Challenges for sub-Saharan Africa as an apparel sourcing hub

By Dr Sheng Lu | 20 September 2019

Despite the much discussed potential of sub-Saharan Africa as an apparel sourcing hub, the region still has a long way to go before it can play a more significant role in the supply chain. Here Dr Sheng Lu, associate professor in the Department of Fashion and Apparel Studies at the University of Delaware, sets out some of the challenges.


Sub-Saharan Africa is a promising destination for apparel sourcing – but faces challenges in reaching its potential

Amid the escalating US-China tariff war, US fashion brands and retailers are increasingly keen to find alternatives to 'Made in China.' For example, according to the 2019 US Fashion Industry Benchmarking Study released by the US Fashion Industry Association (USFIA), around 83% of respondents say they plan to reduce sourcing from China in the next two years and diversify their current supply base.

Sub-Saharan Africa (SSA) is one of the most popular emerging sourcing destinations that are often regarded as the "next China."

In 2000, US Congress established the African Growth and Opportunity Act (AGOA), a non-reciprocal trade preference programme, to help developing SSA countries grow their economies through expanded exports to the United States.

Because clothing production plays a dominant role in the economic development of many SSA countries, apparel has become one of the top exports under AGOA. In particular, the so-called "third-country fabric provision" allows US apparel imports from certain SSA countries to qualify for duty-free treatment even if they use yarns and fabrics produced by non-AGOA members, such as China, South Korea, and Taiwan.

This special rule is deemed key, as most SSA countries still have no capacity in producing capital and technology-intensive textile inputs.

That being said, SSA faces a number of major challenges that need to be overcome if it is to play a more significant role as a leading apparel sourcing base.

Challenge #1: Limited industry upgrading and local textile production capacity

Textile to apparel export ratio

Countries	2005	2010	2015	2017
Lesotho	N/A	11.3%	8.0%	8.1%
Kenya	26.7%	31.9%	N/A	11.3%
Mauritius	6.8%	9.0%	11.9%	18.2%
China	55.4%	59.2%	62.4%	69.6%
Vietnam	15.5%	29.5%	25.6%	28.8%

Source: UN Comtrade (2019)

Theoretically, as a country's economy advances, it should gradually shift from making and exporting labour-intensive apparel items to more capital and technology-intensive textile products (such as yarns and fabrics).

As shown in the table above, this is a notable trend for Asian countries such as China and Vietnam, whose **textile to apparel export ratio** – that is, the value of textile exports versus apparel exports – has been rising steadily between 2005 and 2017.

In comparison, reflecting the stagnant industry upgrading over the past decades, the textile to apparel export ratio remains fairly low among most SSA countries, including Lesotho, Kenya and Mauritius, the top three largest apparel exporters in SSA. Statistics show that as of 2017, the textile to apparel export ratio of these three countries was still below 20%, and without a clear upward trajectory.

This echoes the concerns of many US fashion brands and retailers that a **lack of a vertical textile and apparel supply chain in SSA makes it challenging to source from the region**, especially for large orders.

Challenge #2: Slow or no progress in export diversification

Textiles and apparel as a percentage of manufacturing exports

Exporters	2000	2005	2010	2015	2017
SSA	11.5%	6.1%	4.8%	5.8%	5.8%

Lesotho	81.9%	78.9%	65.0%	80.2%	80.5%
Kenya	10.7%	21.5%	14.8%	N/A	24.1%
Mauritius	85.5%	79.5%	76.1%	73.8%	60.3%
China	23.7%	16.5%	14.0%	13.2%	12.6%
Vietnam	34.4%	33.4%	29.1%	21.1%	18.2%
South Asia	52.4%	39.7%	31.7%	34.9%	23.6%

Source: UN Comtrade (2019)

In the history of many developed countries, such as the US and Japan, textiles and apparel were a critical driver of export growth. This is also the case for most emerging economies today, including China, Vietnam, and countries in South Asia.

However, as a national economy becomes more sophisticated, textiles and apparel should gradually account for a declining share in a country's total manufacturing exports. For example, as shown in the table above, even though China remains the world's largest textiles and apparel exporter, these products only accounted for around 12% of the country's total manufacturing exports in 2017 – half of the share seen back in 2000 (approximately 24%).

