

THE ASIAN DRIVERS AND SSA: IS THERE A FUTURE FOR EXPORT ORIENTED AFRICAN INDUSTRIALISATION?

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SUMMARY

Export-oriented industrialisation is the orthodoxy and is widely indicated as a development path for sub-Saharan Africa. In recent years there has been a surge of clothing exports from a limited number of SSA economies to the US. In 2006 these exports accounted for more than half of SSA's manufactured exports (excluding South Africa). However, the ending of quota controls on Chinese clothing exports to the US led to a significant fall in these exports. Is this a harbinger for the future of export-oriented industrialisation in SSA in a world of a level trading playing field?

Key words

Export oriented industrialisation

SSA

China

Clothing and textile industry

Fallacy of composition

1. INTRODUCTION

Industrialisation paths for emerging economies have traditionally stressed the importance of the development of their export oriented manufacturing sectors as the critical step along an industrialisation path leading to higher incomes and increased employment. However the fundamental question that the recent decade of deepening globalisation poses for this approach is the following: what is the prognosis for export-oriented industrialisation given the rise of the Asian Drivers (China and India) and their increasing dominance of global trade of labour intensive manufactures? In assessing the impact of the Asian Drivers (China and India) on SSA (or indeed any other region or economy) it is important to distinguish between two dimensions of effects. The first of these is the competitive-complementary dimension. Is there a synergistic fit between the trading economies with win-win elements predominating, or is their relationship one of competition, a win-lose outcome? The second and more complex dimension is that between direct and indirect effects. Direct effects are easy to assess, arising from the bilateral relationship between the two economies, for example direct trade links between the Asian Drivers and other economies. Indirect impacts are more complex to assess, arising in third-country economies, for example the impact which the Asian Drivers have on prices and market shares in third-country markets.

In this paper we attempt to assess the indirect impact on SSAs outward oriented industry of China's growing global manufactured exports in the context of a preferential trade access arrangement which favours such an industrialisation path. This is done through an analysis of SSA's clothing and textile exports under the African Growth and Opportunities Act (AGOA) which provides preferential access to SSA exporters into the US market. Since, excluding South Africa, more than half of all SSA's manufactured

exports are made up of clothing alone (Kaplinsky and Morris, 2008), what happens in this sector may be a portent for SSA's export oriented industrialisation in the future. South Africa is excluded from this analysis for three reasons. First, its export base is significantly more diversified than that of all other SSA economies, and the rise of China poses different sets of challenges to South Africa. Second, its well-developed clothing and textile sector has predominantly been domestically-focused, and whilst this industry has been significantly affected by competition from China (Morris 2007), this competition poses different challenges from those confronting exporters to the US and the EU. And, third, because of its relatively high per capita income, South African clothing firms exporting to the US have not been able to take advantage of fabric imports from China (see below).

We will largely take as read the phasing out of the Multifibers Agreement/Agreement on Textiles and Clothing which had previously governed much of global trade in this sector. In brief, the final quotas governing exports from key Asian exporters to the US and the EU were removed on the 31st December 2004. Whilst SSA AGOA exporters still benefited from a tariff preference exceeding 13 percent in the range of clothing products, China and other previously quota-constrained exporters were no longer held back by quantitative controls.

2. SSA CLOTHING EXPORTS AND AGOA

This structure of the global clothing and textiles sector reflects three major factors. The first, is the concentration of global buying power in the industrialised countries (Gereffi and Memedovic 2003; Kaplinsky, 2005). The significance of this buyer concentration is

their requirement for large volumes (and of course low prices). This has made it difficult for small scale suppliers to meet the requirements of large global buyers, and this has advantaged countries such as China with large volume plants, and transnational companies (often based in Hong Kong and Taiwan) who have a competitive advantage in organising large scale production runs.

The second major explanation for the structure of global production has been costs and efficiency. Although the clothing industry has become increasingly characterised by the requirement for shorter lead-times, greater inter- and intra seasonal variety and tighter logistics (ITC, 2004; Kaplinsky, 2005), cost has been king in this industry. The intensity of competition in these areas has been reflected in cost pressures, and since the mid-1990s there has been a secular downtrend in the global price of clothing (USITC, 2004; Manchester Trade Team 2005).

The third and the most important determinant of global production structure has been the protective regime, since this has determined the pool of countries who can reliably serve these large scale global buyers with low cost and quality-assured product. In recent years AGOA has been the most effective preferential trade access regime favouring SSA clothing and textile exporters, particularly for Kenya, Lesotho and Swaziland (Table 1 provides the data for key SSA Eastern and Southern African clothing exporters; it excludes Mauritius, most of whose export go to the EU).

Table 1. Share of US in exports of key SSA clothing exporters.*

Country	Year	Exports \$ '000	US Share (%)	AGOA as Share of Exports to US (%)
Kenya	2000	78,000	89.6	NA
	2005	306,000	95.3	98.5
Lesotho	2000	154,000	94.9	NA
	2005	406,000	96.5	99.4
Madagascar	2000	633,000	18.9	NA
	2005	771,000	37.0	98.5
Swaziland	2000	56,000	88.4	NA
	2005	171,000	99.4	99.0

* Mauritius is a major SSA exporter but is excluded from this table as most of its exports go to the EU

Source: UNSD COMTRADE database, accessed via World Integrated Trade Solution (WITS) on 15th December 2005; Country and sectoral data calculated on the basis of US imports

AGOA was signed into USA law on 18th May 2000, aiming to assist SSA by using trade as a means of generating revenue, investment and employment. The largest manufacturing sector beneficiary of AGOA has been the clothing and textiles sector, since the key relevant element of AGOA is that it extends the GSP preferences offered to low-income economies to clothing and textiles. AGOA incorporated different rules of origin to the GSP. It built on procedures which had been established early in the 1990s in relation to the Caribbean Basin Initiative allowing for the use of US-origin inputs or regional inputs in the calculation of minimum levels of value added (35 percent).

