

# DPRU

WORKING PAPERS

## Transaction Costs and Clothing and Textile Trade in SADC

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## Foreword

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# Transaction Costs and Clothing and Textile Trade in SADC

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## **Abstract**

This working paper looks at clothing and textile trade in the Southern African Development Community (SADC). Clothing and textile production is important in terms of employment and development, and thus they have been priority sectors since the SADCC inception in 1980.

Evidence of intra-regional trade is presented. The scope for increased trade is then discussed and transaction costs are examined as one of the major factors restricting this increased trade. The original aim of this paper was to use a transport model to calculate the optimal pattern of clothing, textiles and fibre trade within the SADC region. This has not proved feasible and thus this paper now examines the Southern African Customs Union's (SACU) trade with SADC and identifies patterns and trends within a transaction cost economics framework.

SACU's total exports of textiles, fabrics and clothing to SADC underperformed between 1989 and 1998, in contrast to the import sector, which performed quite well during this period. Transaction costs are significant barriers to trade in the SADC region. The paper examines various transaction costs, including inland transport costs, shipping constraints, tariffs and non-tariff barriers and shows that trade liberalisation is an important policy mechanism of reducing transaction costs. The paper analyses various trade agreements that offer great potential for improving the trade environment in the SADC region.

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## 1. Introduction

This working paper looks at clothing and textile trade in the Southern African Development Community (SADC). Clothing and textile production is important in terms of employment and development, and thus they have been priority sectors since the SADC inception in 1980.

As the SADC market opens up, it faces increased competition from outside the region and at the same time new export opportunities present themselves. South Africa dominates in terms of the size of these industries, but a coherent development programme would involve the rest of the region, with the development of a regional supply chain making economic sense. This vision is motivated by a recent study commissioned by SADC that states that 'no single country has an absolute advantage in factors affecting competitiveness for all steps in the garment supply chain' (Coughlin *et al*, 2001: 41). In order to take advantage of new markets, SADC must become more cost competitive and to do this, production needs to be located where it is most cost effective.

Evidence of intra-regional trade is presented. The scope for increased trade is then discussed and transaction costs are examined as one of the major factors restricting this increased trade. The original aim of this paper was to use a transport model to calculate the optimal pattern of clothing, textiles and fibre trade within the SADC region. This has not proved feasible and thus this paper now examines the Southern African Customs Union's (SACU) trade with SADC and identifies patterns and trends within a transaction cost economics framework.

## 2. The Importance of Clothing and Textiles for Development - The Case of Mauritius

Table 1 provides evidence of the importance of clothing and textiles in terms of employment creation for some of the SADC countries for which data is available. Mauritius stands out as the country where a large proportion of the workforce is dependent on clothing and textiles for employment.

**Table 1 Significance of Clothing and Textile Sectors in SADC**

	Percentage of Manufacturing Employment
BOTSWANA	38%
MAURITIUS	72%
MOZAMBIQUE	1%
SOUTH AFRICA	15%
TANZANIA	24%
ZAMBIA	1%
ZIMBABWE	16%

Source: Coughlin *et al* (2001: 24)

Mauritius has used the development of their clothing industry as an anchor for economic growth, and this is evident in the large proportion of their labour force employed in the clothing and textiles sector. Policy has been instrumental in this success and fiscal incentives have encouraged investment. The whole island is an export processing zone (EPZ), and raw materials and machinery enter Mauritius duty free. However, clothing imports are still subject to duty. Thus, the Mauritius model is no duty on machinery, cotton and yarn, and high duties on clothing because of their lack of raw materials and capital equipment. The EPZ, together with the most up to date electronic data based management system in SADC, has contributed greatly to fast cargo clearance - a definite advantage in an industry where the timely delivery of inputs is crucial for success (Coughlin, 2001: 60 and 67).

In terms of policy recommendations, Mauritius's success story provides evidence of the importance of reducing transaction costs in order to stimulate trade and domestic production. The elimination of non-tariff barriers (NTBs) and the installation of better management systems at the borders and in the regions ports should be given priority.

### **3. The Pipeline**

#### **3.1 Garment Supply Chain**

The garment supply chain starts with the production of fibre, through to yarn, fabric and then apparel. Each stage has unique requirements in terms of capital and labour inputs, and given the diversity of the SADC countries in terms of factor endowments and factor costs, there is scope for a regional garment supply pipeline. Thus, in each stage from the farming of cotton or production of synthetic materials to the finishing of the garment, each SADC country should have a part of this production process in which they possess a comparative advantage. Alternatively, each part of the process is best suited to a different part of the region. In general, clothing production is labour intensive whereas textiles require a larger capital investment.

Given the constraints of time and space, and the costs involved, it is not feasible for an item to go back and forth between the different production centres. Thus, when coming up with a regional pipeline plan, these factors are just as important when determining comparative advantages. Access to transport networks is the most important initial consideration when planning trading activities and tariff and NTBs to trade are the major constraints to forming this pipeline.

#### **3.2 Labour Costs and Productivity**

Factor costs include the labour costs and utility costs (the cost of water and electricity) and the SADC countries vary greatly in terms of all these costs. Table 2 lists the SADC countries from the most productive to the least productive, and then compares labour costs (based on a man's casual shirt).

**Table 2 Labour Productivity and Labour Cost**

	Pieces per operator per day	Monthly Salary (US \$)
LESOTHO	18	87
MAURITIUS	18	108
BOTSWANA	15	139
SOUTH AFRICA	15	248
SWAZILAND	15	105.4
ZIMBABWE	13	80
MALAWI	10.5	26
MOZAMBIQUE	10.5	44
TANZANIA	10.5	72
ZAMBIA	10.5	60.4

Source: Coughlin *et al* (2001: 45)

South Africa has the highest labour costs in the region and this makes it less competitive in the SADC region. Compared to other labour abundant manufacturing countries, productivity is lower in SADC and thus there is scope for an improvement here. For example, pieces per operator per day are 20 in a Chinese EPZ (monthly salary is \$150), 19.8 in Thailand and 18.2 in Taiwan (Coughlin *et al*, 2001: 45).

### 3.3 Comparative Advantages

Table 3 presents an assessment of what each SADC country should produce in the textile and clothing supply chain (featured in the Coughlin *et al* 2001 report - Angola, the DRC and Seychelles were excluded). This was done by matching each country's factor endowments with the production stages most suited to its specific conditions.

**Table 3 Comparative Advantages Based on Country Strengths and Weaknesses**

	Apparel			Product Design and Marketing	Fabric	Yarn	Knitting	Spinning	Low-Water Weaving
	High-end Fashion	High Productivity	Basics						
BOTSWANA	x	x					x	x	x
LESOTHO			x		x	x			
MALAWI			x		x	x			
MAURITIUS	x	x		x	x	x			
MOZAMBIQUE			x					x	
NAMIBIA	x	x				x			x
SOUTH AFRICA	x			x	x	x			
SWAZILAND	x	x				x			
TANZANIA			x					x	
ZAMBIA			x		x	x			
ZIMBABWE			x		x	x			

Source: Constructed from Coughlin (2001: 56-57)



### 3.4 Excess Capacity

Given the table of comparative advantages above, the next question to ask is whether there is scope for any of the countries to expand operations and produce the extra output. This new production can come from existing plants, or through new investment.

Given the existing plants, Coughlin *et al* (2001: 31) reports that excess capacity exists in the SADC region and that there is scope for increasing clothing and textile production by 30% and 52% respectively. Given the opportunities under the increased trade opportunities (for example, the Africa Growth and Opportunity Act (AGOA)) the market for this production exists.

