PAUL KAMAU
Senior Research Fellow
Institute for Development Studies (IDS), University of Nairobi

Chinese ascendancy in the global clothing industry

Implications for sub-Saharan Africa

New preferential trade arrangements in the early 2000s made it easier for sub-Saharan African (SSA) countries to break into the global apparel trade. However, their continued participation in this highly competitive trade since 2005 has been a challenge due to the dominance of China and the elimination of quotas following the end of the Multifibre Arrangement (MFA). This has serious implications for SSA industrialization and export growth. This discussion examines the interaction of clothing trade between China and eight leading garment manufacturing SSA countries in the global market.

Background

China's rapid growth and dominance in the global clothing industry creates a major challenge for the conventional wisdom of industrialization as a core component of Africa's development strategy. These challenges are more severe in labor-intensive industries such as clothing, which would have provided a spring board for SSA to industrialize. These challenges are expressed through a combination of direct impacts (bilateral country-country relations) and indirect impacts (reflected in competition in third-country markets).[1] It is for these reasons that China's engagement in Africa has become a hotly debated topic, ranging from China as the new colonial power to China the model and savior.[2] China's impacts on Africa even in the clothing industry are direct or indirect and complementary or competitive. In other words, they are mixed, depending on the

[1] R. Kaplinsky, "What Does the Rise of China Do for Industrialisation in Sub-Saharan Africa?" *Review of African Political Economy* 35, no. 115 (2008): 7–22; R. Kaplinsky and M. Morris, "Do the Asian Drivers Undermine Export-Oriented Industrialization in SSA?" *World Development* 36, no. 2 (2008): 254–73; R. Kaplinsky, D. McCormick, and Mike Morris, "The Impact of China on Sub-Saharan Africa," IDS Working Paper No. 291 (Brighton, UK: Institute of Development Studies, University of Sussex, 2007); P. Kamau, D. McCormick, and N. Pinaud, "The Developmental Impact of Asian Drivers on Kenya with Emphasis on Textile and Clothing," *The World Economy* 111, no. 10 (2009):1467–95.
[2] S. Grimm, "China as Africa's Ambiguous Ally—Why China Has a Responsibility for Africa's Development," CCS Discussion Paper 1/2011 (Stellenbosch, South Africa: Centre for Chinese Studies, Stellenbosch University, 2011).

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nature of the economy.[3] Evidence has shown that the rise of China indirectly excludes outwardly oriented SSA clothing producers from global markets and directly squeezes locally focused producers.

This discussion contributes to this debate by examining how trade in clothing by African countries has responded to the ascendancy of China in the global and African markets. The broad objective of the study is to analyze quantitative trade data relating to clothing exports from the eight SSA countries, namely, Ethiopia, Kenya, Lesotho, Madagascar, Mauritius, Swaziland, South Africa, and Tanzania.

The clothing sector has traditionally been a gateway to export diversification and industrial development for developing countries. Even the current developed countries at one time depended on this sector for industrial development. Globally, trade in textile and clothing is significant, representing approximately 7.5 percent of world exports. Since the mid-1980s, developing countries overtook developed countries in their share of textiles and clothing exports. Currently, developing countries account for 50 and 70 percent of world exports of textiles and clothing, respectively. The clothing industry is more labor intensive than the textile industry; thus, labor-abundant developing countries have a comparative advantage in it. The clothing sector is thus particularly important for developing SSA countries, and for many of them it is the most important industrial sector in terms of export earnings, employment creation, and manufacturing value addition. Given its low entry barriers and its labor-intensive nature, this industry absorbs large numbers of unskilled workers (mostly female) and provides upgrading opportunities into higher value-added activities within and across sectors.[4]

The paper is based on the analysis of trade data from the United Nations Statistics Division's Commodity Trade Statistics Database (UN Comtrade) for HS 61 (Woven), HS 62 (Knitted), and HS six-digit levels. The analysis examines clothing imports from the eight SSA countries and

[3] See J. Onjala, "A Scoping Study on China—Africa Economic Relations: The Case of Kenya" (Nairobi, Kenya: African Economic Research Consortium, 2008); Grimm, "China as Africa's Ambiguous Ally"; H. Edinger and C. Burke, "AERC Scoping Studies on China-Africa Relations: A Research Report on Zimbabwe" (Nairobi, Kenya: African Economic Research Consortium, 2008); Kaplinsky et al., "The Impact of China on Sub-Saharan Africa"; and R. Kaplinsky and M. Morris, "The Asian Drivers and SSA: MFA Quota Removal and the Portents for African Industrialization," paper presented to a workshop on Asian and other drivers of change (St. Petersburg, Russia, January 18–19, 2006).