Nevertheless, despite these concessions, few SSA economies were able to meet these rules of origin in the clothing and textiles sector. Thus, in a further key amendment, AGOA-qualifying countries which were also classified under the UN's "least developed category" (that is, per capita incomes of less than \$1,500 in 1998) were also subject to a further amendment to GSP rules of origin. That is, until September 2005 (subsequently amended to September 2012) they could source their material and accessory inputs from non-AGOA and non-US bases suppliers (up to a restricted share of US clothing imports), including from China and other Asian economies. In other words, they were freed from the minimum value added requirement.

In 2004, the five largest exporters of clothing and textiles to the US under the AGOA scheme were Lesotho, Madagascar, Kenya, Mauritius, and Swaziland (Table 1). The critical issue is the relationship between total exports of clothing and textiles and those which were under AGOA. In 2004, excluding Mauritius and South Africa, more than 95 percent of SSA clothing and textiles exports to the US has been via AGOA's preferential trade access. The share of AGOA exports in all exports grew rapidly between 2001 and 2004 (particularly for Swaziland and Kenya), and this reflects two general tendencies. First, new investments (including plant-expansion) were made, directly targeting AGOA exports to the US. And, second, in some cases pre-existing plants exporting to the US were brought under the AGOA umbrella. The impact that this clothing and textiles based industrialisation process has had on creating wage employment and reducing poverty in these poor SSA countries has been huge (see below).

3. SSA AGOA CLOTHING EXPORTS POST QUOTA REMOVAL

In assessing the outcome of the first year of quota removal, we focus on aggregate AGOA exports, as well as the major exporters (with the exception of Mauritius), namely Lesotho, Swaziland, Kenya, and Madagascar. We concentrate on the clothing sector since, with the exception of South Africa, there are negligible direct exports of textiles to the US. In each case we compare export volumes, unit prices and market shares with China. (See Kaplinsky and Morris, 2006 for more detailed analysis and for a comparison with India and other East Asian economies).

As can be seen from Table 2 and Figure 1, the major trends were that:

- The value of African clothing exports to the US dropped by 17 percent in the first year after quota removal. Lesotho and Madagascar experienced a 14 percent fall and Swaziland's exports declined by 10 percent. The major outlier was Kenya, where exports declined by only three percent. By contrast, the value of China's exports to the US of the same products grew very rapidly, by 58 percent by comparison with all AGOA exports and to a larger extent by comparison with the 10 major traded products of individual countries.¹
- Unit prices on average remained reasonably stable in key product groupings for individual countries, with Madagascar experiencing the sharpest decline (10 percent). By comparison, in the same product groupings, the unit value of

¹ In each case in Table 2, we compare Chinese export values and unit values in the 20 largest 10-digit product groupings for AGOA and each SSA country's exports to the US.

Chinese exports almost halved. (However, it is not clear to what extent this was due to a reduction in the unit prices of individual products, or China's entry into producing lower-end products within each of these 10-digit product classifications)

- In general AGOA economies performed less badly in their major exported items than they did in aggregate, suggesting a process of specialisation. However, alarmingly, in general China's export growth in these sectors and the rate of price decline was faster than for its overall exports, suggesting potentially heightened competition for SSA products in the future.
- The share of SSA exporters in the US clothing and textiles imports grew between 2001 and 2004, reflecting the combination of quota-access and preferential AGOA trading arrangements. However, the removal of MFA quotas set back this advance, and African exporters experienced a significant fall in their share of the US market after quota removal. By contrast, the share of China in each of these major product markets grew significantly (Figure 1).

Table 2; Change in value of exports and unit prices in clothing exports to the US, 2004-2005 (%), weighted average of top 10 products for individual countries*

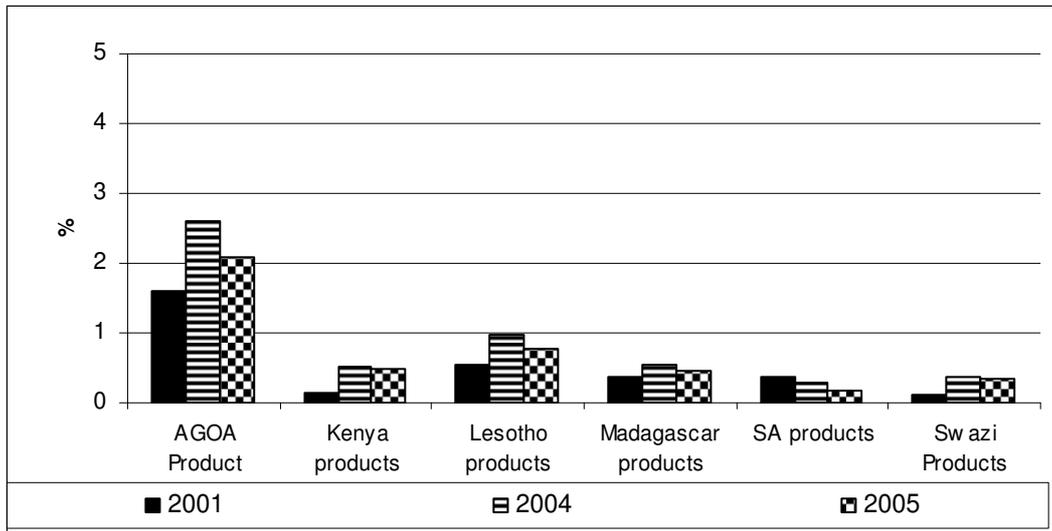
	Value (% change)		Unit prices (% change)	
	SSA	China	SSA	China
AGOA	-17	58	-0.9	-45.9
Lesotho	-14	111	-3.2	-46.2
Madagascar	-14	72	-9.5	-44.0
Swaziland	-10	93	-2.7	-51.9
Kenya	-3	78	-1.9	-44.8

