The Prospects for the Clothing and Textile Industry in Zimbabwe: The Implications of the SADC Trade Protocol!

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1. Introduction

A central part of any meaningful growth and development strategy for any country, is the expansion of trade. The expansion of trade allows for the benefits of specialisation, economies of scale, product variety and welfare enhancement to be achieved. From a theoretical point of view, trade liberalisation is supposed to reduce the price and output of liberalised products relative both to other goods in the domestic market and to similar commodities internationally. Theory suggests that output reductions in the affected (liberalised) sectors will be compensated by benefits accruing to the rest of the economy in the form of lower prices and a more efficient allocation of resources. In reality however, the actual impact of trade liberalisation depends on how firms in the industry respond to these fresh challenges, and the degree of commitment by national governments towards the process of liberalisation.

The Southern African region comprises of many small countries (in terms of GDP size and population) with rather weak intra-regional trade and investment linkages[1]. The SADC Trade and Investment protocol of August 1996, if fully implemented, is set to facilitate the emergence of a free trade area in Southern Africa. Previously protected industries now face the prospect fierce competition in their respective product lines as trade barriers are reduced across the region. One such industry in the SADC region that has enjoyed tariff protection over many years, is the clothing and textile industry.

This paper provides an analysis of the clothing and textile industry in Zimbabwe against the backdrop of an unfolding FTA in the Southern African region. The analysis will focus on the impact of the SADC Trade protocol on the clothing and textile industry in Zimbabwe, and how firms are responding, or are planning to respond to this changing trade and investment environment. In so doing, the paper hopes to provide a clear understanding of the potential comparative and competitive advantages that exist in the clothing and textile sector of Zimbabwe.

In order to fulfil the objectives of this paper as stated above, a survey of Zimbabwean firms, and various key stakeholders in the clothing and textile industry, was conducted in March 2000. The survey comprised of questionnaires sent to individual clothing and textile firms, direct interviews were held with key personnel from industry associations, the government, trade union organisations, and industry-specific experts.

Sample size: 19 clothing firms, 14 textile firms

Profile of selected companies (March 2000)

	Large (more than 300 employees)	**Medium** (between 81 and 300 employees)	**Small** (between 5 and 80 employees)	**TOTAL**
Clothing firms	7	3	9	19
Textile firms	5	7	2	14
TOTAL	12	10	11	33

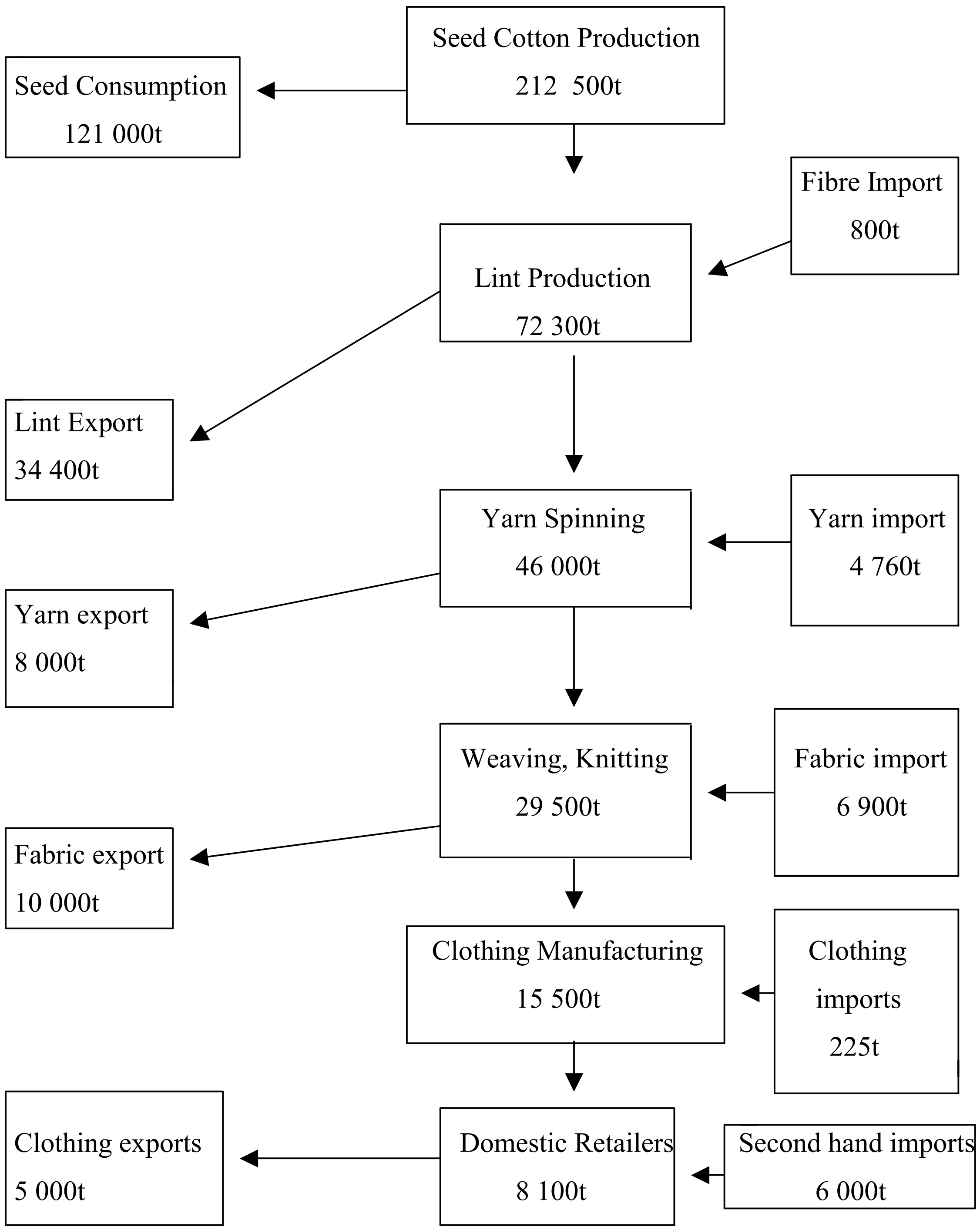
From the outset, it is important to bear in mind the socio-economic and political circumstances that existed in Zimbabwe at the time. Land occupations, violence, political turmoil and economic crises (reflected by the severe fuel shortages, sky-rocketing inflation, escalating interest rates, company closures, among others) created a tense and sensitive environment. The emotions of many of the respondents in this survey were predominant in their contributions to this research effort. The survey results presented in this paper must be seen against this background.

2. Structure of the Industry in Zimbabwe

The clothing and textile industry in Zimbabwe is a vast sector with significant forward and backward linkages. The industry is largely cotton-based and all activities and processes that constitute the 'textile chain' are present in Zimbabwe, from cotton farming to garment exporting (fig. 2.1).

1 This statement may not be entirely correct if one considers the large volume of trade that takes place between for instance, SACU and Zimbabwe. The argument is more of uneven trade especially in South

Fig. 2.1: Zimbabwe Textile Chain, 1997



Source: Statistical Yearbook (1999), Kurt Salmon Associates (1996).

One major weakness of the industry is the small size of the domestic market which has therefore resulted in significant export-dependency at all stages of the 'textile

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Africa's favour.

chain' starting with cotton fibres[2]. This is a weakness because in light of the government's fixed exchange rate policy that has rendered exports relatively uncompetitive over time.

