Du Mhango, 2000, Jhamna, 2000, Muradzikwa, 2000

What emerges quite clearly from the Table 3.3 is the high level of integration between individual SADC countries (Malawi, Mauritius and Zimbabwe) on the one hand, and close linkages with East Asia, Europe and the USA on the other. We witness stronger intra-industry textile linkages between the SADC and East Asia and Europe, than within SADC itself. For its part, Mauritius' clothing and textile industry is the least integrated with the rest of the SADC. Mauritius has stronger linkages with Madagascar than with the rest of SADC combined, not only with respect to trade but also with respect to investment by Mauritian firms in low cost clothing operations in Madagascar[11].

The destination of clothing exports for 1999 further reflects the dependency of the SADC clothing industry on the lucrative markets in Europe and the USA (Table 3.4).

Table 3.4: Textiles and Clothing Exports From Malawi, Mauritius and Zimbabwe, 1999

Country	Clothing exports	Textile exports
Malawi	80% (SADC) 12% (Taiwan) 8% (Other)	96% (SADC) 4% (Other)
Mauritius	1% (SADC) 70% (Europe) 21% (USA) 8% (Other)	6% (SADC) 45% (Europe) 25% (USA) 24% (Other)
Zimbabwe	19% (SADC) 49% (Europe) 20% (USA) 12% (Other)	31% (SADC) 37% (Europe) 21% (East Asia) 5% (USA) 6% (Other)

Source: Du Mhango, 2000, Jhamna, 2000, Muradzikwa, 2000

Of the clothing exports to the SADC, South Africa is the major market accounting for most of the clothing exports from Malawi (90%) and Zimbabwe (74%) reflecting dependency on South Africa in the context of regional trade.

[10] *Including Singapore, South Korea, Taiwan, Hong Kong, China and India.*
[11] *More of this issue is discussed in later sections of the paper.*

From a South African point of view, exports to Zimbabwe account for the largest portion of South African clothing and textile exports to SADC, while Malawi accounts for the highest portion of clothing and textile imports into South Africa from the SADC region (Table 3.5).

Table 3.5: South African Textiles and Clothing Trade with SADC, 1999 *(R million)*

Country	Imports from:	Exports to:
Angola	0	3.5
Democratic Republic of Congo	0	7
Malawi	345.9	36.8
Mauritius	9.5	74.2
Mozambique	54.2	50.4
Seychelles	0	3.8
Tanzania	3.5	10.5
Zambia	68.5	76.8
Zimbabwe	164.7	105.2
Total	***646.3***	***368.2***

Source: Unpublished Data from the South African Textile Federation, 2000

The Southern African clothing and textile industry is also highly dependent on the rest of the world (Europe, USA and Asia) for machinery and technology, and for quality dyes, finishes, etc. Malawi imports her technologies and other accessories from South Africa, USA and Hong Kong. Mauritius imports from Europe, Japan, Singapore and Hong Kong, and Zimbabwe meets her technological requirements by sourcing from South Africa and Europe. Yet again, the industries in Malawi and Zimbabwe have close links with technology (machinery) producers and suppliers in South Africa.

Furthermore, that South Africa imports considerable amounts of cotton from Zimbabwe, Swaziland, Mozambique and Zambia reflects another crucial linkage. This linkage could indeed be further developed into a 'cotton corridor' in the region, depending on South Africa's willingness to abolish restrictive trade practises[12], where these countries produce cotton and satisfy regional demand of the textile producers, who thereby increase production of yarn and fabric to be turned into garments for the lucrative EU and USA markets. (Jafta, R, & Jeetah, R, 2001).

Another important inter-industry linkage is with the fabric and yarn suppliers in the region. Zimbabwe is the lowest cost supplier of cotton yarn and fabric in the region (SADC, 1997) suggesting that the 'textile chain' in Southern Africa lends itself to areas of specialisation by the various countries involved. Could Zimbabwe, with other low cost producers with idle capacity (such as Malawi and Zambia) possibly supply the regional demand for cotton yarn and fabric? Could the South African producers shift their resources from this stage of the textile chain to other stages where it has a relatively better comparative, and competitive advantage?

Labour and training can be another form of potential regional linkages, especially given the highly literate human resource base in some member states. For instance, the clothing and textile industry in Mozambique has quite a number of technicians and middle-level supervisors from South Africa and Zimbabwe (Coughlin, 2001). There is also the possibility of developing, as Mauritius has tried to, a 'regional hub' of value-added services such as design, marketing, ICT, training, etc. This 'regional hub' would draw on the expertise and skill in each country to develop the regional cotton chain in a holistic and efficient manner.

These are some of many examples pointing to the highly contentious issue of not just liberalising trade in goods and services, but of also liberalising the movement of Southern African inhabitants across borders.

[12] *Protective tariffs, and the requirement that SA spinners (textile producers) have to buy up all South African produced cotton before they are permitted to import cotton.*

4. Regional and International Institutional and Regulatory Framework

Clothing and textile trade in Southern Africa, like in many other regions of the world, is influenced, or regulated by a plethora of different bilateral and multilateral trade arrangements that have largely been geared towards greater market access and extension of market boundaries for developing regions, like Southern Africa.

4.1 The Lome Convention and the MultiFibre Agreement (MFA)

The regional industry has benefited immensely from these two agreements. The spectacular success of the Mauritian industry has been largely attributed to relatively favourable access to international markets resulting from these agreements (Jhamna, 2000). The Zimbabwean producers cited the Lome Convention as a critical factor in either breaking into export markets, or expanding existing export initiatives (Muradzikwa, 2000).

The ***Lome Convention*** is a negotiated agreement between ACP countries and the EU that grants preferential access to European markets. Therefore exports from the ACP countries are not subject to any restrictive tariffs. It is therefore not surprising that Europe has been a major destination of clothing and textile exports from Southern Africa. The ***MFA*** is an agreement that provides participating countries with annual preferential quotas to countries exporting to international markets. Therefore the MFA virtually guaranteed ACP countries regular clothing and textile sales through access to these annual quotas.

However, the quotas granted under the MFA are already being phased out and will be removed completely by 2005. Although the MFA is to be phased out, the status quo may remain the same, largely due to sunk costs. Meanwhile, the Lome Convention expired on the 29th of February 2000 and has been replaced by the Benin/Cotonou Convention for the next eight years.

In the interim negotiations will begin (September 2002) to establish regional economic partnership arrangements (REPA's). This would inherently imply reciprocity of trade benefits between regional member states, except for the least developed countries, and indeed this could have implications for industrial location.