Source: Calculated from <http://dataweb.usitc.gov> data, accessed on 19th March 2007

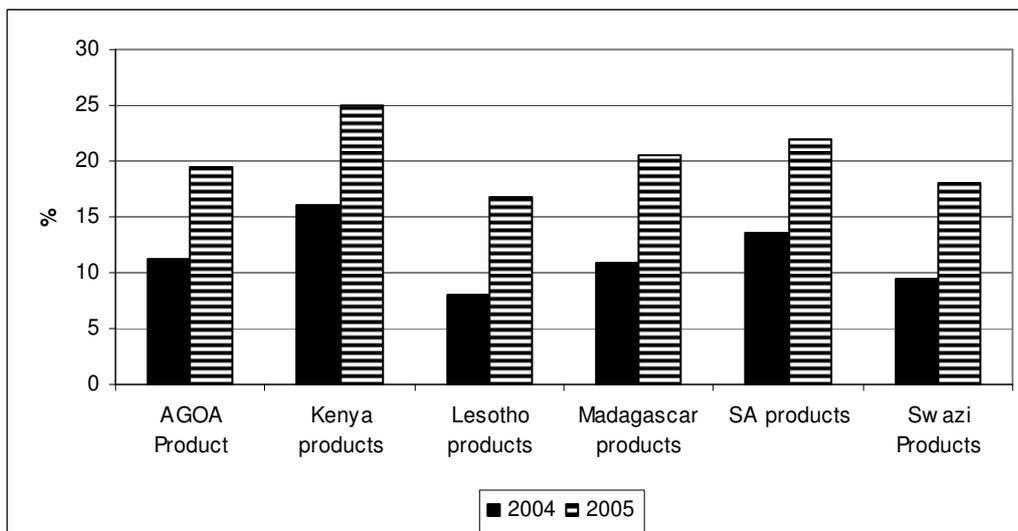
* Unit prices calculated for top 10 products in 2004 for each AGOA country's exports

Figure 1: AGOA and China import share in products in which AGOA countries specialised

AGOA country share of US market in 10-digit product categories in which country exports were concentrated in 2005



China's share of US market in 10-digit product categories in which AGOA country exports were concentrated in 2005



Source: Calculated from <http://dataweb.usitc.gov> data, accessed on 10th January 2006

Source: Industry and Government interviews

A major consequence of this decline in exports from the AGOA region was the impact on employment and overall economic activity. At its peak, in 2002, Lesotho's clothing exports to the US accounted for virtually all manufactured exports, and were equivalent to 50 percent of GDP. In Kenya in 2003, clothing enterprises accounted for the equivalent of nearly 20 percent of all formal sector manufacturing employment. Table 3 shows the impact of quota removal on employment in 2005. In Swaziland, most severely affected, overall employment fell by 43 percent; in Lesotho it fell by 26 percent, although it revived somewhat (but not to previous levels) in 2006. In Kenya (where clothing exports had only fallen by three percent in 2005), employment declined by nearly ten percent.

Table 3: Employment decline in the clothing sector, 2004-2005.

	2004	2005	% decline
Kenya	34,614	31,745	9.3
Lesotho	50,217	40,000	25.9
Swaziland	28,000	16,000	56.2

Source: Kenya and Swaziland - Industry and Government interviews; Lesotho- Morris and Sedowski 2006b;

4. WHAT DO US BUYERS THINK OF SSA AS A SOURCE OF CLOTHING IMPORTS?

The broad conclusion from this trade analysis is that although there has been considerable pricing pressure and employment loss, and although some sectors (knitwear) and some economies (Swaziland) were hit worse than others, SSA AGOA exports were surprisingly resilient. This outcome, at least in the first year after quota removal, runs against some of the bolder predictions of the post-quota future of SSA's clothing and textile sector (See, for example, USITC, 2004).