2.1 Clothing and Textile Companies Operating in Zimbabwe

In 1991 there were 284 registered clothing companies and 50 textile companies (Table 2.1). These figures have declined since then reflecting a general shrinking of the industry. By the end of 1999 a total of approximately 115 firms in the clothing sector, and 6 textile firms had shut down representing a 44% and 12% shrinking of the respective sectors.

Table 2.1: Number of Firms in the Zimbabwean Clothing and Textile Industry

	Clothing Industry	**Textile Industry**	**TOTAL**
1990	260	48	308
1991	284	50	334
1992	240	46	286
1993	208	48	256
1994	225	49	274
1995	218	47	265
1996	183	47	230
1997	174	47	221
1998	165	46	211
1999	145	44	189

Source: Ministry of Industry and Commerce (Zimbabwe), 2000

Some of the firms that were able to avoid a shutdown had to contend with downsizing their operations. Capacity utilisation levels in the industry are low with only one firm from the survey operating at above 85% capacity (this firm is a very small player in the domestic market relative to it's export market). This excess capacity, coupled with the small size of the domestic market, suggests that the industry's survival in the long term is dependent upon the successful expansion into, and maintenance of, export markets.

2 It will be argued later on in the paper that the problem of second-hand clothing and illegal imports, to

Survey results show that most companies in the clothing and textile sector are locally owned, suggesting very little foreign direct investment in this sector. The results reveal that 100% of the companies interviewed are locally owned but industry-wide local ownership is at approximately 90%. It is very encouraging that the industry is largely indigeneous but then the absence of foreign investment has slowed improvements in technology and information that are crucial in gaining and maintaining competitiveness.

2.2 Employment and Wages

Employment in the industry has been in decline over the past six years (Table 2.2). From 28 000 and 25 000 workers in the clothing and textile sectors respectively to 17 600 and 15 900 representing a combined fall in employment of over 36% over ten years. These figures are unsurprising if one considers the number of company closures and downsizing (which almost always entails retrenchment) activities over this period. An interesting aspect to note is that almost 50% of the clothing manufacturing companies employ less than fifty workers and only about 23% of the clothing companies employ more than two hundred employees. These employment numbers exclude approximately 350 000 individuals involved in informal micro-scale knitting, crocheting and sewing activities[3].

Although there is no appropriate data, there is a strong possibility that a significant proportion of the employees in the formal sector have joined the ranks of the informal sector producing garments for sale at flea markets, and for sale to long-established, loyal customers who place specific orders of fashion design. The informal sector has also flourished due to the outsourcing and subcontracting activities by firms to their former employees whom they have had to retrench, and who now survive by independently producing garments for resale in the retail clothing outlets. These formal-informal sector linkages indeed constitutes a whole new research agenda which definitely needs to be analysed, but is beyond the scope of this paper.

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some degree, account for the poor domestic performance of the local clothing and textile industry.

3 Source: Kurt Salmon Associates, 1996. This figure does seem a bit inflated but due to the paucity of data there is no supporting or opposing information.

Table 2.2: Employment Data

	Clothing sector	Textile sector	TOTAL	**Total Manufacturing**
1990	28 000	25 000	53 000	190 000
1991	27 800	23 000	50 800	195 500
1992	23 000	19 100	42 100	199 000
1993	19 500	19 000	38 500	217 300
1994	22 300	14 500	36 800	229 000
1995	21 700	18 900	40 600	251 000
1996	19 400	17 200	36 600	227 900
1997	18 700	16 500	35 200	219 000
1998	18 200	15 000	33 200	205 100
1999	17 600	15 900	33 500	190 000

Source: CZI Bi-Annual Survey (1999), KSA (1996), Survey (2000).

The clothing and textile sector has contributed significantly to total manufacturing employment in Zimbabwe. In 1990, 28% of total manufacturing employment was generated in the clothing and textile sector. However, this significance has been falling over time to around 16% in 1998, reflecting both a decrease in employment in the clothing and textile industry, and an increase in manufacturing employment in other sectors such as wood and furniture, chemicals, metals and metal products[4].

It is estimated that the SADC region employs almost 260 000 employees in the clothing sector. South Africa accounts for 52%, while Mauritius and Zimbabwe account for 28% and 8% respectively (Table 2.3).

Table 2.3 shows that the employment in Southern Africa's clothing sectors is low relative to South Africa. Nevertheless, the clothing and textile industries are important contributors to these countries' manufacturing output and employment. It is not surprising therefore that they have been identified by a number of SADC countries as priority areas for growth in the manufacturing sector[5].

4 These are some of the sectors identified in the CZI (1999) Bi-Annual survey as having increased capacity utilisation and employment.
5 1997 official SADC Trade, Industry and Investment Review cited in the Naledi Report (1999).

Table 2.3: Employment in the clothing industry for selected SADC countries

	Employment Numbers (1998)
Angola	300
Botswana	2 100
Lesotho	9 368
Malawi	6 500
Mauritius	73 573
Mozambique	5 100
Namibia	1 000
South Africa	136 824
Tanzania	8 000
Zambia	7 800
Zimbabwe	18 200

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

Labour costs account for approximately 33% and 25% of the total costs in the clothing and textile sectors, respectively. The average wage (1999) in the clothing sector was Z$ 600 per week, and Z$ 850 a week in the textile sector. Compared to the average cost of living per week, these income levels fall far short[6]! However, relatively lower labour costs provide a competitive advantage for the Zimbabwean industry. In the textile sector, a survey by O'Brien (1997) showed that Zimbabwe had a labour cost advantage over its neighbours in the region, and over the textile – producing countries in Europe, Asia and the USA (Table 2.4).

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

REGION/COUNTRY	Unskilled Labour Cost (US$ per hour)
1. OECD	
Germany	25
U.K	13
USA	14
2. NON-OECD EUROPE	
Hungary	2.40

6 The Zimbabwe Congress of Trade Unions (ZCTU) estimated in 1999 that a family of four requires a minimum of Z$ 2000 a week just to meet the simple household basic requirements.

Turkey	2
3. ASIA	
China	0.55
India	0.65
4. SADC	
Mauritius	0.55
South Africa	2.35
Zambia	0.95
Zimbabwe	0.50

Source: O'Brien, 1997

Note: Currency devaluations/depreciations over the past couple of years could mean that all SADC rates are now much lower in US$ terms. In the case of Zimbabwe, the Z$ was devalued by 32% against the US$ in August 2000 and therefore making Zimbabwean textile labour even more cheaper, in US$ terms, than its competitors.

2.3 Clothing and Textile Trade

As the 'textile chain' depicts (fig. 2.1), exports and imports occur at every stage of textile and clothing production. Clothing and textile exports from Zimbabwe account for only 2% and 5% repectively, of total exports to the rest-of-the-world (Valentine, 1998) but nevertheless remains a very important priority sector due to the potential gains to be had in terms of industrial development, value-added production, foreign exchange earnings, and employment.