**Table 4 Unused Production Capacity**

	Clothing	Textiles
<b>BOTSWANA</b>	40%	
<b>LESOTHO</b>	32%	
<b>MALAWI</b>	37%	41%
<b>MAURITIUS</b>	17%	7%
<b>MOZAMBIQUE</b>	33%	68%
<b>NAMIBIA</b>	59%	
<b>SOUTH AFRICA</b>	36%	23%
<b>SWAZILAND</b>	27%	58%
<b>TANZANIA</b>	16%	32%
<b>ZAMBIA</b>	77%	14%
<b>ZIMBABWE</b>	44%	13%

Source: Coughlin *et al* (2001: 55)

### 3.5 Opportunities and Threats

The clothing and textile sectors in SADC have the potential to be a source of employment and income for many people in the region, as well as an earner of significant amounts of foreign exchange. However, in order to do so they must make use of the opportunities afforded to them under various trade agreements. Sub-Saharan Africa as a market is limited because of low incomes and poverty. Thus SADC has to look to the richer countries as markets with unlimited buying power.

Threats to the clothing and textiles sector come from cheaper imports, as well as competition from cheaper or better quality products in the United States and European Union export markets. In addition to cheaper imports (often cheaper because the exporter avoids tariffs), firms also face competition from second hand goods. These goods enter the country because customs officials are not able to enforce regulations or impose duties.

The time frame of the various trade agreements poses a constraint in terms of the time available for SADC to mobilise operations. The various agreements and their impact on the pipeline will be discussed in section 6.

## **4. Trade**

### **4.1 Classification of Data**

The trade data for South Africa and the other members of SACU - Botswana, Lesotho, Namibia and Swaziland (BLNS) - is aggregated. Thus trade between South Africa and the BLNS countries is not recorded and cannot be analysed.

This paper uses the Harmonised System (HS) to classify trade. The trade of fibres, textiles and clothing are recorded in Chapters 50 to 63. For the purposes of this analysis, Chapters 50 to 55 represent fibres, Chapters 56 to 60 represent textiles and Chapters 60 to 63 represent clothing.<sup>1</sup> The data was extracted from the TIPS website.

### **4.2 Discussion of Data**

#### **4.2.1 Export Growth**

Between 1989 and 1998, SACU's total exports to the rest of SADC grew by 15.6%. The export of textiles, fabrics and clothing only grew by 9.7% during this time and thus this sector underperformed in terms of export growth (TIPS, 1999: 1).

#### **4.2.2 Import Growth**

Imports of textiles, fabrics and clothing into SACU from the rest of SADC grew by 20.0% between 1989 and 1998, whereas total imports only grew by 12.7% (TIPS, 1999: 2).

#### **4.2.3 Export Composition**

SACU's main exports to SADC are mechanical and electrical machinery (approximately 18% between 1989 and 1998), followed by products of chemical or allied industries (approximately 16%) and base metals (approximately 15%). Between 1989 and 1998, the share of clothing, textiles and fibres in SACU's exports to SADC averaged only 4% (TIPS, 1999: 1). Thus, these goods have not been important exports of SACU's to SADC in the past.

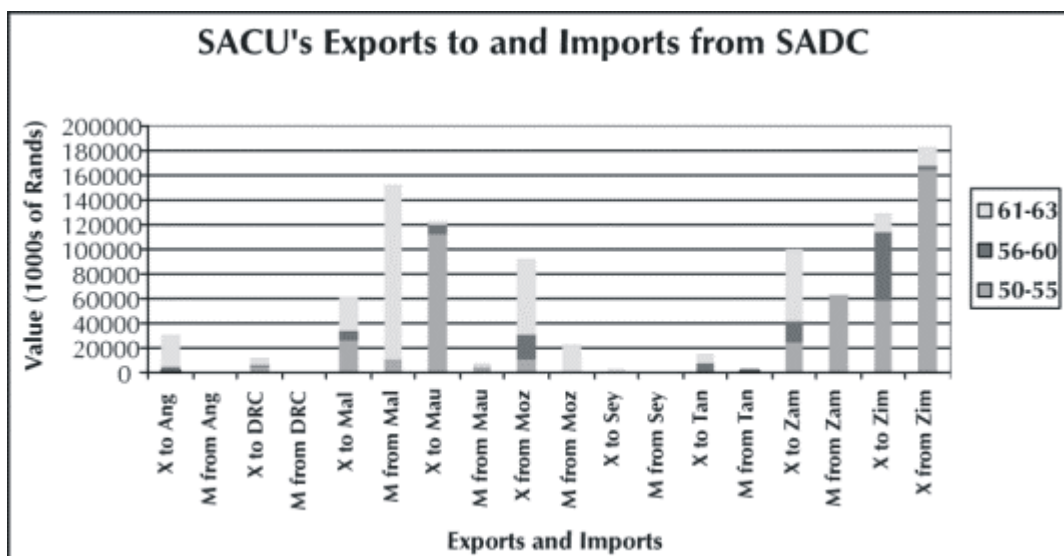
#### **4.2.4 Graphs**

SACU's clothing and textile trade between 1988 and 2000 with SADC is presented in Appendix 2, under the three categories - clothing, textiles and fibres. Figure 1 shows trade between SACU and SADC in 2000.

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<sup>1</sup> See appendix 1 for a description of the HS chapters.

**Figure 1 Trade Patterns, 2000**



Source: constructed from [www.cia.gov/cia/publications/factbook/index.html](http://www.cia.gov/cia/publications/factbook/index.html)

From Figure 1 it is easy to see that SACU's imports of fibres from Zimbabwe in 2000 dominated trade flows. The next largest trade flow was SACU's imports of clothing from Malawi, and SACU's exports of fibres to Mauritius is the third largest trade flow.

## 5. Transaction costs

The transaction costs associated with trade include transport costs, the cost of setting up a deal, tariffs as well as NTBs. There are significant barriers to trade within the region that prevent the SADC countries from acting together at their full potential as a regional supplier.

### 5.1 Inland transport costs

#### 5.1.1 Infrastructure

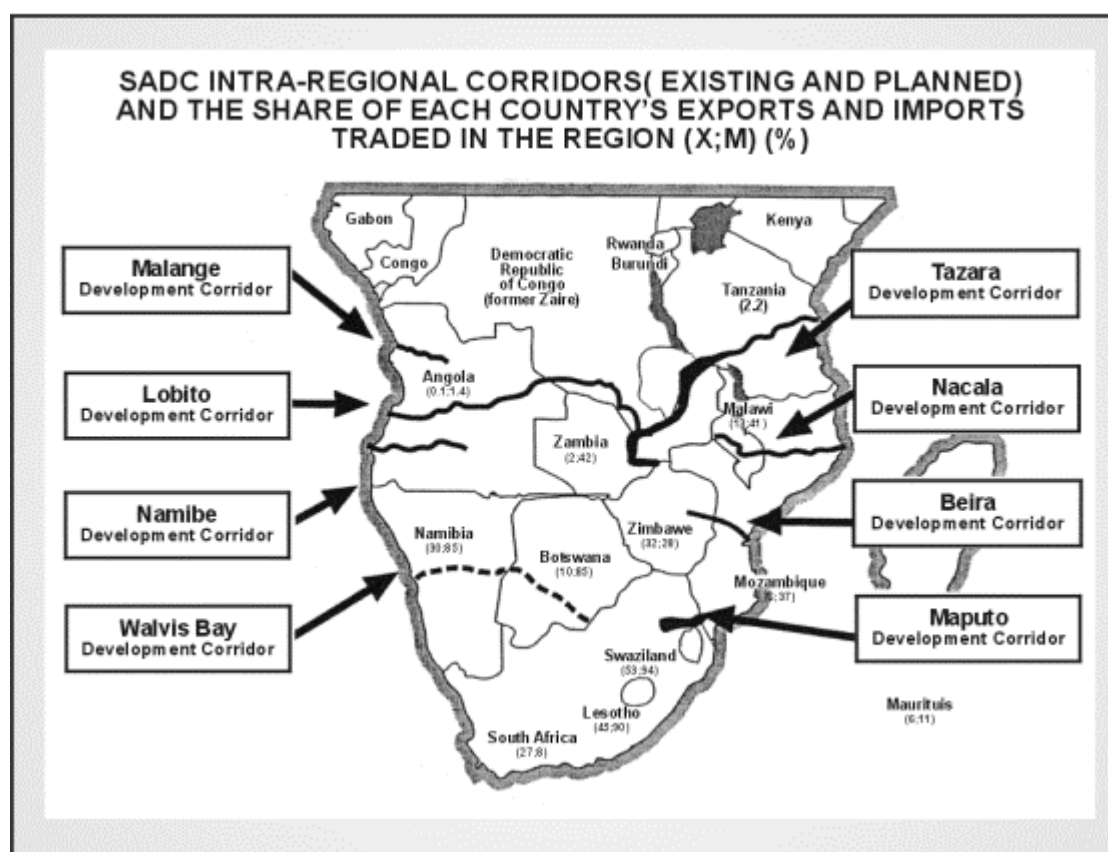
Table 5 and Figure 2 illustrate the extent of the inland transport network in SADC. It is immediately evident from Figure 2 that South Africa has the most extensive coverage in terms of railways.