[4] D. McCormick and P. Kamau, "Adjusting to Chinese Ascendancy in the Global Clothing Industry: African Clothing Exports in the Post-MFA Era," ACFRN Working Paper 12, no. 1 (2013), www.acfrn.uonbi.ac.ke; C. Staritz, "Making the Cut? Low Income Countries and the Global Clothing Value Chain in Post-Quota and Post-Crisis World" (Washington, DC: World Bank, 2011); P. Kamau, D. McCormick, and N. Pinaud, "China's Impact on Kenya's Clothing Industry," in *Chinese and African Perspectives on China in Africa*, ed. A. Harneit-Sievers, S. Marks, and S. Naidu (Kampala, Uganda: Fountain Publishers Ltd., 2010), 108–125; Kaplinsky et al., "The Impact of China on Sub-Saharan Africa"; and D. McCormick, P. Kamau, and P. Ligulu, "Post-Multifiber Arrangement Analysis of the Textile and Garment Sectors in Kenya," *IDS Bulletin* 37, no. 1 (2006): 81–88.

China into the United States, European Union, and African markets.

Key findings

Predictions that all African clothing producers would fall rapidly into decline as they were overtaken by more efficient Asian counterparts were not borne out by the post-MFA experience. A careful examination of export data by country shows that performance after the termination of the MFA varied considerably. Exports in Mauritius and Madagascar actually rose between 2005 and 2007, while Lesotho's export trend was flat (see figure 1). Exports for Kenya and Swaziland drifted slowly downward in the same period. After 2007 (or 2008 in the case of Kenya), all five countries experienced a decline before picking up again in 2009 and 2010. By 2011, all countries' exports were less than they had been in 2005. For Kenya and Mauritius, the differences were fairly small. Exports in 2011 were 4.6 and 6.5 percent lower than these countries' 2005 totals, respectively. Madagascar, Lesotho, and Swaziland, however, showed more significant declines of −22.1, −20.1, and −18.2 percent, respectively.

The African Growth and Opportunity Act (AGOA) provisions have been responsible for a good deal of improvements in clothing exports to the United States. This saw a phenomenal growth of the clothing sector in most SSA countries during 2000–2005. The data show that SSA clothing exports to the United States rose from 2000 to 2004. For instance, exports grew from US$220 million in 2000 to US$798 million in 2004, an increase of about 362 percent. However, there was a decline following the MFA phase-out, and by 2010, the SSA exports stood at only US$332 million. This could be attributed to the surge of Chinese clothing exports into this market that grew drastically. Looking at both knits and woven clothing, there is evidence to show the increasing dominance of China in the U.S., EU, and African markets, especially after 2005 (figures 2–3).

Europe is the second largest world clothing market after the United States in terms of size. Unlike the U.S. market, EU markets tend to be highly fragmented, and therefore the demand is somewhat diverse.[5] Because of the fragmentation, demand tends to vary from country to country. China continues to dominate in this market for both the HS 61 and HS 62: in 2010, it accounted for 42 and 48 percent, respectively. For the same products, China accounted for 18 and 20 percent in 2001, an indication that Chinese competition has intensified over the past decade. The growth of China in the EU market rose remarkably between 2004 and 2005, when the market share increased from 20 to 29 percent for HS 61 and from 30 to 39 percent for HS 62. The penetration by the ACFRN (African Clothing and Footwear Research Network) countries into the EU market has not been easy.

Clothing exports within Africa by African countries (intra-Africa trade) are dominated by South Africa, Mauritius, Kenya, and Madagascar. These countries account for a substantial share of the traded volume

5 See Kamau et al., "The Developmental Impact of Asian Drivers."

(within Africa) in absolute and relative terms. As of 2011, these three countries accounted for almost all the traded volume in the HS 62 category. However, China's exports into the African market have grown dramatically over the years. China is currently the dominant trader in clothing in Africa. In the HS 61 category, for instance, the value of Chinese exports to Africa stood at US$52 million in 2000 and expanded to a whopping US$560 million in 2011, accounting for 61.8 percent of the traded volume in this category.

China dominates in the three markets, and this dominance has been increasing drastically. Most of the SSA countries are dependent on the U.S. market, which absorbs about 90 and 95 percent of Kenya's and Lesotho's clothing exports, respectively. Madagascar, Mauritius, and Ethiopia have some penetration in the EU markets. South Africa, which had dominance in African markets, is gradually being overtaken by Mauritius and Lesotho due to the local embeddedness.[6]

Conclusion

In conclusion, SSA countries have a major challenge to their clothing and textile exports due to dominance by China. This analysis shows that exports by SSA countries to the U.S., EU, and African markets is shrinking, while those of China are growing. Although this industry is critical for SSA, there is likelihood of its being taken over by China.

So far, the sustainability of SSA clothing exports in the global markets has been supported by trade preferences, such as AGOA. It is apparent that most of the SSA countries are dependent on China for raw materials and machinery for the clothing industry and are expected to compete with China in global markets. Therefore, without trade preferences, the clothing industry in Africa is unlikely to compete with Chinese exports in home and third world markets.

[6] M. Morris, C. Staritz, and J. Barnes, "Value Chain Dynamics, Local Embeddedness, and Upgrading in the Clothing Sectors of Lesotho and Swaziland," *International Journal of Technological Learning, Innovation and Development* 4, no. 1–3 (2011): 96–11.