4.2 World Trade Organisation Agreements

During the Uruguay Round of Multilateral Trade Negotiations, about 17 agreements were reached. One of them was the ***Agreement on Textile and Clothing (ATC).*** The trade negotiations in the area of textiles and clothing were aimed at formulating modalities that would permit the eventual integration of this sector into the GATT 1994 on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalisation of trade. The integration of this sector was to start following the conclusion of the Uruguay Round of Multilateral Trade Negotiations (January 1, 1995), and that special treatment was to be accorded to the least developed countries, with a transitional period of up to end of year 2004.

The ATC and all its restrictions are however to be terminated on the first day of 121st month that the WTO Agreement is in effect, on which date the textiles and clothing sector is to be fully integrated into GATT 1994. Extensions to the ATC are not allowed.

4.3 Common Market of East and Southern Africa (COMESA)

The COMESA Free Trade Agreement aims to establish a free trade area across 21 African countries that include Malawi, Mauritius and Zimbabwe[13]. The objective is to create a larger more unified market with reduced trade barriers that will stimulate cross-border and direct investment, and facilitate the harmonisation of trade and industrial policies that reduce business costs, extend market boundaries and promote the proportional distribution of benefits in the region.

Many COMESA Member States are also members of one or more regional groupings, such as East African Co-operation (EAC), the Southern African Development Community (SADC), Southern African Customs Union (SACU), Inter-governmental Authority on Development (IGAD) and Indian Ocean Commission (IOC). This dual or multiple membership poses potential problems in the successful implementation of the COMESA Free Trade Area Agreement, and of any of these other regional agreements that overlap with COMESA.

Table 4.1: Regional Groupings and Basic Indicators, 2000

Country	Membership of:			GDP (Billion US$)	Population (million)
	SADC	SACU	COMESA		
Angola	X		X	3.6	12.4
Botswana	X	X		4.8	1.6
DRC	X		X	5.7	49.8
Lesotho	X	X		1.3	2.1
Malawi	X		X	1.8	10.8
Mauritius	X		X	4.2	1.1
Mozambique	X			1.5	17.3
Namibia	X	X	X	3.6	1.7
Seychelles	X		X	0.5	0.1
South Africa	X	X		132.5	42.1
Swaziland	X	X	X	1.1	1.2
Tanzania	X			5.2	32.9
Zambia	X		X	3.4	9.9
Zimbabwe	X		X	6.8	11.9

Source: The Economist, Pocket World in Figures, 2000

The overlap with respect to membership to various regional forums within Southern Africa is illustrated in Table 4.1. Five of the fourteen SADC countries are also members of the South African Customs Union (SACU) and nine of the SADC members are also members of COMESA. Two countries, Namibia and Swaziland, are members of all three regional organisations!

4.4 The Africa Growth and Opportunities Act (AGOA)[14]

The clothing and textile industry in Southern Africa, and indeed in the rest of Africa, have been presented with better growth and development prospects by the promulgation in the USA of the Africa Growth and Opportunities Act. The Act, which expires in 2008, offers 44 Sub-Saharan African countries duty-free and quota-free status into the USA for those products meeting the

[13] The other members are Angola, Burundi, Comoro Islands, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Mozambique, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda and Zambia. However, Mozambique has given notice to pull out of COMESA, and Tanzania pulled out in 1999.

[14] AGOA is one of two parts of the Trade and Development Act (2000) that deals with trade relations between the USA and Africa . The other part of the Act is the Caribbean Basin Trade Act (CBTA) that deals with trade relations between the USA and Caribbean and Pacific island countries.

eligibility requirements, and for the clothing and textile firms in the region, the potential benefits appear to be up for grabs!

The basic premise of the Act is the development of bilateral trade between Sub-Saharan Africa and the USA, meaning products, such as clothing garments (apparel), which are eligible for the 'free-entry' status must be manufactured either from locally produced textiles or textiles imported from the USA and then exported as a value-added product to the USA[15]. But there is a significant concession for those countries whose per capita income was less than US $1 500 in 1998. These countries, have a four-year window in which to use imported fabric/textiles from third countries – expected to be in Asia – and then export the finished product to the USA.

Box 4.1: AGOA and the Clothing Industry

With respect to clothing, the Act has effectively scrapped a 33% duty on knitted shirts, blouses and sweaters, a 26.5% duty on woven shirts, a 29.3% duty on woven slacks and shorts, and a 15% duty on knitted and woven underwear[16]. The export of African clothing would be initially allocated 1.5% of the USA market, increasing in equal annual increments over the lifespan of the Act (2000 – 2008) to 3.5%. It is estimated that this could result in the value of the market increasing from the actual level of US $584 million to a projected US $4.2 billion in 2008. These opportunities, together with an improvement in the domestic economic situation could definitely allow and encourage regional clothing firms to increase capacity utilisation, production, employment and foreign exchange earnings (US Customs Report, 2001).

However, destabilising events in Zimbabwe[17] have led the United States government to exclude Zimbabwe from the group of countries eligible for improved trade access to the US market[18]. The implication is that Zimbabwe's isolation from the pact has put paid to hopes of increased investment in the country by US companies and revoked preferential trade access to the US market which it has enjoyed for some time. Therefore in the short-term Zimbabwe does not seem likely to reap the potential benefits of the trade pact. More significantly, South African garment manufacturers will not be able to source their input materials from neighbouring Zimbabwe if they wish to export garments into the US market. Malawi and Mauritius are set to benefit from the greater market access provided under the Act.

Malawi has the added advantage of being classified as one of the 'lesser' developed countries, it can export clothing to the USA independently of where the fabric is made, a privilege that will expire on 30 September 2004 (US Customs Report, 2001). What this means is Malawi, like Mozambique and Zambia, is not restricted by the strict rules of origin that are imposed on relatively more developed African economies like Mauritius and South Africa. This window period needs to be exploited by regional producers and potential investors who may find Malawi, Mozambique, Tanzania and Zambia as being particularly attractive, at least until 2004, with the ability to use imported fabric to produce garments with preferential access into the lucrative US market.