**Table 5 Road and Rail Networks in SADC**

	TOTAL HIGHWAYS	PAVED HIGHWAYS	PERCENTAGE PAVED	RAILWAYS
Angola	76626km	19156km	25.00	2771km
Botswana	18482km	4343km	23.50	888km
DRC	157000km	unknown		5138km
Lesotho	4955km	887km	17.90	2.6km
Malawi	16451km	3126km	19.00	789km
Mauritius	1910km	1834km	96.02	0km
Mozambique	30400km	5685km	18.70	3131km
Namibia	63258km	5250km	8.30	2382km
Seychelles	373km	315km	84.45	0km
South Africa	358596km	59753km	16.66	21431km
Swaziland	3000km	850km	28.33	297km
Tanzania	88200km	3704km	4.20	3569km
Zambia	66781km	unknown		2164km
Zimbabwe	19388km	8692km	44.83	2759km

Source: constructed from [www.cia.gov/cia/publications/factbook/index.html](http://www.cia.gov/cia/publications/factbook/index.html)

**Figure 2: SADC Transport Routes**



Source: Valentine (1998)

### 5.1.2 Road Condition

South Africa has the best road network in the region, in terms of coverage and condition. However, the roads are in constant need of repair and thus it is essential that maintenance activities are ongoing. The condition of Botswana, Namibia and Zimbabwe's roads can also be described as good and the roads in Zambia have improved recently.

Road conditions in Angola, the DRC and Mozambique are generally poor because of neglect due to the channelling of resources into the ongoing wars. The majority of the roads in Swaziland and Tanzania are in poor condition.

### 5.1.3 Road Transport Costs

The single most important constraint on capacity utilisation in the SADC clothing and textile industries is 'high inland transportation costs' (Coughlin *et al*, 2001: 38). According to the UNCTAD review of maritime transport, freight costs as a proportion of total import value were 12% for developing African economies, compared to 8.21% for all developing countries and 4.5% for developed market economies ([www.unctad.org/en/docs/rmt01sum.en.pdf](http://www.unctad.org/en/docs/rmt01sum.en.pdf)).

For the landlocked countries it is often more expensive to transport goods from the factory to the port than it is export them to their final destination (Hess, 2000b: 95). Of the eleven countries that have signed the SADC trade protocol, six are landlocked. Table 6 shows a round trip cost to and from the nearest port and includes container-handling charges for four of these landlocked countries.

**Table 6 Transport Cost to the Port - US\$ for a 20 inch container**

	<b>Cost to Port</b>
Botswana	1149
Swaziland	486
Zambia	3200
Zimbabwe	2400

Source: Coughlin *et al* (2001: 47)

### 5.1.4 South Africa's Transport System

With respect to the South African transport system, an alternative view is presented by Naude (1999: 10), when he states that: 'South Africa's weaknesses are more in logistics management overall than the specific element of transport costs.' The cost of rail transport in South Africa compares favourably to that in the developing world, and in 1997 at R1.53 per km was cheaper than that in Britain (R2.4), France (R6.82), Belgium (R3.97), Spain (R2.35), Netherlands (R2.86) and Germany (R2.56) (Pretorius, 1997 in Naude, 1999: 7).

However, both road and rail infrastructure is deteriorating in South Africa due to decreased capital expenditure by provincial governments. Since 1990, the South African transport market has been run by a government agency Transnet<sup>2</sup> in accordance with business principles. Prior to this, protective legislation protected this agency and they enjoyed a monopoly (Naude, 1999: 9).

### **5.1.5 Policy Recommendations**

In terms of policy, in order to promote efficiency in the transport network, the following policy recommendations can be made:

Promote competition between different forms of transport. Ownership is an issue here. In general, the railways and ports are state owned and controlled while road haulage and ocean shipping is privately run. The privatisation of state run entities could go a long way towards increasing inland transport competition. In addition, equal operating conditions must be in place for road and rail users. All subsidies should be abolished, and road users should be adequately charged. Better policing is needed to enforce these rules and heavy fines should be imposed for overloading.

A regional rail network would prevent time being lost at the borders as goods are required to change trains (Maasdorp, 2000: 119). This would make the use of rail transport more attractive and thus lesson the heavy traffic on the roads.

How to fund the formation of this seamless transport system? Since donor funding is not forthcoming and governments lack the funds, PPPs (Public Private Partnerships) and BOTs (Build-Operate-and-Transfer) are the preferred means of financing transport infrastructure investment.

## **5.2 Shipping**

### **5.2.1 SADC's Ports**

SADC's major ports are in Cape Town and Durban. Durban, in particular, cannot handle the volume of goods passing through the harbour. Walvis Bay offers faster shipping and thus the trans-Kalahari and trans-Caprivi highways should render the more frequent use of this port facility feasible. The port at Maputo is in urgent need of development, as is the ports at Beira and Dar Es Salaam.

South Africa has seven commercial ports - in addition to Cape Town and Durban, ports are also situated in Richards Bay, East London, Port Elizabeth, Saldanha Bay and Mossel Bay. High ad valorem wharfage as well as the slow turnaround time of ships contribute to the costs of using these ports.

High international transportation costs are said to constrain South Africa's export competitiveness to countries other than its immediate neighbours. International transport costs are proxied as the CIF-FOB band on import costs (the price of the good once in the destination country - that is, cost plus insurance plus freight - less the free on board price at the origin).

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<sup>2</sup> Transnet consists of SAA, Autonet, PX, Viamax Logistics, Spoornet, Petronet and Portnet.

### 5.2.2 SADC's Fleet and Harbour Practice

UNCTAD's review of maritime transport states that the fleet capacity of SSA is very small. The total tonnage owned in the region (excluding Liberia and South Africa) has fallen to 1.2 million dead-weight tons in 1999 from 2 million in 1980 (Business Day, 21.1.2002).

Prior to 2000, many African countries 'pursued anticompetitive cargo reservation policies'. This meant that a certain proportion of all trade had to be handled by national shipping companies in order to build up their fleet and earn foreign exchange. Privatisation of the shipping industry is promoted as part of development plans with the World Bank stating that the 'promotion of competition for shipping services could reduce ocean freight rates by 50%' (Business Day, 21.1.2002).

### 5.3 Tariffs

Table 7 shows the tariff rates on clothing and textiles coming into South Africa from the EU, SADC and the rest of the world (ROW). It presents the highest and then the lowest tariffs in each HS chapter. Additional comments are made where suitable. For the 'Other country' tariff rate where two percentages are reported, the second is applied with restrictions.