Table 2.4: Zimbabwean clothing and textile exports, 1990-99

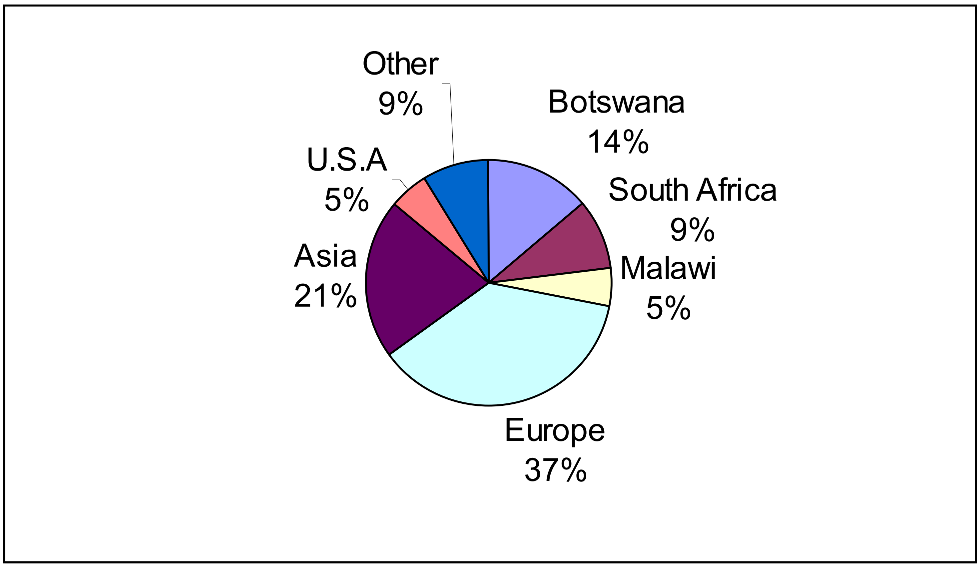
	Clothing exports: ('000 Units)	**Z$ million**	**Textile exports: Yarns (tonnes)**	**Fabrics (m^2)**
1990	9 083	93.2	10 643	13 319
1991	na	na	na	na
1992	13 644	259.4	9 832	33 379
1993	15 790	322.7	10 518	24 141
1994	16 874	521.4	10 052	35 952
1995	14 441	507.6	8 480	30 345
1996	11 437	394.7	9 465	30 572
1997	9 342	390.2	10 435	31 005
1998	9 158	469.1	8 265	25 450
1999	7 511	455.5	9 434	26 172

Source: KSA (1996), ZimTrade (1999).

The major destination of clothing exports from Zimbabwe is the EU who accounted for up to 50% of all garment exports in 1998. This is not surprising since exports to the EU are not subject to any quotas or tariffs due to the Lome IV Convention. Up to 80% of all clothing manufacturers interviewed during the survey acknowledged their presence in export markets but only 5% of these firms have a larger percentage of their total turnover in exports. This probably confirms the view that there are two different kinds of clothing exporters: a handful of committed exporters producing larger volume runs for foreign markets with 70% or more for production for export, and a much larger number of exporters whose production is mainly for the domestic market with typically no more than 25% for the export market.

Clothing exports to the SADC region have grown from a paltry 5% of total clothing exports to almost 19% between 1991 and 1998. However, in this period, exports to South Africa, the region's largest market, have remained constant due to the high tariff barriers and punitive quantity restrictions (quotas) that followed the end of the 1964 trade agreement between the two countries. The implication is that some of the smaller countries in the region have increased in importance as a destination of Zimbabwean clothing exports.

Fig.2.2: Destination of Zimbabwean textile exports, 1998



Source: KSA (1996), ZimTrade (1999).

Exports in the textile sector have performed relatively better, especially within the SADC region. Exports of yarn and fabrics to the region accounts for up to 30% of total textile exports with Botswana (14%) and South Africa (9%) dominating. The relatively high exports into Botswana have raised fears in the South African market that these Botswana exports are being redirected into South Africa. However no evidence was found that substantiates this claim.

The growth in exports of yarn and fabrics has been inconsistent since 1990 – a roller-coaster ride of increases followed by decreases in the quantity of textile exports (Table 2.4). The main export products in yarn and fabric are greige cotton fabrics and standard cotton yarns, and although this appears to be the most profitable course for the textile sector (since the sector's finished goods have had difficulties meeting international requirements)[7], this has had the effect of preventing or reducing the Zimbabwean economy's potential for exporting higher value-added products.

Table 2.5: Zimbabwean clothing and textile imports, 1990-99

	Clothing imports: ('000 Units)	**Z$ million**	**Textile imports: Fabrics (m^2)**	**Yarns (tonnes)**
1990	n.a	n.a	21 978	3 262
1991	n.a	n.a	n.a	n.a
1992	335.1	11.6	40 508	2 661
1993	184.1	15.2	12 241	1 632
1994	512.4	40.1	26 761	3 690
1995	619.5	63.6	29 453	3 787
1996	644.2	75.7	35 555	4 654
1997	893.6	100.2	27 435	4 097
1998	815.3	109.1	37 656	4 513
1999	800.4	113.8	34 128	3 261

Source: KSA (1996), ZimTrade (1999).

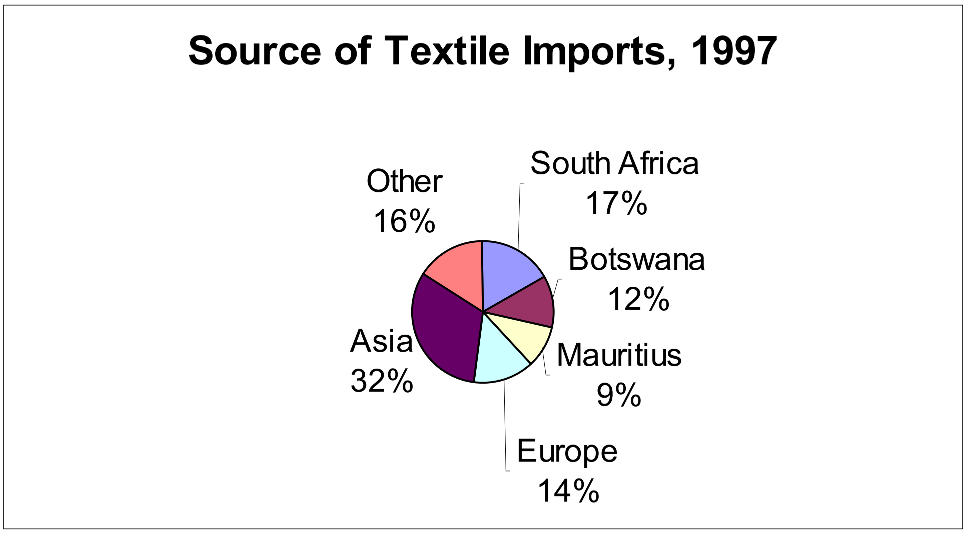
7 Kurt Salmon Associates, 1996, p18.

An important feature of the Zimbabwe clothing and textile industry is the significant role that imports play. Although all stages of the textile chain are represented in Zimbabwe (fig. 2.1), the problem has been that various yarn and fabric grades (quality), dyes, chemicals, polymers are unavailable from domestic production therefore necessitating imports[8], especially for the export-oriented companies. Clothing imports into Zimbabwe have grown steadily since liberalisation measures were introduced to the Zimbabwe economy in 1991 (Table 2.5). Asia has grown in importance as a source of imported yarn and fabric and by 1997 accounted for almost a third of total textile imports (Fig. 2.3). SADC accounted for up to 38% of textile imports in 1997 and therefore creating an important export market for 'SADC' textile exports.

Of growing concern in the clothing sector, especially among the smaller companies, is the continuous growth in the second-hand clothing market and, illegal imports from within the SADC region. In 1996, the Kurt Salmon Associates observed that, "the overall picture of the Zimbabwean textile chain shows one major weakness as there is rather low domestic demand and no pull-effect. As a result, the industry depends on exports in all stages of the textile chain starting with cotton fibres, followed by yarns and fabrics and ending with clothing". The research done under the auspices of the World Bank further observed that, "another huge problem are second-hand and even illegal imports. According to very rough estimates[9] about 40% of total clothing consumption in Zimbabwe are second-hand clothing, being charity imports from Western European countries, as well as goods smuggled in especially from Malawi, Mozambique and Zambia". Results from the 2000 survey confirm the continued growth of this sub-sector at the costly expense of the rest of the industry.