In comparison, SSA countries are not following the traditional development path. On the one hand, in countries such as Lesotho, textiles and apparel have continued to account for over 80% of total manufacturing exports over the past 17 years without a clear sign of export diversification.

Meanwhile, in other SSA countries, textiles and apparel account for less than 10% of total manufacturing exports, suggesting the sector is not regarded as a development priority for the local economy. This also partially explains why the textiles and apparel sector has received limited government policy support, and why US and EU investors have been hesitant to build up factories in the region.

Challenge #3: Intense competition in key export and domestic markets

Apparel imports from SSA countries (by value)

Markets	2000	2005	2010	2015	2017
World	1.1%	0.7%	0.6%	0.5%	0.6%
USA	1.7%	1.2%	0.7%	0.5%	1.1%
EU	1.2%	0.6%	0.4%	0.4%	0.4%
SSA	15.6%	12.0%	16.4%	8.6%	11.4%

Source: UN Comtrade (2019)

SSA apparel export markets are highly concentrated. In 2017, nearly 97% of SSA countries' apparel exports went to just three markets – the United States (33.7%), EU (26.1%) and the regional SSA market (37.1%).

However, as shown in the table above, **due to intense competition, SSA countries hold minimal shares in all key apparel export markets** – **1.1% in the US, 0.4% in the EU, and 11.4% in the regional market as of 2017.** Likewise, SSA countries together accounted for 0.6% of world apparel exports measured by value in 2017, which was even lower than the 1.1% they achieved in 2000.

Import to export ratio: apparel (by value)

Countries & regions	2000	2005	2010	2015	2017
SSA	30.6%	87.4%	160.4%	171.8%	120.4%
Kenya	122.7%	13.9%	34.1%	N/A	41.7%
Lesotho	7.3%	N/A	26.8%	23.1%	13.7%
Mauritius	2.0%	6.1%	9.6%	9.3%	14.4%
Ethiopia	11,726.6%	5,873.8%	1,077.0%	634.3%	625.8%
Bangladesh	4.2%	3.6%	4.2%	3.6%	N/A
China	3.3%	2.1%	1.6%	3.3%	4.1%
Vietnam	24.7%	7.1%	4.3%	3.8%	3.6%
South Asia	2.2%	2.0%	3.4%	4.0%	4.8%

Source: UN Comtrade (2019)

Even more concerning, the textiles and apparel industry in SSA countries is **facing growing competition in the domestic market from cheap imports**.

Indeed, SSA countries are **importing MORE clothing than they export, a phenomenon rarely seen among countries at a similar stage of economic development.**

For example, considering the SSA region as a whole, its **apparel import to export ratio** – the value of apparel imports versus exports – reached 120.4% in 2017, compared with less than 5% in most Asian countries, such as China, Vietnam and those in South Asia. In some SSA countries, such as Ethiopia, the apparel import to export ratio exceeded 625% in 2017, meaning apparel imports that year were more than six times as high as exports.

Trade statistics also suggest apparel exports from Asian countries to the SSA region are increasing particularly fast. For example, between 2007 and 2017, the value of apparel imports from East Asia and South Asia surged by 23.7% and 100.1%, respectively.

Challenge #4: US companies have little interest in investing in the region

According to several recent studies, leading US fashion brands and retailers have little interest in investing in the SSA region directly, even though companies say more investments in areas such as infrastructure are critical to its success as a competitive apparel sourcing base.

Not surprisingly, most foreign investments in the SSA textiles and apparel sector come from Asia, which intends to take advantage of trade preference programmes like AGOA.

Some argue that the "temporary" nature of AGOA make companies hesitant to build factories in SSA. However, should AGOA become a permanent free trade agreement, which follows the principle of reciprocity, SSA countries would have to lower their trade barriers to US products, including eliminating tariffs and non-tariff barriers, in exchange for market access benefits. It doesn't seem as if many AGOA members are ready for that stage yet.

Conclusion

While sub-Saharan Africa remains a promising destination for apparel sourcing, it is important not to ignore the major challenges the local textile and clothing industry is facing.

The past decade's trade preference programmes, such as AGOA, don't seem to have solved the structural issues that are hindering the long-term development of the region's textile and apparel industry. More work needs to be done to improve the genuine competitiveness of these countries' garment exports and help find a sustainable path to economic development.

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