**Table 7: South Africa's Tariff Rates on Textiles and Clothing**

CHAPTER	OTHER COUNTRY	EU	SADC	CHAPTER	OTHER COUNTRY	EU	SADC
50	all free	all free	all free	57	all 30%	all 30%	all 18%
51	free 22% or 27%	free 20%	free 18%	58	some SADC tariffs > EU tariffs 22% or 27% free	27% free	30% free
52	free 22% or 27%	free 20%	free 18%	59	22% or 27% free	25% free	18% Free
53	some 18%, most free	some 18%, most free	all free	60	all except for 1 line 22% or 27%	22%	18%
54	free 22% or 27%	free 20%	free 18%	61	40% or 54% only a few free	40%	35%
55	free 22% or 27%	free 20%	free 18%	62	40% or 54% only a few free	40%	35%
56	free 20%	free 20%	free 13%	63	37% free	37% free	26% free

Source: constructed from tariff data reported by the DTI ([www.dti.gov.za/econdb/raportt/HsaTar.html](http://www.dti.gov.za/econdb/raportt/HsaTar.html))

From Table 7 it is evident that South Africa has started to lower its tariffs on SADC imports. In addition, there is the further lowering of tariffs on imports from Malawi, Mozambique, Tanzania and Zambia (subject to strict quotas) - this will be discussed later.

## **5.4 Non-tariff barriers**

The following NTBs are important in the trade of textiles and clothing: eco-labelling, code of conduct, social clause, social labels and working conditions.

Other NTBs include import/export licensing arrangements, levies, other border charges, customs charges, institutional arrangements, domestic content requirements and quota restrictions (Hess, 2000b: 38). The formation of the SADC Free Trade Area (FTA) should eliminate these NTBs in time.

## **6. Policy and Trade Environment**

Trade liberalisation can be seen as a means of reducing the transaction costs associated with trade, in terms of the reduction of tariffs and NTBs. The SADC countries are party to a number of potentially very beneficial trade arrangements, both within the community and with third countries or trading blocks. However, time is a constraining factor here and the SADC countries will have to work together in order to derive maximum benefit from the various trade arrangements with the US and EU in particular. The internal policy environment should go some way towards making a regional supply chain feasible, thus enabling the community to take better advantage of the opportunities.

### **6.1 SADC FTA**

It is envisaged that the SADC FTA will stimulate and strengthen the clothing and textile supply chain in the SADC region. However, there are a number of major constraints to this, the first being that clothing and textiles have been identified as sensitive industries for a number of SADC countries. In addition, three SADC countries - Angola, DRC and Mozambique - have not yet signed the protocol.

Because of the fact that clothing and textiles is an important sector in terms of employment creation, domestic development motives often conflict with the terms of the SADC FTA. South Africa for example, is finding the transformation from the inward looking import-substitution policy environment to the export oriented trade regime difficult. Thus, there are fears among textile and clothing producers that trade liberalisation will result in many businesses closing.

#### ***6.1.1 Trade Protocol***

The SADC Trade Protocol was launched on 1 September 2000, and it is hoped that within 8 years of its inception, the formation of the FTA will be complete. Tariff phase downs will occur over this period, with the more developed countries starting sooner and the lesser developed countries only eliminating tariffs towards the end of the period. Goods qualifying for free trade have to meet the Rules of Origin criteria.

'The SACU duties and the rules of origin under the SADC Trade Protocol are, thus, among the biggest barriers to the development of competitive, regional garment supply chains' (Coughlin, 2001: 43).



### 6.1.2 SADC FTA Textile and Clothing Provisions

Under the SADC Trade Protocol, these provisions recognise the importance of rapid liberalisation of clothing and textiles trade within the region in order to strengthen the supply chain. SACU has offered preferential access to textile and clothing exports from Malawi, Mozambique, Tanzania and Zambia. However, the quotas imposed are very small and will not be incentive enough to stimulate investment and increased production in those countries.

### 6.1.3 SACU's tariff structure

Table 8 shows the proposed phase down of SACU's tariffs for fibres, yarns and fabrics produced in SADC countries. As is evident from the table, the tariff phase downs are the shortest for fibres (0% by 2003), then yarns (0% by 2004) and then fabrics (0% by 2005).

**Table 8: South African ad valorem duty rates for SADC (%)**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>Fibres</b>	10	7	4	0	0	0	0	0
<b>Yarns</b>	13	10	7	4	0	0	0	0
<b>Fabrics</b>	18	15	12	9	5	0	0	0

Source: South African Government Gazette, 11.9.1998 cited in Coughlin *et al* (2001: 84).

## 6.2 World Trade Arrangements

The Multi-fibre Arrangement (1974 to 1994) under the General Agreement on Tariffs and Trade (GATT) and the Agreement on Textiles and Clothing (ATC) under the World Trade Organisation (WTO) will both phase out in 2005.

### 6.3 The EU market

The Generalised System of Preferences (GSP), Lome/Cotonou Convention and the Everything-But-Arms Amendment have resulted in a fairly open European market.

With regards to the EU-SA FTA, South Africa will have to remove most of its duties on EU imports between 2006 and 2012. This will give the industry time to strengthen before faced with this increase in competition.

### 6.4 The US market

AGOA provides duty and quota free access to the US market for Sub-Saharan Africa. The stringent rules of origin provide incentive for SADC to strengthen its regional supply chain, although the time frame for this is short (AGOA ends in 2008). Zimbabwe has not qualified for the AGOA provisions.

In terms of those countries eligible for AGOA, the Sub-Saharan African countries have been divided into two sets. BSSAC are the 'Beneficiary Sub-Saharan African Countries' and LDBSSAC are the 'Lesser Developed Beneficiary Sub-Saharan African Countries'. LDBSSAC's are beneficiary countries with Gross National Product (GNP) *per capita* less than US\$1500 in 1998. Note that all SADC countries qualify for the GSP.

AGOA offers increased trade opportunities, but Southern African producers do face some opposition. Clothing and textile producers will have to compete with Caribbean and Central American countries, under the Caribbean Basin Trade Partnership Act, for US market share. In addition, US producers have lobbied against duty free access for certain goods that will harm their local industries. In the face of this competition and opposition, the challenge clothing and textile producers face is that their goods must be high quality, sold at competitive prices and

delivered timeously. Under this Act a US-SSA trade and economic co-operation forum is being established in order to continuously monitor and foster trade links.

**Table 9: SADC countries granted AGOA privileges**

	BSSAC	LDBSSAC
Angola	yes	
Botswana	yes	
DRC	no	
Lesotho	yes	yes
Malawi	yes	yes
Mauritius	yes	
Mozambique	yes	yes
Namibia	yes	
Seychelles	yes	
South Africa	yes	
Swaziland	no	
Tanzania	yes	yes
Zambia	yes	yes
Zimbabwe	no	

Source: AGOA website: [www.agoa.gov](http://www.agoa.gov)

**What does AGOA offer?**

This act offers duty and quota free access to the US for SSA goods. Strict Rules of Origin are in place to prevent transshipment. For clothing, duty and quota free access is extended to clothing made from US fabric and yarn, or made from fabric produced elsewhere where that fabric is not available in the US, or made from fabric produced in SSA AGOA eligible countries. Access is also granted to 'knit to shape' sweaters made from cashmere and some Merino wool.

## The US Market

At present, the US imports 85% of its clothing worth \$60 billion. Of this, approximately \$600 million originates in Africa (Business Day, 16.2.2001).