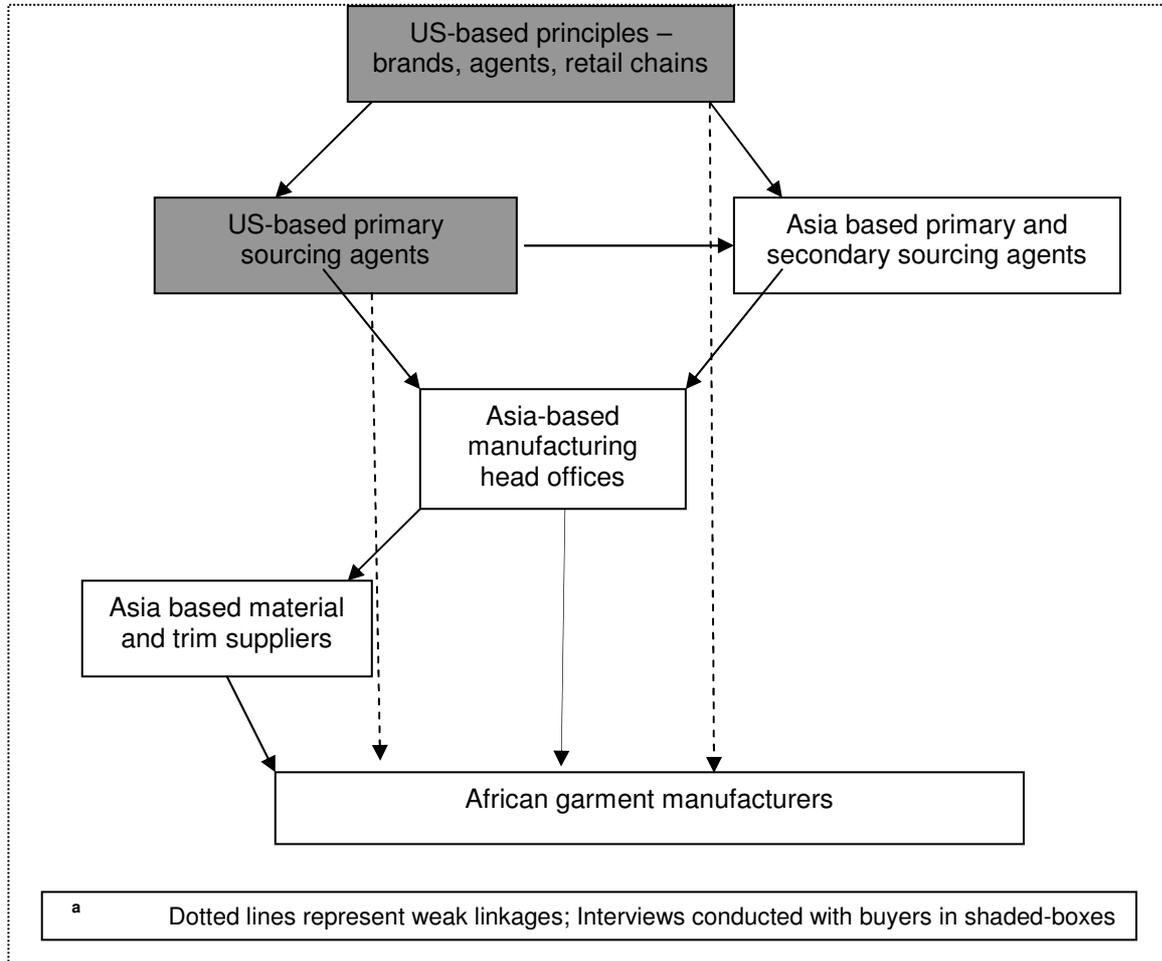
In searching for an explanation for this we polled the major US buyers. The purchasing process is triggered by the final retailers in the US who, often using in-house design offices, define the product lines and price points which they require for the coming season. In a very limited number of cases retailers (such as Walmart) and brand-sellers (such as The Gap) make direct contact with manufacturers. But in most cases they pass over their requirements to US-based primary sourcing agents. These primary sourcing agents, in turn, either contact secondary sourcing agents in producing countries, or more commonly and especially when there are very large orders, make contact with Asian-based manufacturing companies (the "triangular manufacturers"). It is these manufacturing houses who ultimately decide where different products are to be sourced from, and most often provide clothing manufacturers not just with the designs, but also the fabrics which they use. However, in most cases the US principals and sourcing agents are aware of the source of these garments and influence the decision made by their Asian intermediary buyers and manufacturing houses

Our interviews were exclusively with the US-based retail and sourcing agents, shaded grey in Figure 2. Our reasons for this decision were based on the premise that SSA

clothing exports were overwhelmingly destined for the US final market (Tables 1), and we assumed that it was here that the key sourcing decisions were to be made.

The views and perspectives of 20 U.S. buyers were obtained through a telephone survey undertaken in the summer of 2005. These companies are large, multi-store operations with substantive global sourcing activities in clothing and other consumer goods. The participants came from four key market segments: branded specialty retail (nine responses), manufacturers (branded and private label, eight responses), department stores (two responses), and mass merchants (one response). The share of their total sourcing portfolio which comes from SSA ranges from one to five percent with the exception of one small company (turnover of \$30m in 2004) which obtained 30 percent of its product from SSA.

Figure 2: Triangular manufacturing and SSA clothing exports to the USA^a



Amongst the issues we explored with buyers (see Kaplinsky and Morris 2006 for a discussion of wider issues) was whether quota-removal was likely to lead them to retreat from SSA, and whether this differed between the short-term (the coming one-to-two years) and the medium-term (the coming three-to-five years). A key response (Table 4) was that 16 of the 19 respondents said that they were largely sourcing from SSA in order to compete on price. Their inability to access product from quota-constrained economies such as China had not been the major reason why they were

importing from SSA.² Second, and as a consequence of SSA's current price competitiveness, around half of the buyers thought that there would be no change over the coming two years, and four of them said that, if anything, they were likely to increase purchases from SSA. However, there is clearly an expectation that SSA will suffer from diminishing competitiveness, since when asked about intentions over the medium-term, almost half of the buyers (nine of the 19) thought that they were likely to decrease imports from SSA over the three-to-five year time horizon.

Table 4: How important have MFA quotas been in your decision to source from SSA?

(Number of buyers)

	Decrease	Unchanged	Increase	Total
"How are you likely to change SSA sourcing as a result of quota elimination?"	3	16	0	19
"What are your plans to source from SSA in the next 1-2 years?"	4	11	4	19
"What are your plans to source from SSA in the next 3-5 years?"	9	8	2	19