For Zimbabwe, not qualifying for eligibility not only denies Zimbabwe producers easy access into the US market, but also denies them a market in some of the SADC countries. For instance, under the Act, Mauritius and South Africa are not allowed to use fabric made in Mozambique with Zimbabwean yarn. Though Mozambique and other least developed countries may use Zimbabwe yarn and fabric (until 2004), Mauritius and South Africa may not, not even indirectly,

[15] Business Report 13/08/2000, "US Growth Act Suits Africa's Exports" by Clive Rubin.
[16] Business Day 30/05/2000, "Act Will Boost Textile Industry" by Nicola Jenvey.
[17] Land occupations, human rights abuses and the perception of a deteriorating law and order situation.
[18] Zimbabwe Independent 13/10/2000, "Zim booted out of US trade pact" by Dumisani Muleya.

until Zimbabwe becomes eligible (Coughlin, 2001). Zimbabwean cotton yarn and fabric producers could face tougher times ahead, in spite of the already depressed state of the industry.

AGOA is an attempt by the USA to forge closer links with Africa as the EU has done. However the latest ACP-EU agreement (the Cotonou Agreement) is a negotiated agreement and an improvement on the Lome Convention (Brown; 2000) unlike the unilateral USA Act. Brown describes well the 'on going nature' of the ACP-EU agreements, saying new terms have evolved over time and reflect current thinking in North – South relationships. AGOA on the other hand imposes a number of stringent criteria that, if not met, render a country ineligible for any benefits (such as Zimbabwe). The criteria are not negotiated and the decision pertaining to eligibility lies exclusively in the hands of the USA authorities. In addition, there is no recourse to an independent dispute settlement mechanism.

On the whole the two are similar. They both partner WTO conditions although the Cotonou Agreement does so at a much slower pace (Mushita and Thompson; 2001). Furthermore their support of other regional initiatives is questionable. AGOA firstly ignored them while the EU negotiated a bilateral agreement with South Africa, which sets out its own conditions separate from those under the Cotonou Agreement.

Time will tell what the consequences of the Trade and Development Act are but surely foreign firms (especially from the Far East) should be encouraged to set up shop in any one of the eligible African countries so as to be able to tap into the lucrative USA market. For Zimbabwe, producers who are keen on accessing the USA market could be faced with the real possibility of relocating to neighbouring African countries to qualify for the desired market access. For instance, there has been keen interest in clothing and textile investments in Lesotho by investors coming from as far as the Far East to take advantage of the benefits under the Act.

Box 4.2: AGOA Starts to Reap Benefits

For South Africa, the benefits of AGOA are already being realised. US trade statistics show South Africa reaping rewards amounting to US$135 million from January to June (2001) from the AGOA recording benefits. Excluding the benefits accrued to participating oil-producing African countries, South Africa accounted for 72% of total benefits accrued through AGOA. In general, AGOA beneficiary country exports to the USA, including oil, were up 24% in the first three months of 2001[19].

5. Growth in Intra-Regional Trade in Southern Africa: The SADC Trade Protocol

The SADC Trade and Investment protocol seeks to liberalise trade between member countries in an effort to create a free trade area within eight years, with an estimated market of 120 million people. At the heart of the protocol is the need to harmonise trade and economic policies in the Southern African region. The stated objectives of the SADC Trade and Investment protocol (August 1996) are:

- To liberalise intra-regional trade in goods and services in an equitable manner and to establish a free trade area within the region,
- To enhance industrialisation and economic development within the region
- To foster greater production efficiency and to improve the investment climate within the region.

[19] *Molebeledi, P (2001). "SA reaps promising AGOA rewards". Newspaper Article in the Business Day, 29 October 2001.*

Within clothing and textile trade, SADC negotiations led to an agreement on a *two-stage transformation* process that is consistent with the cotton-based nature of textiles and clothing in the SADC region. According to this *rule* if a country produces clothing, then the cotton and the fabric has to be sourced from within the region (Tyesi, 2000).

5.1 The two-stage transformation process

It is a two-stage process in the sense that the conversion of basic cotton to cotton yarn, and cotton yarn into fabric have to be stages that are present in a SADC member country, using SADC-sourced inputs, if the country is to enjoy free trade status in clothing products. In light of the status of some of the least developed countries in the region, a significant concession has been made by the proponents of this two-stage transformation process, SACU. The concession is that for the least developed member states (Malawi, Mozambique, Tanzania and Zambia) only one stage of transformation is required for the next five years. Attached to this concession are also quota restrictions on exports to SACU (Visser, 2000).

Mauritius and Zimbabwe still have to adhere to the two-stage transformation process. For the Zimbabwean producers (and it could also apply to other producers in the region), the two-stage requirement could be problematic because some raw materials such as silk, synthetics, wool, dye is not readily available in satisfactory quantities and quality in the SADC region. This would indeed have a negative impact on Zimbabwe's ability to service it's export market that is dependent upon quality imported inputs. Furthermore, Mandindi (2000) in Visser (2000) argues that existing sources of these products in the region are by no means competitive in terms of prices and quality. This again could render regional producers of clothing and textiles as uncompetitive in relation to the rest of the world.

Box 5.1: Some Detail on the SADC Trade Protocol

The protocol states that a FTA would be established between its members with a period of eight years from entry into force of the protocol. To its credit, the protocol acknowledges the possibility of an element of asymmetry in the establishment of an FTA and this simply reflects the imbalances in strengths of the different economies. The "Linear Tariff Reduction" approach has been adopted for the tariff reduction process. Under this method each country would reduce it's tariffs on intra-regional trade by given percentages over the eight-year period according to agreed criteria on classification of products. It was further stated that South Africa and the other SACU countries would reduce their tariffs faster than the other SADC countries to reflect the asymmetry (Imani Development Report, 1998).

Trade liberalisation measures in the SADC region present fresh challenges and opportunities for firms and industries in the region. Ultimately, the significance and impact of a FTA in Southern Africa depends on how firms and industries respond to these opportunities and threats. For the textile and clothing industry in particular, which provides direct employment for up to 275 000 men and women in the SADC region (excluding thousands more employed in informal clothing and textile operations), the liberalisation policies are likely to set in motion various structural changes to the trade and investment linkages in the region, the location of industry within the region, and to the manner in which firms behave.

The Zimbabwe textile and clothing industry has been in distress since the introduction of the World Bank/IMF Structural Adjustment Programme in 1991. Does this imply that Zimbabwe does not have a competitive advantage in the manufacture of textiles and clothing?

The industry in Mauritius is undergoing a phase of transformation where firms, in search of lower labour costs and higher productivity, are relocating to places such as Madagascar, Mozambique and Zanzibar[20]. The strategy has been to continue the production of high value-added operations in Mauritius, and move the production of basics offshore. What does this say about the industry in Mauritius?