8 These are imported mainly from Europe.
[9] KSA (1996).

Fig. 2.3



Source: KSA (1996), ZimTrade (1999)

The clothing and textile industry in Zimbabwe is also entirely dependent on imported machinery/technology. All of the firms (in both the clothing and textile sectors) interviewed have a 100% dependency level with respect to imported machinery/technology. It is partly because of this huge import-dependency that the industry has not been able to re-invest in capital equipment over the past 4 years due to the steep depreciation of the Zimbabwe dollar against all major currencies. This lack of new investment, particularly in the textile sector, has weakened it's competitive position and this is cited as one of the major obstacles to expanding exports by some of the smaller textile firms in Zimbabwe[10].

3. Policy Developments

The clothing and textile industry in Zimbabwe, like in many other developing countries, grew and flourished under the cover of a heavily protected domestic market. High tariffs were placed on all forms of clothing and textile imports as this was correctly seen as a necessary import-substituting means of industrialisation. This policy of 'self-sufficiency' gained momentum in the aftermath of the 1965 declaration of independence from Britain as sanctions were imposed, and 'Rhodesia' was

10 These issues are dealt with in more detail in Section 4 of the paper.

determined to 'go-it-alone' without the support or blessings of the western world. It was in fact in this period (1965-77) that most of the diversification of the economy took place. Industries that were established or encouraged, including the clothing and textile sector, were supported by the government in various ways including subsidised interest rates, preferential allocation of foreign currency, direct government subsidies, tax exemptions, and legislation that allowed the open abuse of African workers. In spite of these incentives, the industry's performance in the 1970's was relatively weaker than it's performance in the 1980's.

3.1 The First Decade of Independence (1980-1989)

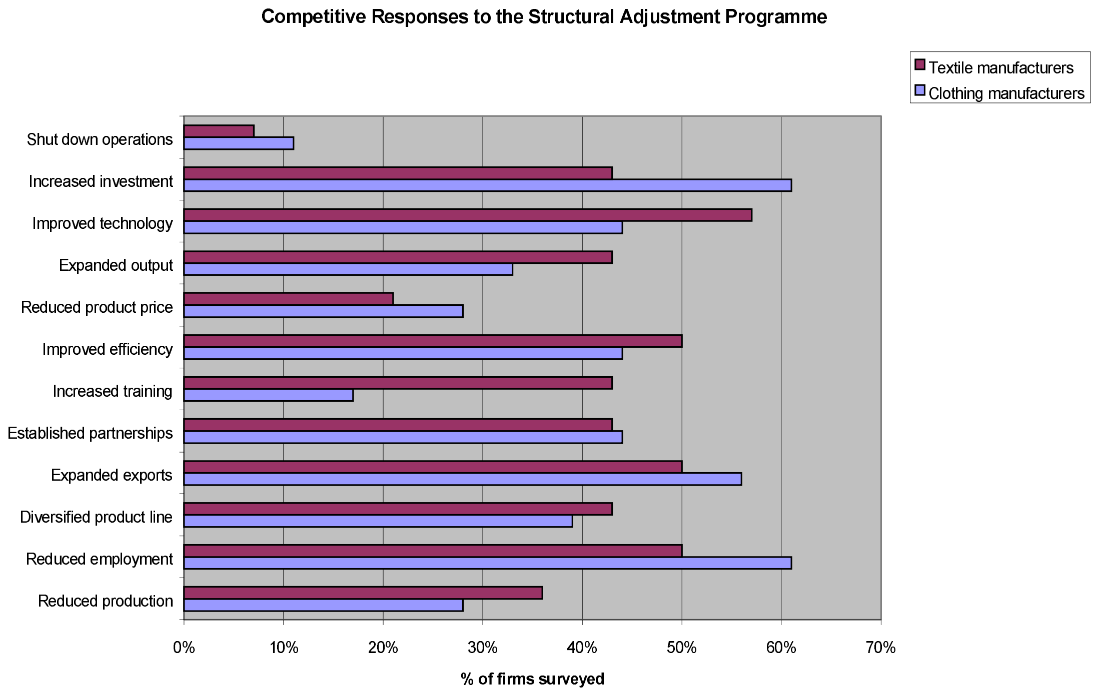
The 1980's was a period of rapid expansion of the Zimbabwean clothing and textile industry. Survey 2000 results bear testimony to this claim. Fifty percent of the textile manufacturers and sixty-one percent of the clothing manufacturers commenced their business operations between 1980 and 1989. This suggests that the decade was one of significant growth for the industry as a whole. Tariff and quota restrictions aside, the growth of the industry in the 1980's can be attributed to;

- A stable and peaceful political and socio-economic environment after independence in 1980
- A range of export and investment facilitation and promotion schemes
- Zimbabwe's central location in the Southern African region
- An established and relatively new infrastructure
- A low cost but relatively highly educated labour force

3.2 The Second Decade of Independence (1990-1999)

The 1990's marked the beginning of radical policy shifts by the government. The first and most significant was the introduction of the World Bank/IMF structural adjustment programme in 1991. Things were never to be the same again in Zimbabwe! The situation changed drastically for various vulnerable sectors, the clothing and textile sector being no exception. The liberalisation of trade – reducing of tariffs and the elimination of export incentive schemes – led to a loss of value-added output, company liquidations, employee retrenchments and a general loss in welfare for society. By the end of 1999 a total of over 100 clothing firms and 6 textile firms had permanently shut down. It is therefore unsurprising that the reduction of employment across the industry was a major response to the economic reforms of the 90's (Fig.3.1).

Fig.3.1



However, more surprising is the increase in investment, particularly within the clothing sector. This might suggest that in spite of the general turmoil in the industry, those firms that avoided total collapse did so by increasing investment and exports. As we shall discover later, these strategies were really only available to the larger firms in the industry. An encouraging development in the industry is the increased propensity by textile manufacturers to improve their technological capabilities which would, a) improve factor productivity, and b) create competitive advantages in terms of quality, product development, etc. Both factors can be seen as prerequisites for individual firm survival in an integrating region.