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## Appendix 1: Description of HS Chapters

CHAPTER: 50 - SILK

CHAPTER: 51 - WOOL, FINE OR COARSE ANIMAL HAIR; HORSEHAIR YARN AND WOVEN FABRIC

CHAPTER: 52 - COTTON

CHAPTER: 53 - OTHER VEGETABLE TEXTILE FIBRES; PAPER YARN AND WOVEN FABRICS OF PAPER YARN

CHAPTER: 55 - MAN-MADE STAPLE FIBRES

CHAPTER: 56 - WADDING, FELT AND NONWOVENS; SPECIAL YARNS; TWINE, CORDAGE, ROPES AND CABLES AND ARTICLES THEREOF

CHAPTER: 57 - CARPETS AND OTHER TEXTILE FLOOR COVERINGS

CHAPTER: 58 - SPECIAL WOVEN FABRICS; TUFTED TEXTILE FABRICS; LACE TAPESTRIES; TRIMMINGS; EMBROIDERY

CHAPTER: 59 - IMPREGNATED, COATED, COVERED OR LAMINATED TEXTILE FABRICS; TEXTILE ARTICLES OF A KIND SUITABLE ETC

CHAPTER: 60 - KNITTED OR CROCHETED FABRICS

CHAPTER: 61 - ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED

CHAPTER: 62 - ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHETED

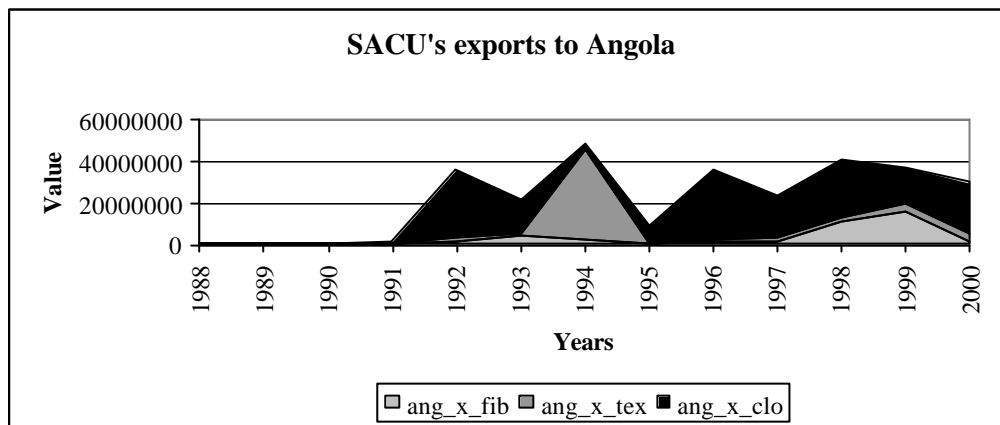
CHAPTER: 63 - OTHER MADE UP TEXTILE ARTICLES; SETS; WORN CLOTHING AND WORN TEXTILE ARTICLES; RAGS

## Appendix 2: Trade Graphs

Data is from the Department of Customs and Excise and is quoted in current South African Rands (ZAR). Note the different scales on the export and import graphs. The value of exports for all countries (except for Mozambique, Seychelles and Zimbabwe) is measured in units of R20 000 000. Exports from Mozambique and Zimbabwe are measured in units of R60 000 000 and Seychelles in units of R2 000 000. All the import graphs have different scales.

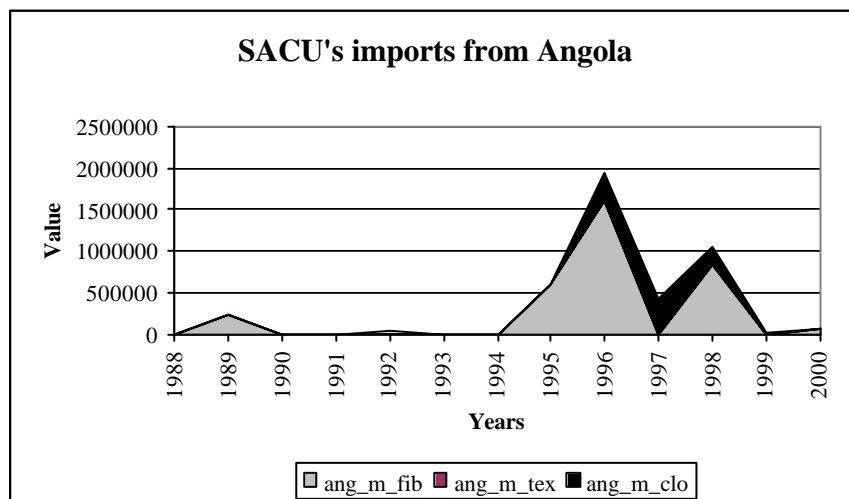
### ANGOLA

#### SACU's Exports



SACU mostly exports clothing to Angola. The only exception to this was in 1994 when a large amount of textiles was exported. The export of fibres has remained consistently low.

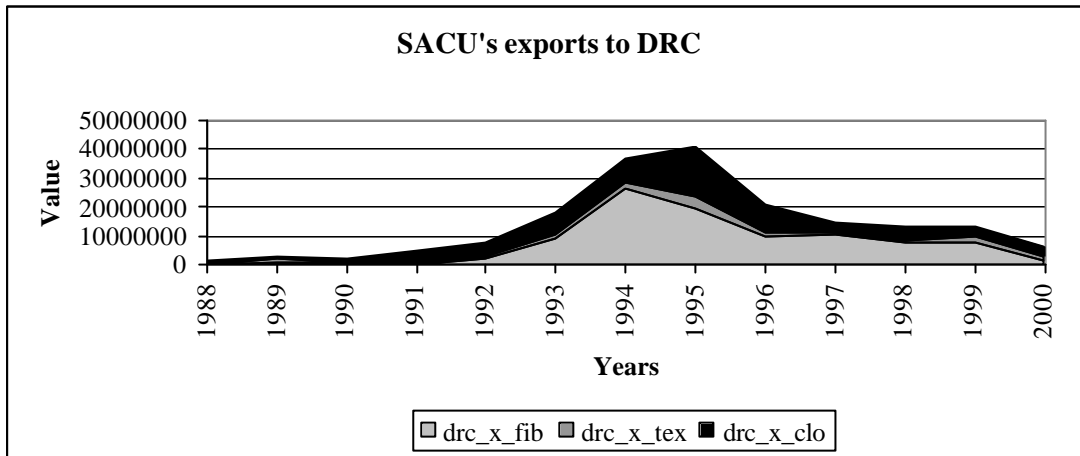
#### SACU's Imports



SACU does not import much by way of clothing, textiles or fibres from SACU.

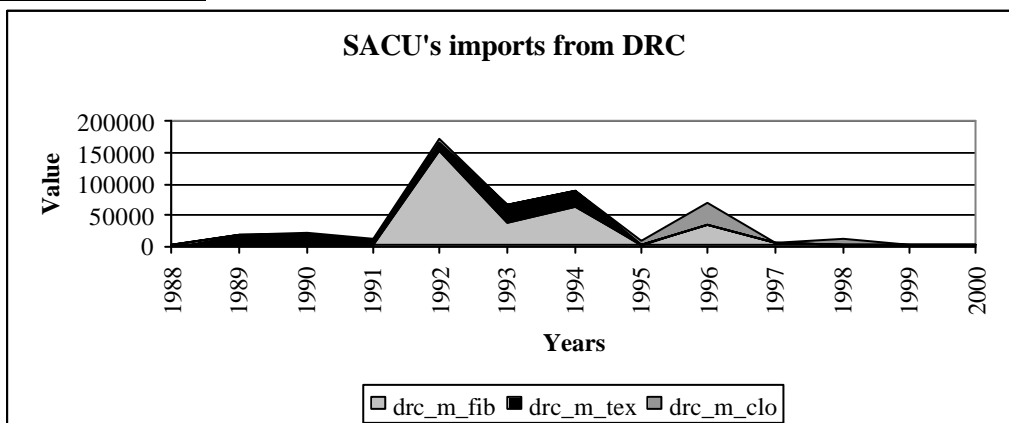
## DRC

### SACU's Exports



SACU mostly exports fibres to DRC, although in recent years the exports of all three categories has been declining. The export of textiles has been consistently low.