In Malawi the clothing and textile industry is expanding, albeit from a low base, and this is largely attributed to the significant increase in exports to South Africa becoming South Africa's largest supplier of household textiles[21]. The SADC Trade protocol could bring about consequences that could affect the growth of the industry in Malawi!

What potential strengths and opportunities can the regional industry exploit against the background of a FTA in Southern Africa? How is the industry responding, or planning to respond to this changing trade environment?

6. The Dawn of a New Era: The Changing Trade Environment in Southern Africa

The trade liberalisation process at both the international and regional level, has its own accompanying costs and benefits on the macro and micro economies of various countries. The costs normally associated with trade liberalisation include the loss of customs (tariff) revenue, the closure or downsizing of less competitive industries or manufacturing firms through exposure to intense competition, the loss of jobs through retrenchments resulting into social problems and many others. The benefits include the expansion of markets for exportable goods, technological advancement, the production of quality goods, increase of income for industrialists, increase of revenue for the government through surtax, expansion of industrial base leading to employment creation and contributing to economic development.

Countries need to therefore formulate strategic action plans, policies and programmes in order to avert or minimise the costs associated with trade liberalisation and also seize the opportunities associated with the benefits arising from trade liberalisation.

6.1 Malawi

According to a detailed study by Du Mhango, J (2000), a close scrutiny of all the 39 articles of the SADC Trade Protocol shows that this Protocol does not adversely affect the performance of the textiles and clothing sector in Malawi. Since substantial volumes of clothing and textile trade take place between Malawi and SADC (especially South Africa), it is probable that Malawian producers could benefit greatly from deeper trade integration in Southern Africa. Greater market access and extended market boundaries within Southern Africa, with relatively lower transport costs than exporting to Europe, USA, or the Far East should provide a good basis for further development of the industry in Malawi. Although, the Malawian industry could also come under threat from the massive importation of second hand clothing that could undermine domestic production.

A key issue that Malawi faces, and the rest of the region for that matter, is that of idle capacity in the clothing and textile sector. Fresh investments are required to upgrade and expand operational capacity to be able to seize upon the opportunities of greater trade liberalisation in Southern Africa.

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[20] *Jhamna, M (2000).*
[21] *Du Mhango, J (2000).*

However, in general trading terms, the proposed SADC Free Trade Area agreement might have more serious problems with customs revenue. Under the worst-case scenario, Malawi and Mozambique would lose about 90% of their customs revenue because most of their trade is with SADC countries (especially South Africa) and these would not attract any duty. Zambia and Zimbabwe would lose 25% and 41% respectively when the SADC Free Trade Agreement is fully implemented. The impact on other SADC countries would be minor.

Box 6.1: Fiscal Implications of the SADC Trade Protocol

To offset the customs revenue losses, Mozambique, Zambia and Malawi will have to raise indirect/direct taxes by as much as 5% resulting from the full implementation of the SADC free trade agreement. While as Lesotho, Botswana, South Africa, Namibia, Swaziland and Tanzania would have to raise their direct/indirect taxes by 8% to 12% to off-set the customs revenue losses resulting from the implementation of the SADC Free Trade Area agreement (SADC Trade Protocol – May 1999).

6.1.1 Malawi: Current Strategies

Faced with these trade liberalisation policies, the Malawi government, the textiles and clothing industrialists and manufacturers, are currently developing new strategies to face the current trade environment. For instance, the sector is taking advantage of the newly introduced industrial and EPZ investment incentives (Box 6.2). So far, most of the investors in the country's EPZs (Table 6.1) are engaged in the textiles and clothing activities. The current number of employees working in the companies located in the EPZs is around 3000 people.

Box 6.2: EPZ and Industrial Incentives in Malawi

- No withholding tax on dividends.
- No duty or capital requirement on capital equipment and raw materials for new companies locating in the EPZs.
- No excise duties or surtaxes on purchases of raw materials made in Malawi.
- Export transport tax allowances equal to 25% of international transport costs to the destination of exports, excluding traditional exports as stipulated in tradeable goods by the Ministry of Commerce and Industry.
- Zero corporate tax rate.
- Export tax allowance of 12% of export revenue for non-traditional exports.
- No duties on imported capital equipment used in the manufacture of exports.
- Timely refund of all duties (duty drawback) on imports of raw materials and packaging materials used in the production of exports.
- A 100% duty-free importation of equipment and raw materials for those companies exclusively engaged in horticultural production for export.
- Allowance from profits of up to 20% for used buildings and machinery.
- Allowance for manufacturing companies to deduct for all operating expenses incurred up to 24 months prior to the start of operations.
- A 5 year tax holiday or 15% corporate tax rate for new investments of between US$ 5-10 million, and up to 10 years tax holiday for new investments in excess of US$ 10 million.

Source: Malawi Govt, 1999.

These incentives, which form the core of industrial policy in Malawi have resulted in significant amounts of investment in all sectors of the economy. But investment in the clothing and textile industry dominates with 69% of the all the firms in the EPZ (Table 6.1).

Table 6.1: EPZ Companies in Malawi

	Company	Products	Market	Production start-up date
1	Allied Jeans Manufacturing Company	Textile/Clothing	USA, EU, SA	20/07/96
2	Mfumu Clothing Company Ltd	Textile/Clothing	SA	26/08/96
3	Bentex	Textile/Clthing	SA	23/09/96
4	Star Clothing	Textile/Clothing	USA, SA, UK	23/09/96
5	Zikomo Flowers	Cut Flowers/Roses	Holland	22/10/96
6	Haps Investment Company Ltd	Textile/Clothing	USA, Europe	28/10/96
7	Gurmar Garments Manufacturing Co.	Textile/Clothing	SA, EU	28/04/97
8	Wico (Chikangawa)	Timber and furniture components	Sweden, SA, Cyprus, Tanzania	31/05/97
9	Crown Fashion Ltd	Textile/Clothing	USA, SA, EU	19/01/98
10	Lilongwe Textiles Ltd	Textiles/Clothing	SA, SADC countries	06/04/98
11	Dirsca Garments Manufacturing Co.	Textiles/Clothing	SA, EU	28/04/97
12	African Greenfield Ltd	Cut Flowers/roses	Europe	06/04/98
13	Victoria Investment	Macadamia Kernel	Japan, USA	03/12/98

Source: Du Mhango, 2000

6.1.2 Institutional Support

The institutions such as the Malawi Export Promotion Council, MIPA, Malawi Industrial and Technology Development Centre, DEMATT, Malawi Bureau of Standards and the Small Enterprises Development Organisation, provide trade and industrial development facilitation role to various firms in the country.