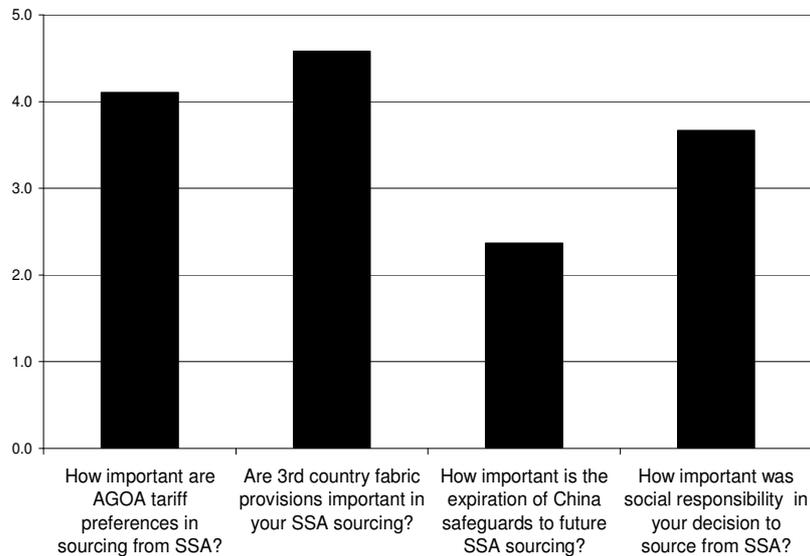
If quotas were not a major reason why buyers currently source from SSA, then how important are AGOA preferences to SSA's competitiveness? The response (Figure 3) was that this was clearly critical, with more than half of the buyers (10 out of 19)

² However, to some extent SSA's price competitiveness had its origins in the quota-system. Given an absolute limit in the number of items which could be exported, Chinese producers generally tended to concentrate on high-price, high-margin products, leaving SSA concentrated at the bottom-end of the price range.

reporting that it was “very important”. However, even more important was the view that it was the derogation on the rules of origin allowing AGOA economies to source fabrics from Asia which made it possible for these economies to compete (15 of the 19 buyers characterised this as being “very important”). Again, reflecting the fact that quotas have not been the basis for sourcing from SSA in recent years, few of the buyers thought that existing or likely future “China safeguards” would make much difference.³ A majority of buyers also thought that consumer pressures on Corporate Social Responsibility (CSR) were a significant factor in sourcing from SSA, reflecting the growing commercial need of buyers to show awareness of the poverty-impact of their sourcing decisions.

³ The Chinese accession agreement to the WTO, allows for safeguard tariffs and quotas to be applied solely against Chinese textiles and clothing, even when imports exert only a slight adverse impact on the domestic industry. In June 2005, the EU and China reached an agreement that limited 10 categories of Chinese textiles exports to the EU to between eight and 12.5 percent growth above a specified base period for the next three years. In December 2005, the US and Chinese trade representatives agreed to a three-year agreement reducing US imports of Chinese textile and apparel products in all or parts of 34 sensitive categories.

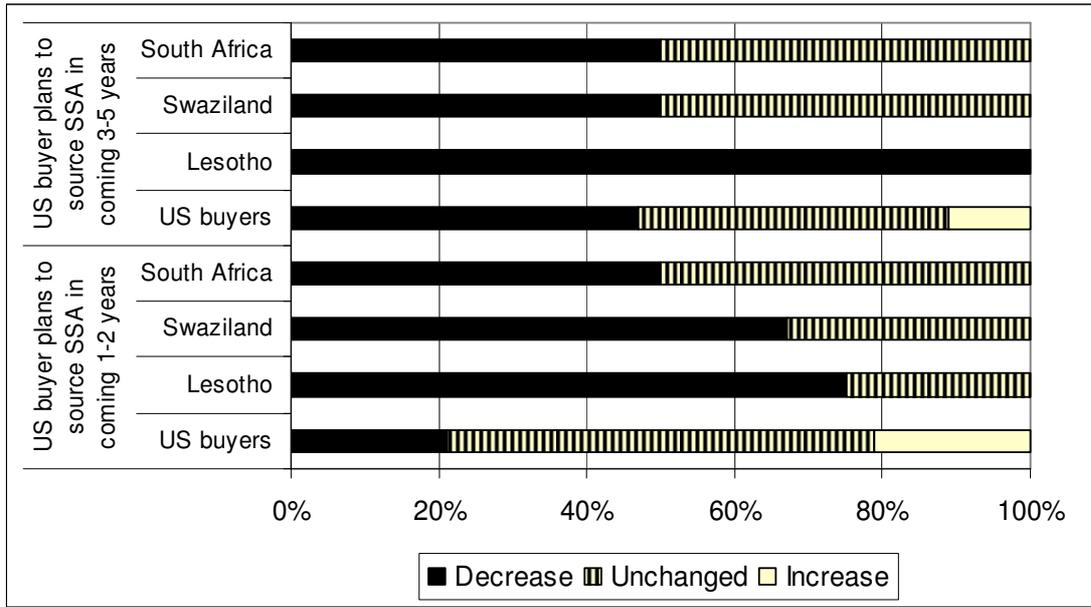
Figure 3: Buyer perceptions of the relative importance of AGOA preferences, China safeguards and corporate social responsibility in the decision to source from SSA
(1=not important; 5= very important)



To close the triangle, we also interviewed enterprises in the five SSA countries. One of the more surprising outcomes of these plant level visits was the unrealistic pessimism of the firms, at least insofar as this is reflected in responses from enterprises in Kenya, Lesotho, and Swaziland⁴. As Figure 4 shows, the US buyers have much more positive intentions of staying in the region than the firms perceive. Fully 80 percent of them expect either to have unchanged purchasing requirements or increased requirements from SSA over the short term (one-two years), and almost half believe that this would be the case even over the medium term (three to five years). By contrast, producers in all countries (and especially Lesotho) think it much more likely that sourcing requirements will deteriorate.