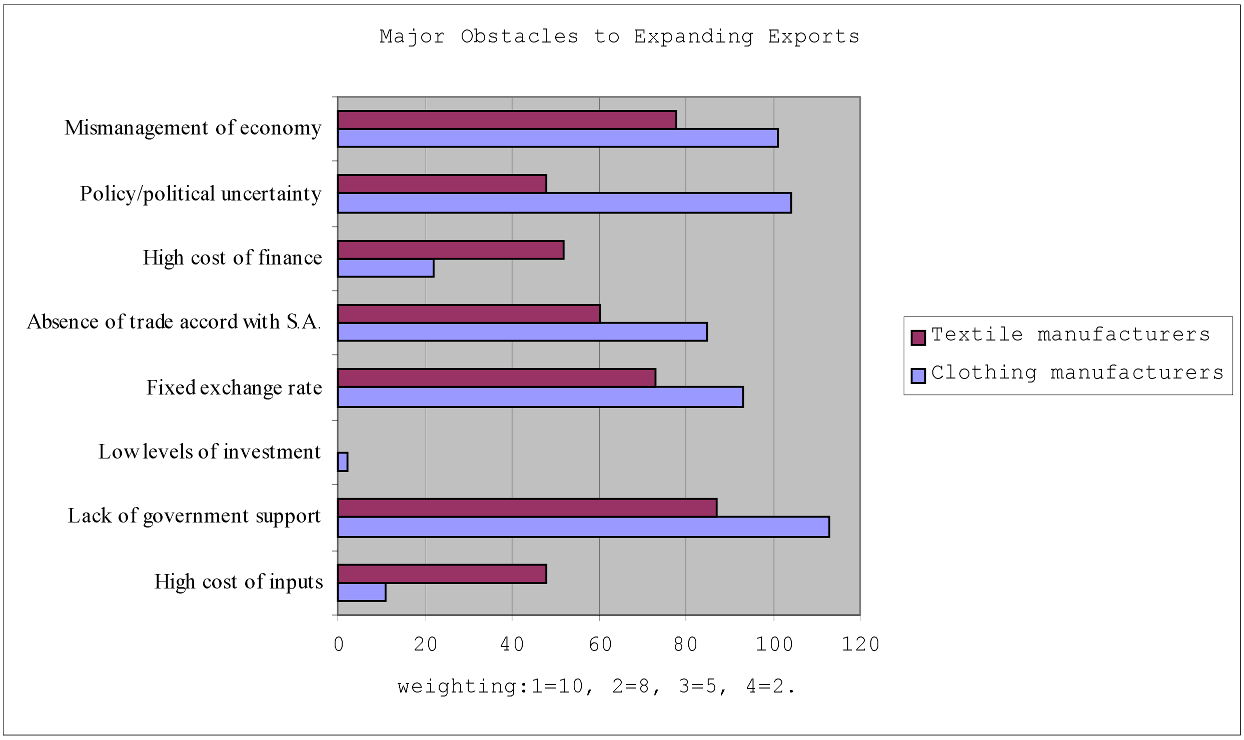
The structural reforms of the 1990's have also been blamed for the collapse of the largest textile firm in the Zimbabwean industry. Manufacturing production came to a standstill at the huge textile firm, Cone Textiles Co. sending up to 3000 employees into involuntary joblessness. The company failed to service its debt against a background of escalating interest rates and an economic meltdown, and also, the firm suffered after the expiry of the Zim-S.A trade agreement because S.A was its major export market.

In 1996, after five years of half-hearted of structural reform and two seasons of severe drought, the government launched another set of economic reforms referred to as the Zimbabwe Programme for Economic and Social Transformation (Zimprest). Zimprest was an attempt to provide fundamentals necessary for industrial development and economic growth in terms of tariff structure review, export, tax and investment incentives. The Zimprest policy framework seems to have failed the test of strength, lacking critically in substance and providing no more than a vision without any concrete action. It is therefore not surprising that Zimprest simply faded away, and increasingly became forgotten about.

The depreciation of the Zimbabwe dollar since 1997 has adversely affected various sectors of the Zimbabwe economy. Manufacturing production in the clothing and textile industry, like in many other industries, was influenced directly by severe disruptions in which the collapse of the Zimbabwe dollar exchange rate and the sharp interest rates were both causes and effects of falling business confidence. Exports would have been assisted but a poor overall economic climate clearly prevented firms taking advantage of a weak currency. From 1997 onwards, the clothing and textile industry have been forced to adopt strategies directed at survival rather than expansion, and became preoccupied with debt reduction, more cautious buying and greater concentration on core activities. This inevitably led to the streamlining and shrinking of firms and industries.

The expansion of exports by some firms in the early 1990's is attributed to the export incentive scheme, and the Lome Convention. In 1994 the incentives were removed and the rate of growth of exports began to decline. To a certain extent this seems to suggest that the growth in exports is over-dependent upon generous state assistance. It would also suggest that the incentives have not made the industry competitive enough in the long term because firms continue to rely on these incentives. In the 2000 survey, firms were asked to rank the top four factors that have acted as major barriers to expanding exports. These results seem to reinforce the claim that it is the state, in various different ways[11], that is hindering the growth in exports and the growth in the industry in general (Fig3.2).

Fig.3.2



The textile sector in Zimbabwe faced another viability crisis due to the high prices of local lint whose prices are quoted in US dollars. "The pricing system of cotton lint, which is denominated in US dollars, was driving local players out of business, where international buyers pay 74US cents per 500g of cotton lint while locals were charged 84US cents for the same quantity[12]". The problem has been aggravated by the plummeting Zimbabwe dollar. For instance, some of the local lint buyers signed contracts in November 1997 when the exchange rate was at US$1 to Z$14, but this increased to more than Z$18 by July of 1998 and this seriously disrupted the industry. Further devaluation and depreciation of the currency has resulted in an exchange rate of Z$50 to the US$1 by August 2000.

11 It is government that mismanages the economy, that creates policy/political uncertainty, that fixes the exchange rate, and fails to provide the necessary support.
12 See, "Textile makers call for measures to restore viability to industry" in *The Financial Gazette*, 02/07/98.

3.3 The New Millennium (2000-onwards)

In February 2000, the government launched what has now become known as the Zimbabwe Millennium Economic Recovery Programme that provides an economic and social framework in order to arrest a further deterioration in macroeconomic fundamentals. The prime objective of this programme is, "to remove the fundamental causes of inflation and to restore macroeconomic stability in order to create an economic environment conducive to low interest rates and hence, sustainable investment capacities, stable real incomes, as well as poverty mitigation[13]". The policies and strategies outlined in the programme have yet to be implemented and this is largely attributed to the political turmoil that characterised the run-up to the parliamentary elections in June 2000. Economic commonsense was replaced by the need for political survival. Politics aside, the programme does not provide any details on specific actions to deal with the economic crises in Zimbabwe. Again, the programme provides more of a vision than action, is designed as short term to cover a period of only 18 months, and has not won the support of business, labour, civil society and the international community.

4. Moves Towards Regional Integration: The SADC Trade and Investment Protocol

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

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

With respect to clothing and textiles, the protocol aims at protecting member countries through a system of *Rules of Origin*. These rules of origin stipulate that a percentage of the raw material being used to manufacture export goods must originate only from the SADC. For the clothing and textile sectors, these rules of origin are based on a domestic content of 35% *Ad Valorem*, calculated on a cumulative basis. In other words, provided that 35% value-added production takes place within SADC, the product will be exempted from tariffs between member countries.

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

Under the protocol, SADC markets and products are divided into three categories. This categorisation is necessary because member countries have advanced a plethora of reasons justifying various sensitivities in their markets and these include potential revenue loss, security, employment and domestic support measures. The **first** category comprises products whose tariffs will be removed completely as soon as the protocol comes into force – referred to as the *immediate liberalisation list* – principally covering capital goods and raw materials. Zimbabwe has placed 38% of it's products in this category. The **second** category comprises products whose tariffs will be gradually reduced over eight years – referred to as the *gradual liberalisation list* – covering the majority of the other goods, apart from the sensitive products. Zimbabwe has placed 45% of it's products in this category. The **third** category comprises products considered 'sensitive' in the respective SADC markets whose

13 Government of Zimbabwe (2000), *Zimbabwe Millennium Economic Recovery Progamme.*

tariffs may never be removed. Only 17% of Zimbabwean products are in this category, including clothing apparel.