Internationally, the textiles and clothing sector is being viewed as the most sensitive and most vulnerable on the world market. Most countries seem to be most protective of this sector, and try to formulate special trade policies for the sector. So far, Malawi has developed no special policies for the textiles and clothing sector to ensure its sustainability and growth (Du Mhango, 2000).

6.2 Mauritius[22]

The clothing and textile industry in Mauritius is predominantly located in the EPZ's that were set up some two to three decades ago using more-or-less the same incentive package being currently used in Malawi (Box 6.1). Mauritius exploited the opportunities that existed at the time to set up EPZ's when other Southern African countries were still debating its merits and demerits!

The outstanding success of the Mauritian clothing industry can be attributed to a unique combination of internal and external factors:

[22] *The work on the section of the paper is based on, and continuation of work done by Jahmna, M (2000), and Gibbons, P (2000).*

***Friendly links**:* One of the most important of these is that Mauritius enjoys friendly links with some of the richest countries because of cultural / linguistic affinity and by virtue of its being a former colony.

***International agreements**:* In addition, it is a member of various international organisations and that has opened up tremendous opportunities for industrial development. The most important of these has been the Lomé Convention.

- The Mauritian private sector has been very successful in taking advantage of the preferential access to EEC markets.
- This Convention bestows considerable advantages to Mauritius over non-ACP countries because the latter's export of textile and garments are liable to a 17% duty on entry into the EEC.
- Even businessmen from the Far East relocated to Mauritius in order to take advantage of the easy access to European markets.

***External Economic and Political Factors**:* Since the early eighties, Mauritius took advantage of world economic recovery and capitalised on market opportunities by improving its competitiveness through structural adjustment programmes and through the devaluation of the currency, the rupee. A number of exogenous factors also played a role. These included:

- Falling oil prices
- The US dollar was over-valued during the 1983-84 period and subsequently depreciated. This combination of lower oil prices and lower debt servicing considerably eased the foreign exchange problem.
- After 1984, demand in European as well as in American markets increased sharply during the early phases when the EPZ was established. Most of the European currencies appreciated vis-à-vis the Mauritian rupee, causing Mauritian goods to be more competitive.
- The appreciation of the Taiwanese dollar meant that Taiwan became less competitive, which in turn, encouraged prospective Taiwanese investors to set up industries in Mauritius
- During the 1980s, political uncertainty over the future of Hong Kong's re-integration over China compelled several businessmen to look for a safe haven for their capital and manufacturing operations. These investors brought with them capital, know-how and marketing networks. In return, by relocating to Mauritius, they gained access to European and American markets.

6.2.1 Mauritius: The Business Climate

- Mauritius offers an attractive package of incentives. For example, investors benefit from low corporate tax and foreign investors are free to repatriate funds.
- Government has also supported the EPZ scheme wherever was necessary, for example, by investing massively in infrastructure.
- Mauritius enjoys a favourable business climate. In addition, in the early phases of the development of the EPZ, there was a good combination of cheap, but literate and moderately skilled labour. At that time, labour productivity was also considered satisfactory.

6.2.2. Mauritius: Integration with SADC

Due to the low levels of trade between Mauritius and the other SADC members, the SADC Trade Protocol may not have a significant impact on the Mauritian economy in general, and the its clothing and textile industry in particular. Studies by Lewis (2001) on the economic impact of alternative FTA scenarios in Southern Africa show that the EU is more important than South Africa for trade and growth in the rest of Southern Africa (Box 6.3).

Box 6.3: Economic Impact of Alternative FTA Scenarios

The study by Lewis (2001) considers two options for southern Africa when liberalising trade in the region:

- *Establish a Free Trade Area with South Africa, parallel to the EU-South Africa Free Trade Agreement, or*
- *Liberalise with the EU forming a trilateral Free Trade Agreement*

In this 'hub-and-spoke' model[23] the results show that Southern Africa gains far more from a trilateral FTA, as its real GDP increases by 4.1% in contrast to the GDP increase of 0.33% when Southern African forms an FTA with South Africa alone. In addition, the results also show that with a Southern Africa-South Africa FTA, employment increases by 0.7% and 0.9% for skilled and unskilled labour respectively, whereas a trilateral FTA with the EU increases employment by 5.7% and 11.3% for skilled and unskilled labour respectively. Therefore from the point of view of a Southern African country like **Mauritius**, the EU is clearly, according to these results, a more significant regional bloc than the SADC - especially so for Mauritius which has exceedingly strong links with Europe.

In a comprehensive micro-study survey of the clothing industry in Mauritius, Gibbon (2000) highlights the intended responses by firms to the changing trade and business environment. According to the study, the mood amongst the sample was highly gloomy reflecting perceptions of rising wages and shortages of labour, and an appreciating currency. Almost half of the sampled medium- and large-scale enterprises cited their desire to relocate operations, especially to Madagascar, but also to Botswana and Mozambique.

The enterprises that have chosen not to relocate have decided that the strategy to follow is functional diversification. For instance, one clothing embroiderer diversified first into rotary screen printing and then into tape-punching and embroidering towels on his own account. The same enterprise was also obliged to provide clothing manufacturers with a series of new services in order to retain their custom.

For the firms which are intending to (or already have) relocate, an interesting but not surprising pattern is occurring. For firms currently producing medium and high quality range garments, they maintain that by relocating to low wage countries, they would be able to capture the low range segment of the market as well. Their strategy is to complement production, that is, to produce medium and high quality garments in Mauritius and then mass produce low range garments in low cost African countries (such as Madagascar and Mozambique).

A quote[24] from one clothing executive in Mauritius is instructive, *".....in future, if you want to produce in Mauritius, you have to produce quality...."*.

It is important to point out that the restructuring and transformation taking place within the clothing and textile industry in Mauritius is not a consequence of the SADC Trade Protocol. Instead, changes in the industry are being driven largely by changes in the internal obstacles the industry now faces - relatively higher and rising wages, difficulties in recruiting labour and declining selling prices.

[23] *Where South Africa is the hub.*
[24] *Adopted from Jahmna, M (2000).*

6.3 Zimbabwe

The clothing and textile industry in Zimbabwe is in for a tough ride. The economy is entering its third year of recession with no obvious signs of any possible major recovery in the near future. With unemployment of about 49%, inflation hovering at around 70%, GDP showing negative economic growth over the past two years of -3% and -10%, agricultural production declining significantly as a result of disruptions and uncertainty on the farms, the tourism industry has almost collapsed, the mining industry has virtually ceased to exist and the manufacturing sector continues to suffer from widespread company/factory closures.