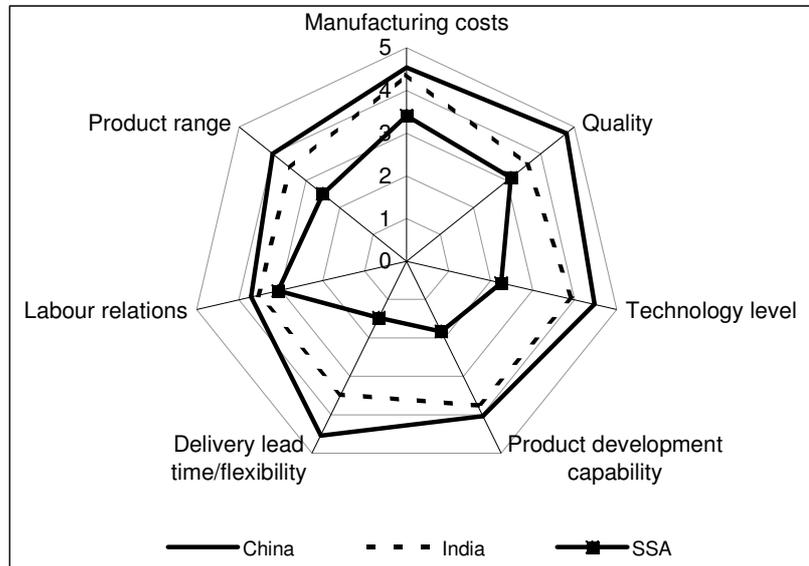
⁴ We also polled South African clothing firms but their responses are not reflected here given our focus on primarily export oriented clothing economies.

Figure 4: Producer perceptions of future sourcing from SSA



Finally, we asked the US buyers to rank the performance of firms in SSA when compared to Chinese and Indian counterparts (Figure 5). Chinese firm capabilities were clearly seen to be more developed, in every respect, followed by Indian suppliers and the, some way behind, by SSA suppliers. The performance gap was smallest for labour relations, and greatest for delivery time and flexibility, product development capabilities, technology levels and quality. With the exception of delivery time, these are all areas where SSA firms can improve and this is an issue which we address in the policy conclusions below.

Figure 5: The performance of SSA, China and India clothing firms on operational factors
(1=very poor performance; 5=excellent performance)



Source: Company interviews

5. CAN AN EXPORT-ORIENTED SSA CLOTHING AND TEXTILE INDUSTRY SURVIVE IN THE POST-QUOTA ERA?

Contrary to the expectations of many, the removal of quotas has not led to a collapse of AGOA clothing and textile exports. We should however put one large caveat on this conclusion. One key informant asserted that the reason why export values seem to have declined less than employment has been due to illegal transshipments from China, with clothing either directly brought into AGOA countries and then re-exported, or the paperwork suggesting that this was the case. (This is akin to transfer-pricing, which has long bedevilled international trade statistics and undermined government tax revenues). It is notable that the ten percent fall in Swazi exports to the US is much lower than the loss in total employment (43 percent in the same period). We are

unable to judge whether these assertions are accurate and the analysis below is agnostic on the issue.

It is widely believed that by limiting China's export surge, the introduction of China safeguards in the US (and in the EU) midway through 2005 would lead to a further strengthening of SSA clothing and textile exports. However, the impact of the imposition of China safeguards is generally misinterpreted. Although designed to "protect domestic industry" from Chinese competition, it is not only China whose exports were kept out of major importing markets by quotas. Other low-cost and high-quality Asian producers are similarly able to compete effectively in the major markets, and they, rather than SSA or domestic industries in the US and the EU, are likely to be the primary medium term beneficiaries of China safeguards. Firm interviews reported some resurgence of orders to SSA in the immediate aftermath of China safeguards. In the immediate context of safeguards being imposed, existing relationships between US buyers and SSA producers clearly have had a role to play when alternative sourcing was necessary. The key however lies in the medium term, when buyers have more time to make and set in place new sourcing decisions.

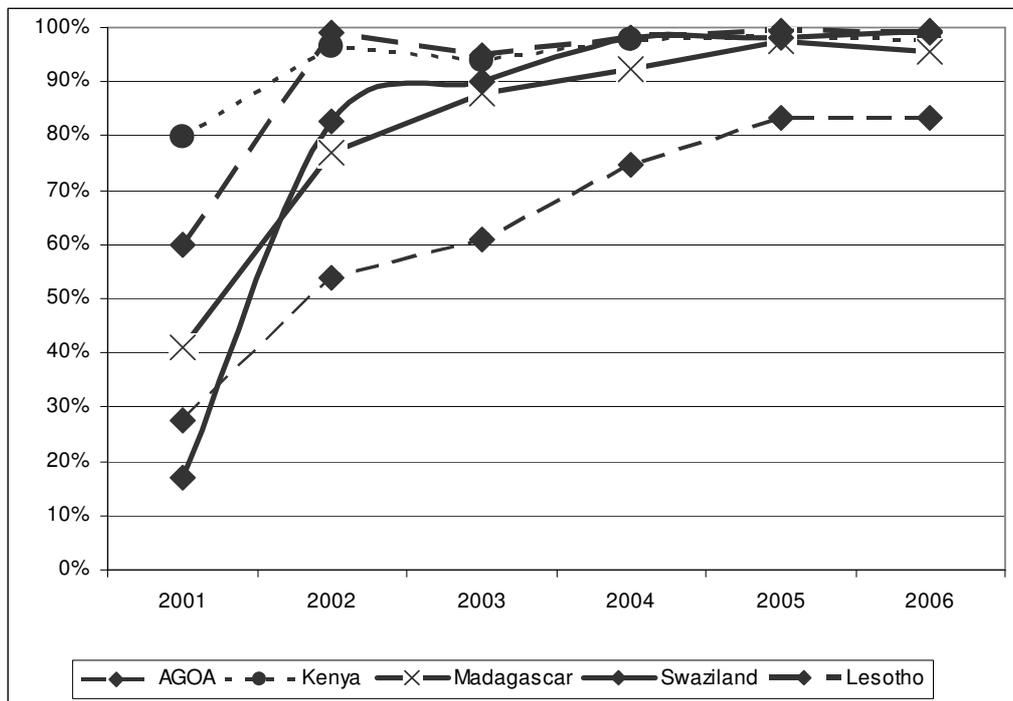
Although, historically, quotas were important in the establishment of the export-oriented clothing and textiles sector in SSA, the key to understanding the relatively robust performance of SSA AGOA exporters lies in the realm of costs. This, as we have seen from earlier analysis, is the single most important driver for the buyers. Within this, the degree of competitive advantage held by AGOA exporters arises from their duty preferences. And, here, US nominal tariffs significantly underestimate the degree of preference which AGOA producers are actually accorded, since the tariffs are imposed on the gross value of exports, whereas most of the textile inputs are