Trade liberalisation measures in the SADC region present fresh challenges, threats and opportunities for firms and industries in the region. Ultimately, the significance and impact of an FTA in Southern Africa depends on how firms and industries respond to these opportunities and threats. For the textile and clothing industry in particular, which provides direct employment for up to 500 000 men and women in the SADC region, the liberalisation policies are likely to set in motion various structural changes to the trade and investment linkages in the region. The Zimbabwe textile and clothing industry has been in distress since the introduction of the World Bank/IMF Structural Adjustment Programme in 1991. Does this imply that Zimbabwe does not have a competitive advantage in the manufacture of textiles and clothing? What potential strengths and opportunities can the Zimbabwe industry exploit against the background of a FTA in Southern Africa? How is the industry responding, or planning to respond to this changing trade environment? These are the questions that the remainder of this paper seeks answers for!

5. Sector-Specific Consequences of the SADC Trade Protocol in Zimbabwe: *A Case of the Textile and Clothing Industry*

A central question that this paper seeks to address is the consequences of the SADC Trade protocol on the clothing and textile industry in Zimbabwe, and the policy implications that result thereof. After the collapse of the bilateral trade agreement between South Africa and Zimbabwe in 1992, Zimbabwe producers have switched from S.A to Europe as the dominant export market, especially under the preferential access granted under the Lome Convention IV. A larger SADC market brought about by the implementation of the SADC trade protocol, is a huge advantage for Zimbabwean producers who encounter huge transport, communication and marketing costs in getting their products to Europe. Getting their products into neighbouring South Africa is a desire that the Zimbabweans have expressed, a desire they feel will allow them to increase capacity utilisation, and reduce production, transport, communication, and marketing costs.

At present, clothing and textile trade between Zimbabwe and South Africa is governed by a renegotiated settlement that provides some improvements for the Zimbabwean exporters, but is still insufficient for competitive production in the Zimbabwean factories (Table 5.1). Zimbabwean producers would favour the South African market as opposed to the European market because of the huge differential in transport costs.

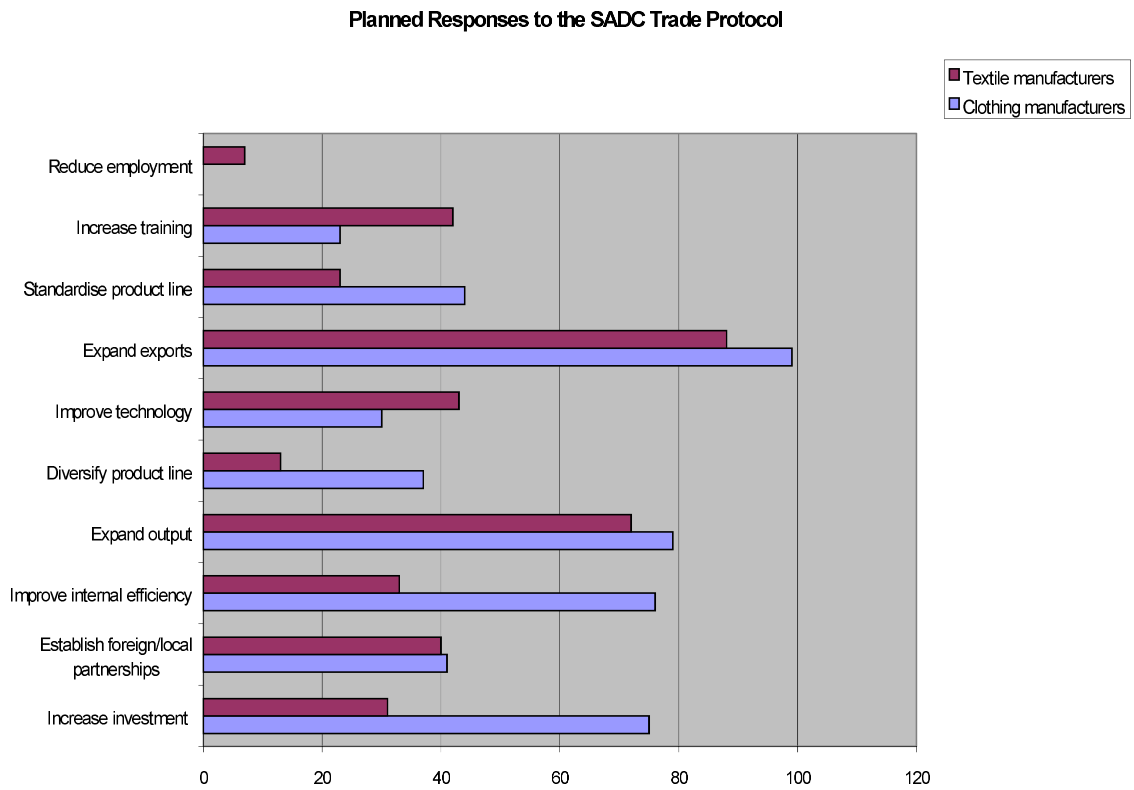
Table 5.1: S.A-Zim trade agreement - clothing and textile quota adjustments

DESCRIPTION	PRE - 1999	POST - 1999
Yarn	800 000 kg	2 000 000 kg
Blankets	40 000 units	150 000 units
Household linens	145 000 kg	245 000 kg
T-shirts	400 000 units	1 000 000 units
Trousers	320 000 units	1 127 000 units

Source: Sibanda (1999)

The general labour-intensity of the industry creates competitive advantages for Zimbabwe which is well endowed with relatively cheap and literate labour. In addition, the high quality of hand-picked cotton available in Zimbabwe, the established infrastructure and the nation's central location in Southern Africa provide numerous opportunities for firms already in the industry, and potential entrants into the industry. These factors, among others, could help explain the commitment by firms in the industry to expand output, exports and investment (Fig.5.1) if the protocol does indeed develop into a free trade area. None of the firms plan to shut down but there is a general feeling that the extent of economic decay in Zimbabwe has created problems in terms of the timing of the implementation of the SADC Trade protocol. Normality still needs to be restored in the Zimbabwe economy so that firms can reposition, restructure and adapt to the changing economic environment.

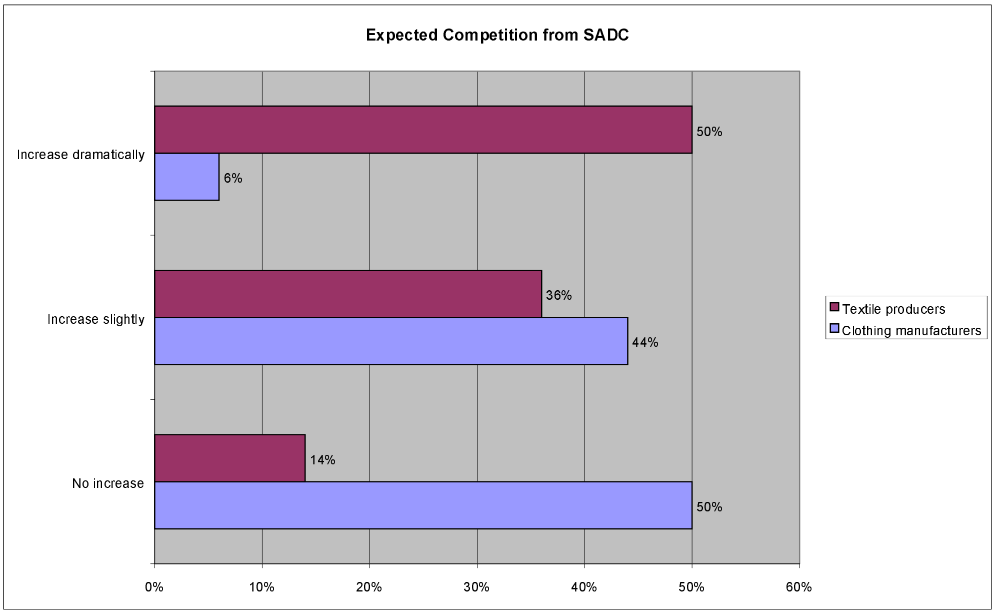
Fig.5.1



In terms of the industry's expectations of future competition brought about by a free trade area in the region, the survey 2000 produced mixed results. Zimbabwean textile producers – 50% of them – expect a dramatic increase in competition especially from Botswana, Mauritius and South Africa whereas 50% of the clothing manufacturers expect no material increase in competition in their respective product lines (Fig.5.2). Although some firms, especially textile manufacturers, expect their product markets to be threatened by foreign competition, there nevertheless is a determination to in crease investment, output and exports to enable them to compete in regional and global markets.