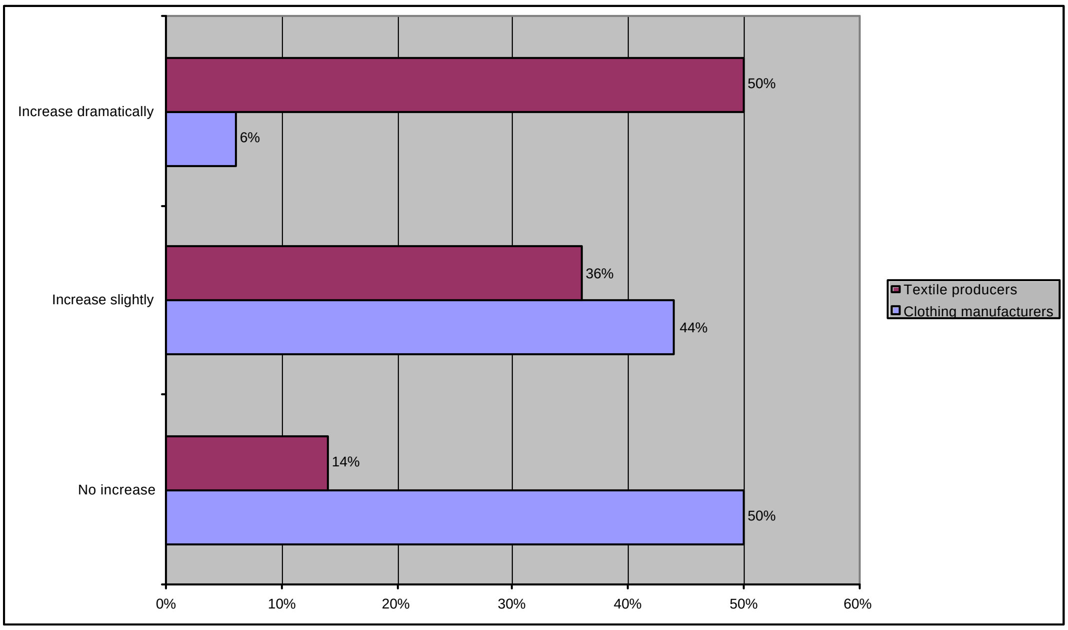
The clothing and textile industry in Zimbabwe is more a victim of the general economic decay in the economy than of trade liberalisation proper. Although some firms in the industry do feel the effect of the erosion of trade preferences (such as with SA, and non-eligibility under US Trade and Development Act), they admit that it is the general socio-economic and political situation in the country that erodes their operational competitiveness, not the threat of foreign competition (although the illegal imports of second-hand clothing have been pointed out as a contributor to de-industrialisation in the domestic clothing industry).

Box 6.4: Company closures in the Clothing Industry

The case of ***Helvey Knitwear (Pvt) Ltd*** is instrumental in showing the effects of the macro-economy on the sector. The firm, with a 650-strong workforce borrowed Z$1.2 million for plant and equipment expansion in 1991 at an interest rate of 26%. However, in 1992 it was paying Z$0.8 million to service this debt as interest rocketed to over 60%, forcing the company into liquidation (Sachinkonye, 1999).

The fact that the Zimbabwean clothing and textile producers are more concerned about the events in the domestic economy than trade preferences/agreements is further highlighted in a survey (Muradzikwa, 2000) where issues pertaining to expected competition from SADC due to the Trade Protocol, and reasons for poor export performance, among others are dealt with.

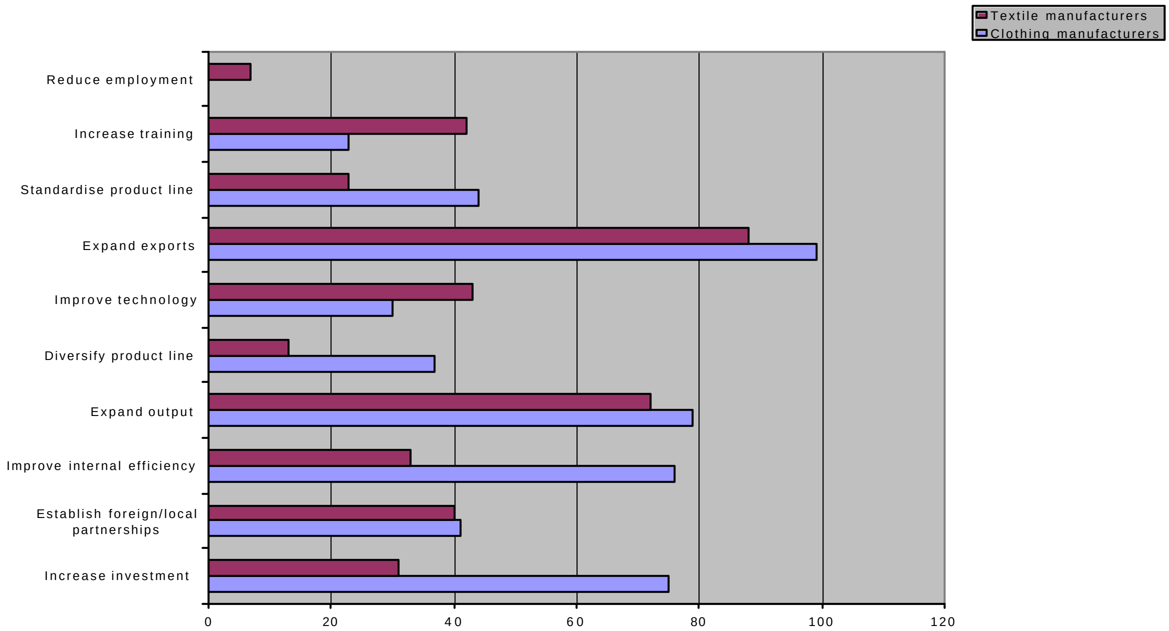
Figure 6.1: Expected Competition due to the SADC Trade Protocol



Source: Own Survey, 2000

Although some firms, especially textile manufacturers, expect their product markets to be threatened by foreign competition, there nevertheless is a determination to in crease investment, output and exports to enable them to compete in regional and global markets. The general macroeconomic problems aside, the Zimbabwean firms are looking to expand exports, output and investment (Figure 6.2).