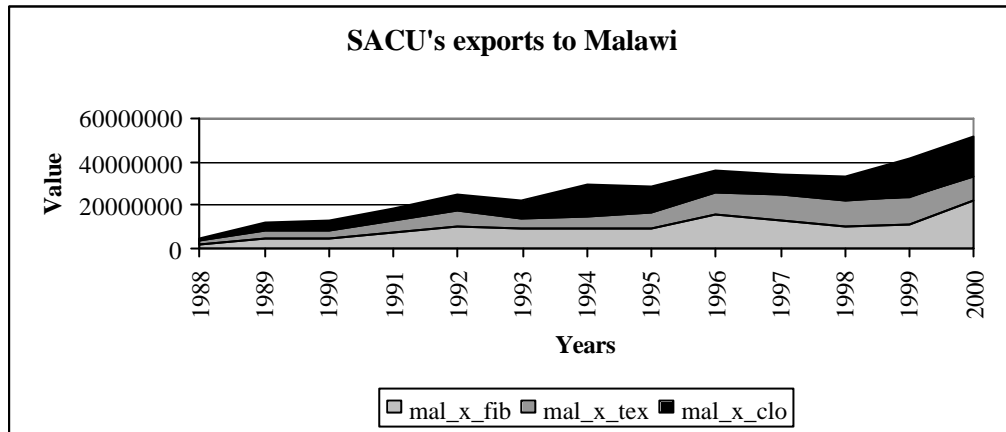
### SACU's Imports



SACU has not imported significant amounts of clothing, textiles or fibres from the DRC.

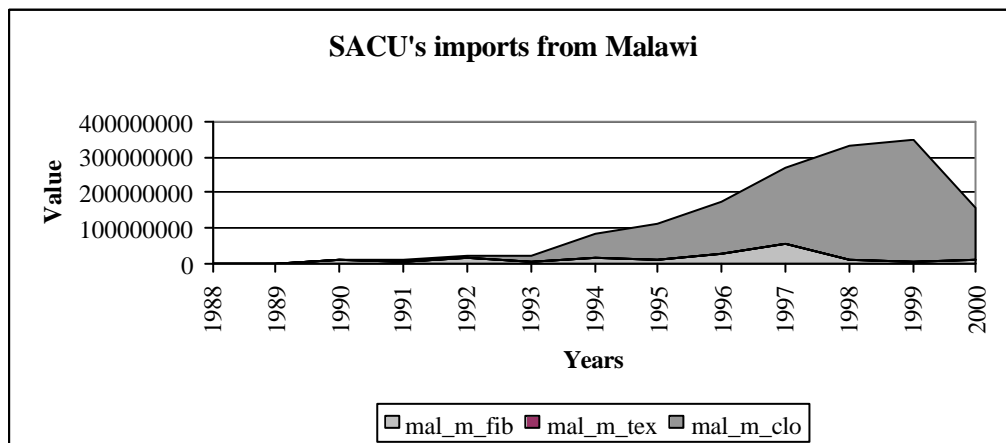
## MALAWI

### SACU's Exports



SACU's exports to Malawi have been increasing over the period under review. There is no clear pattern as to the share of the three categories in the total.

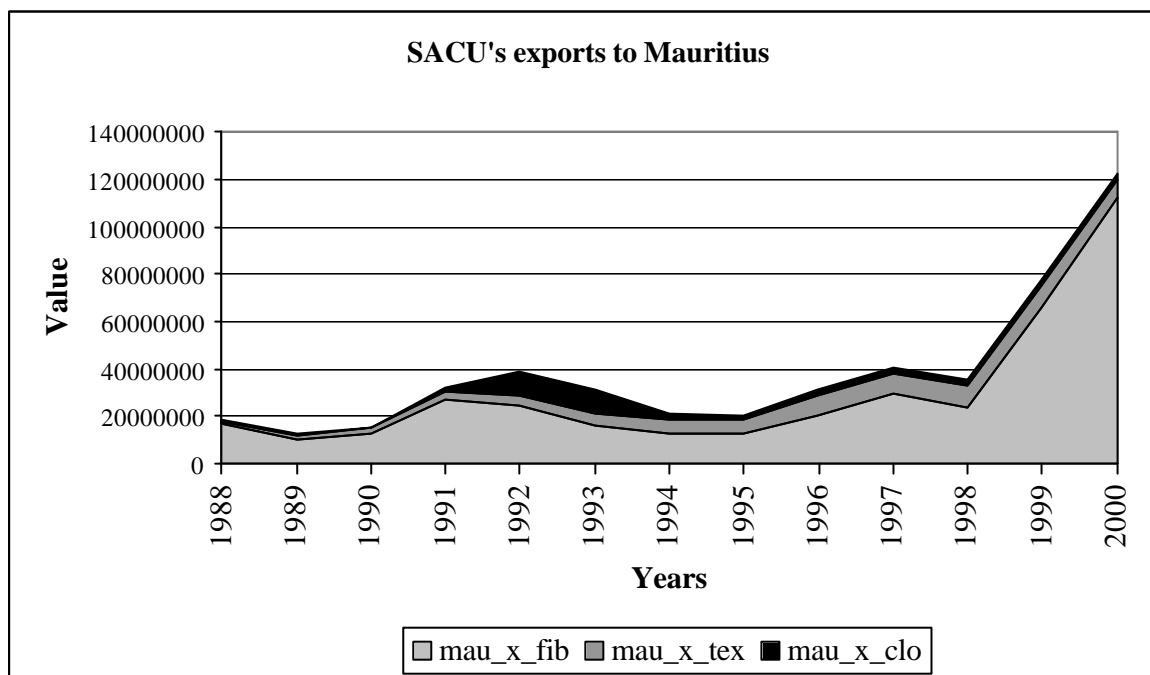
### SACU's Imports



SACU imports a large amount of clothing from Malawi.

## MAURITIUS

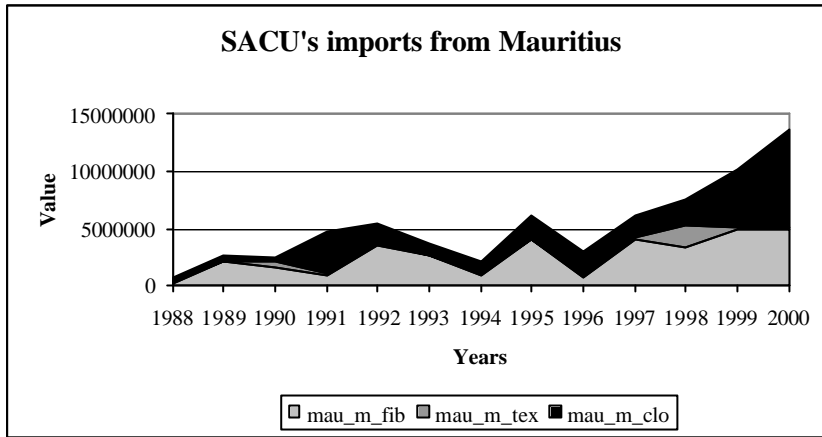
### SACU's Exports



SACU's exports of fibres to Mauritius has been consistently high and its exports of clothing and textiles low. From 1998 to 2000, its exports of fibre to Mauritius increased by just under R100 000 000.