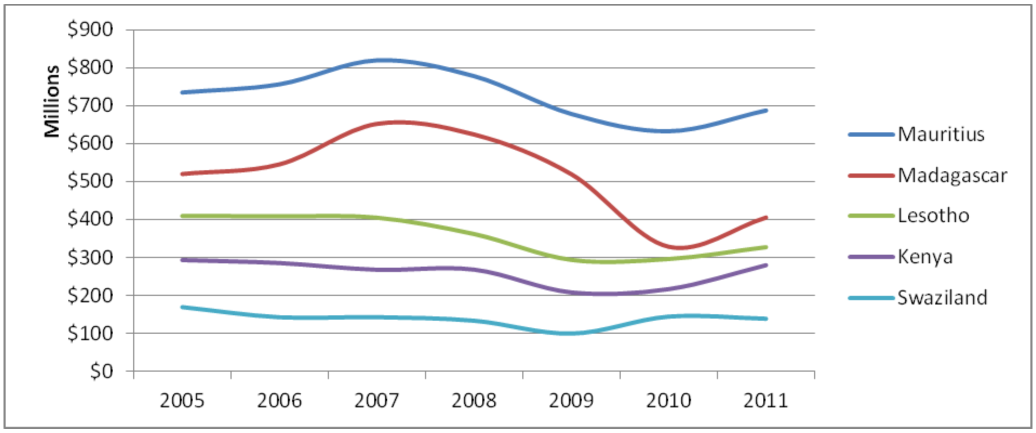

Figure 1: SSA Post-MFA Exports of Apparel to the World, 2005–2011

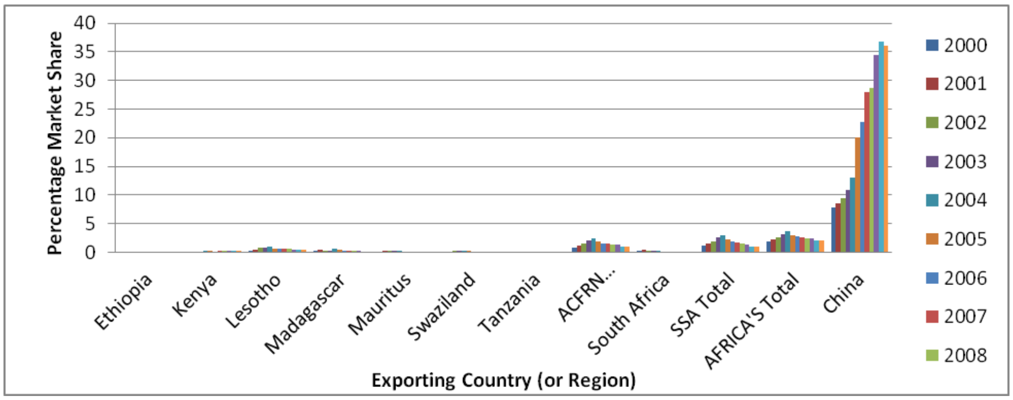

Figure 2: HS 61 Market Shares of Exports to the United States, 2000–2011

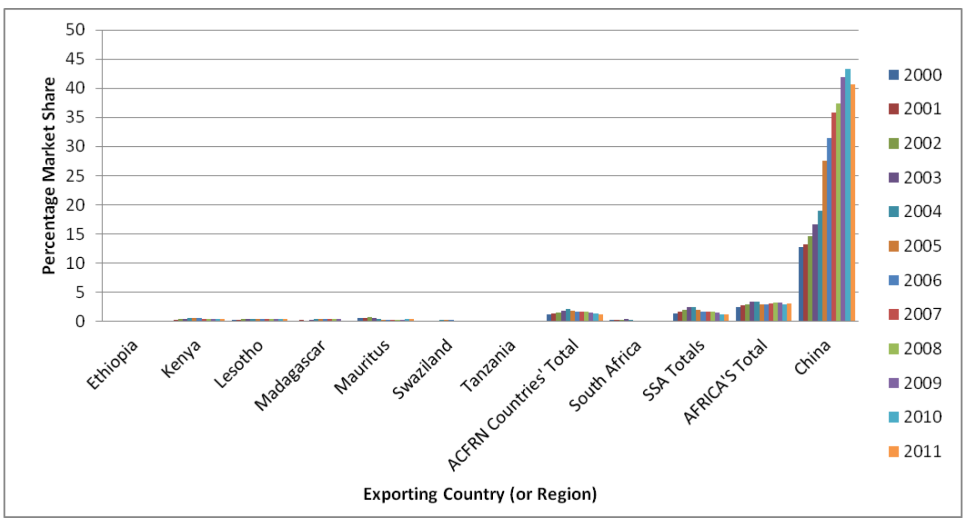

Figure 3: HS 62 Market Shares of Exports to the United States, 2000–2011