Figure 6.2: Planned Responses to the SADC Trade Protocol



Source: Own Survey, 2000

Small firms in Southern Africa suffer from a greater demand constraint (largely because they are geared towards small niche markets) and have more difficulty of obtaining finance – mainly because most of the small clothing firms operate from rented premises and have little or no other assets, and therefore cannot offer any collateral to financial institutions.

The high cost of capital is a constraint plaguing the entire industry, in fact, the entire economy. Small firms also suffer from a relatively low skills availability – and this is probably due to the unavailability of adequate financial resources to attract the necessary quality and quantity of skills. This is however not true for the larger firms who are better equipped with financial options, networks and organisational capacities. A Free Trade Area in the region at a time when the industry in Zimbabwe is under a lot of stress could result in a repeat of the events of the 1990's - instances of de-industrialisation.

7. Regional Perspectives: Comparative and Competitive Advantages

Most countries in the region have, within the past two to three years, launched a number of new industrial policy initiatives designed to provide various forms of assistance to industry so as to enhance competitiveness, employment and industrial growth. Indeed, these initiatives include fresh industrial policy documents, modifications to existing industry-related legislation on areas ranging from infrastructure to competition policy, SMME development, and the re-organisation of official institutions aimed at facilitating industrial development.

The new policy packages in each country have considerable similarities to each other with respect to the various issues that are focused upon, and encouraged. For instance, countries in Southern Africa agree on the need to improve infrastructure, increase investment, strengthening of the SMME sector, creation of linkages (that are even cross-border) between large and small firms, and the establishment of "smart partnerships" that involve the private and public sectors[25].

For the SADC, current competitive advantage lies in agricultural, mineral, and more recently, unskilled labour resource-intensive manufacturing sectors (Valentine, 1998). However, SADC's potential comparative advantage appears to lie in technology and human capital resource-intensive sectors. Therefore future industries to look to are chemical materials, printing and publishing, machinery, telecommunications, rubber manufacturers and others. With regard to the clothing and textile industry, the study by Valentine, using the Revealed Comparative Advantage (RCA) analysis points out that Mauritius, South Africa, Zambia and Zimbabwe all have comparative advantages in clothing exports[26], whereas Botswana, Lesotho, Mauritius and Swaziland have comparative advantages in textiles.

Mauritius, with a comparative advantage in both sub-sectors, stands out as the regional leader in terms of clothing and textile exports, and although South Africa enjoys a huge amount of clothing and textile trade, when compared to its total exports, the clothing and textile sector is relatively insignificant. For the purposes of this paper, a point to note is the absence of any comparative advantage in the clothing and textile sector in Malawi (and indeed in the other SADC countries who have a functional clothing and textile sector).

On the 1st of September 2000, a Free Trade Agreement (FTA) amongst 11 of the SADC countries came into effect. Far from being simply a mechanism for increased intra-regional trade, it has as a major objective of creating the conducive conditions for increased investment, leading to higher value-added in production, and the diversification of the region's economies. Indeed, for textiles and clothing there is the potential to develop an efficient pipeline form cotton production on the farms to clothing exports at the ports, where SADC member states specialise in certain sections of the pipeline (textile chain).

The textile industry is a very large consumer of electricity, and as such, energy costs account for a reasonable amount of total costs (on average electricity costs are about 1.7% of production costs for textiles, and 3% for spinning and weaving[27]. SADC countries have quite easy access to electricity but it is the cost of electricity that hinders some of them. South Africa has a competitive advantage in electricity costs in the SADC region (Table 7.1) and this tends to compensate for the relatively higher labour costs that South African clothing and textile firms face.

Table 7.1: Comparative Energy and Labour Costs in the SADC

Country	Electricity costs (US cents/unit)	Labour costs (US CENTS/hour)
Malawi	8.5	52
Mauritius	4.8	95
Mozambique	15.8	46
South Africa	3.2	235
Tanzania	20.6	58
Zimbabwe	5.1	50

Source: www.eskom.co.za

The growth in competitiveness of the regional clothing and textile industry depends largely on closer intra-SADC linkages within the textile chain, availability of cheap labour, and firm-level ability to exploit easy access into EU and USA markets granted by the various trade agreements discussed earlier. However, the factors that could impinge on the development of the sector need to be analysed with a view of ensuring that policy frameworks are geared towards eliminating or reducing the impact of these obstacles to competitive growth and development (Box 7.1).

[25] *For a more detailed analysis of the incentive packages of each SADC country, see Tagg, S (2001).*
[26] *RCA is being measured with respect to the sector's share of total exports for each country.*
[27] *Classens (2000) in Jefta, R and Jeetah, R (2001).*

Box 7.1: Possible Factors Undermining Industrial Competitiveness in the SADC

An investigation of competitiveness of the clothing and textile industry in Southern Africa show that the following factors have (or at least have the potential to) slowed down industrial growth and development:

- Second-hand smuggled and undervalued clothing imports
- High labour costs (particularly in Mauritius and South Africa)
- Low labour productivity
- High inland transportation costs
- Low disposable incomes among SADC consumers
- High cost of imported machinery
- Lack of adequate training (particularly in the garment manufacturing industry)
- Absence of 'good governance', high crime rates and a perception of lawlessness, hindering the ability to attract foreign direct investment
- Excess capacity

The overall size of the SADC market is relatively small for a regional grouping. Comprised of 14 generally small economies (except for South Africa) with a combined GDP of approximately US$175 billion and over 187 million inhabitants. Compared to other regions of the world, Southern Africa as a market is very small (Table 7.2) and this has tended to impact on the growth and development of the region.

Transport and transaction costs are relatively higher for Southern African producers wishing to access Europe, USA and Asia, and these tend to offset the clear advantages of lower labour costs. Therefore, TNC's have generally tended to shun Southern Africa in favour of locations that are nearer to the profitable markets of Europe, USA, and Asia and therefore it is unsurprising that Eastern Europe, South America, East Asia and North Africa all have received more FDI than Southern Africa over the past decade.