The emergence of a free trade area ought to provide a host of investment opportunities for domestic, regional and global investors. Investment is a critical component of the trade protocol because those countries in an integrating region that have industries that are "injured" by free trade need to be compensated by increases in investment in other sectors of the economy. The level of direct SADC investment into the clothing and textile industry in Zimbabwe has been relatively low[14], as has been Zimbabwe's investment in the regional clothing and textile industry.

Fig 5.2



An analysis of the survey 2000 results indicates various differences between small and medium firms on one hand, and large firms on the other, with respect to;

- The potential firm-specific consequences of an FTA in Southern Africa, and
- The intended response to these unfolding changes.

Small firms suffer from a greater demand constraint (largely because they are geared towards small niche markets) and have more difficulty of obtaining finance – mainly because most of the small clothing firms operate from rented premises and have little or no other assets, and therefore cannot offer any collateral to financial institutions. The high cost of capital is a constraint plaguing the entire industry, in fact, the entire economy. Small firms also suffer from a relatively low skills availability– and this is probably due to the unavailability of adequate financial resources to attract the necessary quality and quantity of skills. This is however not true for the larger firms who are better equipped with financial options, networks and organisational

14 The largest investments in the 1990's have been US$ 6m invested in the textile sector in 1997 for new spinning and weaving technology by the German firm Daun and Cie, and the investment of US$ 5m by Edgars S.A. in the Zimbabwean clothing manufacturing sector (Unpublished data from BusinessMap, 2000).

capacities. An FTA in the region at a time when the industry in Zimbabwe is under a lot of stress could result in a repeat of the events of the 1990's .

Studies by Valentine (1998) have shown the presence of comparative advantages in the Zimbabwe clothing sector of the industry. The revealed comparative advantage in terms of SADC clothing exports, has shown comparative advantage in four countries: Mauritius, Zambia, and Zimbabwe. The regional clothing and textile sector share of exports to the 'Rest-of-the-World' shows relative advantages for the clothing sector in Zimbabwe, which is second behind Mauritius (Table 5.2).

Table 5.2: Commodity's share of exports to the rest-of-the-world (%, 1993)

	CLOTHING	TEXTILE
Angola	0.00	0.00
Botswana	-	2.88
Lesotho	-	7.86
Malawi	0.01	0.01
Mauritius	23.48	30.49
Mozambique	0.17	0.66
Namibia	-	0.16
South Africa	0.43	1.85
Swaziland	-	3.19
Tanzania	0.20	6.83
Zambia	0.07	1.04
Zimbabwe	1.50	3.17
SADC	**1.48**	**3.11**

Source: Valentine, 1998

Another way to establish the possibility of comparative advantage (or potential comparative advantage) within the clothing and textile industry is by comparing Zimbabwe's manufactured commodities' share of exports to the rest-of-the-world thereby observing how clothing and textiles perform relative to other manufacturing sectors (Table 5.3).

Table 5.3: Zimbabwe's manufactured share of exports to the rest-of-the-world, (%)

Food products	3.89
Beverages	0.07
Tobacco	0.38
TEXTILES	**3.17**
CLOTHING	**1.50**
Leather products	1.04
Footwear	0.42
Wood products	0.05
Furniture	1.02
Paper and paper products	0.79
Printing and publishing	0.03
Industrial chemicals	0.92
Other chemicals	0.38
Rubber products	0.15
Plastic products	0.06
Pottery, chinaware and earthenware	0.04
Glass and glass products	0.21
Basic iron and steel	12.63
Non-ferrous metals	6.57
Fabricated metal products	0.08
Machinery	1.14
Electrical machinery	0.01
Motor vehicles	0.13
Transport equipment	0.32
Measuring and controlling equipment	0.65
Other manufactured products	1.57
TOTAL MANUFACTURING	**37.26**
MINING	7.22
AGRICULTURE	55.53

Source: Valentine, 1998

6. Where to from here?: *The Way Forward*

Most of major problems faced by the clothing and textile industry are related to macroeconomic deterioration, and economic mismanagement. The economy needs a rescue package to deal with the economy that is reeling under the effects of inflation at over 62%, prime lending rates of almost 70%, unemployment of 42%, the budget deficit at 14% of GDP, and a currency value that is seriously artificial because it is pegged to the currencies of major trading partners. Add to this an open assault on property rights by state-orchestrated land occupations that have culminated in the loss of investor/business confidence. It must be noted that the survey of firms in the clothing and textile sector, which forms the central part of this research, was conducted during this time of socio-economic and political instability. As such, it was fully expected that some of the sentiments expressed in the interviews would be clouded by emotionality.

6.1 Government Policy

Apart from the other factors militating against the industry, the lack of industrial policy is probably the most serious. The manufacturing sector in Zimbabwe needs an industrial policy under which various sectors can be in a position to quickly identify opportunities and exploit them particularly for export production. Under this industrial policy, the manufacturing sector should be encouraged to establish and foster strategic alliances between large and small firms, and the informal sector. The policy would involve the provision of incentives to the larger firms to link with smaller ones through sub-contracts, particularly in areas where the smaller firms could perform much more efficiently, such as in low volume niche products. In addition, regular tariff reviews are necessary to ensure that that the sector is always taking advantages of its strengths and opportunities. These tariff schedules need to be stable and credible. But it is also very important for firms to be able to acquire inputs into production at world prices so as to facilitate competitiveness in international and regional markets. The survey results show that currently no incentives exist in the clothing and textile industry that would boost investment, production and exports. A duty drawback system that allows exporters of finished products to import technology, machinery and raw materials duty-free would also provide competitive environment within which firms can operate, and exploit opportunities as they arise.

6.2 Improvements to Infrastructure

For international competitiveness to be achieved in the Zimbabwean clothing and textile industry, like in many other sectors, there is an urgent need for the improvement of infrastructure that would help reduce production costs and improve product quality. For instance, the availability of electricity at competitive costs is essential for the textile industry that is already disadvantaged by huge increases in electricity costs. In addition, access to information which assist the fashion-oriented sectors obtain information on market trends in various export markets. Bearing in mind that only one clothing firm in the 2000 survey makes use of the internet! Both the clothing and textile sectors need reliable, fast and cost-effective transport corridors to the main harbours. Being a landlocked country, Zimbabwe needs an efficient road and rail transport network, and reasonable freight charges greatly reduces the landlocked-related disadvantages faced by local industries. An efficient and reliable telecommunications system that enables firms and industries to communicate quickly and at low cost would also help local industries to improve competitiveness. All these factors would significantly reduce the cost of doing business in Zimbabwe.