imported (duty free). The real value of these AGOA preferences are akin to the effective rate of protection for domestically-oriented industrial production.

It follows from this discussion on the impact of tariffs that without the derogation from the AGOA rules of origin which allow least developed qualifying SSA economies to import their fabrics from outside of the region (or the US), little of the clothing and textile industries in the region would survive. As can be seen from Figure 6, almost all fabric in AGOA clothing exports has been imported (although the new denim mill opened in Lesotho in 2004 will reduce this somewhat in the future).⁵ South Africa's experience represents the dark side of AGOA clothing producers future when and if the fabric derogation is repealed. The inability of its clothing sector to incorporate imported fabrics was the major reason why it was especially adversely affected by the ending of MFA clothing quotas. It is this spectre which awaits all SSA clothing exporting economies when the special fabric derogation accorded them within the AGOA preferential trade access arrangements comes to an end. If these clothing producers have not by then become competitively self sustaining by upgrading their production processes and moved up the value chain into more complex garments their export path may well run into a cul de sac.

⁵ Most of the firms operating in the region source their material inputs from East Asia in general, and predominantly from China. This is an ironical side effect of the derogation on the rules of entry, in that given the importance of fabrics in production costs (especially in the case of synthetics), the primary beneficiary of the AGOA scheme are the Asian fabric suppliers!

Figure 6: Share of non-AGOA and non-US cloth in AGOA exports to US, 2004-2005.



Source: Calculated from US Department of Commerce, Office of Textile and Apparel (OTEXA) accessed in March 2007

Although of primary significance, the combination of tariff protection and the derogation on the rules of origin are not the only factor influencing the competitive costs of SSA producers. Although SSA producers have wage costs which are comparable to Asia (Table 6), wages are only one component of unit labour costs. The other components are the degree of automation involved, the skills possessed by the labour force and the effectiveness of management. A detailed investigation of productivity in Lesotho observed low levels of skill and efficiency (Salm et. al., 2002). Middle management was particularly weak, and was largely made up of Chinese workers with shopfloor experience, but little management know-how and largely unable to communicate with the Sesotho speaking labour force. They concluded that “operator productivity within

the industry was generally low. This is principally due to deficient recruitment policies, inadequately trained operators, poor supervisory management, communication difficulties and cross-cultural misunderstanding (Salm et. al., 2002: 51) ...”The Industrial Engineering function .. is not carried out in a focused manner.. [with the possibilities of]” significant improvements in productivity (passim). Poor labour relations are part of this. A detailed survey of worker attitudes found that 51.3 percent of workers felt “very negative” towards their employers, and a further 14.3 percent felt “quite negative”. Only one percent felt “very positive”. 54 percent felt that their lives had not improved at all since joining their factories, and a further 37 percent that it had improved “only a little”. “There was remarkable consensus across the different focus groups: regardless of age, employment status or gender the participants expressed fundamentally the same views... The overwhelming majority see Asian investors (their factory managers) in an extremely negative light” (Salm et al, 2002: Annex 3, 21)

Table 6: Labour costs: Hourly compensation: Selected countries 2002: US\$/hour

	Textiles Industry	Clothing Industry
Bangladesh	0.25	0.39
Sri Lanka	0.4	0.48
China	0.4-0.69	0.68-0.88
India	0.57	0.38
Kenya	0.62	0.38
Egypt	1.01	0.77
Mauritius	1.33	1.25
South Africa	2.17	1.38
Mexico	2.3	2.45
Taiwan	7.15	Na
Madagascar	na	0.33

Source: Economist Intelligence Unit (2004)

The Manchester Trade Team (2005) compared costs along a range of factors for COMESA and China and India for an equivalent product to show the barriers faced by SSA clothing exporters. They found that:

- Export finance costs in Kenya (13 percent p.a.) and Madagascar (18 percent p.a) were much higher than in China (5.5 percent) and India (10.5 percent)
- Material costs were much higher in Kenya (\$3/sq ft) and Madagascar (\$4/sq. ft) than in China (\$1.50/sq ft) and in India ((\$2.50/sq.ft)
- Transport costs to the US East Coast were lower for Kenya and Madagascar than for China (\$0.29 versus \$0.33 per jean) but were lowest for India (\$0.23 per jean).

- The cost of machinery and of power were rather similar, but labour productivity with equivalent machines was significantly higher in China (25 pieces/day) than in India (21 p.d.), Kenya (18 p.d) and Madagascar (16 p.d).