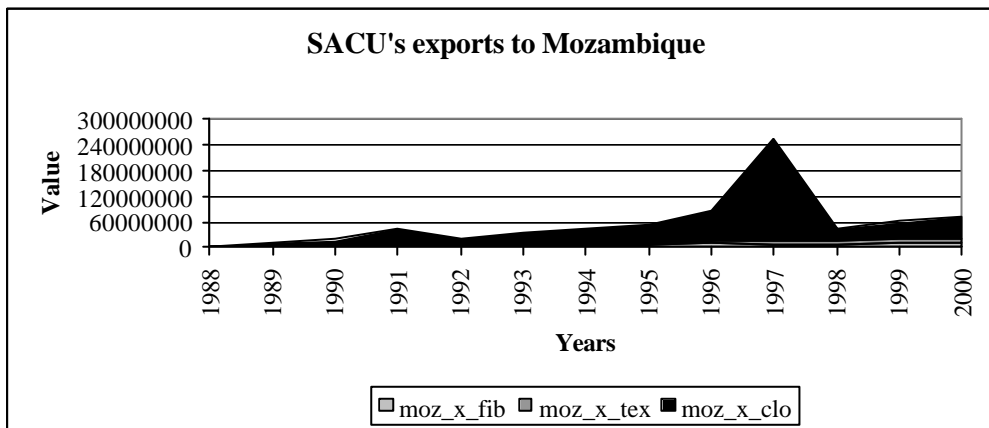


## SACU's Imports



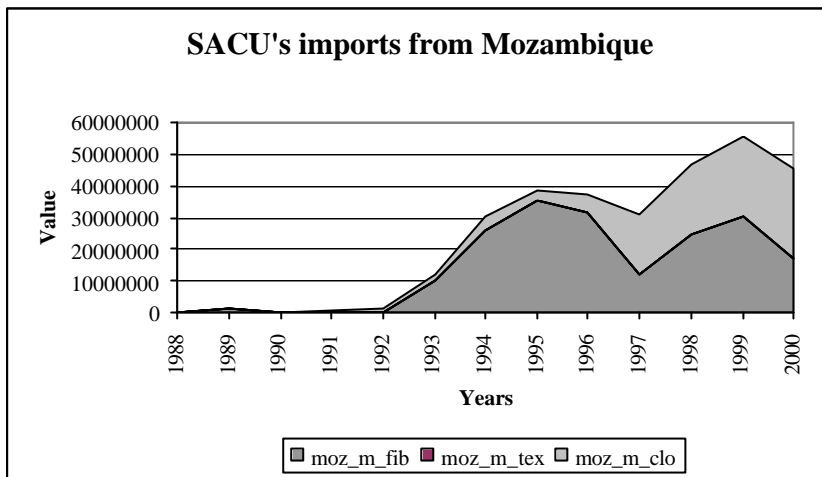
## **MOZAMBIQUE**

### SACU's Exports



SACU's exports of clothing to Mozambique has been consistently high and its exports of fibres and textiles low.

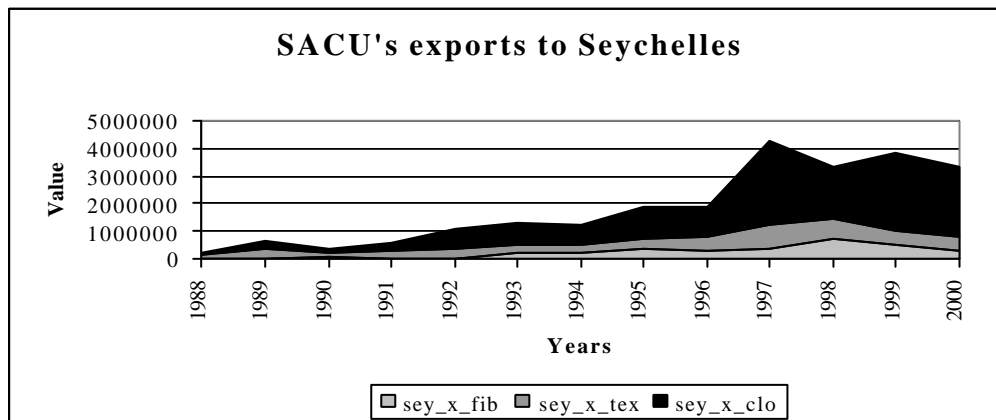
## SACU's Imports



Only since 1992 has Mozambique started exporting clothing and fibre to SACU.

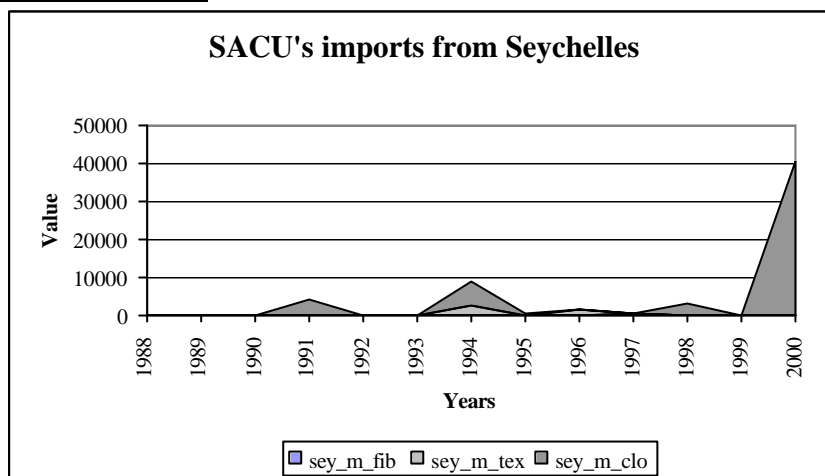
## **SEYCHELLES**

### SACU's Exports



Since 1992, SACU's exports of clothing to Seychelles have dominated.

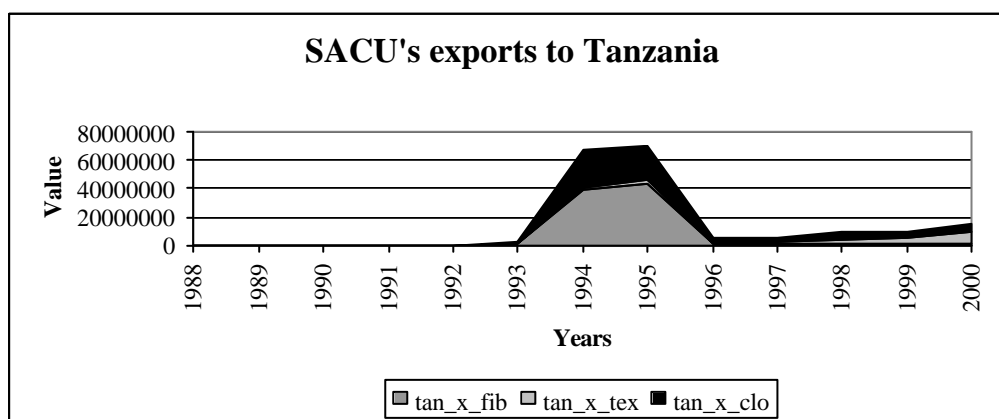
## SACU's Imports



For both exports and imports, there is very little trade between SACU and Seychelles.