6.3 Second-hand Clothing

Second-hand clothing imports have increased dramatically since 1994 and this has created an urgent need for a comprehensive policy on dealing with these imports. The problem is that against a background of economic hardships in Zimbabwe, these second-hand imports have become a source of affordable clothing for the majority of Zimbabweans. But this injures the domestic industry. Second hand clothing is cheap because it is usually collected in the developed countries at zero prices (KSA, 1996). There needs to be a differentiation between the imports from charity organisations, and imports from profit-oriented traders. An outright ban on second hand imports that originate from developed countries at zero prices should be seriously considered. These actions can be seen as ‘dumping’ – zero price in country A, but sold for more than zero price in country B. Alternatively, the use of licenses and quotas to restrict the influx of second hand clothing.

6.4 Product Development and Quality Improvements

Quality improvements in the textile and clothing sectors, and product development in the clothing sector are important factors that firms in the industry need to act upon. The textile sector has a competitive advantage in terms of modern machinery but are unable to satisfy the demand by local export-oriented clothing firms that require high quality fabric/yarn to maintain their export market share, and expand into new markets. Garment manufacturers are constrained in that domestic fabric suppliers offer products of insufficient quality, shadings and missed some designs and variety thus compromising the quality of clothing produced. On the other hand, the local textile mills deliver acceptable qualities to their international clientele[15]. This therefore makes the garment producers dependent upon imported fabrics, particularly those firms that are geared toward the export market. Most clothing companies, particularly the smaller less-resourced ones have problems in meeting the quality levels for patterns, garment construction, processing and finishing required by the global market.

In terms of fashion and product developments, the larger clothing firms have their own brand names and generally tend to have a better and more advanced strategic direction. On the other hand, the smaller clothing companies mostly carry out pattern making and design to meet their buyers' specification and as such, this limits the fashion content of most of the collections by small companies who have insufficient information on market and consumer trends. In addition, small firms are also less able and less willing to engage in R&D activities and rather opt for CMT operations that have lower margins but nevertheless have considerable profit potential in a low-income country like Zimbabwe.

6.5 Trade Relations with South Africa

In the short term, South Africa is not likely to open up trade in various vulnerable sectors, including the clothing and textile sector[16]. South African industrialists have continued to argue that free trade in clothing and textiles will worsen problems of illegal imports. They fear that Zimbabwe will be used as a conduit for textiles and clothing originating from Asia. These fears are understandable in light of the amount

15 See, "Clothing Companies Send Out SOS to Avoid Collapse" in *The Herald*, 23 April 1998.
16 See for instance,"S.A Union Scoffs Free Trade Proposal" in *The Herald,* 22 April 1999.

of clothing and textile trade between Zimbabwe and Asia, most notably the significant rise in the import of textiles required by the export-oriented clothing manufacturers in Zimbabwe. However, a fact that has been overlooked by the South African industrialists is that the fabric available in Zimbabwe is not of the quality required to produce garments for the top-end of the market and therefore these Asian textile imports are crucial if the Zimbabwean clothing exporters are to maintain their export market share.

6.6 Institutional Development

There is a further urgent need to strengthen the capacity of various domestic institutions that can be directly involved in promoting investment and trade in the clothing and textile industry. The **Zimbabwe Investment Centre (ZIC)** which promotes Zimbabwe as a location for new investment is also responsible for assisting in the start-up of you enterprises. Despite its various comparative and competitive advantages, Southern Africa has not been the first choice for European and American investors and this has been attributed to a relatively uncertain economic environment, high transportation costs and long delivery times associated with the long distance between Sub-Saharan Africa and the major markets in Europe and America. This necessitates the need to improve the incentive structure in the region. Other institutions such as the **CZI** and the **ZNCC** also need to be strengthened and used as vehicles to promote the growth and development of the clothing and textile industry. **ZimTrade** is the organisation whose main objective is to act as a marketing vehicle for Zimbabwean exports. ZimTrade should strengthen it's networks and it's capacity to promote Zimbabwean clothing and textile products in not only established markets, but also in other markets yet to be exploited.

6.7 Opportunities in the US Market

The clothing and textile industry in Zimbabwe, and in the rest of the region have been presented with better growth and development prospects by the promulgation in the USA of the trade and development act, known as the African Growth and Opportunities Act (AGOA). The Act, which expires in 2008, offers 44 Sub-Saharan African countries duty-free and quota-free status into the USA for those products meeting the eligibility requirements, and for the clothing and textile firms in the region, the potential benefits appear to be up for grabs.

The basic premise of the Act is the development of bilateral trade between Sub-Saharan Africa and the USA, meaning products, such as clothing garments (apparel), which are eligible for the 'free-entry' status must be manufactured either from locally produced textiles or textiles imported from the USA and then exported as a value-added product to the USA[17]. But there is a significant concession for those countries whose per capita income was less than US $1 500 in 1998. These countries, Zimbabwe included, have a four-year window in which to import fabric/textiles from a third country – expected to be Asia – and then export the finished product to the USA. Zimbabwe, which does import a large quantity of textiles from Asia (32%), is set to benefit substantially from this arrangement, depending on the extent to which firms respond positively to these developments.

With respect to clothing, the Act has effectively scrapped a 33% duty on knitted shirts, blouses and sweaters, a 26.5% duty on woven shirts, a 29.3% duty on woven slacks and shorts, and a 15% duty on knitted and woven underwear[18]. The export of African clothing would be initially allocated 1.55 of the USA market, increasing to 3.5% during the life-span of the Act. It is estimated that this could result in the value of the market increasing from the actual level of US $584 million to a projected US $4.2 billion in 2008. These opportunities, together with an improvement in the domestic economic situation could definitely allow and encourage Zimbabwean clothing firms to increase capacity utilisation, production, employment and foreign exchange earnings.

7. A Future Research Agenda

By no means is the above analysis of the Zimbabwean clothing and textile industry exhaustive. This paper has provided an analysis of the industry against the backdrop of the SADC Trade protocol in Southern Africa. This paper has raised various issues that are beyond the scope of this paper but are nevertheless critical for future research and policy agendas in Southern Africa in general, and in Zimbabwe in particular.

[17] Business Report 13/08/2000, "US Growth Act Suits Africa's Exports" by Clive Rubin.

- Formal-informal sector linkages

The survey of the Zimbabwean clothing and textile industry pointed to some interesting features. One such feature is the tendency of some of the larger firms to outsource/subcontract CMT operations to smaller companies in both the formal and informal sectors. As companies are forced to streamline operations, and seek ways of survival and expansion they are likely to focus on closer cooperation with small firms in CMT operations as a means of cutting costs, spreading risks, and expanding markets. To what extent can these formal-informal sector linkages create employment in the industry especially, but not exclusively for the workers who have already been retrenched, and those who face the prospect of retrenchment in the near future? To what extent does out sourcing CMT operations provide cost advantages to clothing firms in a way that improves their competitiveness in export markets? These, and many other issues arise from this analysis.

- Measuring trade diversion and trade creation

If the SADC Trade and Investment protocol is ever fully implemented, it will raise issues of potential trade diversion and trade creation. As this research indicates, the SADC agreement may lead to trade diversion problems with respect to Zimbabwe's import of textiles from low-cost Asia. The rules of origin clause of the SADC agreement could encourage Zimbabwean clothing companies to switch from Asian imports to regional imports, and this may or may not be a case of trade diversion. Such issues provide scope for further research.

[18] Business Day 30/05/2000, "Act Will Boost Textile Industry" by Nicola Jenvey.

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