Table 7.2: Regional Integration Agreements (Participating Countries and Populations)

Name	Number of members	Member states	Total population
Association of South East Asian Nations (ASEAN)	10	Brunei, Cambodia, Indonesia, Laos, Malaysia, Burma, Philippines, Singapore, Thailand, Vietnam.	525.1
Central European Free Trade Association (CEFTA)	6	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovenia.	104.6
European Union (EU)	15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, U.K.	379.5
Mercosur	4	Argentina, Brazil, Paraguay, Uruguay.	216.5
North American Free Trade Association (NAFTA)	3	Canada, Mexico, USA.	411.8
Southern African Development Community (SADC)	14	Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.	187.7

Source: http://www.sadcreview.org

The region does have an abundant pool of literate or semi-literate labour that in cost terms compare favourable with the other clothing and textile producing regions in the world. The region's advantages in natural and human resources need to be fully exploited so as to create strong linkages between cotton farmers, yarn spinners, fabric producers, garment manufacturers and retailers. The clothing and textile industry is a relatively labour intensive sector and this puts the SADC in good standing due to large amounts of cheap labour and well established existing infrastructure within the SADC textile chain.

With respect to investment, inflows of foreign direct investment (FDI) into Africa rose by 28% to US$ 10billion in 1999 from US$ 8 billion in 1998 although this increase was not enough for Africa to increase it's share in global FDI flows. It remained at a low of 1.2% in 1999 compared to 2.3% in 1998 (World Investment Report, 2000). Of the top 10 recipient countries of FDI inflows, three are from the SADC region. When compared with the FDI received in South America, it becomes quite clear that investment in the SADC has performed well below what is required to achieve industrial prosperity and development (Table 7.3).

Table 7.3: FDI Inflows (SADC 1988 – 1999, Millions of US dollars)

Country	1988	1994	1995	1996	1997	1998	1999
Angola	208	170	472	181	412	1 114	1 814
Botswana	-20	-14	70	71	100	90	
DRC	-3	1	1	2	1	NA	
Lesotho	127	273	275	286	269	262	
Malawi	13	9	25	44	22	70	
Mauritius	25	20	19	37	55		
Mozambique	16	35	45	73	64	213	
Namibia	54	98	153	129	84	77	
Seychelles	19	30	40	30	54	55	
South Africa	22	380	1 241	818	3 817	561	1 376
Swaziland	55	25	33	-62	-48	51	
Tanzania	7	50	150	149	158	172	
Zambia	99	40	97	117	207	198	
Zimbabwe	3	41	118	81	135	444	
SADC TOTAL	***625***	***1 158***	***2 739***	***1 956***	***5 330***	***3 307***	
South America	6 534	15 183	18 909	31 572	47 629	51 348	

Source: World Investment Report, 2000

The most popular sectors that have been targeted for FDI in Africa are Tourism, Telecommunications, petroleum products and mining and quarrying. Notable is the huge popularity of the services sector followed by exploration, mining, quarrying and agriculture. Very little interest in manufacturing (the clothing and textile industry for instance appears, according to this survey, to appeal to only a small number of potential investors)[28].

8. Policy Conclusions for the Regional Clothing and Textile Industry

The competitiveness of SADC countries in clothing and textiles is an issue largely determined by key aspects of government policy as well as company behaviour. Since the mid 1990's, almost all SADC countries have introduced substantial trade and industrial policy changes with the view to trying to encourage investment, job creation and a rise in output/income. Most SADC countries have initiated tariff cuts, modernised their tariff structures have participated in various bilateral and multilateral agreements to promote trade and industrial growth.

For previously highly protected manufacturing sectors - like autos, clothing and textiles - the impact of trade liberalisation is likely to be more damaging than will be the case in other sectors.

[28] *World Investment Report, 2000.*

Genuine threats of de-industrialisation are occurring in some SADC member countries on the one hand, and there is the perception that industry is, or may be, gravitating towards South Africa (polarisation). Although the activity of some firms moving into the South African market may be offset by the relocation of other firms to cross-border destinations.

The weaknesses of SADC countries are at various levels. Individual industrial branches are not usually well integrated with each other and as such, relationships between large enterprises and SMME's are hardly well developed. In the clothing and textile industry, where there are various niche (specialised, quality) markets that can be exploited by small firms with the facilitation and support of large firms, these linkages are paramount to ensuring the resurgence of the clothing and textile industry in Southern Africa.

Relocation of firms across the region is a process already happening in some of the SADC countries. In Mauritius and South Africa for instance, relocation of firms to more relatively low-cost destinations within SADC is considered to be good business sense, especially with the SADC Trade protocol which enable these relocating firms to export to the entire region. With the region being 'one big economy' firms are set to move to areas where higher returns can be earned. This is not only possibly true for the clothing and textile industry, but also for other industrial sectors in the region. In Zimbabwe, the potential for clothing and textile to firms to relocate can be related to Zimbabwe's ineligibility under the US -sponsored Trade and Development Act that provides easy access into the US market for qualifying ACP countries. Zimbabwean producers, keen to get their foot into the US market, might consider relocation to other SADC member states that are eligible under the Act.

Most SADC countries have already implemented various changes to their respective trade policies so as to comply with WTO rules, SADC regulations and generally so as to increase trade opportunities for firms and industries within each country. A checklist is provided (Box 8.1) that provides some kind of framework for industrial policy success in the region.

Box 8.1: Trade policy tools

- Customs duty on industrial raw materials and capital goods should be removed
- Export subsidy systems in contravention of the WTO should be removed
- Consideration should be given to legitimate trade measures which can encourage industrial exchange with less developed SADC members, and among groups of SMME's
- All non-tariff barriers used by SADC countries against one another should be eliminated
- Custom authorities and border/port controls need to be strengthened so as to combat smuggling, especially of illegal second-hand clothing
- Domestic legislation and implementation systems for the use of countervailing duties and anti-dumping duties should be prepared and implemented

For some SADC states like Zimbabwe, it is more an issue of addressing socio-economic and political disturbances than actually providing targeted assistance to the ailing clothing and textile manufacturing sector. An improvement in the political situation could lead to improved investor and business confidence, resumption of international official development assistance and eligibility under the US Trade and Development Act. Political problems aside, the Southern African clothing and textile manufacturing base has the potential to grow into a fully developed and sustainable textile chain that distributes functions, responsibilities and benefits across the region.

In the final analysis, the survival, growth and development of the clothing and textile sector in Southern Africa depends largely on how firms in each country respond to the challenges brought about by increased intra-regional trade as a result of the implementation of the SADC Trade Protocol. Fears of de-industrialisation may indeed be genuine from a national point of view, but from a regional point of view de-industrialisation in one country may actually be welfare-enhancing for the sum total of the countries in the region! Therefore there are potential costs and gains, winners and losers that need to be identified which then provides particular insights into the location, structure and behaviour of industries, and the firms within them. It is these insights that this paper has sought to provide.

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