Clothing manufactures depend heavily on access to reliable infrastructure. Here SSA producers are disadvantaged compared to their Asian counterparts. In some countries water supplies, critical to successful production are intermittent. One of the clothing firms in Lesotho had to close 13 out of 23 lines in 2004 due to water cost, availability and quality and another Lesotho firm also observed poor water supplies as a handicap to production, along with power outages; Swazi firms also reported water shortages and power outages (interviews). In Kenya, production is often confined to EPZs precisely because of the failure of infrastructure supplies in the wider economy, and electricity costs are more than three times those in South Africa (Ikiara and Ndirangu, 2003). The comparison with China is stark, with Kenyan firms facing frequent outages, losing significant production due to power shortages, despite having to invest in generators, and new businesses have to wait very long periods for connection to the grid (Table 7).

Table 7: Electricity supplies in Kenya and China

	Kenya	China
Freq of power outages (times last yr)	33.1	n.a.
% of production lost due to power outages	9.3	1.8
Have own generator (%)	70.0	17
No. of days to obtain an electricity connection	65.6	18.2

Source: World Bank, 2003

The weakness of the transport system, associated with bureaucratic hold-ups also leads to considerable delays and makes it almost impossible for SSA producers to produce items for higher-margins rapid-response markets. Unlike Asian competitors, SSA producers have to wait around 30 days to obtain their imported inputs and a further 28-40 days to deliver product to final markets (Table 8). However effective improvements in process efficiency might be, perhaps halving throughput time to around 15 days, it will not be possible to make up for these structural weaknesses in the economy.

Table 8: Determinants of lead time – Kenya, Lesotho and Swaziland

DELIVERY TYPE	KENYA	LESOTHO	SWAZILAND
Delivery of fabric from Asia (Taiwan or China)	30 days	30 days	30 days
From port to factory	7 days (Nairobi)	3 days	3~10 days
Production lead-time	30 days	25 - 30 days	25~30 days
Factory gate to port	3 days	3 day	2 days
Port to U.S.A. Port (NY)	40 days Mombassa to NY	28 days Durban to NY	28 days Durban to NY
Total delivery time	110 days	90 – 100 days	90~100 days

Source: Company interviews

Despite these handicaps, the evidence seems to suggest that SSA clothing and textile exporters who are able to draw on trade preferences are still largely able to compete with the best competition in the world. They also do so with the evidence of significant productivity improvement, in that during 2005 export values and volumes held up much better than employment in Kenya, Lesotho and Swaziland. Moreover, as various industry analysts have pointed out, there is considerable scope for further improvements in efficiency (Manchester Trade Team, 2005, Salm et. al, 2002). But to achieve this requires tailored and effective government support and, more importantly, comprehensive firm-level restructuring in the industry. Enhanced capacities of

innovation management – the ability to scan the environment, to develop appropriate strategies, and then to implement these strategies – are key to a successful response. If SSA firms are to have a long term competitive future at some point they will have to place themselves on an upgrading trajectory, building their production capabilities through introducing innovative production processes, introducing more complicated activities, and moving from basic to more complex products.

6. FROM CLOTHING AND TEXTILES TO INDUSTRY: WHAT IMPACT WILL THE ASIAN DRIVERS HAVE ON SSA INDUSTRIALISATION?

What is the wider significance of these findings for manufacturing based industrialisation paths? First, where buyers have multiple sources of supply, SSA is unable to compete effectively in global markets. In a world of a level playing field, it will have little global presence as an exporter. In the case of clothing, SSA has been unable to fully hold on to its already tenuous position with effective rates of subsidy provided by a preferential trade regime of between 28 and 84 percent and has seen an aggregate decline in clothing exports of 17 percent, despite a sharp rise in US imports of clothing in 2005. Our complementary study of SSA's furniture industry, where protective subsidies are less than 13 percent shows that without these subsidies, SSA producers are being squeezed out by Chinese, Indonesian and Vietnamese competition (Kaplinsky and Morris, 2006). Total SSA furniture exports are around one percent of global trade, having fallen from 1.5 percent in 2000. So, our first conclusion is that in respect of a manufacturing based industrialisation path, SSA requires a non-level playing field in global trade, significantly tilted in its favour, and primarily raised

against its major competitors who are now based in Asia, rather than in the EU or North America.

Second, the clothing and furniture industries are widely recognised as being the stepping stone for industrial development. Our findings suggest that these first steps are being blocked by competition from the Asian Drivers in general, and China in particular. In this paper we have focused on export-oriented manufacturing, but similar damaging impacts of China's manufactured exports are evidenced in the domestically-oriented industrial sectors (Kaplinsky, 2008 forthcoming). This being the case, the implication of our study is not so much about the present trajectory of SSA industrial development, but about its future trajectory. Unless it is believed that the Asian Driver economies will soon run into capacity constraints (perhaps a shortage of unskilled labour) and be forced to raise their costs, or that their overall success will surface in significant upward realignments of their currencies, then it is difficult to see a future for SSA industrialisation in a global economy. It may be that changing terms of trade will mean that industrial development will be a relatively less attractive development option in the short- to medium-run (Kaplinsky, 2006), but this is a separate issue. Commodity-based sectors (particularly mineral-based commodities) have few linkages and provide little scope for positive external economies.

Third, the welfare effect of importing cheaper clothing on the poor and working class of SSA cannot be discounted. The South African case demonstrates the significant consumer surplus arising from the reduction in the unit prices of children's and infants clothing (Morris 2007). Although, in the process this has had a deleterious impact on producers in the clothing and textile sector, by lowering the cost of wage goods, it has arguably led to nominal-wage suppression in other sectors.

Finally, in this paper we have considered in depth a single industry in a single continent. But our conclusions are not only relevant for other industries in SSA, but also for other regions in the world. There are compelling reasons to believe that the prospects facing large parts of Latin American and Caribbean industry are not dissimilar to those confronting SSA (Kaplinsky, 2005; Jenkins and Dussel Peters, 2008). This being the case, we may yet again find ourselves in a familiar territory which questions the attractiveness of deepening globalisation for many economies.

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