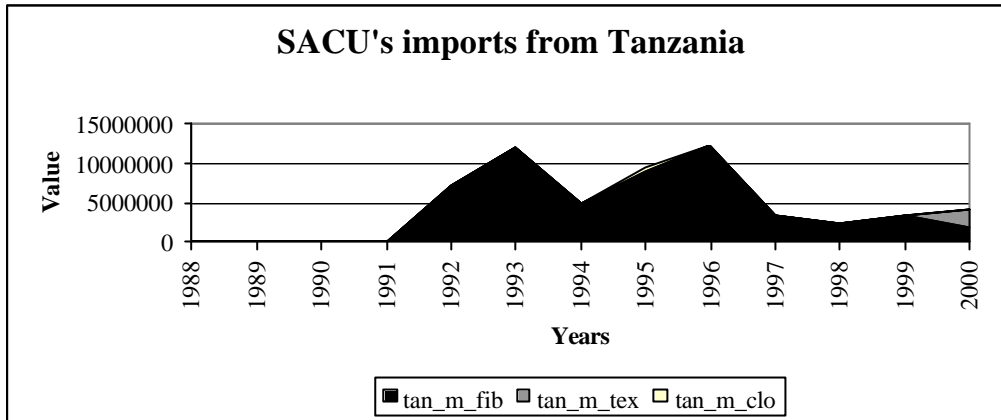
## TANZANIA

### SACU's Exports



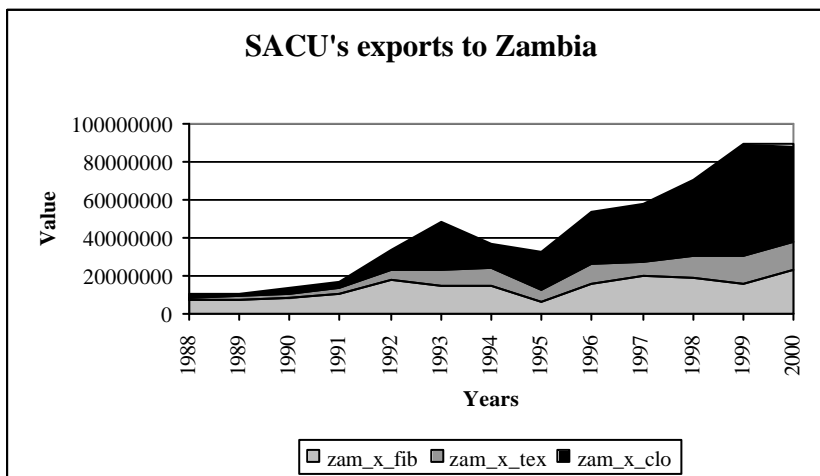
SACU did not export any clothing, textiles or fibres to Tanzania until 1993. In this period, fibre accounted for most of the trade. After 1996 most trade ceased.

## SACU's Imports



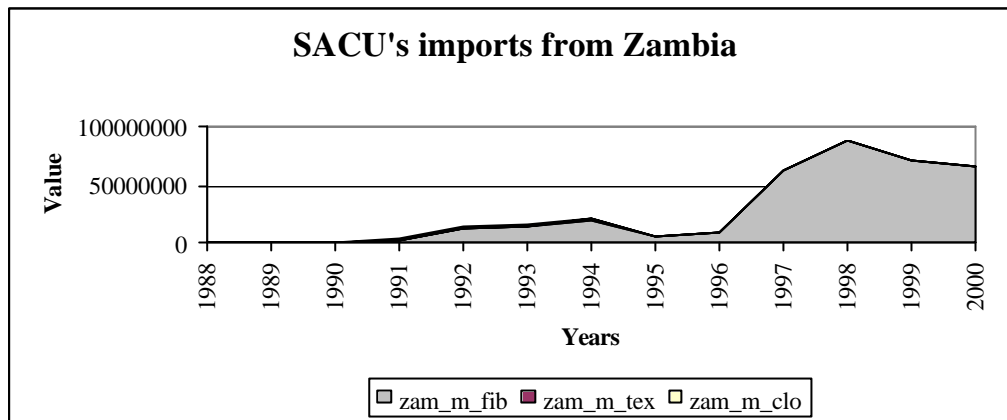
## ZAMBIA

### SACU's Exports



In more recent years SACU's exports of clothing to Zambia has increased.

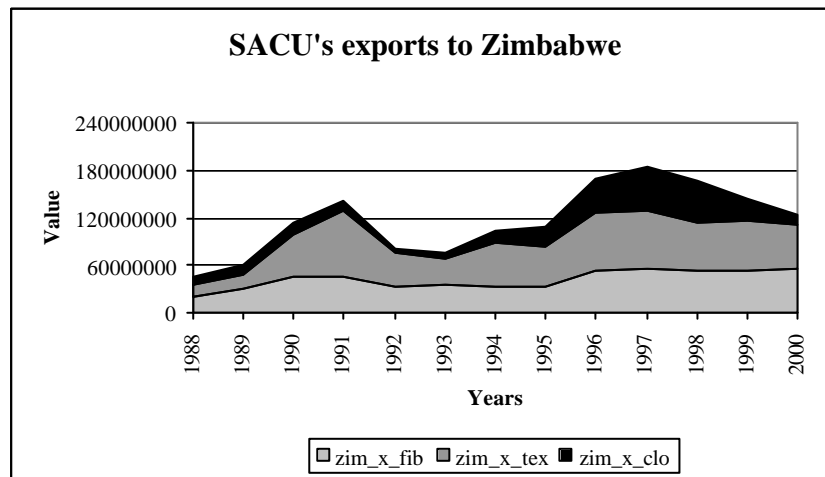
### SACU's Imports



SACU imports a substantial amount of fibre from Zambia.

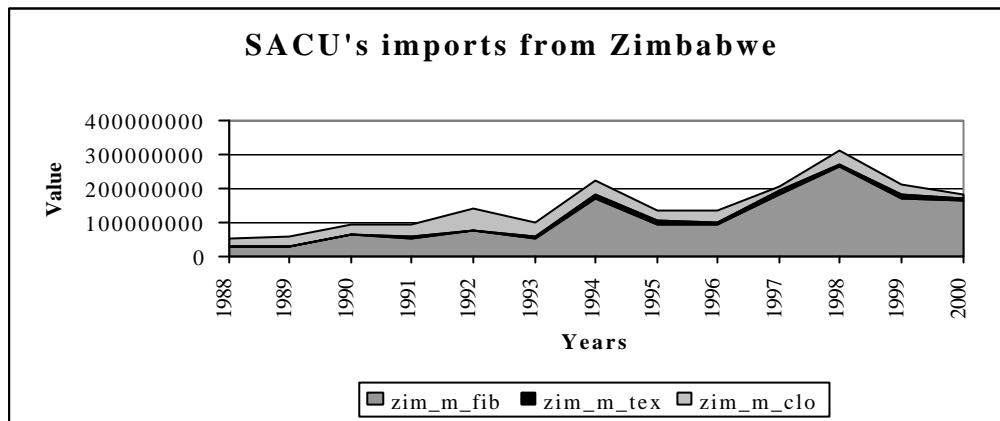
## ZIMBABWE

### SACU's Exports



SACU's share of clothing in exports has declined in recent years.

## SACU's Imports



SACU imports a substantial amount of fibre from Zimbabwe, and these imports have increased in recent years. A small amount of clothing is also imported.

## Scope for further research

It would be useful to estimate domestic demand for clothing, textiles and fibres in each SADC market. It is not feasible to do this though. Domestic demand can be satisfied by domestic supply or imports. Thus, if SACU is performing well as a regional supplier, it should make up the majority of this shortfall. If SACU is supply constrained (that is, supply is fixed) it must decide where its surplus production goes. Should it be exporting to SADC? Exporters want to make money and thus the only way to make money is to trade with countries that have money that is more valuable than the South African Rand.

However, if SACU is not supply constrained - as may well be the case with clothing, textiles and fibres - then it must look at countries that offer potential in terms of market growth. But, for the purposes of this paper, the debate is not whether SACU should export to SADC or not. Instead, transaction costs associated with this trade are examined in order to investigate the feasibility of a regional supply chain taking advantage of increased trade opportunities with the rest of the world.